

Alarm.com Holdings, Inc.  
Form 10-K  
February 29, 2016  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2015

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: 001-37461

ALARM.COM HOLDINGS, INC.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)  
8281 Greensboro Drive, Suite 100, Tysons, Virginia  
(Address of principal executive offices)

26-4247032  
(I.R.S. Employer  
Identification Number)  
22102  
(zip code)

Tel: (877) 389-4033  
(Registrant's telephone number, including area code)

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

Title of each class	Name of each exchange on which registered
Common Stock, \$0.01 par value per share	The NASDAQ Stock Market LLC

Securities registered pursuant to section 12(g) of the Act: None

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was

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required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large Accelerated Filer  Accelerated Filer  Non-accelerated Filer  Smaller Reporting Company

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, based on a closing price of \$15.38 per share of the registrant's common stock as reported on The Nasdaq Global Select Market on June 30, 2015 and giving effect to the conversion of all convertible preferred stock into common equity that occurred on July 1, 2015, was \$138.5 million. For purposes of this computation, all officers, directors, and 10% beneficial owners of the registrant are deemed to be affiliates. Such determination should not be

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deemed to be an admission that such officers, directors or 10% beneficial owners are, in fact, affiliates of the registrant.

As of February 12, 2016, there were 45,582,662 outstanding shares of the registrant's common stock, \$0.01 par value per share.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A in connection with the registrant's 2016 Annual Meeting of Stockholders, which will be filed subsequent to the date hereof, are incorporated by reference into Part III of this Form 10-K. Such proxy statement will be filed with the Securities and Exchange Commission not later than 120 days following the end of the registrant's fiscal year ended December 31, 2015.

ALARM.COM®

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K, or this Annual Report, contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, that reflect our current expectations regarding future events, our strategy, future operations, future financial position, future revenues, projected costs, prospects, plans and objectives of management. The forward-looking statements are contained principally in Part I, Item 1. “Business,” Part I, Item 1A. “Risk Factors,” and Part II, Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” but are also contained elsewhere in this Annual Report. Forward-looking statements include any statement that does not directly relate to a current or historical fact. In some cases, you can identify forward-looking statements by the words “anticipate,” “believe,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “objective,” “ongoing,” “plan,” “predict,” “project,” “potential,” “should,” “will,” or “would,” or the negative of these terms, or comparable terminology intended to identify statements about the future. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from the information expressed or implied by these forward-looking statements. Although we believe that we have a reasonable basis for each forward-looking statement contained in this prospectus, we caution you that these statements are based on a combination of facts and factors currently known by us and our expectations of the future, about which we cannot be certain. Forward-looking statements include statements about:

- our ability to continue to increase revenue, maintain existing subscribers and sell new services to new and existing subscribers;
- our ability to add new service providers, maintain existing service provider relationships and increase the productivity of our service providers;
- the effects of increased competition as well as innovations by new and existing competitors in our market;
- our ability to adapt to technological change and effectively enhance, innovate and scale our solution;
- our ability to effectively manage or sustain our growth;
- potential acquisitions and integration of complementary business and technologies;
- our ability to maintain, or strengthen awareness of, our brand;
- perceived or actual security, integrity, reliability, quality or compatibility problems with our solutions, including related to security breaches in our subscribers’ systems, unscheduled downtime, or outages;
- statements regarding future revenue, hiring plans, expenses, capital expenditures, capital requirements and stock performance;
- our ability to attract and retain qualified employees and key personnel and further expand our overall headcount;
- our ability to develop relationships with service providers in order to expand internationally;
- our ability to stay abreast of new or modified laws and regulations that currently apply or become applicable to our business both in the United States and internationally;
- our ability to maintain, protect and enhance our intellectual property;
- costs associated with defending intellectual property infringement and other claims; and
- other risks detailed below in Item 1A. “Risk Factors.”

You should refer to Item 1A. “Risk Factors” section of this Annual Report for a discussion of important factors that may cause our actual results to differ materially from those expressed or implied by our forward-looking statements. As a result of these factors, we cannot assure you that the forward-looking statements in this Annual Report will prove to be accurate. Furthermore, if our forward-looking statements prove to be inaccurate, the inaccuracy may be material. In light of the significant uncertainties in these forward-looking statements, you should not regard these statements as a representation or warranty by us or any other person that we will achieve our objectives and plans in any specified time frame or at all. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. You should, therefore, not rely on

these forward-looking statements as representing our views as of any date subsequent to the date of this Annual Report.

Except as otherwise indicated herein or as the context otherwise requires, references in this Annual Report to “Alarm.com,” “the company,” “we,” “us,” “our” and similar references refer to Alarm.com Holdings, Inc. and, where appropriate, our consolidated subsidiaries.

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PART I.

ITEM 1. BUSINESS

Overview

We are the leading platform solution for the connected home. Through our cloud-based services, we make connected home technology broadly accessible to millions of home and business owners. Our multi-tenant software-as-a-service, or SaaS, platform enables home and business owners to intelligently secure their properties and automate and control a broad array of connected devices through a single, intuitive user interface.

Our connected home platform currently has more than 2.6 million residential and business subscribers and connects to tens of millions of devices. More than 20 billion data points were generated and processed by those subscribers and devices in the last year alone. We believe that this scale of subscribers, devices and data makes us the leader in the smart home services market.

Our solutions are delivered through an established network of over 5,000 trusted service providers, who are experts at designing, selling, installing and supporting our solutions.

We primarily generate SaaS and license revenue, our largest source of revenue, through our service providers who resell our services and pay us monthly fees. Our service providers have indicated that they typically have three to five-year service contracts with home or business owners, whom we call subscribers. We believe that the length of these contracts, combined with our SaaS model and over a decade of operating experience, provides us with reasonable visibility into our future operating results. In addition, we generate hardware and other revenue primarily by selling our service providers and distributors an Alarm.com gateway module that enables cellular communications between the devices installed in the home or business and our cloud-based platform. We also sell other hardware devices, such as video cameras as part of our video monitoring solution.

We have experienced significant growth since inception. We generated total revenue of \$208.9 million, \$167.3 million and \$130.2 million in 2015, 2014 and 2013. Our SaaS and license revenue was \$140.9 million, \$111.5 million and \$82.6 million in 2015, 2014 and 2013, representing a compound annual growth rate of approximately 31%. We also generated net income of \$11.8 million, \$13.5 million and \$4.5 million in 2015, 2014 and 2013, as well as Adjusted EBITDA, a non-GAAP metric, of \$34.3 million, \$28.3 million and \$28.3 million in 2015, 2014 and 2013. See footnote 4 to the table contained in the section of this Annual Report titled "Selected Consolidated Financial Data" for a reconciliation of Adjusted EBITDA to net income, the most directly comparable financial measures calculated and presented in accordance with GAAP.

