

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

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**FORM 10-Q**

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(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended **June 30, 2019**  
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**

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**RealPage, Inc.**

(Exact name of registrant as specified in its charter)

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

**2201 Lakeside Boulevard**  
**Richardson, Texas**  
(Address of principal executive offices)

**75-278861**  
(I.R.S. Employer  
Identification No.)

**75082-4305**  
(Zip Code)

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.001 par value	RP	The NASDAQ Stock Market LLC

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes  No

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

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

Class  
Common Stock, \$0.001 par value

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**July 24, 2019**  
94,759,239

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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)

	June 30, 2019	December 31, 2018
	(unaudited)	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 261,571	\$ 228,159
Restricted cash	113,359	154,599
Accounts receivable, less allowances of \$7,815 and \$8,850 at June 30, 2019 and December 31, 2018, respectively	128,080	123,596
Prepaid expenses	17,411	19,214
Other current assets	17,046	15,185
Total current assets	537,467	540,753
Property, equipment, and software, net	156,213	153,528
Right-of-use assets	99,122	—
Goodwill	1,070,828	1,053,119
Intangible assets, net	262,711	287,378
Deferred tax assets, net	38,999	42,602
Other assets	23,783	20,393
Total assets	\$ 2,189,123	\$ 2,097,773
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable	\$ 32,673	\$ 25,312
Accrued expenses and other current liabilities	70,819	95,482
Current portion of deferred revenue	124,726	120,704
Current portion of term loans	20,166	16,133
Convertible notes, net	298,927	—
Customer deposits held in restricted accounts	113,358	154,601
Total current liabilities	660,669	412,232
Deferred revenue	3,924	4,902
Term loans, net	275,701	287,582
Convertible notes, net	—	292,843
Lease liabilities, net of current portion	113,511	—
Other long-term liabilities	14,999	37,190
Total liabilities	1,068,804	1,034,749
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Preferred stock, \$0.001 par value: 10,000,000 shares authorized and zero shares issued and outstanding at June 30, 2019 and December 31, 2018, respectively	—	—
Common stock, \$0.001 par value: 250,000,000 shares authorized, 96,151,815 and 95,991,162 shares issued and 94,860,120 and 93,650,127 shares outstanding at June 30, 2019 and December 31, 2018, respectively	96	96
Additional paid-in capital	1,189,875	1,187,683
Treasury stock, at cost: 1,291,695 and 2,341,035 shares at June 30, 2019 and December 31, 2018, respectively	(34,109)	(65,470)
Accumulated deficit	(33,075)	(58,793)
Accumulated other comprehensive loss	(2,468)	(492)
Total stockholders' equity	1,120,319	1,063,024
Total liabilities and stockholders' equity	\$ 2,189,123	\$ 2,097,773

See accompanying notes.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
<b>Revenue:</b>				
On demand	\$ 235,185	\$ 206,945	\$ 461,704	\$ 400,245
Professional and other	8,676	9,307	16,463	17,308
Total revenue	243,861	216,252	478,167	417,553
Cost of revenue	95,708	81,942	185,902	154,779
Amortization of product technologies	9,900	9,127	19,414	17,422
<b>Gross profit</b>	<b>138,253</b>	<b>125,183</b>	<b>272,851</b>	<b>245,352</b>
<b>Operating expenses:</b>				
Product development	28,151	30,771	58,048	59,811
Sales and marketing	49,120	40,664	93,943	78,344
General and administrative	28,310	28,444	56,453	55,534
Amortization of intangible assets	10,402	8,496	20,238	16,585
Total operating expenses	115,983	108,375	228,682	210,274
<b>Operating income</b>	<b>22,270</b>	<b>16,808</b>	<b>44,169</b>	<b>35,078</b>
Interest expense and other, net	(8,029)	(8,518)	(14,009)	(16,188)
<b>Income before income taxes</b>	<b>14,241</b>	<b>8,290</b>	<b>30,160</b>	<b>18,890</b>
Income tax (benefit) expense	(822)	(189)	3,825	(490)
<b>Net income</b>	<b>\$ 15,063</b>	<b>\$ 8,479</b>	<b>\$ 26,335</b>	<b>\$ 19,380</b>
<b>Net income per share attributable to common stockholders:</b>				
Basic	\$ 0.16	\$ 0.10	\$ 0.29	\$ 0.23
Diluted	\$ 0.16	\$ 0.09	\$ 0.27	\$ 0.22
<b>Weighted average common shares outstanding:</b>				
Basic	91,914	85,124	91,703	83,156
Diluted	96,493	90,005	96,036	87,332

See accompanying notes.

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

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
<b>Net income</b>	\$ 15,063	\$ 8,479	\$ 26,335	\$ 19,380
Other comprehensive (loss) income:				
Unrealized (loss) gain on derivative instruments, net of tax	(991)	109	(1,576)	367
Reclassification adjustment for gains included in earnings on derivative instruments, net of tax	(223)	(145)	(444)	(244)
Foreign currency translation adjustment	118	14	19	(113)
Other comprehensive (loss) income, net of tax	(1,096)	(22)	(2,001)	10
<b>Comprehensive income</b>	<u>\$ 13,967</u>	<u>\$ 8,457</u>	<u>\$ 24,334</u>	<u>\$ 19,390</u>

See accompanying notes.

RealPage, Inc.

Condensed Consolidated Statements of Stockholders' Equity  
(in thousands)  
(unaudited)

Six-Month Period Ended June 30, 2019

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Treasury Stock		Total Stockholders' Equity
	Shares	Amount				Shares	Amount	
Balance as of January 1, 2019	95,991	\$ 96	\$ 1,187,683	\$ (492)	\$ (58,793)	2,341	\$ (65,470)	\$ 1,063,024
Cumulative effect of adoption of ASU 2017-12	—	—	—	25	(25)	—	—	—
Issuance of common stock in connection with our acquisitions	154	—	9,846	—	—	—	—	9,846
Stock option exercises	19	—	(1,277)	—	—	(138)	4,346	3,069
Issuance of restricted stock	—	—	(38,999)	—	—	(1,268)	38,999	—
Treasury stock purchased, at cost	—	—	1,620	—	—	369	(12,728)	(11,108)
Retirement of treasury stock	(12)	—	(152)	—	(592)	(12)	744	—
Stock-based compensation	—	—	31,154	—	—	—	—	31,154
Other comprehensive income - derivative instruments	—	—	—	(2,020)	—	—	—	(2,020)
Foreign currency translation	—	—	—	19	—	—	—	19
Net income	—	—	—	—	26,335	—	—	26,335
Balance as of June 30, 2019	96,152	\$ 96	\$ 1,189,875	\$ (2,468)	\$ (33,075)	1,292	\$ (34,109)	\$ 1,120,319

See accompanying notes.

RealPage, Inc.

Condensed Consolidated Statements of Stockholders' Equity, continued  
(in thousands)  
(unaudited)

Three-Month Period Ended June 30, 2019

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Treasury Stock		Total Stockholders' Equity
	Shares	Amount				Shares	Amount	
Balance as of April 1, 2019	95,998	96	1,167,950	(1,372)	(47,546)	1,265	(33,753)	\$ 1,085,375
Issuance of common stock in connection with our acquisitions	154	—	9,846	—	—	—	—	9,846
Stock option exercises	12	—	(440)	—	—	(49)	1,632	1,192
Issuance of restricted stock	—	—	(4,543)	—	—	(138)	4,543	—
Treasury stock purchased, at cost	—	—	1,183	—	—	226	(7,275)	(6,092)
Retirement of treasury stock	(12)	—	(152)	—	(592)	(12)	744	—
Stock-based compensation	—	—	16,031	—	—	—	—	16,031
Other comprehensive income - derivative instruments	—	—	—	(1,214)	—	—	—	(1,214)
Foreign currency translation	—	—	—	118	—	—	—	118
Net income	—	—	—	—	15,063	—	—	15,063
Balance as of June 30, 2019	96,152	\$ 96	\$ 1,189,875	\$ (2,468)	\$ (33,075)	1,292	\$ (34,109)	\$ 1,120,319

See accompanying notes.

RealPage, Inc.

Condensed Consolidated Statements of Stockholders' Equity, continued  
(in thousands)  
(unaudited)

Six-Month Period Ended June 30, 2018								
	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Treasury Stock		Total Stockholders' Equity
	Shares	Amount				Shares	Amount	
Balance as of January 1, 2018	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
Public offering of common stock, net of \$17,051 of offering costs	8,050	8	441,791	—	—	—	—	441,799
Issuance of common stock in connection with our acquisitions	1,265	1	56,610	—	—	—	—	56,611
Stock option exercises	18	—	5,469	—	—	(367)	2,270	7,739
Issuance of restricted stock	—	—	(6,394)	—	—	(1,533)	6,394	—
Treasury stock purchased, at cost	—	—	4	—	—	453	(14,764)	(14,760)
Stock-based compensation	—	—	24,500	—	—	—	—	24,500
Other comprehensive income - derivative instruments	—	—	—	123	—	—	—	123
Foreign currency translation	—	—	—	(113)	—	—	—	(113)
Net income	—	—	—	—	19,380	—	—	19,380
Balance as of June 30, 2018	96,486	\$ 96	\$ 1,159,831	\$ 253	\$ (53,445)	2,526	\$ (67,360)	\$ 1,039,375

See accompanying notes.



RealPage, Inc.

Condensed Consolidated Statements of Stockholders' Equity, continued  
(in thousands)  
(unaudited)

Three-Month Period Ended June 30, 2018

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Treasury Stock		Total Stockholders' Equity
	Shares	Amount				Shares	Amount	
Balance as of April 1, 2018	87,160	\$ 87	\$ 651,996	\$ 275	\$ (61,924)	2,653	\$ (68,407)	\$ 522,027
Public offering of common stock, net of \$17,051 of offering costs	8,050	8	441,791	—	—	—	—	441,799
Issuance of common stock in connection with our acquisitions	1,265	1	56,610	—	—	—	—	56,611
Stock option exercises	11	—	431	—	—	(126)	2,270	2,701
Issuance of restricted stock	—	—	(5,091)	—	—	(197)	5,091	—
Treasury stock purchased, at cost	—	—	4	—	—	196	(6,314)	(6,310)
Stock-based compensation	—	—	14,090	—	—	—	—	14,090
Other comprehensive income - derivative instruments	—	—	—	(36)	—	—	—	(36)
Foreign currency translation	—	—	—	14	—	—	—	14
Net income	—	—	—	—	8,479	—	—	8,479
Balance as of June 30, 2018	96,486	\$ 96	\$ 1,159,831	\$ 253	\$ (53,445)	2,526	\$ (67,360)	\$ 1,039,375

See accompanying notes.

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

	<b>Six Months Ended June 30,</b>	
	<b>2019</b>	<b>2018</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 26,335	\$ 19,380
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	56,840	48,389
Amortization of debt discount and issuance costs	6,513	6,121
Amortization of right-of-use assets	5,925	—
Deferred taxes	4,236	(2,973)
Stock-based expense	30,778	24,013
Loss on disposal and impairment of other long-lived assets	269	1,098
Change in fair value of equity investment	(2,600)	—
Acquisition-related consideration	699	1,124
Changes in assets and liabilities, net of assets acquired and liabilities assumed in business combinations:		
Accounts receivable	(3,337)	6,815
Prepaid expenses and other current assets	(283)	(9,395)
Other assets	(184)	(2,248)
Accounts payable	6,039	5,899
Accrued compensation, taxes, and benefits	(8,833)	(1,379)
Deferred revenue	3,044	(2,034)
Customer deposits	(46,546)	5,142
Other current and long-term liabilities	(5,518)	2,268
Net cash provided by operating activities	<u>73,377</u>	<u>102,220</u>
<b>Cash flows from investing activities:</b>		
Purchases of property, equipment, and software	(23,466)	(22,493)
Acquisition of businesses, net of cash and restricted cash acquired	(17,528)	(137,475)
Purchase of other investment	(1,750)	(1,800)
Net cash used in investing activities	<u>(42,744)</u>	<u>(161,768)</u>
<b>Cash flows from financing activities:</b>		
Payments on term loans	(8,067)	(6,049)
Proceeds from revolving credit facility	—	140,000
Payments on revolving line of credit	—	(190,000)
Payments of deferred financing costs	—	(1,139)
Payments on finance lease obligations	(2,127)	(211)
Payments of acquisition-related consideration	(20,247)	(7,371)
Proceeds from public offering, net of underwriters' discount and offering costs	—	441,799
Proceeds from exercise of stock options	3,069	7,739
Purchase of treasury stock related to stock-based compensation	(11,108)	(14,760)
Net cash (used in) provided by financing activities	<u>(38,480)</u>	<u>370,008</u>
Net (decrease) increase in cash, cash equivalents and restricted cash	(7,847)	310,460
Effect of exchange rate on cash	19	(113)
<b>Cash, cash equivalents and restricted cash:</b>		
Beginning of period	382,758	165,345
End of period	<u>\$ 374,930</u>	<u>\$ 475,692</u>

See accompanying notes.

