REALPAGE INC
Form 10-Q
August 09, 2011

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2011

or

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

For the transition period from __________ to __________

Commission File Number: 001-34846
RealPage, Inc.
(Exact name of registrant as specified in its charter)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

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

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

Class	Outstanding at July 31, 2011
Common Stock, $0.001 par value	70,853,037

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

REALPAGE, INC.
Condensed Consolidated Balance Sheets
(in thousands, except share data)

	June 30, 2011 (Unaudited)	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	$ 111,985	$ 118,010
Restricted cash	15,909	15,346
Accounts receivable, less allowance for doubtful accounts of $1,044 and $1,370 at June 30, 2011 and December 31, 2010, respectively	33,612	29,577
Deferred tax asset, net of valuation allowance	1,539	1,529
Other current assets	8,207	6,060
Total current assets	171,252	170,522
Property, equipment, and software, net	23,607	24,515
Goodwill	87,163	73,885
Identified intangible assets, net	58,402	54,361
Deferred tax asset, net of valuation allowance	18,079	17,322
Other assets	2,673	2,187
Total assets	$ 361,176	$ 342,792
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 7,381	$ 4,787
Accrued expenses and other current liabilities	22,699	15,436
Current portion of deferred revenue	51,541	47,717
Current portion of long-term debt	10,781	10,781
Customer deposits held in restricted accounts	15,833	15,253
Total current liabilities	108,235	93,974
Deferred revenue	8,778	7,947
Long-term debt, less current portion	49,867	55,258
Other long-term liabilities	5,258	13,029
Total liabilities	172,138	170,208
Commitments and contingencies (Note 8)		
Stockholders equity:		
Preferred stock, $0.001 par value, 10,000,000 shares authorized and zero shares issued and outstanding at June 30, 2011 and December 31, 2010, respectively		
Common stock, $0.001 par value: 125,000,000 shares authorized, 71,099,555 and 68,703,366 shares issued and 70,854,620 and 68,490,277 shares outstanding at June 30, 2011 and December 31, 2010, respectively	71	69
Additional paid-in capital	280,530	263,219

Treasury stock, at cost: 244,935 and 213,089 shares at June 30, 2011 and December 31, 2010, respectively	(1,431)	(958)
Accumulated deficit	(90,096)	(89,730)
Accumulated other comprehensive loss	(36)	(16)
Total stockholders equity	189,038	172,584
Total liabilities and stockholders equity	$ 361,176	$ 342,792

See accompanying notes

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Revenue:				
On demand	$ 57,039	$ 40,089	$ 109,976	$ 77,296
On premise	1,628	2,424	3,273	4,292
Professional and other	2,968	2,296	5,934	4,599
Total revenue	61,635	44,809	119,183	86,187
Cost of revenue(1)	25,810	18,534	50,493	36,392
Gross profit	35,825	26,275	68,690	49,795
Operating expense:				
Product development(1)	10,537	8,989	20,853	17,304
Sales and marketing(1)	14,510	8,825	27,304	16,365
General and administrative(1)	9,574	6,739	19,350	13,261
Total operating expense	34,621	24,553	67,507	46,930
Operating income	1,204	1,722	1,183	2,865
Interest expense and other, net	(732)	(1,463)	(1,898)	(2,927)
Income (loss) before income taxes	472	259	(715)	(62)
Income tax expense (benefit)	190	95	(349)	(23)
Net income (loss)	$ 282	$ 164	$ (366)	$ (39)
Net income (loss) attributable to common stockholders				
Basic	$ 282	$ (807)	$ (366)	$ (2,363)
Diluted	$ 282	$ (807)	$ (366)	$ (2,363)
Net income (loss) per share attributable to common stockholders				
Basic	$ 0.00	$ (0.03)	$ (0.01)	$ (0.09)
Diluted	$ 0.00	$ (0.03)	$ (0.01)	$ (0.09)
Weighted average shares used in computing net loss per share attributable to common stockholders				
Basic	68,673	26,042	67,741	25,901
Diluted	72,012	26,042	67,741	25,901

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

Cost of revenue	$	312	$	144	$	610	$	267
Product development		1,105		530		2,085		1,037
Sales and marketing		2,627		176		5,360		340
General and administrative		925		442		1,767		742

See accompanying notes.

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

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Treasury Shares Shares	Treasury Shares Amount	Total Stockholders Equity
Balance as of December 31, 2010	68,703	$ 69	$ 263,219	$ (16)	$ (89,730)	(213)	$ (958)	$ 172,584
Foreign currency translation				(20)				(20)
Net loss					(366)			(366)
Exercise of stock options	1,963	2	7,489					7,491
Treasury stock purchase, at cost						(32)	(473)	(473)
Issuance of restricted stock	433							
Stock-based compensation			9,822					9,822
Balance as of June 30, 2011	71,099	$ 71	$ 280,530	$ (36)	$ (90,096)	(245)	$ (1,431)	$ 189,038

See accompanying notes.