Our Solutions and Integrated Platform

Our technology platform was purpose-built for the entire connected home ecosystem, including the consumers who use it, the service providers who deliver it and the hardware partners whose devices are enabled by the platform. Our solutions are used by both home and business owners, and we refer to this market as the connected home market.

We invented solutions that connect people in new ways with their properties and devices, making them safer, smarter and more efficient. Our scalable, flexible platform is designed to meet a wide range of user needs with its breadth of services, depth of feature capability and broad support for the growing Internet of Things devices in the home. We power four primary solutions, which can be used individually or combined and integrated within a single user interface accessible through the web and mobile apps: interactive security, intelligent automation, video monitoring and energy management.

These solutions are delivered through our cloud-based platform enabling a breadth of connected home solutions, which can be integrated together or provided on a standalone basis. We enable quick, intuitive access to the consumer through our mobile app as well as enabling new ways to engage with the home through wearables like the Apple Watch, through the TV through Apple TV and Amazon Fire TV and by using smart home voice control through Amazon Echo.

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Consumer Solutions

Interactive Security

Our interactive security solution provides an always-on intelligent security and awareness service through a dedicated, cellular, two-way connection to the home or business. This solution includes customized triggers and smart schedules to connect the system to door locks, garage doors and other connected security devices, and 24x7 emergency response through trusted and integrated service providers. The capabilities associated with this solution include:

**Alarm Transmission.** Transmission of alarm signals from the subscriber's property through the Alarm.com platform to over 900 third-party central monitoring stations staffed 24/7 with live operators who can initiate emergency police/fire response.

**Persistent Awareness.** Always-on monitoring of sensors whether the security system is armed or disarmed.

**Mobile Control.** Remote security system management and control through the web and mobile apps for users.

**Intuitive Interactions.** Users can interact with the Alarm.com service through their TV with Apple TV or Amazon Fire TV, through their wearable device like Apple Watch and by using smart home voice control through Amazon Echo.

**Instant Alerts.** Real-time system alerts for any type of system event activity through push notifications, SMS, email and voice.

**Managed Access.** User access tools to manage who can access the protected property through the local security system or through remote user interfaces.

Intelligent Automation

Our intelligent automation solution integrates the growing Internet of Things into a meaningful unified experience for our subscribers. It connects, integrates and controls the devices in the home or business such as security systems, garage doors, lights, door locks, thermostats, electrical appliances, environmental sensors and other connected devices. It learns activity patterns from all devices to recommend intelligent optimization that improve the safety and efficiency of the home. The capabilities associated with this solution include:

**Anywhere Access and Control.** Remote management and control of connected devices including security systems, thermostats, door locks, video cameras, lights, garage doors, water heaters, appliances and other connected devices.

**Intelligent Rules.** Intelligent rules running locally and in the cloud automatically control connected devices based on various triggers including security and sensor events, time/day schedules, user location and weather.

**Flexible and Personal.** Highly flexible rules, triggers and schedules allow customization and personalization of all the connected devices in the home or business. Subscribers can create automation rules by device, user, time of day and



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day of week to fit any schedule or lifestyle or have the system automatically make adjustments based on conditions like location and weather.

**Environmental Monitoring.** A variety of environmental sensors can be integrated into the solution to provide monitoring and remote control of key home or business systems such as water sensors, water valves, sump pumps and gas sensors. For example, integration with these devices enables early detection and curtailment of leaks that can lead to major water damage and waste. In addition, we provide remote monitoring and control of gas sensors, which can enable early detection of gas leaks (e.g. natural gas, or carbon monoxide) for life safety applications.

### **Video Monitoring**

Our video monitoring solution provides live streaming, smart clip capture, high definition continuous recording and instant video alerts delivered through our mobile app or on the web. The capabilities associated with this solution include:

**Live Streaming.** Users can securely access live video of their property through the web and mobile apps.

**Smart Clip Capture.** Video clips can be automatically recorded when there is motion activity or when the security system reports an event (e.g. an alarm, door opening, etc.).

**Secure Cloud Storage.** Video clips are immediately uploaded to the platform for secure storage and access.

**Instant Video Alerts.** Smart clips can be automatically sent via SMS, push notifications or email the instant they are recorded.

**Continuous HD Recording.** 24x7 onsite recording is enabled through our Stream Video Recorder, or SVR, and can be played back securely, from anywhere, through the web and mobile user interfaces.

**Location-Based Recording Schedules.** Location-based rules enable enhanced privacy settings through automatic adjustments to recording schedules based on the user's location. For example, when everyone is out of the home, all cameras can record all activity, and when they return, certain cameras, like those in the living room or kitchen, can automatically pause recording for privacy purposes.

**Commercial Video Surveillance.** Our commercial video offering supports large scale, multi-camera installations with continuous recording, cloud based storage and mobile access. It integrates leading commercial grade network cameras to support a wide range of business solutions large and small.

### **Energy Management**

Our energy management solution provides enhanced energy monitoring and management through increased awareness of energy usage at the whole home and individual device level, intelligent control of thermostats (which drive HVAC energy consumption), lights and sophisticated automation rules to sustain savings over time. Web and mobile apps integrate with connected thermostats, power meters, lights, shades and appliances to control devices and manage temperature as well as provide real-time insights into home energy usage and efficiency. The capabilities associated with this solution include:

**Smart Thermostat Schedules.** System activity patterns are analyzed over time to recommend a more energy efficient thermostat schedule that can maximize efficiency during periods when the property is not likely to be occupied.

**Responsive Savings.** The thermostats can respond to other devices and sensors in the home to reduce energy waste and improve efficiency. When the security system is armed away, an arming state used when the property is not occupied, the thermostat can automatically go back to an energy saving mode. If a door or window is left open, after a pre-defined period of time, then the HVAC system can be set to automatically turn off to reduce energy waste.

**Energy Usage Monitoring.** Real-time and historical energy usage data at the whole-home or business and individual device level gives users greater insight into the property's energy consumption profile to drive more efficient use of energy-consuming devices in and around the home or business.

**Thermodynamic Modeling.** Each home or business has a unique fingerprint with respect to energy usage for heating and cooling. Our algorithms analyze HVAC data, weather information and other factors to determine the unique heating and cooling attributes of a property and use this information as a foundation for smarter thermostat programming and other energy efficiency recommendations.

**Geo-Service.** The location of users further calibrates and optimizes thermostat settings, enabling effortless energy management with changes happening automatically without need for a user action or rigid schedule.

Demand Response. Homes and businesses with connected thermostats and other connected appliances can be accessed to reduce power consumption during peak demand periods. Our acquisition of EnergyHub in 2013 brought us an existing demand response software platform and relationships with energy utilities. These utilities can leverage connected thermostats across our platform to improve the results of certain demand response events.