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

	<b>Six Months Ended June 30,</b>	
	<b>2019</b>	<b>2018</b>
<b>Supplemental cash flow information:</b>		
Cash paid for interest	\$ 10,856	\$ 9,200
Cash paid for income taxes, net	\$ 1,470	\$ 722
Right-of-use assets obtained in exchange for operating lease obligations	\$ 12,029	\$ —
<b>Non-cash investing and financing activities:</b>		
Accrued property, equipment, and software	\$ 2,439	\$ 1,101
Acquisition-related liability settled with equity	\$ 9,846	\$ —
Fair value of stock consideration in connection with acquisition of ClickPay	\$ —	\$ 35,855
Redemption of noncontrolling interest in connection with acquisition of ClickPay	\$ —	\$ 20,756

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

	<b>June 30, 2019</b>	<b>December 31, 2018</b>
Cash and cash equivalents	\$ 261,571	\$ 228,159
Restricted cash	113,359	154,599
Total cash, cash equivalents and restricted cash shown in the Condensed Consolidated Statements of Cash flows	<u>\$ 374,930</u>	<u>\$ 382,758</u>

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.

**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 February 27, 2019 (“Form 10-K”).

***Segment and Geographic Information***

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

Principally, all of our revenue for the three and six months ended June 30, 2019 and 2018 was earned in the United States. Net property, equipment, and software located in the United States amounted to \$147.3 million and \$144.3 million at June 30, 2019 and December 31, 2018, respectively. Net property, equipment, and software located in our international subsidiaries amounted to \$8.9 million and \$9.2 million at June 30, 2019 and December 31, 2018, respectively. Substantially all of the net property, equipment, and software held in our international subsidiaries was located in the Philippines, India, and Spain at both June 30, 2019 and December 31, 2018.

***Concentrations of Credit Risk***

Financial instruments that potentially subject us to concentrations of credit risk consist principally of cash and cash equivalents and accounts receivable. Our cash accounts are maintained at various high credit quality financial institutions and may exceed federally insured limits. We have not experienced any losses in such accounts.

Substantially all of our accounts receivable are derived from clients in the residential rental housing market. Concentrations of credit risk with respect to accounts receivable and revenue are limited due to a large, diverse customer base. We do not require collateral from clients. We maintain an allowance for doubtful accounts based upon the expected collectability of accounts receivable.

No single client accounted for 10% or more of our revenue or accounts receivable for the three or six months ended June 30, 2019 or 2018.

***Use of Estimates***

The preparation of financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect the amounts reported and disclosed in the financial statements and accompanying notes. Such significant estimates include, but are not limited to, the determination of the allowances against our accounts receivable; useful lives of intangible assets; impairment assessments on long-lived assets (including goodwill); contingent commissions related to

the sale of insurance products; fair value of acquired net assets and contingent consideration in connection with business combinations; the nature and timing of satisfaction of performance obligations and related reserves; fair values of stock-based awards; loss contingencies; and the recognition, measurement and valuation of current and deferred income taxes. Actual results could differ from these estimates. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable, the result of which forms the basis for making judgments about the carrying value of assets and liabilities. For greater detail regarding these accounting policies and estimates, refer to our Form 10-K.

***Cash and Cash Equivalents and Restricted Cash***

We consider all highly liquid investments with an initial maturity of three months or less at the date of purchase to be cash equivalents. The fair value of our cash and cash equivalents approximates carrying value.

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

***Accounts Receivable***

Accounts receivable primarily represent trade receivables from clients recorded at the invoiced amount, net of allowances, which are based on our historical experience, the aging of our trade receivables, and management judgment.

Trade receivables are written off against the allowance when management determines a balance is uncollectible. We incurred bad debt expense of \$0.4 million and \$1.5 million for the three months ended, and \$1.5 million and \$2.1 million for the six months ended June 30, 2019 and 2018, respectively.

***Business Combinations***

We allocate the fair value of the purchase consideration of our acquisitions to the tangible assets acquired, liabilities assumed, and intangible assets acquired based on their estimated fair values. The excess of the fair value of purchase consideration over the fair values of these identifiable assets and liabilities is recorded as goodwill. 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 a combination of up-front, deferred and contingent payments to be made at specified dates subsequent to the date of acquisition. These payments may include a combination of cash and equity. Deferred and contingent payments are included in the purchase consideration based on their fair value as of the acquisition date. Deferred obligations are generally subject to adjustments specified in the underlying purchase agreement related to the seller's indemnification obligations. Contingent consideration is an obligation to make future payments to the seller contingent upon the achievement of future operational or financial targets. The fair value of these payments is estimated using a probability weighted discount model based on the achievement of the specified targets.

The valuation of the net assets acquired as well as certain elements of purchase consideration requires management to make significant estimates and assumptions, especially with respect to future expected cash flows, useful lives, and discount rates. Management's estimates of fair value are based upon assumptions believed to be reasonable but which are inherently uncertain; and, as a result, actual results may differ from estimates. During the measurement period, we may record adjustments to the assets acquired and liabilities assumed with a corresponding offset to goodwill. Changes to the fair value of contingent payments is reflected in "General and administrative" expenses in the accompanying Condensed Consolidated Statements of Operations.

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

***Deferred Revenue***

For several of our solutions, we invoice our clients in annual, monthly, or quarterly installments in advance of the commencement of the service period. Deferred revenue is recognized when billings are due or payments are received in advance of revenue recognition from our subscription and other services. Accordingly, the deferred revenue balance does not represent the total contract value of annual subscription agreements.

***Revenue Recognition***

Revenues are derived from on demand software solutions, 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. We estimate and accrue a reserve for credits and other adjustments as a reduction to revenue based on several factors, including past history.

*On Demand Revenue*

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

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, quarterly or annually in advance. 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 in 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 the right to invoice.

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 charges 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 provide for contingent commissions to be paid to us in accordance with the agreements. Our estimate of contingent commission revenue considers the variable factors identified in the terms of the applicable agreement. We recognize commissions related to these services as earned ratably over the policy term and insurance commission receivable in "Accounts receivable, less allowances".

*Professional and Other Revenue*

Professional services and other revenues generally consist 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 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 we account 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 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 license, 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 may include 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. 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 service are estimated using a market assessment approach 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.

### ***Fair Value Measurements***

We measure our derivative financial instruments and acquisition-related contingent consideration obligations at fair value at each reporting period using a fair value hierarchy. A financial instrument's classification within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Three levels of inputs may be used to measure fair value:

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 is based on the inputs described above and does not necessarily correspond to our perceived risk of that asset or liability. Moreover, the methods used by us may produce a fair value calculation that is not indicative of the net realizable value or reflective of future fair values. Furthermore, although we believe our 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.

Certain financial instruments, which may include cash, cash equivalents, restricted cash, accounts receivable, accounts payable and accrued expenses are recorded at their carrying amounts, which approximates their fair values due to their short-term nature.

We hold an equity investment which does not have a readily determinable fair value. We measure this investment 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.

### ***Recently Adopted Accounting Standards***

#### *Accounting Standards Update 2016-02*

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The new guidance requires lessees to recognize 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. It also requires disclosure of key information about leasing arrangements to increase transparency and comparability among organizations.

We adopted ASU 2016-02 effective January 1, 2019 using the optional transition method provided for in ASU 2018-11 *Leases - Targeted Improvements*, which eliminated the requirement to restate amounts presented prior to January 1, 2019. We elected the practical expedients permitted under the transition guidance, which allowed us to adopt the guidance without reassessing whether arrangements contain leases, the lease classification and the determination of initial direct costs.

The adoption of ASC 842 resulted in the recognition of right-of-use ("ROU") assets and lease liabilities for operating leases of \$73.9 million and \$101.5 million, respectively, at January 1, 2019 (the "Transition Date") which included reclassifying deferred rent, lease incentives, and favorable and unfavorable leases associated with our acquisitions as a component of the ROU asset. As of the Transition Date, we had insignificant finance leases.

We determine if an arrangement contains a lease at inception. Our ROU assets and lease liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. For our real estate contracts with lease and non-lease components, we have elected to combine the lease and non-lease components as a single lease component. The implicit rate within our leases are generally not readily determinable, and we use our incremental borrowing rate at the lease commencement date to determine the present value of lease payments. The determination of our incremental borrowing rate requires judgment. We determine our incremental borrowing rate for each lease using our current borrowing rate, adjusted for various factors including collateralization and term to align with the terms of the lease.

We have elected not to recognize a lease liability or ROU asset for short-term leases, defined as those which have a term of twelve months or less.

Certain of our leases include options to extend the lease. An option to extend the lease is considered in connection with determining the ROU asset and lease liability when it is reasonably certain we will exercise that option. Subsequent to the Transition Date and during the first quarter of 2019, we determined we were reasonably certain to renew the building lease for our corporate headquarters, and as a result, we reassessed the classification of the lease and determined the building lease met the criteria of a finance lease under ASC 842. As a result, an operating ROU asset and lease liability of \$36.4 million and

\$58.6 million, respectively, were reclassified and remeasured to a finance ROU asset and lease liability of \$58.2 million and \$80.4 million, respectively.

See Note 6 for additional disclosures related to the impact of adopting the new lease standard

*Accounting Standards Update 2017-12*

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. This ASU must 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.

We adopted ASU 2017-12 effective January 1, 2019. As a result of our adoption, we now recognize the entire change in the fair value of our interest rate swaps in OCI. Similar to our treatment of the effective portion of a change in fair value, the ineffective portion is now reclassified into interest expense as interest payments are made on our variable rate debt.

**Recently Issued Accounting Standards**

In August 2018, the FASB issued ASU 2018-15, *Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract*. This ASU aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. ASU 2018-15 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, and early adoption is permitted. The amendments in this update will be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. We are currently evaluating the impact of this ASU on our consolidated financial statements.

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. We will adopt ASU 2016-13 in the first quarter of 2020 utilizing the modified retrospective transition method through a cumulative-effect adjustment to retained earnings. We are in the process of evaluating appropriate changes to our business processes, systems and controls to support the adoption of the new standard. We are currently evaluating the impact of adopting ASU 2016-13 on our consolidated financial statements.

**3. Acquisitions**

**2019 Acquisitions**

*LeaseTerm Solutions*

In April 2019, we acquired substantially all of the assets of LeaseTerm Insurance Group, LLC ("LeaseTerm Solutions"), a provider of alternatives to traditional renters' insurance programs and tenant security deposit programs for the multifamily housing industry. Aggregate purchase consideration was \$26.0 million, including deferred cash obligations of up to \$2.7 million that will be released on the first and second anniversary dates of the closing date, subject to any indemnification claims. The acquisition was financed using cash on hand.

The acquired identified intangible assets consisted of client relationships and trade names and were assigned estimated useful lives of seven and five years, respectively. Preliminary goodwill recognized of \$18.1 million is primarily comprised of anticipated synergies from the expansion of our risk management solutions. Goodwill and the acquired identified intangible assets are deductible for tax purposes. Acquisition costs associated with this transaction totaled \$0.2 million.

*Purchase Consideration and Purchase Price Allocations*

The estimated fair values of assets acquired and liabilities assumed are provisional and are based primarily on the information available as of the acquisition date. We believe this information provides a reasonable basis for estimating the fair values of assets acquired and liabilities assumed, but we are 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 date. The components of the purchase consideration and the preliminary allocation of LeaseTerm Solution's purchase price are as follows, in thousands:



**Fair value of purchase consideration:**

Cash, net of cash acquired	\$	23,417
Deferred obligations, net		2,574
Total fair value of purchase consideration	\$	<u>25,991</u>

**Fair value of net assets acquired:**

Restricted cash	\$	5,889
Accounts receivable		491
Property, equipment, and software		400
Intangible assets:		
Client relationships		7,100
Trade names		200
Right-of-use assets		167
Goodwill		18,104
Accounts payable and accrued liabilities		(342)
Client deposits held in restricted accounts		(5,889)
Other long-term liabilities		(129)
Total fair value of net assets acquired	\$	<u>25,991</u>

**2018 Acquisitions**

We completed four acquisitions during fiscal year 2018. For certain of the acquisitions in the table below, the estimated fair values of assets acquired and liabilities assumed are provisional. 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 effects of measurement period adjustments recorded as of June 30, 2019, is as follows:

		<u>Date of Acquisition</u>	<u>Aggregate Purchase Price</u>	<u>Closing Cash Payment, Net of Cash Acquired</u>	<u>Net Tangible Assets Acquired (Liabilities Assumed)</u>	<u>Identified Intangible Assets</u>	<u>Goodwill Recognized</u>
(in thousands)							
ClickPay Services, Inc.	(Final)	Apr 2018	\$ 220,992	\$ 138,983	\$ (4,620)	\$ 52,700	\$ 172,912
Blu Trend, LLC	(Final)	Jul 2018	\$ 8,500	\$ 8,500	\$ 343	\$ 4,270	\$ 3,887
LeaseLabs, Inc.	(Provisional)	Sept 2018	\$ 112,892	\$ 84,498	\$ 1,188	\$ 27,200	\$ 84,504
Rentlytics, Inc.	(Provisional)	Oct 2018	\$ 54,953	\$ 47,895	\$ 288	\$ 12,200	\$ 42,465

Purchase consideration for LeaseLabs, Inc. included contingent consideration of up to \$9.9 million based on the collection of acquisition date accounts receivable balances during the six-month period after the acquisition date. The fair value of the contingent consideration was \$7.0 million on the date of acquisition. The final contingent consideration amount of \$6.0 million was paid in April 2019. Refer to Note 13 for additional information regarding our contingent consideration obligation.