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

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Cash flows from operating activities:		
Net loss	$ (366)	$ (39)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	14,016	9,544
Deferred tax benefit	(767)	(86)
Stock-based compensation	9,822	2,386
Loss on sale of assets	395	3
Acquisition-related contingent consideration	105	
Changes in assets and liabilities, net of assets acquired and liabilities assumed in business combinations:		
Accounts receivable	(4,034)	2,601
Customer deposits	17	(332)
Other current assets	(1,208)	(1,744)
Other assets	(493)	(1,915)
Accounts payable	1,941	733
Accrued compensation, taxes and benefits	(1,336)	(63)
Deferred revenue	2,275	(3,075)
Other current and long-term liabilities	(1,146)	184
Net cash provided by operating activities	19,221	8,197
Cash flows from investing activities:		
Purchases of property, equipment and software	(5,642)	(4,718)
Acquisition of businesses, net of cash acquired	(20,031)	(13,292)
Net cash used by investing activities	(25,673)	(18,010)
Cash flows from financing activities:		
Stock issuance costs from public offerings	(775)	
Proceeds from notes payable		10,000
Payments on notes payable	(5,391)	(4,745)
Proceeds from revolving credit facility, net		5,673
Payments on capital lease obligations	(351)	(610)
Issuance of common stock	7,437	217
Purchase of treasury stock	(473)	(4)
Net cash provided by financing activities	447	10,531
Net (decrease) increase in cash and cash equivalents	(6,005)	718
Effect of exchange rate on cash	(20)	(13)
Cash and cash equivalents:		
Beginning of period	118,010	4,427

End of period	$	111,985	$	5,132
Supplemental cash flow information:				
Cash paid for interest	$	1,390	$	2,631
Cash paid for income taxes, net of refunds	$	665	$	202
Non-cash financing activities:				
Accrued dividends and accretion of preferred stock	$		$	2,376
Conversion of preferred stock to common shares	$		$	726

See accompanying notes.

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Notes to the Condensed Consolidated Financial Statements
(Unaudited)

1. The Company

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

Public Offerings

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

In connection with the consummation of the Offering, our Board of Directors and stockholders approved our Amended and Restated Certificate of Incorporation (the Restated Certificate), which was filed with the Delaware Secretary of State and became effective on August 17, 2010. The Restated Certificate provides for two classes of capital stock to be designated, respectively, Common Stock and Preferred Stock. The total number of shares which the Company is authorized to issue is 135,000,000 shares. 125,000,000 shares are Common Stock, par value $0.001 per share, and 10,000,000 shares are Preferred Stock, par value $0.001 per share.

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

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

The 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.

It is suggested that these financial statements be read in conjunction with the financial statements and the notes thereto included in our Annual Report on Form 10-K filed with the SEC on February 28, 2011 (Form 10K).

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, 2011 and 2010 was in North America.

Net long-lived assets held were $23.1 million and $24.0 million in North America and $0.5 million and $0.5 million in our international subsidiaries at June 30, 2011 and December 31, 2010, respectively.

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Accounting Policies and Use of Estimates

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

Revenue Recognition

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

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

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

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

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

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

On Demand Revenue

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

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

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

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As part of our risk mitigation services to the rental housing industry, we act as an insurance agent and derive commission revenue from the sale of insurance products to individuals. The commissions are based upon a percentage of the premium that the insurance company charges to the policyholder and are subject to forfeiture in instances where a policyholder cancels prior to the end of the policy. If the policy is cancelled, our commissions are forfeited as a percent of the unearned premium. As a result, we recognize the commissions related to these services ratably over the policy term as the associated premiums are earned.

On Premise Revenue

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

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

Professional and Other Revenue

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

Concentrations of Credit Risk

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

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

No single customer accounted for 5% or more of our revenue or accounts receivable for the three and six months ended June 30, 2011 or 2010.

Comprehensive Income (Loss)

Comprehensive income (loss) consists of net income (loss) and other comprehensive loss. Other comprehensive loss is comprised of foreign currency translation losses. Our comprehensive income (loss) was as follows for the periods presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	**2010**	**2011**	**2010**
	(in thousands, unaudited)			
Net income (loss)	$ 282	$ 164	$ (366)	$ (39)
Foreign currency translation loss	(8)	(40)	(20)	(13)
Comprehensive income (loss)	$ 274	$ 124	$ (386)	$ (52)

Recently Issued Accounting Standards

In December 2010, the FASB issued ASU 2010-29 Business Combinations (Topic 805) Disclosure of Supplementary Pro Forma Information for Business Combinations (ASU 2010-29) effective prospectively for material (either on an individual or aggregate basis) business combinations entered into in fiscal years beginning on or after December 15, 2010 with early adoption permitted. This accounting standard update clarifies SEC registrants presenting comparative financial statements should disclose in their pro forma information revenue and earnings of the combined entity as though the current period business combinations had occurred as of the beginning of the comparable prior annual reporting period only. The update also expands the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. We adopted ASU 2010-29 during the first quarter of 2011. These requirements will change our annual pro forma disclosures for acquisitions which have historically included the impact on all comparable periods. ASU 2010-29 also changes our annual and quarterly pro forma disclosures to include a description and the related amount of material adjustments made to pro forma results as seen in Note 3 herein.

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

3. Acquisitions

2011 Acquisition

In May 2011, we acquired substantially all of the assets of Compliance Depot, LLC (Compliance Depot) for approximately $22.5 million which included a cash payment of $19.2 million at closing and three deferred payments of $1.1 million payable six, twelve and eighteen months after the acquisition date. The acquisition of Compliance Depot expands our ability to provide vendor risk management and compliance software solutions for the rental housing industry. Acquired intangibles were recorded at fair value based on assumptions made by us. The acquired developed product technologies have a useful life of three years amortized on a straight-line basis. Acquired customer relationships have a useful life of nine years which will be amortized proportionately to the expected discounted cash flows derived from the asset. The tradenames acquired have an indefinite useful life as we do not plan to cease using the tradenames in the marketplace. All direct acquisition costs were less than $0.1 million and expensed as incurred. We included the results of operations of this acquisition in our consolidated financial statements from the effective date of the acquisition. Goodwill associated with this acquisition is deductible for tax purposes.

We allocated the purchase price for Compliance Depot as follows:

Intangible assets:		**(in thousands)**
Developed product technologies	$	382
Customer relationships		9,030
Tradenames		2,230
Goodwill		13,371
Deferred revenue		(2,380)
Net other liabilities		(110)
Total purchase price, net of cash acquired	$	22,523