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In addition to our primary solutions, we continue to add capabilities and functionality to our platform. For example, we launched our Wellness solution in 2014. This solution gathers data from various types of sensors over time to learn the home patterns of daily living, and identify anomalies that may indicate a problem. Real-time alerts notify family members and other care providers when critical anomalies are detected or an emergency takes place. This enables people who are older or have disabilities to live at home safely and independently for a longer period of time. Our extensible cloud-based platform allows us to continue to innovate and integrate compelling new solutions.

### Service Provider Solutions

In addition to the solutions we offer consumers, we also offer a comprehensive suite of enterprise-grade business management solutions to our service providers to help them grow their businesses and manage their customer base.

**Service Provider Portal.** Our permission-based online portal offers always-available access to a set of marketing, sales, training and support tools and information.

**Service Provider Website.** Our online resource provides a comprehensive set of tools for service providers to activate and manage their Alarm.com customer accounts, order equipment, access invoices and billing, remotely program customer systems using AirFX, obtain sales and marketing services, training, etc.

**Installation and Support.** Our installation and support tools and apps help our service providers more efficiently install and service their connected home customers.

**MobileTech Application.** Our installation resources include a mobile app designed for our service providers' technicians to facilitate the successful installation and programming of equipment while on-site at their customer's property.

**AirFX Remote Programming.** This collection of remote system management tools available through the service provider website enables service providers to make changes to a subscriber's system programming without the need to send a service technician to the property. This saves the subscriber and the service provider time and money, and greatly increases subscriber satisfaction because service requests can be handled immediately.

**Business Management.** Our services can be deeply integrated with a service provider's own offerings and offers increased business insight into their customer base and key business health metrics.

**Web Services.** Our service providers are able to integrate their existing customer account management tools with our platform using our web services. This integration means service provider personnel can seamlessly perform functions like customer account creation, system status updates, system programming and service plan upgrades through a unified interface.

**Business Intelligence.** Our powerful business intelligence tools provide service providers with key insights into the performance of their Alarm.com subscriber account base. Service providers are able to access key operational metrics related to account plan adoption, attrition, and service quality to help them grow their business more and improve customer retention.

**Sales, Marketing & Training.** Our comprehensive customer lifecycle sales and marketing services are available to help effectively promote and sell the connected home.

**Marketing Portal.** Our online portal offers anytime access to a broad suite of marketing and sales tools. These include co-brandable assets like mobile optimized websites, landing pages, lead capture, social media, email, videos, image library, collateral, direct mail and event material as well as services like direct mail campaigns, email campaigns, CRM programs and print and ship services.

**Alarm.com Academy.** Our online training offers courses through a learning management system where service providers can access training on the full suite of Alarm.com solutions. This online option is offered in addition to our in-person, hands on training programs.

Homes and businesses are now ripe for reinvention, as most properties lack even basic automation or security monitoring. The intersection of four significant technology trends is making the intelligent, connected home now possible: broad adoption of mobile devices, the emergence of the Internet of Things, the power of big data and the extensibility of the cloud. Security systems, thermostats, door locks, video cameras, lights, garage doors, appliances and other devices that were once inert now have the potential to become sensor-enabled, intelligent and connected. As a result of these technology advancements, it is now possible to offer an integrated connected home that can be managed anywhere and on any device at a price that makes it accessible to millions of consumers.

Businesses have many of the same needs as residential subscribers. Security, energy management, awareness of activity in the property, video monitoring and the need to be connected anywhere at anytime are all highly applicable to the business market. The service provider who is delivering the solution often services both residential homes and businesses.

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### Benefits of Our Solutions

#### Benefits to Consumers

Our solutions offer consumers the following benefits:

**Intuitive Experience.** We have designed our platform and user interfaces to be intuitive, simple and easy to operate without training or significant support. Our platform can be accessed through any mobile device and provides secure, intelligent control through a single user interface.

**Single Connected Platform.** Our cloud-based platform provides consumers with a single point of integrated control that can be easily upgraded to incorporate new functionality and can be personalized to suit the individual consumer's needs. For example, when we introduced our geo-services offering, our subscribers automatically received this new service.

**Reliable Network Communications.** Unlike competing products connected to the home by phone lines or wired networks, which can be susceptible to common vulnerabilities, such as lines being cut, power outages or network connectivity issues, our platform utilizes a highly secure, highly reliable and dedicated cellular connection.

**Persistent Awareness.** Our platform helps subscribers maintain an awareness of what is happening at their properties at all times. Whether or not the security system is armed, the platform continuously monitors activity on each sensor and analyzes that data to determine whether the subscriber should be notified.

**Intelligent and Actionable.** Our platform monitors all the sensor and device activity in the property aggregating real-time, multi-point data about activity in the home. Our proprietary algorithms and custom rules use this data to drive intelligent triggers, learning and responsive automation for the consumer. For example, the adaptive learning capability of our platform leverages all of the data collected from activity in the home to understand activity patterns and recommend optimized thermostat schedules to optimize for comfort and efficiency.

**Broad Device Compatibility.** Our platform supports a wide variety of connected devices and communications protocols, allowing seamless integration and automation of many devices throughout their home, as well as the addition of new devices in the future.

**Accessible and Affordable.** Our platform provides an affordable alternative to expensive home automation systems, legacy home control products and disparate point product solutions with minimal upfront expense and installation and support services.

**Trusted Provider of a Security Platform.** We have built a reputation and brand as a trusted, reliable and innovative technology provider. We respect the privacy of our subscribers and do not sell their data. Our reputation is strengthened through our network of over 5,000 service providers, who have significant expertise in delivery of our platform.

#### Benefits to Service Providers

Our solutions offer service providers the following benefits:

**New Revenue Generation Opportunities.** Our solutions help broaden our service providers' offerings beyond traditional home security and monitoring to include comprehensive connected home solutions, allowing the service providers to access new revenue streams and drive incremental recurring monthly revenue. We provide frequent training and development programs to ensure our service provider network is aware of our latest solutions.

**Expanded Set of Value-Added Services.** We provide a set of value-added services to our service providers, including training, marketing, installation, support tools and business intelligence analytics. This superior support helps service providers manage the changing technology landscape and allows them to more efficiently target, acquire, install and support their customers on our platform.

**Improved Service Provider Economics.** Our cloud-based platform provides improved service provider economics by reducing delivery and support costs, allowing remote delivery of upgrades and increasing average monthly revenue. For example, our AirFX tool enables our service providers to support and upgrade a subscriber's hardware or software remotely eliminating the need to dispatch a technician to perform an in-person service call. In addition, our service providers are able to generate more revenue from each subscriber because, according to a Parks Associates report released in April 2015, consumers are willing to pay a 25% premium over the cost of a basic security system for a professionally monitored system that includes an interactive security and home automation solution.