**Deferred Obligations and Contingent Consideration Activity**

The following table presents changes in the Company’s deferred cash and stock obligations and contingent consideration for the six months ended June 30, 2019 and the year ended December 31, 2018:

	Deferred Cash and Stock Obligations	Contingent Consideration	Total
	(in thousands)		
Balance at January 1, 2018	\$ 47,016	\$ 414	\$ 47,430
Additions, net of fair value discount	36,313	7,000	43,313
Cash payments	(29,600)	(247)	(29,847)
Accretion expense	1,970	—	1,970
Change in fair value	—	(1,167)	(1,167)
Indemnification claims and other adjustments	(3,557)	—	(3,557)
Balance at December 31, 2018	52,142	6,000	58,142
Additions, net of fair value discount	2,574	—	2,574
Cash payments	(14,592)	(5,963)	(20,555)
Settlements through common stock issued	(9,846)	—	(9,846)
Accretion expense	988	—	988
Change in fair value	—	(37)	(37)
Indemnification claims and other adjustments	(320)	—	(320)
Balance at June 30, 2019	\$ 30,946	\$ —	\$ 30,946

In May 2019, in connection with our April 2018 acquisitions of NovelPay, LLC (“NovelPay”) and ClickPay Services, Inc. (collectively with NovelPay, “ClickPay”), we issued an aggregate of 154,281 shares of our common stock to certain of the equity holders of ClickPay. These shares are subject to a holdback in respect of indemnification and post-closing purchase price adjustments pursuant to the acquisition agreements.

**Pro Forma Results of Acquisitions**

The following table presents unaudited pro forma results of operations for the three and six months ended June 30, 2019 and 2018, as if the aforementioned 2019 and 2018 acquisitions had occurred as of January 1, 2018 and January 1, 2017, respectively. The pro forma information includes the business combination accounting effects resulting from these acquisitions, including interest expense, tax expense or benefit, issuance of shares of our common stock, and additional amortization resulting from the valuation of amortizable intangible assets. We prepared the pro forma financial information for the combined entities for comparative purposes only, and it is not indicative of what actual results would have been if the acquisitions had occurred at the beginning of the periods presented, or of future results.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019 Pro Forma	2018 Pro Forma	2019 Pro Forma	2018 Pro Forma
	(unaudited)			
	(in thousands, except per share amounts)			
Total revenue	\$ 244,030	\$ 227,150	\$ 479,720	\$ 444,313
Net income	\$ 15,168	\$ 6,386	\$ 26,369	\$ 14,030
Net income per share:				
Basic	\$ 0.17	\$ 0.07	\$ 0.29	\$ 0.17
Diluted	\$ 0.16	\$ 0.07	\$ 0.27	\$ 0.16

#### 4. Revenue Recognition

##### *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 June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
(in thousands)				
<b>On demand</b>				
Property management	\$ 51,003	\$ 46,523	\$ 100,917	\$ 91,842
Resident services	101,205	85,330	198,009	162,507
Leasing and marketing	46,808	42,841	91,078	82,257
Asset optimization	36,169	32,251	71,700	63,639
Total on demand revenue	235,185	206,945	461,704	400,245
Professional and other	8,676	9,307	16,463	17,308
Total revenue	\$ 243,861	\$ 216,252	\$ 478,167	\$ 417,553

##### *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. Our SaaS solutions are 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. These solutions represent a series of distinct services that are substantially the same and have the same pattern of transfer to the client. Revenue from our SaaS solutions is generally recognized ratably over the term of the arrangement.

Consideration for our 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.

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. 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 variable factors identified in the terms of the applicable agreements.

##### *Professional Services and Other Revenues*

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

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. For bundled arrangements, we allocate the transaction price to separate services based on their relative standalone selling prices 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.

Other revenues consist of submeter equipment sales that include related installation services, sales of other equipment and on premise software sales. Submeter hardware and installation services are considered 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. 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.

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 revenue of \$97.3 million for the six months ended June 30, 2019, 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**

We capitalize certain commissions as incremental costs of obtaining a contract with a client if we expect to recover those costs. The commissions are capitalized and amortized over a period of benefit determined to be three years. Below is a summary of our capitalized commissions costs and their respective locations in the accompanying Condensed Consolidated Balance Sheets:

	<u>Balance Sheet Location</u>	<u>June 30, 2019</u>	<u>December 31, 2018</u>
		(in thousands)	
Capitalized commissions costs - current	Other current assets	\$ 8,746	\$ 6,679
Capitalized commissions costs - noncurrent	Other assets	8,588	7,757
Total capitalized commissions costs		<u>\$ 17,334</u>	<u>\$ 14,436</u>

Amortization of capitalized commissions was \$2.0 million and \$1.0 million for the three months ended, and \$3.8 million and \$1.8 million for the six months ended June 30, 2019 and 2018, respectively. No impairment loss was recognized in relation to these capitalized costs.

#### **Remaining Performance Obligations**

Certain clients commit to purchase our solutions for terms ranging from two to seven years. We expect to recognize approximately \$461.3 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 June 30, 2019. 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.

We expect to recognize revenue on approximately 69.0% 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 June 30, 2019 was immaterial.

**5. Property, Equipment, and Software**

Property, equipment, and software consisted of the following at June 30, 2019 and December 31, 2018:

	June 30, 2019	December 31, 2018
	(in thousands)	
Leasehold improvements	\$ 65,297	\$ 63,391
Data processing and communications equipment	73,066	68,015
Furniture, fixtures, and other equipment	34,074	33,840
Software	143,214	131,437
Property, equipment, and software, gross	315,651	296,683
Less: Accumulated depreciation and amortization	(159,438)	(143,155)
Property, equipment, and software, net	\$ 156,213	\$ 153,528

Depreciation and amortization expense for property, equipment, and purchased software was \$7.7 million and \$7.5 million for the three months ended, and \$15.2 million and \$14.4 million for the six months ended June 30, 2019 and 2018, respectively.

The unamortized amount of capitalized software development costs was \$60.4 million and \$54.9 million at June 30, 2019 and December 31, 2018, respectively. Amortization expense related to capitalized software development costs totaled \$3.8 million and \$3.0 million for the three months ended, and \$7.0 million and \$5.5 million for the six months ended June 30, 2019 and 2018, respectively.

**6. Leases**

We adopted ASU 2016-02 effective January 1, 2019 using the modified retrospective approach. Prior period amounts have not been adjusted and continue to be reported in accordance with our historic accounting under ASC Topic 840. Our leases are primarily comprised of real estate leases of office facilities and equipment under operating leases that expire on various dates through 2033. In May 2015, we entered into a lease agreement for office space located in Richardson, Texas to serve as our corporate headquarters and data center. The lease is for a term of twelve years, beginning in 2016, and includes optional extension periods. The lease agreement contains provisions for rent escalations over the term of the lease and leasehold improvement incentives.

The components of lease costs for the three and six months ended June 30, 2019 were as follows:

	Three Months Ended June 30,	Six Months Ended June 30,
	2019	2019
	(in thousands)	
Operating lease cost	\$ 3,477	\$ 6,963
Finance lease cost:		
Depreciation of finance lease asset	\$ 992	\$ 1,984
Interest on lease liabilities	1,061	2,106
Total finance lease cost	\$ 2,053	\$ 4,090

Rent expense for short-term leases for the three and six months ended June 30, 2019 was not material.

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Supplemental balance sheet information related to leases at June 30, 2019, was as follows:

	Operating leases	Finance leases	Total leases
	(in thousands, except lease term and discount rate)		
Right-of-use assets	\$ 42,896	\$ 56,226	\$ 99,122
Lease liabilities, current <sup>(1)</sup>	\$ 9,933	\$ 3,183	\$ 13,116
Lease liabilities, net of current portion	38,426	75,085	113,511
Total lease liabilities	\$ 48,359	\$ 78,268	\$ 126,627

Weighted average remaining term (in years)	5.9	14.2
Weighted average discount rate	5.2%	5.4%

<sup>(1)</sup> Included in the line "Accrued expenses and other current liabilities" in the accompanying Condensed Consolidated Balance Sheets.

Supplemental cash flow information related to leases for the six months ended June 30, 2019, was as follows, in thousands:

Cash payments for lease liabilities within operating activities:		
Operating leases		\$ 7,809
Finance leases		\$ 2,106
Non-cash activity:		
Right-of-use assets obtained in exchange for operating lease obligations		\$ 12,029

At June 30, 2019, future maturities of lease liabilities due under these lease agreements were as follows for the years ending December 31, in thousands:

	Operating leases	Finance leases	Total leases
2019	\$ 6,483	\$ 3,059	\$ 9,542
2020	10,214	7,398	17,612
2021	8,983	7,504	16,487
2022	7,982	7,609	15,591
2023	7,590	7,714	15,304
Thereafter	15,161	80,033	95,194
Total undiscounted lease payments	56,413	113,317	169,730
Present value adjustment	(8,054)	(35,049)	(43,103)
Present value of lease payments	\$ 48,359	\$ 78,268	\$ 126,627

## 7. Goodwill and Intangible Assets

Changes in the carrying amount of goodwill during the six months ended June 30, 2019 were as follows, in thousands:

Balance as of January 1, 2019	\$ 1,053,119
Goodwill acquired	18,104
Measurement period adjustments	(395)
Balance as of June 30, 2019	\$ 1,070,828

Identified intangible assets consisted of the following at June 30, 2019 and December 31, 2018:

	June 30, 2019			December 31, 2018		
	Carrying Amount	Accumulated Amortization	Net	Carrying Amount	Accumulated Amortization	Net
(in thousands)						
<b>Finite-lived intangible assets:</b>						
Developed technologies	\$ 207,960	\$ (112,828)	\$ 95,132	\$ 207,310	\$ (100,445)	\$ 106,865
Client relationships	271,328	(123,330)	147,998	264,228	(107,155)	157,073
Vendor relationships	5,650	(5,650)	—	5,650	(5,650)	—
Trade names	23,157	(14,351)	8,806	22,956	(10,682)	12,274
Non-compete agreements	4,173	(1,791)	2,382	4,173	(1,395)	2,778
Total finite-lived intangible assets	512,268	(257,950)	254,318	504,317	(225,327)	278,990
<b>Indefinite-lived intangible assets:</b>						
Trade names	8,393	—	8,393	8,388	—	8,388
Total intangible assets	\$ 520,661	\$ (257,950)	\$ 262,711	\$ 512,705	\$ (225,327)	\$ 287,378

Amortization expense related to finite-lived intangible assets was \$16.5 million and \$14.7 million for the three months ended, and \$32.6 million and \$28.5 million for the six months ended June 30, 2019 and 2018, respectively.

## 8. 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 2016, 2017, and 2018 (inclusive of these amendments, the “Credit Facility”). For more information regarding these amendments, refer to our 2017 and 2018 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 made quarterly principal payments of \$0.8 million through March 31, 2018, which increased to \$1.5 million beginning on June 30, 2018, and will increase again 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 disbursement 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 through March 31, 2018. The quarterly principal payments increased to \$2.5 million beginning on June 30, 2018, and will increase again 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. We may prepay the Term Loans in whole or in part at any time without premium or penalty.

*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 5.50 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 0.25% 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, which limit our and certain of our subsidiaries' ability to, among other things, incur additional indebtedness or guarantee indebtedness of others; grant 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 covenants also include requirements that we comply with the following financial ratios:

**Consolidated Net Leverage Ratio:** The Consolidated Net Leverage Ratio ("Net Leverage Ratio"), defined as a 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, of no greater than 5.00 to 1.00.

**Consolidated Interest Coverage Ratio:** The Consolidated Interest Coverage Ratio ("Interest Coverage Ratio"), defined as a ratio of the sum of the four previous fiscal quarters' consolidated EBITDA to our interest expense for the same period, excluding non-cash interest attributable to the Convertible Notes, as defined below, of no less than 3.00 to 1.00.

**Consolidated Senior Secured Net Leverage Ratio:** The Consolidated Senior Secured Net Leverage Ratio ("Senior Leverage Ratio"), defined as a 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, of no greater than 3.75 to 1.00.

As of June 30, 2019, we were in compliance with the covenants under our Credit Facility.

The Credit Facility contains customary events of default, subject to customary cure periods for certain defaults. In the event of a default, the obligations under the Credit Facility could be accelerated, the applicable interest rate could be increased, the loan commitments could be terminated, our subsidiary guarantors 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. Any such default that is not cured or waived could have a material adverse effect on our liquidity and financial condition.

As of June 30, 2019 and December 31, 2018, we had \$350.0 million of available credit under our Revolving Facility and there were no outstanding borrowings. We incur commitment fees on the unused portion of the Revolving Facility. The carrying value of the Revolving Facility approximates its fair value.

Unamortized debt issuance costs for the Revolving Facility were \$1.1 million and \$1.3 million at June 30, 2019 and December 31, 2018, respectively, and are included in the line "Other assets" in the Condensed Consolidated Balance Sheets.

Principal outstanding, and unamortized debt issuance costs for the Term Loans, were as follows at June 30, 2019 and December 31, 2018:

	June 30, 2019		December 31, 2018	
	Term Loan	Delayed Draw Term Loan	Term Loan	Delayed Draw Term Loan
	(in thousands)			
Principal outstanding	\$ 111,923	\$ 185,000	\$ 114,990	\$ 190,000
Unamortized issuance costs	(142)	(501)	(171)	(606)
Unamortized discount	(113)	(300)	(137)	(361)
Carrying value	<u>\$ 111,668</u>	<u>\$ 184,199</u>	<u>\$ 114,682</u>	<u>\$ 189,033</u>

The fair value of the Term Loans on June 30, 2019 and December 31, 2018 was \$288.6 million and \$298.9 million, respectively. The fair value 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.