**Broad Device Interoperability.** We have an open platform which allows service providers to respond to consumer demands for new devices. Furthermore, our platform supports broadly adopted communications protocols used in the home automation ecosystem, including Z-Wave, Wi-Fi and ZigBee, as well as cellular and broadband, giving our service providers a wide device selection to tailor their offerings to suit their customers now and in the future.

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### Competitive Advantages

We believe the benefits we deliver to our subscribers and our service providers create a significant competitive advantage for us in the connected home market. In addition, we believe there are a number of other factors that contribute to our competitive advantage in the connected home market:

**Scale of Subscriber Base and Service Provider Coverage.** Our connected home platform currently has more than 2.6 million residential and business subscribers. In addition to our large subscriber base, we have over 5,000 service providers reselling Alarm.com solutions, with comprehensive coverage throughout North America. In addition to our large service provider network and large subscriber base, we have tens of millions of connected devices managed by our platform. We believe the combination of the size of our subscriber base, service provider network and number of integrated devices creates a competitive advantage for us and is challenging to replicate.

**Security Grade, Cloud-Based Architecture.** We built our platform with a cloud-based, multi-tenant architecture that allows for real-time updates and upgrades. Our platform was built from the ground up with life safety standards at the core, where the reliability standard is substantially higher than that required for home automation and energy management systems.

**Highly Scalable Data Analytics Engine.** We processed more than 20 billion data points in and out of properties last year alone. As consumer preferences shift towards more intelligence-based features, we believe the scale of our data combined with our proprietary analytics serve as a sustainable competitive advantage.

**Trusted Brand.** Given our leading position in the connected home, we believe that we have developed a trusted brand with both service providers and consumers for innovating and delivering connected home solutions. We have developed considerable brand awareness and trust with our service providers. Our Alarm.com mobile app has been downloaded over two million times. The Alarm.com mobile apps for iOS and for Android have more than one million downloads each. The Alarm.com iOS and Android apps have exceptional app store ratings with an average rating above 4 out of 5 stars, as of February 2016. Our extensive service provider coverage enables us to utilize our marketing dollars efficiently nationwide to reinforce our brand and drive consumer referrals to our service providers.

**Commitment to Innovation.** We are a pioneer in the connected home market and we continue to make significant investments in innovative research and development. Our investment has resulted in 50 issued patents which help ensure that our technology is competitively differentiated and protected.

### Growth Strategy

We intend to maintain our leadership position in the connected home market while continuing to innovate, add advanced capabilities and increase penetration of our connected home solutions. Our key growth strategies include: Drive SaaS and License Revenue Growth and Add New Service Providers. We will continue to focus on making our service providers successful in driving adoption of the connected home. We have made significant investments in sales and marketing services and training for our service providers to promote the advantages and opportunities associated with the connected home. We will continue to invest in building out this infrastructure for our service providers to become more productive in selling our solutions to new customers. In addition, we plan to continue to grow our SaaS and license revenue and network of service providers.

**Upgrade Traditional Security Customers to Our Connected Home Solutions.** We believe there is a significant opportunity for our service providers to expand adoption of our connected home solutions within their customer base. We intend to leverage our status as a trusted provider and drive consumer interest in these services to enable our service providers to upgrade their legacy security customers to our connected home solutions.

**Continue to Invest in Our Platform.** As a pioneer in connected home solutions, we have made significant investments in building our platform over the last 15 years. We intend to invest heavily in developing our platform to add innovative offerings and broaden our solutions. As the Internet of Things grows and more devices become connected, such as appliances, wearable devices and automobiles, we are building technology and partnerships to connect these devices to our platform.

**Expand International Presence.** We are investing in international expansion because we believe there is a significant global market opportunity for our solutions. We recently initiated product launches and partnerships in Latin America, including Brazil, Chile, Colombia and Mexico, have launched in other countries such as New Zealand, Australia, South Africa and Turkey, and have entered into strategic partnerships to address the European market. We believe our

cloud-based architecture and our cellular communication technology will enable us to capitalize on opportunities worldwide.

Expand Channels into the Home. Today, most consumers purchase a connected home solution through a security or home automation service provider. As the connected home market continues to grow we believe other home services providers will seek to participate in the market and may complement our current partner ecosystem. We intend to

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partner with these other providers, which may include heating, ventilation and air conditioning installers, property management companies and other services companies.

**Pursue Selective Strategic Acquisitions.** We may selectively pursue future acquisitions that complement our platform, represent a strategic fit and are consistent with our overall growth strategy. Such acquisitions could expand our technologies and teams which would allow us to add new features and functionalities to our connected home platform, accelerate the pace of our innovation or help us access new international markets.

### Market Opportunity

Our addressable market consists of residential homes and businesses. We believe that the major technology trends of cloud computing, the Internet of Things, Mobile Access and Big Data will dramatically change the ability for people to control and access their homes and businesses and provide new insights into the activity and efficiency of those properties. These trends have already made connected services and devices broadly available and affordable for households and businesses across North America. These large technology trends are also making these connected services and devices accessible and relevant to households and small businesses worldwide.

Our residential subscribers are typically owners of single-family homes, while our business subscribers include retail businesses, restaurants, small-scale commercial facilities, offices of professional services providers and similar businesses. According to a new market research report, "Internet of Things (IoT) Security Market by Technologies, Industry Verticals and Applications - Global Forecast to 2020", published by MarketsandMarkets, the Internet of Things (IoT) Security Market is expected to grow from USD \$7 Billion in 2015 to USD \$29 Billion by 2020, at a Compound Annual Growth Rate (CAGR) of 33.2% from 2015 to 2020. According the U.S. Census, there were 133 million housing units in 2014, however, according to April 2015 data from Parks Associates, smart home controller penetration was only at 7.8% of U.S. households in 2014. According to Parks Associates research data, there were 22.5 million US households with a professionally monitored home security system in 2015 and this is projected to grow to 29.9 million households by 2020. We believe there is an opportunity for penetration rates to significantly increase, largely driven by the mass market adoption of connected home solutions by households with no solution today. In addition, we believe there are commonalities between the residential and business markets for these services, and the business market therefore represents a sizable related opportunity.

### Our Technology

#### Cloud Services Platform

Since our inception, we have utilized a multi-tenant SaaS platform architecture to enable rapid innovation in a highly scalable environment that is designed to deliver our solutions as a hosted service for security and connected home applications. Our platform is architected to scale and leverages various proprietary cloud-based applications built by our technology team to support the needs of our service providers and subscribers. Because security and life safety are a key part of our service offering, our standards for reliability must be high and all of our solutions, not just those focused on security, are architected to meet these rigorous standards.

The Alarm.com Cloud Services Platform manages communication in and out of the property through the Communications Supervisor, intelligently directs alerts and notifications through the Notifications Engine, manages the user defined activity through the Rules Engine, and processes and stores video through our Video Processor and Video Storage. Additionally the platform enables device integration through the Partner APIs and offers service providers extensive services through our Enterprise Tools.