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

	<b>Term Loans</b>
2019	\$ 8,066
2020	28,232
2021	32,266
2022	228,359
	<u>\$ 296,923</u>

#### **Convertible Notes**

In May 2017, we 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 us 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. 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 our 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. Based on our closing stock price of \$58.85 on June 30, 2019, the if-converted value exceeded the aggregate principal amount of the Convertible Notes by \$139.0 million.

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

- during any calendar quarter commencing after the calendar quarter ending on June 30, 2017 (and only during such calendar quarter), if the last reported sale price of our common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day;
- during the five business day period after any five consecutive trading day period (the "Measurement Period") in which the trading price per \$1,000 principal amount of the Convertible Notes for each trading day of the Measurement Period was less than 98% of the product of the last reported sales price of our common stock and the conversion rate on each such trading day; or
- upon the occurrence of specified corporate events, as defined in the Indenture.

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

During the second quarter of 2019, the closing price of our common stock exceeded 130% of the conversion price of the Convertible Notes for more than 20 trading days during the last 30 consecutive trading days of the quarter, thereby satisfying one of the early conversion events. As a result, the Convertible Notes are convertible at any time during the third quarter of 2019.

Accordingly, as of June 30, 2019, the carrying amount of the Convertible Notes of \$298.9 million was classified as a current liability in the accompanying Condensed Consolidated Balance Sheets. No gain or loss was recognized when the debt became convertible.

The net carrying amount of the Convertible Notes at June 30, 2019 and December 31, 2018, was as follows:

	June 30, 2019	December 31, 2018
	(in thousands)	
<b>Liability component:</b>		
Principal amount	\$ 345,000	\$ 345,000
Unamortized discount	(40,842)	(46,235)
Unamortized debt issuance costs	(5,231)	(5,922)
	<u>\$ 298,927</u>	<u>\$ 292,843</u>
<b>Equity component, net of issuance costs and deferred tax:</b>	<b>\$ 61,390</b>	<b>\$ 61,390</b>

The estimated fair value of the Convertible Notes at June 30, 2019 and December 31, 2018 was \$512.3 million and \$441.4 million, respectively. The estimated fair value is based on quoted market prices as of the last trading day for the six months ended June 30, 2019; 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 following table sets forth total interest expense related to the Convertible Notes for the three and six months ended June 30, 2019 and 2018:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
	(in thousands)			
Contractual interest expense	\$ 1,294	\$ 1,294	\$ 2,588	\$ 2,588
Amortization of debt discount	2,717	2,562	5,393	5,086
Amortization of debt issuance costs	348	328	691	651
	<u>\$ 4,359</u>	<u>\$ 4,184</u>	<u>\$ 8,672</u>	<u>\$ 8,325</u>

The effective interest rate of the liability component for the three and six months ended June 30, 2019 and 2018 was 5.87%.

#### *Convertible Note Hedges and Warrants*

On May 23, 2017, we entered into privately negotiated transactions to purchase hedge instruments ("Note Hedges"), covering approximately 8.2 million shares of our common stock at a cost of \$62.5 million. The Note Hedges are subject to anti-

dilution provisions substantially similar to those of the Convertible Notes, have a strike price of approximately \$41.95 per share, are exercisable by us upon any conversion under the Convertible Notes, and expire on November 15, 2022.

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

On May 23, 2017, we 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.

#### 9. Stock-based Expense

During the three and six months ended June 30, 2019, we made the following grants of time-based restricted stock:

Three Months Ended June 30, 2019	Six Months Ended June 30, 2019	Vesting
99,383	737,270	Shares vest ratably over a period of twelve quarters beginning on the first day of the second calendar quarter immediately following the grant date.
—	22,675	Shares fully vested on the first day of the calendar quarter immediately following the grant date.
25,515	26,895	Shares vest ratably over a period of four quarters beginning on the first day of the calendar quarter immediately following the grant date.

During the three and six months ended June 30, 2019, we granted 12,750 shares and 480,882 shares of restricted stock, respectively, that become eligible to vest based on the achievement of certain market-based conditions, as described below:

Three Months Ended June 30, 2019	Six Months Ended June 30, 2019	Condition to Become Eligible to Vest
—	11,300	After the grant date and prior to July 1, 2022, the average closing price per share of our common stock equals or exceeds \$60.84 for twenty consecutive trading days.
—	105,733	After the grant date and prior to July 1, 2022, the average closing price per share of our common stock equals or exceeds \$69.50 for twenty consecutive trading days.
—	11,300	After the grant date and prior to July 1, 2022, the average closing price per share of our common stock equals or exceeds \$66.92 for twenty consecutive trading days.
—	105,733	After the grant date and prior to July 1, 2022, the average closing price per share of our common stock equals or exceeds \$77.84 for twenty consecutive trading days.
—	11,300	After the grant date and prior to July 1, 2022, the average closing price per share of our common stock equals or exceeds \$73.01 for twenty consecutive trading days.
—	105,733	After the grant date and prior to July 1, 2022, the average closing price per share of our common stock equals or exceeds \$88.96 for twenty consecutive trading days.
3,184	3,184	After the grant date and prior to July 1, 2022, the average closing price per share of our common stock equals or exceeds \$78.44 for twenty consecutive trading days.
—	11,300	After the grant date and prior to July 1, 2022, the average closing price per share of our common stock equals or exceeds \$85.17 for twenty consecutive trading days.
—	105,733	After the grant date and prior to July 1, 2022, the average closing price per share of our common stock equals or exceeds \$100.08 for twenty consecutive trading days.
3,184	3,184	After the grant date and prior to July 1, 2022, the average closing price per share of our common stock equals or exceeds \$87.85 for twenty consecutive trading days.
3,184	3,184	After the grant date and prior to July 1, 2022, the average closing price per share of our common stock equals or exceeds \$100.40 for twenty consecutive trading days.
3,198	3,198	After the grant date and prior to July 1, 2022, the average closing price per share of our common stock equals or exceeds \$112.95 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.

We capitalized stock-based expense for software development costs of \$0.4 million and \$0.7 million for the three and six months ended June 30, 2019, respectively.

## 10. Commitments and Contingencies

### *Guarantor Arrangements*

We have agreements whereby we indemnify our officers and directors for certain events or occurrences while the officer or director is or was serving at our request in such capacity. The term of the indemnification period is for the officer or director's lifetime. The maximum potential amount of future payments we could be required to make under these indemnification agreements is unlimited; however, we have a director and officer insurance policy that limits our exposure and enables us to recover a portion of any future amounts paid. As a result of our insurance policy coverage, we believe the estimated fair value of these indemnification agreements is minimal. Accordingly, we had no liabilities recorded for these agreements as of June 30, 2019 or December 31, 2018.

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

The potential amount of future payments to defend lawsuits or settle indemnified claims under these indemnification provisions is unlimited in certain agreements; however, we believe the estimated fair value of these indemnification provisions is minimal, and, accordingly, we had no liabilities recorded for these agreements as of June 30, 2019 or December 31, 2018.

#### ***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.

At June 30, 2019 and December 31, 2018, we had accrued amounts for estimated settlement losses related to legal matters. We do 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, including purported class action lawsuits 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.

#### ***Other Matters***

During May 2018 and as disclosed in our Form 10-K for the year ended December 31, 2018, 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 we acquired in 2017. The incident resulted in the diversion of approximately \$6.0 million, net of recovered funds, intended for disbursement to three clients. We immediately restored all funds to the client accounts.

We maintain insurance coverage to limit our losses related to criminal and network security events. During January 2019, we received approximately \$1.0 million from our primary insurance carrier as a partial repayment toward our losses from the business email compromise. We intend to vigorously pursue repayment of the remaining losses under such insurance coverage. Due to the uncertainty regarding timing and full collectability of the loss, we recorded an allowance of \$5.0 million for the remaining amount of the loss during the fourth quarter of 2018.

### **11. 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, after giving effect to all potential dilutive common shares outstanding during the period. Included within diluted net income per share is 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 46,000 and 79,000 for the three months ended, and 270,000 and 322,000 for the six months ended June 30, 2019 and 2018, 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 our 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 (the "conversion premium") in shares of our common stock. Therefore, only the impact of the conversion premium is included in total dilutive weighted average shares outstanding using the treasury stock method. The dilutive effect of the conversion premium for the three and six months ended June 30, 2019 and 2018 are shown in the table below.

The Warrants sold in connection with the issuance of the Convertible Notes are considered to be dilutive when the average price of our common stock during the period exceeds the Warrants' strike price of \$57.58 per share, as described in Note 8. The effect of the additional shares that may be issued upon exercise of the Warrants is included in total dilutive weighted average shares outstanding using the treasury stock method and, to the extent dilutive, is shown in the table below. The Note Hedges purchased in connection with the issuance of the Convertible Notes are considered to be anti-dilutive and therefore do not impact our calculation of diluted net income per share. Refer to Note 8 for further discussion regarding the Convertible Notes.

We exclude common shares subject to a holdback pursuant to business combinations from the calculation of basic weighted average shares outstanding where the release of such shares is contingent upon an event not solely subject to the passage of time. As of June 30, 2019, there were approximately 163,000 contingently returnable shares related to our acquisitions of ClickPay and BluTrend, which were excluded from the computation of basic net income per share as these shares are subject to sellers' indemnification obligations and are subject to a holdback. There were approximately 187,000 contingently returnable shares as of June 30, 2018. Dilutive common shares outstanding include the weighted average contingently issuable shares discussed above that are subject to a holdback, as well as the weighted average contingently

issuable shares to be issued subject to a holdback on the first anniversary dates of the ClickPay and BluTrend acquisitions. These shares are subject to release to the sellers on the first and second anniversary date of the acquisitions which are contingent on the sellers' indemnification obligations.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
(in thousands, except per share amounts)				
Numerator:				
Net income	\$ 15,063	\$ 8,479	\$ 26,335	\$ 19,380
Denominator:				
Basic:				
Weighted average common shares used in computing basic net income per share	91,914	85,124	91,703	83,156
Diluted:				
Add weighted average effect of dilutive securities:				
Stock options and restricted stock	1,422	2,474	1,474	2,310
Convertible Notes and Warrants	2,933	2,116	2,572	1,720
Contingently issuable shares in connection with our acquisitions	224	291	287	146
Weighted average common shares used in computing diluted net income per share	96,493	90,005	96,036	87,332
Net income per share:				
Basic	\$ 0.16	\$ 0.10	\$ 0.29	\$ 0.23
Diluted	\$ 0.16	\$ 0.09	\$ 0.27	\$ 0.22

## 12. Income Taxes

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

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

Our effective income tax rate was 12.7% and (2.6)% for the six months ended June 30, 2019 and 2018, respectively. Our effective rate is lower than the statutory rate for the six months ended June 30, 2019, primarily due to \$3.8 million of excess tax benefits from stock-based compensation recognized as discrete items as required by ASU 2016-09, offset, partially, by state taxes and certain non-deductible expenses.

Our effective rate is lower than the statutory rate for the six months ended June 30, 2018, primarily because of \$7.1 million of excess tax benefits from stock-based compensation recognized as discrete items during the year, as required by ASU 2016-09.

During the second quarter of 2019, we completed a review of certain U.S. tax reform elements primarily related to the Base Erosion Anti-avoidance Tax ("BEAT") and verified the existence of required information to confirm our eligibility for certain exceptions allowed under the BEAT provisions. As a result, we determined that we no longer had additional tax liability related to the BEAT, as enacted in the Tax Cuts and Jobs Act ("TCJA"), and clarified in additional guidance from the proposed regulations issued on December 13, 2018. We will continue to monitor our payments to foreign affiliates during the second half of the year to verify our continued exemption from the BEAT provisions for 2019.

**13. Fair Value Measurements**

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

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

Although the credit valuation adjustments associated with our derivatives utilize Level 3 inputs, such as estimates of current credit spreads, we have determined that the majority of the inputs used to value our derivatives fall within Level 2 of the fair value hierarchy. We have assessed the significance of the impact of the credit valuation adjustments on the overall valuation of our derivative positions and determined that the credit valuation adjustments are not significant to the overall valuation of our interest rate swaps. As a result, we determined that our interest rate swap valuation in its entirety is classified in Level 2 of the fair value hierarchy.

*Foreign exchange currency contracts:* We enter into foreign exchange currency contracts to hedge the future payment of operating expenses by certain of our non-U.S. subsidiaries. The fair values of our foreign exchange currency contracts are based on quoted foreign exchange forward rates at the reporting date and are classified within Level 2 of the fair value hierarchy.

*Contingent consideration obligation:* The fair value of the contingent consideration obligation includes inputs not observable in the market and thus represents a Level 3 measurement. At December 31, 2018, the contingent consideration obligation consisted of a potential obligation related to our LeaseLabs acquisition. The amount to be paid under this obligation was contingent upon the achievement of stipulated operational or financial targets by the business subsequent to acquisition. The fair value for our contingent consideration obligation is estimated based on management's assessment of the probability of achievement of operational or financial targets. The fair value estimate considers the projected future operating or financial results for the factor upon which the respective contingent obligation is dependent. The fair value estimate is 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. During the three months ended June 30, 2019, we settled the contingent consideration obligation for \$6.0 million.

The following tables disclose the assets and liabilities measured at fair value on a recurring basis as of June 30, 2019 and December 31, 2018, by the fair value hierarchy levels as described above:

	Fair value at June 30, 2019			
	Total	Level 1	Level 2	Level 3
	(in thousands)			
<b>Assets:</b>				
Interest rate swap agreements	\$ 246	\$ —	\$ 246	\$ —
Foreign exchange currency contracts	117		117	
Total assets measured at fair value	<u>\$ 363</u>	<u>\$ —</u>	<u>\$ 363</u>	<u>\$ —</u>
<b>Liabilities:</b>				
Interest rate swap agreements	<u>\$ 2,469</u>	<u>\$ —</u>	<u>\$ 2,469</u>	<u>\$ —</u>
	Fair value at December 31, 2018			
	Total	Level 1	Level 2	Level 3
	(in thousands)			
<b>Assets:</b>				
Interest rate swap agreements	<u>\$ 923</u>	<u>\$ —</u>	<u>\$ 923</u>	<u>\$ —</u>
<b>Liabilities:</b>				
Interest rate swap agreements	\$ 413	\$ —	\$ 413	\$ —
Contingent consideration related to the acquisition of:				
LeaseLabs	6,000	—	—	6,000
Total liabilities measured at fair value	<u>\$ 6,413</u>	<u>\$ —</u>	<u>\$ 413</u>	<u>\$ 6,000</u>

There were no transfers between Level 1 and Level 2, or between Level 2 and Level 3 measurements during the six months ended June 30, 2019.

Changes in the fair value of Level 3 measurements were as follows for the six months ended June 30, 2019 and 2018:

	Six Months Ended June 30,	
	2019	2018
	(in thousands)	
Balance at beginning of period	\$ 6,000	\$ 414
Settlements through cash payments	(5,963)	(247)
Net gain on change in fair value	(37)	(115)
Balance at end of period	\$ —	\$ 52

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.

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

In August 2016, we acquired a \$3.0 million noncontrolling interest in CompStak, Inc. (“CompStak”), which is an unrelated company that specializes in the aggregation of commercial lease data. We have elected the measurement alternative for the CompStak equity investment, whereby we measure the investment at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer. During the first quarter of 2019, we recorded a gain of \$2.6 million based on an observable price change, which is reflected in the line “Interest expense and other, net” in the accompanying Condensed Consolidated Statements of Operations. The factors considered in the remeasurement included the price at which the investee issued equity instruments similar to those of our investment and the rights and preferences of those equity instruments compared to ours. We concluded that this fair value measurement should be categorized within Level 2.

During the three months ended June 30, 2019, we invested an additional \$1.8 million in CompStak. The carrying value of this investment at June 30, 2019 and December 31, 2018 was \$7.4 million and \$3.0 million, respectively, and is included in “Other assets” in the accompanying Condensed Consolidated Balance Sheets.

There were no liabilities measured at fair value on a non-recurring basis at June 30, 2019 and December 31, 2018.

**14. 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 2015, 2016 and 2017. This program expired in May 2018.

In October 2018, our board of directors approved a new share repurchase program authorizing the repurchase of up to \$100.0 million of our outstanding common stock. The share purchase program is effective through October 25, 2019. Shares repurchased under the plan are retired.

There was no repurchase activity during the three and six months ended June 30, 2019 and 2018.

**15. Derivative Financial Instruments**

***Hedging Strategy***

***Interest Rate Swap Agreements***

We are exposed to interest rate risk on our variable rate debt. We have entered into interest rate swap agreements to effectively convert portions of our variable rate debt to a fixed-rate basis. The principal objective of these contracts is to eliminate or reduce the variability of the cash flows in interest payments associated with our variable rate debt, thus reducing the impact of interest rate changes on future interest payment cash flows.

On March 31, 2016, we entered into two interest rate swap agreements (collectively the “2016 Swap Agreements”). The 2016 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%.

On December 24, 2018, we entered into two interest rate swap agreements (collectively the “2018 Swap Agreements”). The 2018 Swap Agreements cover an aggregate notional amount of \$100.0 million from December 2018 to February 2022 by replacing the obligation’s variable rate with a blended fixed rate of 2.57%. We designated both the 2016 and 2018 Swap Agreements (collectively the “Swap Agreements”) as cash flow hedges of interest rate risk.



The changes in the fair value of the Swap Agreements are recorded in accumulated other comprehensive income and are subsequently reclassified into earnings in the period that the hedged forecasted transactions affect 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.

*Foreign Exchange Currency Contracts*

We are exposed to market risk that includes changes in foreign exchange rates. We have operations in certain foreign countries where the functional currency is the local currency. For international operations that are determined to be extensions of the parent company, the U.S. dollar is the functional currency. As of June 30, 2019, we entered into a series of foreign exchange forward contracts to hedge the effect of adverse fluctuations in foreign currency exchange rates for the Indian rupee and Philippines peso. These contracts are designated as cash flow hedges of forecasted transactions, are intended to offset the impact of movement of exchange rates on future operating costs and are scheduled to mature within twelve months.

The changes in the fair value of these contracts are initially reported in accumulated other comprehensive income and are subsequently reclassified into cost of revenue and operating expenses in the same period that the hedge transaction affects earnings.

The table below presents the fair value of the derivative instruments as well as their classification in the Condensed Consolidated Balance Sheets as of June 30, 2019 and December 31, 2018:

	Balance Sheet Location	Fair Value at	
		June 30, 2019	December 31, 2018
(in thousands)			
Derivatives designated as cash flow hedging instruments:			
<b>Assets:</b>			
Interest rate swaps	Other assets	\$ 246	\$ 923
Foreign exchange currency contracts	Other current assets	117	—
Total derivative assets		\$ 363	\$ 923
<b>Liabilities:</b>			
Interest rate swaps	Other long-term liabilities	\$ 2,469	\$ 413
Total derivative liabilities		\$ 2,469	\$ 413

As of June 30, 2019, we have not posted any collateral related to our derivative instruments. If we had breached any of the default provisions at June 30, 2019, we could have been required to settle our obligations under the agreements at their termination value of \$2.1 million.

The tables below present the amount of gains and losses related to the derivative instruments and their location in the Condensed Consolidated Statements of Operations and the Condensed Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2019 and 2018, in thousands:

Derivatives Designated as Cash Flow Hedges	Gain (Loss) Recognized in OCI		Location of Gain (Loss) Recognized in Income	Gain Recognized in Income	
	2019	2018		2019	2018
<b>Three months ended June 30,</b>					
Swap agreements, net of tax	\$ (1,081)	\$ 109	Interest expense and other	\$ 212	\$ 145
Foreign currency forward contracts, net of tax	90	—	Cost of revenue and operating expenses	11	—

Derivatives Designated as Cash Flow Hedges	Gain (Loss) Recognized in OCI		Location of Gain (Loss) Recognized in Income	Gain Recognized in Income	
	2019	2018		2019	2018
<b>Six months ended June 30,</b>					
Swap agreements, net of tax	\$ (1,666)	\$ 367	Interest expense and other	\$ 433	\$ 244
Foreign currency forward contracts, net of tax	90	—	Cost of revenue and operating expenses	11	—

As of June 30, 2019, we estimate that \$0.4 million of the net loss related to derivatives designated as cash flow hedges recorded in other comprehensive income is expected to be reclassified into earnings within the next twelve months.

Gains and losses on our cash flow hedges are net of income tax expense of \$0.4 million and \$0.6 million during the three and six months ended June 30, 2019, respectively. The income tax effect of the gains and losses on our cash flow hedges during the three and six months ended June 30, 2018 was immaterial. Cash flows from these derivative instruments are included within the operating activities in the Condensed Consolidated Statements of Cash Flows, as the Company's accounting policy is to present cash flows from hedging instruments in the same category as the item being hedged.

#### 16. Subsequent Events

On July 10, 2019, we acquired substantially all of the assets of CRE Global Enterprises, LLC, and its subsidiaries, including 100% of the shares outstanding in its legal entities in the UK, Canada and Colombia (collectively "Hipercept"). Hipercept is a provider of data services and data analytics solutions to institutional commercial real estate owners. Purchase consideration was comprised of \$18.0 million of cash paid at closing, deferred cash obligations of up to \$4.0 million, and a contingent consideration obligation of up to \$28.0 million based on the achievement of certain financial objectives. The deferred cash obligations are subject to any indemnification claims and will be released in part on the first anniversary of the closing with the remainder released on the second anniversary of the closing.

On July 26, 2019, we acquired substantially all of the assets of Simple Bills Corporation ("SimpleBills"), a provider of utility management services for the multi-family student housing market. Purchase consideration was comprised of \$16.1 million of cash paid at closing, deferred cash obligations of up to \$3.4 million, and contingent equity grants of up to \$10.0 million to be awarded based on the achievement of certain financial objectives and continued employment of certain SimpleBills employees. The deferred cash obligations are subject to any indemnification claims and will be released in part on the first anniversary of the closing with the remainder released on the second anniversary of the closing.

Due to the timing of these acquisitions, certain disclosures required by ASC 805, including the allocation of the purchase price, have been omitted because the initial accounting for the business combinations was incomplete as of the filing date of this report. Such information will be included in a 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 negatives of those 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 SEC, including our Annual Report on Form 10-K for fiscal year 2018 previously filed with the SEC on February 27, 2019 and our Quarterly Report on Form 10-Q for the first quarter of 2019 filed on May 8, 2019. 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 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 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, homeowner association and vacation rental markets. Since July 2002, we have completed over 45 acquisitions of complementary technologies to supplement our internal product development and sales and marketing efforts and expand the scope of our solutions, the types of rental housing and vacation rental properties served by our solutions, and our client base. In connection with this expansion and these acquisitions, we have committed greater resources to developing and increasing sales of our platform of data analytics and on demand solutions. As of June 30, 2019, we had approximately 6,500 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;
- homeowner association properties;
- short-term rentals; 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 the following primary solutions: OneSite, Propertyware, RealPage Financial Services, Kigo, Spend Management Solutions, SmartSource IT, 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, applicant screening, and creative content design. Our leasing and marketing solutions category consists of the following primary solutions: Online Leasing, Contact Center, Websites & Syndication, Intelligent Lease Management, LeaseLabs, Lead2Lease CRM, Resident Screening, and MyNewPlace.

### ***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. Our resident services solution category primarily consists of the following 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 the following 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 our capabilities and 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**

#### ***Acquisition Activity***

In April 2019, we acquired substantially all of the assets of LeaseTerm Solutions. Aggregate purchase consideration was \$26.0 million, including deferred cash obligations of up to \$2.7 million that will be released on the first and second anniversary dates of the closing date, subject to any indemnification claims.

On July 10, 2019, we acquired substantially all of the assets of CRE Global Enterprises, LLC, and its subsidiaries, including 100% of the outstanding shares of its legal entities in the UK, Canada and Colombia (collectively "Hipercept"). Purchase consideration was comprised of \$18.0 million of cash paid at closing, deferred cash obligations of up to \$4.0 million, which are subject to working capital adjustments, and a contingent consideration obligation of up to \$28.0 million based on the achievement of certain financial objectives.

On July 26, 2019, we acquired substantially all of the assets of SimpleBills. Purchase consideration was comprised of \$16.1 million of cash paid at closing, deferred cash obligations of up to \$3.4 million, which are subject to working capital adjustments, and contingent equity grants of up to \$10.0 million based on the achievement of certain financial objectives and continued employment of certain SimpleBills employees.

## Key Business Metrics

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
(in thousands, except dollar per unit data and percentages)				
<b>Revenue:</b>				
Total revenue	\$ 243,861	\$ 216,252	\$ 478,167	\$ 417,553
On demand revenue	\$ 235,185	\$ 206,945	\$ 461,704	\$ 400,245
On demand revenue as a percentage of total revenue	96.4%	95.7%	96.6%	95.9%
<b>Non-GAAP total revenue</b>				
Non-GAAP total revenue	\$ 244,018	\$ 216,355	\$ 478,548	\$ 417,969
Non-GAAP on demand revenue	\$ 235,342	\$ 207,048	\$ 462,085	\$ 400,661
Adjusted EBITDA	\$ 68,231	\$ 57,125	\$ 133,407	\$ 111,286
<b>Ending on demand units</b>				
Ending on demand units	16,505	15,531		
<b>Average on demand units</b>				
Average on demand units	16,453	14,352		
<b>On demand annual client value</b>				
On demand annual client value	\$ 942,436	\$ 837,897		
<b>Annualized on demand revenue per ending on demand unit</b>				
Annualized on demand revenue per ending on demand unit	\$ 57.10	\$ 53.95		

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

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

*Non-GAAP total revenue:* This metric is calculated by adding acquisition-related deferred revenue to total revenue. We believe it is useful to include deferred revenue written down for GAAP purposes under purchase accounting rules 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 June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
(in thousands)				
Total revenue	\$ 243,861	\$ 216,252	\$ 478,167	\$ 417,553
Acquisition-related deferred revenue	157	103	381	416
Non-GAAP total revenue	\$ 244,018	\$ 216,355	\$ 478,548	\$ 417,969

*Non-GAAP on demand revenue:* This metric reflects total on demand revenue plus acquisition-related deferred revenue, 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 June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
	(in thousands)			
On demand revenue	\$ 235,185	\$ 206,945	\$ 461,704	\$ 400,245
Acquisition-related deferred revenue	157	103	381	416
Non-GAAP on demand revenue	<u>\$ 235,342</u>	<u>\$ 207,048</u>	<u>\$ 462,085</u>	<u>\$ 400,661</u>

*Adjusted EBITDA:* We define Adjusted EBITDA as net income, plus (1) acquisition-related deferred revenue, (2) depreciation, asset impairment, and the loss on disposal of assets, (3) amortization of product technologies and intangible assets, (4) change in fair value of equity investment, (5) acquisition-related expense, (6) interest expense, net, (7) income tax (benefit) expense, (8) regulatory and legal matters, and (9) 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 June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
	(in thousands)			
Net income	\$ 15,063	\$ 8,479	\$ 26,335	\$ 19,380
Acquisition-related deferred revenue	157	103	381	416
Depreciation, asset impairment, and loss on disposal of assets	8,697	7,662	17,457	15,480
Amortization of product technologies and intangible assets	20,302	17,623	39,652	34,007
Change in fair value of equity investment	—	—	(2,600)	—
Acquisition-related expense	376	1,168	405	2,175
Interest expense, net	8,241	8,584	16,822	16,305
Income tax (benefit) expense	(822)	(189)	3,825	(490)
Regulatory and legal matters	352	—	352	—
Stock-based expense	15,865	13,695	30,778	24,013
Adjusted EBITDA	<u>\$ 68,231</u>	<u>\$ 57,125</u>	<u>\$ 133,407</u>	<u>\$ 111,286</u>

*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 ending on demand unit ("RPU")* We define RPU as ACV divided by ending 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 deferred revenue:* These items are included to reflect deferred revenue written down for GAAP purposes under purchase accounting rules 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, and impairment of indefinite-lived intangible 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 it is therefore not considered by management in making operating decisions.