Our internal engineering teams have designed and developed our core technology. As a leader in the connected home industry, we believe we have the most capable and robust implementation of a connected home cloud service platform.

#### Operations

We operate our cloud services platform through two fully redundant network operation centers located in Phoenix, Arizona and Ashburn, Virginia. Each is designed to run the entire platform independent of the other.

#### Hardware and Manufacturing

We are involved in the design and manufacturing of various types of hardware that are used to enable our solutions, including the following:

Cellular Communication Modules. We offer various cellular communication modules that are tightly integrated with the security system control panel and other automation control devices in the subscriber's home or business. These modules, designed by our device engineering team and manufactured in the United States by a contract manufacturing partner, provide a dedicated and fully managed two-way cellular connection from the subscriber's property to our cloud platform modules. The modules run our proprietary firmware that enables:  
Real-time analysis of system events reported by security sensors and other devices at the property.

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Execution of automation rules at the property.

Management of all the logic that determines whether a message should be transmitted to our cloud platform for further processing.

Image Sensor. Our image sensor is a wireless, battery-operated, passive infrared motion sensor that is capable of capturing images based on various system triggers to be transmitted via our dedicated cellular communication path to our cloud platform.

Images can be viewed securely by the subscriber through web and mobile user interfaces, and can be sent automatically to the subscriber through SMS and email when triggered by an alarm or other high priority system event.

Our image sensors are designed by our device engineering team and manufactured in the United States by a contract manufacturing partner.

Video Cameras. We offer a suite of high definition, Internet protocol, or IP, video cameras to enable our video monitoring services. The cameras are available in various indoor and outdoor versions with optional night vision, wireless and power over Ethernet, or PoE, communication features. We also offer a network video recording device, the SVR, for on-premise, continuous video recording that is seamlessly connected to the cloud platform for remote playback through the user interfaces. Our video cameras and SVRs are specified for our platform by our product management and software engineering teams, and are developed and manufactured by an original design manufacturer, or ODM, in Taiwan. Our video service also enables third-party analog cameras to be integrated into our platform.

Smart Thermostat. Our Smart Thermostat combines elegant design, sophisticated cloud services and advanced energy management features. It was designed specifically for a multi-sensor connected home, tight integration with the Alarm.com cloud services and to work in concert with other sensors and devices in the home. It communicates with the Alarm.com communications module via Z-wave and supports both battery power and common wire power installation.

Remote temperature sensors can be paired with the Smart Thermostat to enable temperature set points for any room in the house, not just the room where the thermostat is installed. For example a sensor can be placed in a bedroom with a specific set point for more precise temperature control through out the home. Multiple sensors can be added to a single thermostat.

Our Smart Thermostat is powered by the Alarm.com platform and offers advanced learning and automation energy management features including Adaptive Learning, Responsive Saving, Precision Comfort and Mobile Control. The Thermostat has been designed for better installation and remote support. The Mobile Tech app will assist in proper wiring and installation and AirFX enables remote access to the thermostat settings for easy troubleshooting and support.

Our Smart Thermostats are designed by our device engineering team and manufactured by a contract manufacturing partner.

### Research and Development

We invest substantial resources in research and development to enhance our platform, solutions and technology infrastructure, develop new capabilities, conduct quality assurance testing and improve our core technology. We expect to continue to expand the capabilities of our technology in the future and to invest significantly in continued research and development efforts. Our research and development of new products and services is a multidisciplinary effort that requires the focus of our Product Management, Program Management, Software Engineering, Hardware Engineering, Quality Engineering, Configuration Management, and Network Operations teams, each of which is focused on the core research and development mission. As of December 31, 2015, we had a total of 261 employees engaged in research and development functions. For the years ended December 31, 2015, 2014 and 2013, our total research and development expenses were \$40.0 million, \$23.2 million and \$13.1 million, respectively.

### Service Provider Network

Our solutions are sold, installed and serviced by a network of professional, licensed service providers. We have developed an extensive professional service provider channel in North America consisting of over 5,000 service providers. Our service provider network is highly effective at account creation, installation and ongoing monitoring

and has extended the traditional home security business model to include connected home and business services. We believe this highly trusted, established network is a core strategic strength that enables an efficient, scalable customer acquisition model and allows us to focus on technology innovation.

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Our service providers today are primarily licensed and authorized security dealers ranging from small, local providers to larger regional providers to national service providers with thousands of employees. With a strong reputation for trust and established practice of in-home installation and ongoing professional monitoring, our service providers are driving the adoption of connected home solutions through their established businesses and now serve as connected home solution providers. According to a 2015 report from Parks Associates, security and safety continue to be the leading features driving smart home adoption. To help drive adoption, we have developed powerful tools enabling our service providers to more effectively sell, install and manage our connected home solutions. We believe that the combination of our solutions and our service providers, with their strong pedigree in security, is the most effective way to drive mass market adoption of the connected home.

Our channels increasingly include new providers in the intelligent automation, HVAC and property management markets as well as service providers in international markets.

The traditional security and home automation market is highly fragmented with over 13,000 dealers nationally. According to the February 2015 Barnes Buchanan Conference Report, the top 5 service providers represented 36% of all industry recurring monthly revenue in 2014. The distribution of revenue among our service providers is reflective of the industry overall. Vivint represented greater than 10% but not more than 15% of our revenue in 2014 and 2013. Monitronics International, Inc. represented greater than 15% but not more than 20% of our revenue in 2015, 2014 and 2013. United Technologies Corporation represented greater than 10% but not more than 15% of our revenue in 2014.

### Subscribers

We define our subscribers as the number of residential or commercial properties to which we are delivering at least one of our solutions. A subscriber who subscribes to one of our service level packages as well as one or more of our a la carte add-ons is counted as one subscriber. The number of subscribers represents our number of subscribers, rounded to the nearest thousand, on the last day of the applicable year. Our number of subscribers does not include the customers of our service providers to whom we license our intellectual property as they do not utilize our SaaS platform. While fewer than 1% of subscribers utilize a commercial service plan, we do not have exact data regarding the actual number of commercial properties utilizing our services.

We classify our subscribers into two groups: standard subscribers, which represented approximately three-quarters of our total subscriber base as of December 31, 2015, and other subscribers, which represented approximately a quarter of our total subscriber base as of the same date. For our standard subscribers, our service providers pay us on a per subscriber basis for access to our cloud-based connected home solution, to provide a supervised cellular network service to the home or business, and to deliver an enterprise back-end software service. Our other subscribers are comprised of carrier operated subscribers where the service provider utilizes its own cellular network or partners with a cellular network provider. As we continue to expand our business into new markets or acquire businesses with different business models as was the case with our acquisition of EnergyHub, in the future our other subscribers may include subscribers where we offer a basic service for no monthly fee with the option to upgrade the service for a monthly fee or where we generate revenue from the subscriber by other means.