*Amortization of product technologies and 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.

*Change in fair value of equity investment:* This represents changes in fair value of our equity investment based on observable price changes in orderly transactions for an identical or similar investment of the same issuer. We believe exclusion of these items facilitates a more accurate comparison of our results of operations between periods as these items are not reflective of our ongoing operations.

*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 our ongoing operations across periods and eliminates volatility related to changes in the fair value of acquisition-related contingent consideration obligations.

*Regulatory and legal matters:* This item is comprised of certain regulatory and similar costs and certain legal settlement costs, such as costs related to the company's Hart-Scott-Rodino Antitrust Improvements Act review process incurred in connection with our acquisitions or the settlement of certain legal matters. These items are excluded as they are irregular in timing and scope, and may not be indicative of our past and future performance. We believe exclusion of these items facilitates a more accurate comparison of the company's results of operations between 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, which are allocated based on headcount.

### ***Amortization of Product Technologies***

Amortization of product technologies includes amortization of developed product technologies related to strategic acquisitions and amortization of capitalized development costs.

### ***Operating Expenses***

We classify our operating expenses into three primary 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. Our operating expenses also include an allocation of our facilities costs; overhead costs and depreciation based on headcount for that category.

*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 conferences; public relations; and industry sponsorships and affiliations.

*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.

*Amortization of intangible assets:* Amortization of intangible assets consist of amortization of purchased intangible assets, including client relationships; key vendor and supplier relationships; finite-lived trade names; and non-compete agreements, obtained in connection with our acquisitions.



### ***Interest Expense and Other, Net***

Interest expense and other, net, consists primarily of interest income, interest expense, and gains or losses and impairments on investments. Interest income represents earnings from our cash and cash equivalents. Interest expense is associated with amounts borrowed under the Credit Facility, Convertible Notes, finance lease obligations, and certain acquisition-related liabilities, and includes expense from the amortization of related discounts and debt issuance costs. We participate in interest rate swap agreements, the purpose of which is to eliminate variability in interest rate payments on a portion of the Term Loans. For that portion, the swap agreements replace the Term Loan's variable rate with a fixed rate.

### **Critical Accounting Policies and Estimates**

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

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

- Revenue recognition;
- Deferred commissions;
- Stock-based expense;
- Income taxes, including deferred tax assets and liabilities;
- Business combinations;
- Goodwill and indefinite-lived intangible assets; and
- Internally developed software

Please refer to our Annual Report on Form 10-K filed with the SEC on February 27, 2019 for a discussion of such policies.

### ***Recently Adopted Accounting Standards***

We adopted ASU 2016-02, *Leases (Topic 842)*, on January 1, 2019 using the optional transition method provided for in ASU 2018-11 *Leases - Targeted Improvements* which eliminated the requirement to restate amounts presented prior to January 1, 2019. The impact of the adoption of ASC 842 resulted in the recognition of ROU assets and lease liabilities for operating leases of \$73.9 million and \$101.5 million, respectively at the Transition Date which included reclassifying deferred rent as a component of the ROU asset. As of the Transition Date, we had insignificant finance leases.

We determine if an arrangement contains a lease and the classification of that lease, if applicable, at inception. Our ROU assets and lease liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. For our real estate contracts with lease and non-lease components, we have elected to combine the lease and non-lease components as a single lease component. The implicit rate within our leases are generally not determinable and we use our incremental borrowing rate at the lease commencement date to determine the present value of lease payments. The determination of our incremental borrowing rate required judgment. We determine our incremental borrowing rate for each lease using our current borrowing rate, adjusted for various factors including collateralization and term to align with the terms of the lease.

Certain of our leases include options to extend the lease. An option to extend the lease is considered in connection with determining the ROU asset and lease liability when it is reasonably certain we will exercise that option. During the first quarter of 2019, we determined we were reasonably certain to renew the building lease for our corporate headquarters, and as a result, we reassessed the classification of the lease and determined the building lease met the criteria of a finance lease under ASC 842. As a result, an operating ROU asset and lease liability of \$36.4 million and \$58.6 million, respectively, were reclassified and remeasured to a finance ROU asset and lease liability of \$58.2 million and \$80.4 million, respectively. As a result, the costs associated with this lease are now recognized in depreciation and interest expense in 2019. Such costs were included in rent expense in 2018.

See Note 6 of the accompanying Condensed Consolidated Financial Statements for additional disclosures related to the impact of adopting the new lease standard

**Results of Operations**

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

**Condensed Consolidated Statements of Operations**

	Three Months Ended June 30,			
	2019	2019	2018	2018
(in thousands, except per share and ratio amounts)				
<b>Revenue:</b>				
On demand	\$ 235,185	96.4 %	\$ 206,945	95.7 %
Professional and other	8,676	3.6	9,307	4.3
Total revenue	243,861	100.0	216,252	100.0
Cost of revenue <sup>(1)</sup>	95,708	39.2	81,942	37.9
Amortization of product technologies	9,900	4.1	9,127	4.2
<b>Gross profit</b>	<b>138,253</b>	<b>56.7</b>	<b>125,183</b>	<b>57.9</b>
<b>Operating expenses:</b>				
Product development <sup>(1)</sup>	28,151	11.5	30,771	14.2
Sales and marketing <sup>(1)</sup>	49,120	20.1	40,664	18.8
General and administrative <sup>(1)</sup>	28,310	11.6	28,444	13.2
Amortization of intangible assets	10,402	4.3	8,496	3.9
Total operating expenses	115,983	47.5	108,375	50.1
<b>Operating income</b>	<b>22,270</b>	<b>9.2</b>	<b>16,808</b>	<b>7.8</b>
Interest expense and other, net	(8,029)	(3.2)	(8,518)	(3.9)
<b>Income before income taxes</b>	<b>14,241</b>	<b>6.0</b>	<b>8,290</b>	<b>3.9</b>
Income tax benefit	(822)	(0.3)	(189)	(0.1)
<b>Net income</b>	<b>\$ 15,063</b>	<b>6.3 %</b>	<b>\$ 8,479</b>	<b>4.0 %</b>
<b>Net income per share attributable to common stockholders:</b>				
Basic	\$ 0.16		\$ 0.10	
Diluted	\$ 0.16		\$ 0.09	
Weighted average common shares outstanding:				
Basic	91,914		85,124	
Diluted	96,493		90,005	
<sup>(1)</sup> Includes stock-based expense as follows:				
Cost of revenue	\$ 1,447		\$ 1,168	
Product development	2,016		2,645	
Sales and marketing	6,383		4,470	
General and administrative	6,019		5,412	

	Six Months Ended June 30,			
	2019	2019	2018	2018
	(in thousands, except per share and ratio amounts)			
<b>Revenue:</b>				
On demand	\$ 461,704	96.6 %	\$ 400,245	95.9 %
Professional and other	16,463	3.4	17,308	4.1
Total revenue	478,167	100.0	417,553	100.0
Cost of revenue <sup>(1)</sup>	185,902	38.9	154,779	37.1
Amortization of product technologies	19,414	4.1	17,422	4.2
<b>Gross profit</b>	<b>272,851</b>	<b>57.0</b>	<b>245,352</b>	<b>58.7</b>
<b>Operating expenses:</b>				
Product development <sup>(1)</sup>	58,048	12.1	59,811	14.3
Sales and marketing <sup>(1)</sup>	93,943	19.6	78,344	18.8
General and administrative <sup>(1)</sup>	56,453	11.8	55,534	13.3
Amortization of intangible assets	20,238	4.2	16,585	4.0
Total operating expenses	228,682	47.7	210,274	50.4
<b>Operating income</b>	<b>44,169</b>	<b>9.3</b>	<b>35,078</b>	<b>8.3</b>
Interest expense and other, net	(14,009)	(2.8)	(16,188)	(3.9)
<b>Income before income taxes</b>	<b>30,160</b>	<b>6.5</b>	<b>18,890</b>	<b>4.4</b>
Income tax expense (benefit)	3,825	0.8	(490)	(0.1)
<b>Net income</b>	<b>\$ 26,335</b>	<b>5.7 %</b>	<b>\$ 19,380</b>	<b>4.5 %</b>
<b>Net income per share attributable to common stockholders:</b>				
Basic	\$ 0.29		\$ 0.23	
Diluted	\$ 0.27		\$ 0.22	
Weighted average common shares outstanding:				
Basic	91,703		83,156	
Diluted	96,036		87,332	
<sup>(1)</sup> Includes stock-based expense as follows:				
Cost of revenue	\$ 2,778		\$ 2,003	
Product development	4,496		4,808	
Sales and marketing	11,733		8,011	
General and administrative	11,771		9,191	

**Comparison of the Three and Six Months Ended June 30, 2019 and 2018**
**Revenue**

	Three Months Ended June 30,			
	2019	2018	Change	% Change
(in thousands, except per unit data and percentages)				
<b>Revenue:</b>				
On demand	\$ 235,185	\$ 206,945	\$ 28,240	13.6 %
Professional and other	8,676	9,307	(631)	(6.8)
Total revenue	<u>\$ 243,861</u>	<u>\$ 216,252</u>	<u>\$ 27,609</u>	12.8
<b>Non-GAAP on demand revenue</b>				
	\$ 235,342	\$ 207,048	\$ 28,294	13.7
Ending on demand units	16,505	15,531	974	6.3
Average on demand units	16,453	14,352	2,101	14.6
On demand annual client value	\$ 942,436	\$ 837,897	\$ 104,539	12.5
Annualized on demand revenue per ending on demand unit	\$ 57.10	\$ 53.95	\$ 3.15	5.8 %
<b>Six Months Ended June 30,</b>				
	2019	2018	Change	% Change
(in thousands, except per unit data and percentages)				
<b>Revenue:</b>				
On demand	\$ 461,704	\$ 400,245	\$ 61,459	15.4 %
Professional and other	16,463	17,308	(845)	(4.9)
Total revenue	<u>\$ 478,167</u>	<u>\$ 417,553</u>	<u>\$ 60,614</u>	14.5
<b>Non-GAAP on demand revenue</b>				
	\$ 462,085	\$ 400,661	\$ 61,424	15.3 %

The change in total revenue for the three and six months ended June 30, 2019, as compared to the same periods in 2018, were due to the following:

*On demand revenue:* During the three and six months ended June 30, 2019, on demand revenue increased \$28.2 million and \$61.5 million, or 13.6% and 15.4%, respectively, as compared to the same periods in 2018. These increases were attributable to growth across our platform, primarily in resident services. This includes acquired revenue from our 2018 and 2019 acquisitions and organic growth. Annualized on demand revenue per average on demand unit as of June 30, 2019 increased year-over-year by 5.8%, primarily due to organic growth of our solutions.

On demand revenue generated by our property management solutions increased year-over-year by \$4.5 million and \$9.1 million, or 9.6% and 9.9%, respectively, during the three and six months ended June 30, 2019. These increases were primarily driven by the growth of our spend management solutions, adoption of our OneSite property management solutions, and growth of our accounting and commercial solutions.

On demand revenue from our resident services solutions continued to experience significant growth, increasing by \$15.8 million and \$35.5 million, or 18.6% and 21.8%, during the three and six months ended June 30, 2019, respectively, as compared to the same periods in 2018. Resident services increased primarily from continued strong growth of our payments solutions, as well as modest growth in our renter's insurance solutions. Incremental revenue and organic growth from our acquisition of ClickPay in the second quarter of 2018 also contributed to the increase in revenue.

On demand revenue from our leasing and marketing solutions for the three and six months ended June 30, 2019, increased by \$4.0 million and \$8.8 million, or 9.3% and 10.7%, respectively, as compared to the same periods in 2018. These increases were largely attributable to incremental revenue from our acquisition of LeaseLabs in the third quarter of 2018, partially offset by lower revenue in our screening business.

On demand revenue derived from our asset optimization solutions grew \$3.9 million, or 12.1%, during the three months ended June 30, 2019, and \$8.1 million, or 12.7%, during the six months ended June 30, 2019, as compared to the same periods in 2018. This growth was attributable to organic growth across our asset optimization platform, evidencing continued market acceptance of data-driven solutions, as well as incremental revenue from our acquisition of Rentlytics in the fourth quarter of 2018.