As of December 31, 2015, we had more than 2.6 million subscribers. Our subscriber acquisition cost payback period has historically been less than one year.

### Sales and Marketing

The goal of our sales team is to help our service providers be successful in selling, installing and supporting the full suite of our solutions. Our sales team is also responsible for recruiting new service providers to Alarm.com. We also have a business development team dedicated to developing new service provider and distribution relationships in international markets.

Our marketing team is focused on empowering our service providers to most effectively promote and sell our connected home solutions. We have developed a high value, highly scalable marketing services platform to serve the breadth of our service providers both large and small. We design, develop and provide end-to-end marketing services through our integrated marketing solution, which includes tools and content for end-to-end lifecycle marketing to build awareness, create interest, drive trials, activate subscribers, develop the ongoing customer relationship and drive upsell. This solution is highly scalable and flexible with smaller service providers leveraging the full suite of marketing services and larger service providers adopting specific elements to enhance their existing marketing

activities. We also provide comprehensive training through our Alarm.com Academy that includes sales and marketing and technical training courses through in-person classes and an always-available online learning management system.

Additionally, we manage targeted consumer marketing campaigns on behalf of our service provider network to increase awareness of the connected home, raise overall awareness and preference for Alarm.com solutions and drive prospective customers to our service providers.

We believe our sales and marketing approach enables us to expand our breadth of service providers, provide highly custom services and scale quickly with only incremental costs. As of December 31, 2015, we had a total of 188 employees engaged in sales and marketing functions.

Service Provider Support

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We have a dedicated service operations team that strives to deliver an exceptional service experience to our service providers and our subscribers. We support the full suite of software and hardware on the Alarm.com platform through a highly trained and experienced team of United States based professionals using a tiered structure to efficiently escalate and resolve issues of varying complexity. This structure enables us to scale our organization in line with service provider and subscriber growth while building on our reputation as a source for answers in the connected home industry. We offer support via phone, web ticketing, and email for our service providers and maintain a commitment to industry-leading response times. While we primarily support our service providers and in turn the service providers provide support to their customers, who are our subscribers, we are committed to delivering a great end-user experience. To that end, subscribers may sometimes reach us directly with service concerns or questions, and we either assist the subscriber directly or, when appropriate, route the subscriber to his or her applicable service provider for additional assistance. Our staff is multilingual and we continue to grow our language capabilities to support our emerging international initiatives.

### Our Competition

The market for connected home solutions is fragmented, highly competitive and constantly evolving. We expect competition to continue from existing competitors as well as potential new market entrants. Our current primary competitors include providers of other technology platforms for the connected home, including iControl Networks, Inc. and Honeywell International Inc. that sell to dealers such as cable operators and other home automation providers. In addition, our service providers compete with managed service providers, such as cable television, telephone and security companies like Comcast Corporation, AT&T Inc. and Time Warner Cable Inc., as well as providers of point products, including Nest Labs, Inc. (acquired by Google Inc.), which offers a thermostat, and Nest Cam, which offers video monitoring. Because our service providers compete with these entities, we consider them competitive.

In addition, we may in the future compete with other large technology companies that offer control capabilities among their products, applications and services, and have ongoing development efforts to address the broader connected home market. Such companies may have longer operating histories, significantly greater financial, technical, marketing, distribution or other resources and greater name recognition than we do. In some instances, we may have commercial partnerships with technology or services providers in the connected home market with whom we may otherwise compete and our relationships with both our competitors and partners may change through time.

We expect to encounter new competitors as we enter new markets as well as increased competition, both domestically and internationally, from other established and emerging security, home automation and energy management companies. Our current and potential competitors may also establish cooperative relationships among themselves or with third parties and rapidly acquire significant market share.

We believe the principal competitive factors in the connected home market include the following:

- simplicity and ease of use;
- ability to offer persistent awareness, control and intelligent automation;
- breadth of features and functionality provided on the connected home platform;
- flexibility of the solutions and ability to personalize for the individual consumer;
- compatibility with a wide selection of third-party devices;
- pricing, affordability and accessibility;
- sales reach and local installation and support capabilities; and
- brand awareness and reputation.

We believe that we compete favorably with respect to each of these factors. In addition, we believe that our cloud-based software platform, connected home solutions and proven scalability help further differentiate us from competitors. Nevertheless, our competitors may have substantially greater financial, technical and other resources, greater name recognition, larger sales and marketing budgets and broader distribution channels than we do.

### Our Intellectual Property

Our success and ability to compete effectively depend in part on our ability to protect our proprietary technology and to establish and adequately protect our intellectual property rights. To accomplish these objectives, we rely on a combination of patent, trademark, copyright and trade secret laws in the United States and other jurisdictions, as well as license agreements, confidentiality agreements and other contractual protections.

As of December 31, 2015, we owned 50 issued United States patents that are scheduled to expire between 2021 and 2034. We continue to file patent applications and as of December 31, 2015, we had 48 pending utility patent applications and 27 provisional patent applications filed in the United States. We also had five pending patent applications in Canada and three



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international patent applications pending under the Patent Cooperation Treaty. The claims for which we have sought patent protection apply to both our platform and solutions. Our patent and patent applications generally apply to the features and functions of our platform, and solutions and the applications associated with our platform. We also have, and may be required to seek, licenses under patents or intellectual property rights owned by third parties, including open-source software and other commercially available software.

We also rely on several registered and unregistered trademarks to protect our brand. We have 16 registered trademarks in the United States, including Alarm.com and the Alarm.com logo and design, and three registered trademarks in Canada.

We seek to protect our intellectual property rights by requiring our employees and independent contractors involved in development to enter into agreements acknowledging that all inventions, trade secrets, works of authorship, developments, concepts, processes, improvements and other works generated by them on our behalf are our intellectual property, and assigning to us any rights, including intellectual property rights, that they may claim in those works.

We expect that products in our industry may be subject to third-party infringement lawsuits as the number of competitors grows and the functionality of products in different industry segments overlaps. We have brought infringement claims against third parties in the past and may do so in the future to defend our intellectual property position. In addition, from time to time, we may face claims by third parties that we infringe upon or misappropriate their intellectual property rights, and we may be found to be infringing upon or to have misappropriated such rights. In the future, we, or our service providers or subscribers, may be the subject of legal proceedings alleging that our solutions or underlying technology infringe or violate the intellectual property rights of others.

### Employees

As of December 31, 2015, we had 507 full-time employees. We also engage consultants and temporary employees. None of our employees are covered by collective bargaining agreements and we consider our relations with our employees to be good.

### Segment Revenue

Information about segment revenue is set forth in Note 20 of our consolidated financial statements included elsewhere in this Annual Report on Form 10-K.