*On demand unit metrics:* As of June 30, 2019, one or more of our on demand solutions was utilized in the management of 16.5 million rental property units, representing a year-over-year net increase of 1.0 million units, or 6.3%. This increase was primarily due to organic unit growth. Acquired on demand units from our recent acquisitions accounted for approximately 2.9% of total ending on demand units. On demand units managed by our clients renewed at an average rate of 7.5% over a trailing twelve-month period ended June 30, 2019.

**Cost of Revenue**

	Three Months Ended June 30,				Six Months Ended June 30,			
	2019	2018	Change	% Change	2019	2018	Change	% Change
(in thousands, except percentages)								
Cost of revenue	\$ 90,244	\$ 77,675	\$ 12,569	16.2%	\$ 175,436	\$ 146,743	\$ 28,693	19.6%
Stock-based expense	1,447	1,168	279	23.9	2,778	2,003	775	38.7
Depreciation	4,017	3,099	918	29.6	7,688	6,033	1,655	27.4
Total cost of revenue	<u>\$ 95,708</u>	<u>\$ 81,942</u>	<u>\$ 13,766</u>	16.8%	<u>\$ 185,902</u>	<u>\$ 154,779</u>	<u>\$ 31,123</u>	20.1%

During the three and six months ended June 30, 2019, cost of revenue, excluding stock-based expense, and depreciation, increased \$12.6 million and \$28.7 million, respectively, as compared to the same periods in 2018. Direct costs increased \$6.4 million and \$15.1 million during the three and six months ended June 30, 2019, respectively, driven by incremental costs from our recent acquisitions and higher transaction volume from our payment processing solutions. Personnel expense increased year-over-year during the three and six month periods by \$5.8 million and \$12.4 million, respectively, primarily attributable to investments to support our ongoing organic growth and, to a lesser extent, new employees from our recent acquisitions. Information technology and facilities expense also increased \$0.4 million and \$0.9 million during the three and six months ended June 30, 2019, respectively, as compared to the same periods in 2018.

**Amortization of Product Technologies**

	Three Months Ended June 30,				Six Months Ended June 30,			
	2019	2018	Change	% Change	2019	2018	Change	% Change
(in thousands, except percentages)								
Amortization of product technologies	\$ 9,900	\$ 9,127	\$ 773	8.5%	\$ 19,414	\$ 17,422	\$ 1,992	11.4%

Amortization of product technologies increased \$0.8 million and \$2.0 million during the three and six months ended June 30, 2019, as compared to the same periods in 2018. Higher amortization expense was driven by the addition of acquired product technologies in connection with our 2018 acquisitions.

During the three and six months ended June 30, 2019, our gross margin decreased year-over-year from 57.9% to 56.7%, and 58.7% to 57.0%, respectively. This margin compression was driven primarily by revenue growth from our lower margin solutions, including recent acquisitions and resident services.

**Operating Expenses**
*Product development*

	Three Months Ended June 30,				Six Months Ended June 30,			
	2019	2018	Change	% Change	2019	2018	Change	% Change
(in thousands, except percentages)								
Product development	\$ 24,503	\$ 26,569	\$ (2,066)	(7.8)%	\$ 50,269	\$ 52,108	\$ (1,839)	(3.5)%
Stock-based expense	2,016	2,645	(629)	(23.8)	4,496	4,808	(312)	(6.5)
Depreciation	1,632	1,557	75	4.8	3,283	2,895	388	13.4
Total product development expense	<u>\$ 28,151</u>	<u>\$ 30,771</u>	<u>\$ (2,620)</u>	(8.5)%	<u>\$ 58,048</u>	<u>\$ 59,811</u>	<u>\$ (1,763)</u>	(2.9)%

Product development expense, excluding stock-based expense and depreciation, decreased \$2.1 million and \$1.8 million for the three and six months ended June 30, 2019, respectively, as compared to the same periods in 2018. These decreases were primarily driven by an internal initiative to centralize product development around strategic projects. Personnel expense, net of capitalized software development costs, decreased \$1.3 million during each of the three and six months ended June 30, 2019 due primarily to more efficient leveraging of our personnel in connection with this initiative.

Total product development expense as a percentage of total revenue for the three and six months ended June 30, 2019 and 2018 decreased to 11.5% from 14.2% and to 12.1% from 14.3%, respectively, primarily due to organizational initiatives to centralize product development activities.

*Sales and marketing*

	Three Months Ended June 30,				Six Months Ended June 30,			
	2019	2018	Change	% Change	2019	2018	Change	% Change
(in thousands, except percentages)								
Sales and marketing	\$ 41,171	\$ 34,828	\$ 6,343	18.2%	\$ 79,138	\$ 67,739	\$ 11,399	16.8%
Stock-based expense	6,383	4,470	1,913	42.8	11,733	8,011	3,722	46.5
Depreciation	1,566	1,366	200	14.6	3,072	2,594	478	18.4
Total sales and marketing expense	<u>\$ 49,120</u>	<u>\$ 40,664</u>	<u>\$ 8,456</u>	20.8%	<u>\$ 93,943</u>	<u>\$ 78,344</u>	<u>\$ 15,599</u>	19.9%

Sales and marketing expense, excluding stock-based expense and depreciation, increased year-over-year by \$6.3 million and \$11.4 million during the three and six months ended June 30, 2019, respectively, as compared to the same periods in 2018. Personnel expense increased year-over-year by \$3.9 million and \$7.4 million compared to the respective period in 2018, driven by our continued investments in our sales force and product marketing team. Marketing program and travel expenses increased year-over-year during the three and six months ended June 30, 2019 by \$2.0 million and \$3.0 million, respectively, reflecting investments to accelerate client demand across our portfolio of solutions.

Total sales and marketing expense as a percentage of total revenue increased from 18.8% to 20.1% during the three months ended, and from 18.8% to 19.6% for the six months ended June 30, 2018 and 2019, respectively. These increases were primarily driven by personnel-related investments in our sales force.

*General and administrative*

	Three Months Ended June 30,				Six Months Ended June 30,			
	2019	2018	Change	% Change	2019	2018	Change	% Change
(in thousands, except percentages)								
General and administrative	\$ 20,792	\$ 21,548	\$ (756)	(3.5)%	\$ 41,537	\$ 43,483	\$ (1,946)	(4.5)%
Stock-based expense	6,019	5,412	607	11.2	11,771	9,191	2,580	28.1
Depreciation	1,499	1,484	15	1.0	3,145	2,860	285	10.0
Total general and administrative expense	<u>\$ 28,310</u>	<u>\$ 28,444</u>	<u>\$ (134)</u>	(0.5)%	<u>\$ 56,453</u>	<u>\$ 55,534</u>	<u>\$ 919</u>	1.7%

General and administrative expense for the three and six months ended June 30, 2019, excluding stock-based expense and depreciation, decreased \$0.8 million and \$1.9 million, respectively, as compared to the same periods of 2018. These net changes resulted from a combination of factors. Losses on disposal of assets during the three and six months ended June 30,

2019 decreased \$0.2 million and \$0.9 million, respectively, primarily related to the early retirement of assets and upgrades in our data center infrastructure during 2018. The six month period was impacted by a decrease of \$2.4 million in legal and professional fees, principally related to costs associated with our 2018 settlement with the Federal Trade Commission (“FTC”) recognized in the first quarter of 2018. These decreases for the six month periods ended June 30, 2019 were offset in part by an increase in personnel expense of \$1.4 million primarily due to incremental headcount from our recent acquisitions.

Total general and administrative expense as a percentage of total revenue decreased from 13.2% to 11.6% and from 13.3% to 11.8% for the three and six months ended June 30, 2018, as compared to the same period in 2019, primarily driven by the impact of 2018 legal costs associated with the FTC settlement and our ability to leverage existing general and administrative resources to support our ongoing growth.

*Amortization of intangible assets*

	Three Months Ended June 30,				Six Months Ended June 30,			
	2019	2018	Change	% Change	2019	2018	Change	% Change
(in thousands, except percentages)								
Amortization of intangible assets	\$ 10,402	\$ 8,496	\$ 1,906	22.4%	\$ 20,238	\$ 16,585	\$ 3,653	22.0%

Amortization expense of intangible assets increased \$1.9 million and \$3.7 million during the three and six months ended June 30, 2019, respectively, as compared to the same period in 2018. Higher amortization expense was primarily driven by the addition of finite-lived client relationship and trade name assets in connection with our 2018 acquisitions.

*Interest Expense and Other, Net*

	Three Months Ended June 30,				Six Months Ended June 30,			
	2019	2018	Change	% Change	2019	2018	Change	% Change
(in thousands, except percentages)								
Interest expense	\$ (8,864)	\$ (9,015)	\$ 151	(1.7)%	\$ (18,066)	\$ (16,772)	\$ (1,294)	7.7 %
Interest income	622	431	191	44.3	1,243	467	776	166.2
Change in fair value of equity investment	—	—	—	—	2,600	—	2,600	100.0
Other income	213	66	147	222.7	214	117	97	82.9
Total interest expense and other, net	\$ (8,029)	\$ (8,518)	\$ 489	(5.7)%	\$ (14,009)	\$ (16,188)	\$ 2,179	(13.5)%

Interest expense and other, net for the three and six months ended June 30, 2019, decreased \$0.5 million and \$2.2 million as compared to the same periods in 2018. The decrease during the three months ended June 30, 2019 was attributable to a \$0.2 million decrease in interest expense and a \$0.2 million increase in interest income. The decrease in interest expense was due to higher interest expense during 2018 on borrowings under our Revolving Facility to support acquisitions, partially offset by \$1.1 million of interest expense recognized on our finance lease liabilities following our adoption of ASC 842.

The decrease during the six months ended June 30, 2019 was primarily attributable to a \$2.6 million write up of the fair value of our investment in CompStak during the first quarter of 2019, following an observable price change in their stock. In addition, interest income increased \$0.8 million during the six month period due to the utilization of higher interest bearing accounts. These decreases were partially offset by an increase in interest expense of \$1.3 million, primarily due to interest expense of \$2.1 million recognized on our finance lease liabilities that more than offset the interest expense associated with 2018 borrowings under our Revolving Facility.

*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 12.7% and (2.6)% for the six months ended June 30, 2019 and 2018, respectively. Our effective rate is lower than the statutory rate for the six months ended June 30, 2019, primarily due to \$3.8 million of excess tax benefits from stock-based compensation recognized as discrete items as required by ASU 2016-09, offset, partially, by state taxes and certain non-deductible expenses.

Our effective rate is lower than the statutory rate for the six months ended June 30, 2018, primarily because of \$7.1 million of excess tax benefits from stock-based compensation recognized as discrete items during the year, as required by ASU 2016-09.

In December 2017, the Tax Cuts and Jobs Act (“TCJA”) was enacted making significant changes to the Internal Revenue Code that included a new minimum tax, the base erosion and anti-abuse tax (“BEAT”). In December 2018, the U.S. Treasury issued proposed regulations supplementing the TCJA that included guidance clarifying details for the application of the BEAT. During the second quarter of 2019, we completed a review of certain U.S. tax reform elements primarily related to BEAT and verified the existence of required information to confirm our eligibility for certain exceptions allowed under the BEAT provisions. As a result, we determined that we no longer had additional tax liability related to the BEAT. We will continue to monitor our payments to foreign affiliates during the second half of the year to verify our continued exemption from the BEAT provisions for 2019.

**Liquidity and Capital Resources**

Our primary sources of liquidity as of June 30, 2019, consisted of \$261.6 million of cash and cash equivalents, \$350.0 million available under the Revolving Facility, amounts available under the Credit Facility’s Accordion Feature, and \$38.9 million of working capital (excluding \$261.6 million of cash and cash equivalents, \$298.9 million of convertible notes, and \$124.7 million of deferred revenue).

Our principal uses of liquidity have been to fund our operations, working capital requirements, capital expenditures and acquisitions, to service our debt obligations, and to repurchase shares of our common stock. We expect that working capital requirements, capital expenditures, acquisitions, debt service, and share repurchases will continue to be our principal needs for liquidity over the near term. We made capital expenditures of \$23.5 million during the six months ended June 30, 2019. We expect capital expenditures to be between 5% and 6% of total revenue during the year ending December 31, 2019 for anticipated expenditures related to our international growth, recent acquisitions, investments related to those acquisitions, and data content and analytics investments. 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 purchase consideration is payable at various times through 2021, with a majority of the deferred cash obligations payable during 2019. We expect to fund these obligations from cash provided by operating activities or funds available under our Credit Facility.

We believe that our existing cash and cash equivalents, working capital (excluding deferred revenue, convertible notes, 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 expect to 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, 2018, we had gross federal and state net operating loss (“NOL”) carryforwards of \$237.6 million and \$81.2 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 2019. Total gross state NOLs expiring in the next five years is approximately \$2.1 million.

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

	Six Months Ended June 30,	
	2019	2018
	(in thousands)	
Net cash provided by operating activities	\$ 73,377	\$ 102,220
Net cash used in investing activities	\$ (42,744)	\$ (161,768)
Net cash (used in) provided by financing activities	\$ (38,480)	\$ 370,008

***Net Cash Provided by Operating Activities***

During the six months ended June 30, 2019, net cash provided by operating activities consisted of net income of \$26.3 million, net non-cash adjustments to net income of \$102.6 million, and a net outflow of cash from changes in operating assets and liabilities of \$55.6 million. Non-cash adjustments to net income primarily consisted of depreciation and amortization expense of \$56.8 million, stock-based expense of \$30.8 million, amortization of debt discount and issuance costs of \$6.5 million, and amortization of our right-of-use assets of \$5.9 million. These items were partially offset by the change in fair value of our investment in CompStak.