### Corporate Information

We were founded in 2000 as a business unit within MicroStrategy Incorporated. We were incorporated in 2003 under the name Alarm.com Incorporated as a majority-owned subsidiary of MicroStrategy. MicroStrategy sold all of its interests in Alarm.com Incorporated in 2009 and we established Alarm.com Holdings, Inc. in connection with the sale transaction. Our principal executive offices are located at 8281 Greensboro Drive, Tysons, Virginia 22102. Our telephone number is (877) 389-4033. We completed our initial public offering in July 2015 and our common stock is listed on The NASDAQ Global Select Market under the symbol "ALRM."

### Available Information

Our website is located at [www.alarm.com](http://www.alarm.com) and our investor relations website is located at <http://investors.alarm.com>. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, are available free of charge on our investor relations website as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission, or the SEC. The public may read and copy the materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Additionally the SEC maintains an internet site that contains reports, proxy and information statements and other information. The address of the SEC's website is [www.sec.gov](http://www.sec.gov). Webcasts of our earnings calls and certain events we participate in or host with members of the investment community are on our investor relations website. Additionally, we provide notifications of news or announcements regarding our business and financial performance, SEC filings, investor events, and our press and earnings releases, as part of our investor relations website. Investors and others can receive real-time notifications of new information posted on our investor relations website by signing up for email alerts and RSS feeds. Further corporate governance

information, including our corporate governance guidelines and board committee charters, is also available on our investor relations website under the heading "Corporate Governance." The contents of our websites are not intended to be incorporated by reference into this Annual Report on Form 10-K or in any other report or document we file with the SEC, and any references to our websites are intended to be inactive textual references only.

ITEM 1A. RISK FACTORS

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Our business is subject to numerous risks. You should consider carefully the risks and uncertainties described below, in addition to other information contained in this Annual Report on Form 10-K as well as our other public filings with the Securities and Exchange Commission. Any of the following risks could have a material adverse effect on our business, financial condition, results of operations and prospects and cause the trading price of our common stock to decline.

### Risks Related to Our Business and Industry

Our quarterly results of operations have fluctuated and are likely to continue to fluctuate. As a result, we may fail to meet or exceed the expectations of investors or securities analysts, which could cause our stock price to decline.

Our quarterly revenue and results of operations may fluctuate as a result of a variety of factors, including revenue related to the product mix that we sell, including the relative sales related to our platform and solutions and other factors which are outside of our control. If our quarterly revenue or results of operations fall below the expectations of investors or securities analysts, the price of our common stock could decline substantially. Fluctuations in our results of operations may be due to a number of factors, including:

- the portion of our revenue attributable to software-as-a-service, or SaaS, and license versus hardware and other sales;
- fluctuations in demand, including due to seasonality, for our platform and solutions;
- changes in pricing by us in response to competitive pricing actions;
- our ability to increase, retain and incentivize the service providers that market, sell, install and support our platform and solutions;
- the ability of our hardware vendors to continue to manufacture high-quality products and to supply sufficient products to meet our demands;
- the timing and success of introductions of new solutions, products or upgrades by us or our competitors and the entrance of new competitors;
- changes in our business and pricing policies or those of our competitors;
- the ability to accurately forecast revenue as we generally rely upon our service provider network to generate new revenue;
- our ability to control costs, including our operating expenses and the costs of the hardware we purchase;
- competition, including entry into the industry by new competitors and new offerings by existing competitors;
- our ability to successfully manage any future acquisitions of businesses;
- issues related to introductions of new or improved products such as shortages of prior generation products or short-term decreased demand for next generation products;
- the amount and timing of expenditures, including those related to expanding our operations, increasing research and development, introducing new solutions or paying litigation expenses;

- the ability to effectively manage growth within existing and new markets domestically and abroad;
- changes in the payment terms for our platform and solutions;
- the strength of regional, national and global economies; and
- the impact of natural disasters or manmade problems such as terrorism.

Due to the foregoing factors and the other risks discussed in this Annual Report, you should not rely on quarter-to-quarter comparisons of our results of operations as an indication of our future performance. You should not consider our recent revenue and Adjusted EBITDA growth or results of one quarter as indicative of our future performance.

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We may not sustain our growth rate and we may not be able to manage any future growth effectively.

We have experienced significant growth in a short period of time. Our revenue increased from \$37.2 million in 2010 to \$208.9 million in 2015. We do not expect to achieve similar growth rates in future periods. You should not rely on our operating results for any prior quarterly or annual periods as an indication of our future operating performance. If we are unable to maintain expected revenue growth in both absolute dollars and as a percentage of prior period revenue, our financial results could suffer and our stock price could decline.

Our future operating results depend to a large extent on our ability to successfully manage our anticipated expansion and growth. To manage our growth successfully and handle the responsibilities of being a public company, we believe we must effectively, among other things:

- maintain our relationships with existing service providers and add new service providers;
- increase our subscribers and help our service providers maintain and improve their revenue retention rates, while also expanding their cross-sell effectiveness;
- add sales and marketing personnel;
- expand our international operations; and
- continue to implement and improve our administrative, financial and operational systems, procedures and controls.

We intend to increase our investment in research and development, sales and marketing, and general and administrative functions and other areas to grow our business. We are likely to recognize the costs associated with these increased investments earlier than some of the anticipated benefits and the return on these investments may be lower, or may develop more slowly, than we expect, which could adversely affect our operating results.

If we are unable to manage our growth effectively, we may not be able to take advantage of market opportunities or develop new solutions or enhancements to our existing solutions and we may fail to satisfy subscriber and service provider requirements, maintain the quality of our solutions, execute on our business plan or respond to competitive pressures, which could result in our financial results suffering and a decline in our stock price.

We have experienced rapid growth in recent periods. If we fail to manage our growth effectively, we may be unable to execute our business plan, maintain high levels of service or address competitive challenges adequately.

We increased our number of full-time employees from 253 to 400 to 507 at December 31, 2013, 2014 and 2015, respectively. Our revenue increased from \$130.2 million in 2013 to \$167.3 million in 2014 to \$208.9 million in 2015. Our growth has placed, and may continue to place, a significant strain on our managerial, administrative, operational, financial and other resources. We intend to further expand our overall business, service provider network, subscriber base, headcount and operations. Creating a global organization and managing a geographically dispersed workforce will require substantial management effort and significant additional investment in our infrastructure. We will be required to continue to improve our operational, financial and management controls and our reporting procedures and we may not be able to do so effectively. As such, we may be unable to manage our expenses effectively in the future, which may negatively impact our gross profit or operating expenses in any particular quarter. If we fail to manage our anticipated growth and change in a manner that preserves the key aspects of our corporate culture, the quality of our solutions may suffer, which could negatively affect our brand and reputation and harm our ability to retain and attract service providers and consumers.