Changes in working capital during the six months ended June 30, 2019, included net cash outflows for customer deposits of \$46.5 million, primarily attributable to the timing of cash settlements for previously initiated resident transactions related to our payments solutions. Net cash outflows also included changes in accrued compensation, taxes, and benefits of \$8.8 million,



primarily attributable to the payment of annual bonuses which were previously accrued at the prior year-end. These items were partially offset by net cash inflows from changes in accounts payable of \$6.0 million, primarily attributable to the timing of vendor invoice receipts and payments.

**Net Cash Used in Investing Activities**

During the six months ended June 30, 2019, we used \$42.7 million for investing activities, which primarily included \$17.5 million to acquire LeaseTerm Solutions, \$23.5 million for capital expenditures and \$1.8 million for our additional investment in CompStak. 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 six months ended June 30, 2019, the net cash used in our financing activities consisted of payments of acquisition-related consideration of \$20.2 million, payments on our Term Loans of \$8.1 million, payments of the principal portion of our finance leases of \$2.1 million, and activity under our stock-based expense plans of \$8.0 million, primarily attributable to shares repurchased from employees to cover their cost of taxes upon vesting of restricted stock.

**Contractual Obligations, Commitments, and Contingencies**

The following table summarizes, as of June 30, 2019, 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 <sup>(1)</sup>	\$ 362,466	\$ 2,588	\$ 10,350	\$ 349,528	\$ —
Term Loans <sup>(2)</sup>	322,501	13,462	79,365	229,674	—
Operating and finance lease obligations	170,386	19,540	32,945	30,249	87,652
Acquisition-related liabilities <sup>(3)</sup>	36,812	14,684	22,128	—	—
	<u>\$ 892,165</u>	<u>\$ 50,274</u>	<u>\$ 144,788</u>	<u>\$ 609,451</u>	<u>\$ 87,652</u>

<sup>(1)</sup> 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.

<sup>(2)</sup> 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.

<sup>(3)</sup> Represents obligations in connection with our acquisitions comprised of undiscounted amounts payable for our deferred cash and contingent consideration obligations. These amounts exclude deferred stock obligations and potential reductions related to the sellers' indemnification obligations.

**Credit Facility**

The Credit Facility matures on February 27, 2022, and includes the following:

#### *Revolving Facility*

The Credit Facility provides an aggregate principal amount of up to \$350.0 million of revolving loans, with sublimits of \$10.0 million for the issuance of letters of credit and \$20.0 million for swingline loans. Advances under the Revolving Facility may be voluntarily prepaid and re-borrowed. All outstanding principal and accrued but unpaid interest under the Revolving Facility is due at maturity.

#### *Term Loan and Delayed Draw Term Loan*

In February 2016, we originated a term loan in the original principal amount of \$125.0 million under the Credit Facility. We made quarterly principal payments of \$0.8 million through March 31, 2018, which increased to \$1.5 million beginning on June 30, 2018, and will increase again to \$3.1 million beginning on June 30, 2020. In December 2017, we drew funds of \$200.0 million available under the delayed draw term loan. We made quarterly principal payments of \$1.3 million through March 31, 2018, that increased to \$2.5 million beginning on June 30, 2018, and will increase again to \$5.0 million beginning on June 30, 2020.

Principal payments on 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. We may prepay the Term Loans in whole or in part at any time, without premium or penalty.

#### *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.

Refer to Note 8 of the accompanying Condensed Consolidated Financial Statements for further 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 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. The Convertible Notes mature on November 15, 2022, and may not be redeemed by us prior to their maturity.

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). 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 premium obligation in excess of the principal portion in shares of our common stock.

During the second quarter of 2019, the closing price of our common stock exceeded 130% of the conversion price of the Convertible Notes for more than 20 trading days during the last 30 consecutive trading days of the quarter, thereby satisfying one of the early conversion events. As a result, the Convertible Notes are convertible at any time during the third quarter of 2019. Accordingly, as of June 30, 2019, the carrying amount of the Convertible Notes of \$298.9 million was classified as a current liability in the accompanying Condensed Consolidated Balance Sheets.

In conjunction with the Convertible Notes offering, we purchased Note Hedges and issued Warrants for approximately 8.2 million shares of our common stock. 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 8 of the accompanying Condensed Consolidated Financial Statements for a complete discussion of these transactions and their accounting implications.

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, 2018.

#### **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 and foreign currency exchange risks. We do not hold or issue financial instruments for trading purposes.

#### *Interest Rate Risk*

We had cash and cash equivalents of \$261.6 million and \$228.2 million at June 30, 2019 and December 31, 2018, 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 \$296.9 million and \$305.0 million outstanding under our Term Loan and Delayed Draw Term Loan at June 30, 2019 and December 31, 2018, respectively. There were no amounts outstanding under our Revolving Facility at June 30, 2019 and December 31, 2018. 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%.

On March 31, 2016, we entered into two interest rate swap agreements to eliminate variability in interest payments of \$75.0 million of the Term Loans. For that portion, the swap agreements replace the term note's variable rate with a blended fixed rate of 0.89%. These interest rate swap agreements expire in September 2019.

On December 24, 2018, we entered into two interest rate swap agreements to eliminate variability in interest payments of \$100.0 million of the Term Loans. For that portion, the swap agreements replace the term note's variable rate with a blended fixed rate of 2.57%. These interest rate swap agreements expire in February 2022. We do not use derivative financial instruments for speculative or trading purposes; however, we may adopt additional specific hedging strategies in the future.

If the applicable variable interest rates changed by 50 basis points, our annual interest expense as of June 30, 2019 would change by approximately \$0.6 million.

#### *Foreign Currency Exchange Risk*

We have foreign currency risks related to certain of our foreign subsidiaries, primarily in the Philippines and in India. The functional currency of these foreign subsidiaries is the U.S. dollar. The local currencies of these foreign subsidiaries are the Philippine peso and India rupee. Operating expenses in these foreign subsidiaries are primarily denominated in the respective local currency and are remeasured into our reporting currency at the average exchange rate in effect during the month. As of June 30, 2019, we entered into foreign currency exchange forward contracts with an aggregate notional amount of \$13.3 million to protect a portion of our forecasted U.S. dollar-equivalent operating expenses from adverse changes in foreign currency exchange rates. These hedging contracts reduce, but do not entirely eliminate, the impact of adverse foreign currency exchange rate movements. These contracts are designated as cash flow hedges for accounting purposes. For additional details, see Notes to the Condensed Consolidated Financial Statements - *Note 15 Derivative Financial Instruments*.

These same subsidiaries remeasure monetary assets and liabilities denominated in the local currencies at period-end exchange rates, while non-monetary items are remeasured at historical rates. At this time, we have not entered into, but in the future may enter into, foreign currency exchange contracts to offset the foreign currency exchange risk on our assets and liabilities denominated in currencies other than the functional currency of our subsidiaries. Adverse changes in exchange rates of 10% would have resulted in an adverse impact on income before income taxes of approximately \$2.3 million at June 30, 2019. These reasonably possible adverse changes in exchange rates of 10% were applied to total monetary assets and liabilities denominated in currencies other than the functional currencies of our subsidiaries at the balance sheet dates to compute the adverse impact these changes would have had on our income before income taxes in the near term.

### **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 the end of the period covered by this report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were

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effective as of June 30, 2019, in ensuring that information required to be disclosed in the reports that we file or submit under the Exchange Act, is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Management's assessment of the effectiveness of our disclosure controls and procedures is expressed at the level of reasonable assurance because management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives.

#### **Changes in Internal Controls**

There have been no significant changes in our internal control over financial reporting that occurred during the quarter ended June 30, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

#### **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.**

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, including purported class action lawsuits, 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.**

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in Part I, "Item 1A Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2018 (the "2018 Form 10-K"), which could materially affect our business, financial condition or future results. The risks described in our 2018 Form 10-K are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or results of operations. As of the date of this report, there have been no material changes to the Risk Factors as previously disclosed in Part I, "Item 1A Risk Factors" in our 2018 Form 10-K.

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

#### **(a) Unregistered Sales of Equity Securities**

During the three months ended June 30, 2019, and in connection with our acquisitions of NovelPay, LLC ("NovelPay") and ClickPay Services, Inc. (collectively with NovelPay, "ClickPay"), on May 3, 2019 we issued an aggregate of 154,281 shares of our common stock valued at \$9.8 million to certain of the equity holders of ClickPay, subject to our holdback rights in respect of indemnification and post-closing purchase price adjustments pursuant to the acquisition agreements. The foregoing shares were issued to accredited investors in a private placement exempt under Regulation D under the Securities Act of 1933, as amended.

#### **(c) Purchases of Equity Securities**

There was no share repurchase activity during the three months ended June 30, 2019.

In October 2018, our board of directors approved a new share repurchase program authorizing the repurchase of up to \$100.0 million of our outstanding common stock. The share purchase program is effective through October 25, 2019. Shares repurchased under the plan are retired.

**Item 6. Exhibits.**

The exhibits required to be furnished pursuant to Item 6 are listed in the following Exhibit Index.

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**EXHIBIT INDEX**

Exhibit Number	Exhibit Description	Incorporated by Reference			Included Herewith
		Form	Date	Number	
<a href="#">3.1</a>	Amended and Restated Certificate of Incorporation of the Registrant, as amended	10-Q	8/6/2018	3.1	
<a href="#">3.2</a>	Amended and Restated Bylaws of the Registrant	S-1/A	7/26/2010	3.4	
<a href="#">4.1</a>	Form of Common Stock certificate of the Registrant	S-1/A	7/26/2010	4.1	
<a href="#">4.2</a>	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	
<a href="#">4.3</a>	Second Amended and Restated Registration Rights Agreement among the Registrant and certain stockholders, dated February 22, 2008	S-1	4/29/2010	4.3	
<a href="#">4.4</a>	Indenture between the Registrant and Wells Fargo Bank, National Association, dated May 23, 2017	10-Q	8/4/2017	4.4	
<a href="#">4.5</a>	Form of Global Note to represent the 1.50% Convertible Senior Notes due 2022, of the Registrant	10-Q	8/4/2017	4.5	
<a href="#">4.6</a>	Form of Warrant Confirmation in connection with 1.50% Convertible Senior Notes due 2022, of the Registrant	10-Q	8/4/2017	4.6	
<a href="#">4.7</a>	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	
<a href="#">31.1</a>	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
<a href="#">31.2</a>	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
<a href="#">32.1</a>	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
<a href="#">32.2</a>	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*				X
101.INS	Instance - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.				
101.SCH	Inline XBRL Taxonomy Extension Schema				X
101.CAL	Inline XBRL Taxonomy Extension Calculation				X
101.LAB	Inline XBRL Taxonomy Extension Labels				X
101.PRE	Inline XBRL Taxonomy Extension Presentation				X
101.DEF	Inline XBRL Taxonomy Extension Definition				X
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)				X

\* Furnished herewith.

**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: August 9, 2019

RealPage, Inc.

By: /s/ Thomas C. Ernst, Jr.

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Thomas C. Ernst, Jr.

Executive Vice President, Chief Financial Officer and Treasurer

**CERTIFICATION PURSUANT TO RULE 13a-14(a) OR 15d-14(a) OF  
THE SECURITIES EXCHANGE ACT OF 1934,  
AS ADOPTED PURSUANT TO SECTION 302 OF  
THE SARBANES-OXLEY ACT OF 2002**

I, Stephen T. Winn, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ending June 30, 2019 of RealPage, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2019

/s/ Stephen T. Winn

Stephen T. Winn

Chairman of the Board of Directors, Chief Executive Officer, President and Director



**CERTIFICATION PURSUANT TO RULE 13a-14(a) OR 15d-14(a) OF  
THE SECURITIES EXCHANGE ACT OF 1934,  
AS ADOPTED PURSUANT TO SECTION 302 OF  
THE SARBANES-OXLEY ACT OF 2002**

I, Thomas C. Ernst, Jr., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ending June 30, 2019 of RealPage, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2019

/s/ Thomas C. Ernst, Jr.

Thomas C. Ernst, Jr.

Executive Vice President, Chief Financial Officer and Treasurer

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of RealPage, Inc. (the "Company") on Form 10-Q for the period ending June 30, 2019 (the "Report"), I, Stephen T. Winn, Chairman of the Board of Directors, Chief Executive Officer, President and Director of RealPage, Inc., certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of RealPage, Inc.

Date: August 9, 2019

/s/ Stephen T. Winn

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Stephen T. Winn

Chairman of the Board of Directors, Chief Executive Officer, President and Director

A signed original of this written statement required by Section 906 has been provided to RealPage, Inc. and will be retained by RealPage, Inc. and furnished to the Securities and Exchange Commission or its staff upon request. The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of RealPage, Inc. (the "Company") on Form 10-Q for the period ending June 30, 2019 (the "Report"), I, Thomas C. Ernst, Jr., Executive Vice President, Chief Financial Officer and Treasurer of RealPage, Inc., certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of RealPage, Inc.

Date: August 9, 2019

/s/ Thomas C. Ernst, Jr.

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Thomas C. Ernst, Jr.

Executive Vice President, Chief Financial Officer and Treasurer

A signed original of this written statement required by Section 906 has been provided to RealPage, Inc. and will be retained by RealPage, Inc. and furnished to the Securities and Exchange Commission or its staff upon request. The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.