The markets in which we participate are highly competitive and many companies, including large technology companies, broadband and security service providers and other managed service providers, are actively targeting the home automation, security monitoring, video monitoring and energy management markets. If we are unable to

compete effectively with these companies, our sales and profitability could be adversely affected.

We compete in several markets, including home automation, security monitoring, video monitoring and energy management. The markets in which we participate are highly competitive and competition may intensify in the future.

Our ability to compete depends on a number of factors, including:

- our platform and solutions' functionality, performance, ease of use, reliability, availability and cost effectiveness relative to that of our competitors' products;
- our success in utilizing new and proprietary technologies to offer solutions and features previously not available in the marketplace;

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- our success in identifying new markets, applications and technologies;
- our ability to attract and retain service providers;
- our name recognition and reputation;
- our ability to recruit software engineers and sales and marketing personnel; and
- our ability to protect our intellectual property.

Consumers may prefer to purchase from their existing suppliers rather than a new supplier regardless of product performance or features. In the event a consumer decides to evaluate a new home automation, security monitoring, video monitoring or energy management solution, the consumer may be more inclined to select one of our competitors whose product offerings are broader than those that we offer.

Our current primary competitors include providers of other technology platforms for the connected home, including iControl Networks, Inc. and Honeywell International Inc., that sell to service providers such as cable operators and other home automation providers. In addition, our service providers compete with managed service providers, such as cable television, telephone and security companies like Comcast Corporation, AT&T Inc. and Time Warner Cable Inc., and providers of point products, including Nest Labs, Inc. (acquired by Google Inc.), which offers a thermostat, and Nest Cam (acquired by Nest Labs, Inc.), which offers video monitoring. Because our service providers compete with these entities, we consider them competitive. For example, several cable and telecommunications companies have introduced home automation and security services packages, including interactive security services, which are competitive with our platform and solutions. In addition, we may compete with other large technology companies that offer control capabilities among their products, applications and services, and have ongoing development efforts to address the broader connected home market. For example, Apple, Inc. introduced a feature in 2014 that allows some manufacturers' devices to be controlled through a service available in Apple's iOS operating system.

Most of our competitors have longer operating histories, greater name recognition, larger customer bases and significantly greater financial, technical, sales, marketing, distribution and other resources than we have. We expect to encounter new competitors as we enter new markets as well as increased competition, both domestically and internationally, from other established and emerging home automation, security monitoring, video monitoring and energy management companies as well as large technology companies. In addition, there may be new technologies that are introduced that reduce demand for our solutions or make them obsolete. Our current and potential competitors may also establish cooperative relationships among themselves or with third parties and rapidly acquire significant market share. Increased competition could also result in price reductions and loss of market share, any of which could result in lower revenue and negatively affect our ability to grow our business.

Aggressive business tactics by our competitors may reduce our revenue.

Increased competition in the markets in which we compete may result in aggressive business tactics by our competitors, including:

- selling at a discount;
- offering products similar to our platform and solutions on a bundled basis at no charge;
- announcing competing products combined with extensive marketing efforts;
- providing financing incentives to consumers; and
- asserting intellectual property rights irrespective of the validity of the claims.

Our service providers may switch and offer the products and services of competing companies, which would adversely affect our sales and profitability. Competition from other companies may also adversely affect our

negotiations with service providers and suppliers, including, in some cases, requiring us to lower our prices. Opportunities to take market share using innovative products, services and sales approaches may also attract new entrants to the field. We may not be able to compete successfully with the offerings and sales tactics of other companies, which could result in the loss of service providers offering our platform and solutions and, as a result, our revenue and profitability could be adversely affected.



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If we fail to compete successfully against our current and future competitors, or if our current or future competitors employ aggressive business tactics, including those described above, demand for our platform and solutions could decline, we could experience cancellations of our services to consumers, or we could be required to reduce our prices or increase our expenses.

The proper and efficient functioning of our network operations centers and data back-up systems is central to our solutions.

Our solutions operate with a cloud-based architecture and we update our solutions regularly while our solutions are operating. If our solutions and/or upgrades fail to operate properly, our solutions could stop functioning for a period of time, which could put our users at risk. Our ability to keep our business operating is highly dependent on the proper and efficient operation of our network operations centers and data back-up systems. Although our network operations centers have back-up computer and power systems, if there is a catastrophic event, natural disaster, terrorist attacks, security breach or other extraordinary event, we may be unable to provide our subscribers with uninterrupted monitoring service. Furthermore, because data back-up systems are susceptible to malfunctions and interruptions (including those due to equipment damage, power outages, human error, computer viruses, computer hacking, data corruption and a range of other hardware, software and network problems), we cannot guarantee that we will not experience data back-up failures in the future. A significant or large-scale malfunction or interruption of our network operations centers or data back-up systems could adversely affect our ability to keep our operations running efficiently. If a malfunction results in a wider or sustained disruption, it could have a material adverse effect on our reputation, business, financial condition, cash flows or results of operations.

We sell security and life safety solutions and if our solutions fail for any reason, we could be subject to liability and our business could suffer.

We sell security and life safety solutions, which are designed to secure the safety of our subscribers and their residences or business. If these solutions fail for any reason, including due to defects in our software, a carrier outage, a failure of our network operating center, a failure on the part of our service providers or user error, we could be subject to liability for such failures and our business could suffer.

Our platform and solutions may contain undetected defects in the software, infrastructure, third-party components or processes. If our platform or solutions suffer from defects, we could experience harm to our branded reputation, claims by our subscribers or service providers or lost revenue during the period required to address the cause of the defects. We may find defects in new or upgraded solutions, resulting in loss of, or delay in, market acceptance of our platform and solutions, which could harm our business, results of operations and financial condition.

Since solutions that enable our platform are installed by our service providers, if they do not install or maintain such solutions correctly, our platform and solutions may not function properly. If the improper installation or maintenance of our platform and solutions leads to service failures after introduction of, or an upgrade to, our platform or a solution, we could experience harm to our branded reputation, claims by our subscribers or service providers or lost revenue during the period required to address the cause of the problem. Further, we rely on our service providers to provide the primary source of support and ongoing service to our subscribers and, if our service providers fail to provide an adequate level of support and services to our subscribers, it could have a material adverse effect on our reputation, business, financial condition or results of operations.

Any defect in, or disruption to, our platform and solutions could cause consumers not to purchase additional solutions from us, prevent potential consumers from purchasing our platform and solutions or harm our reputation. Although our contracts with our service providers limit our liability to our service providers for these defects, disruptions or errors, we nonetheless could be subject to litigation for actual or alleged losses to our service providers or our subscribers, which may require us to spend significant time and money in litigation or arbitration, or to pay significant settlements or damages. Defending a lawsuit, regardless of its merit, could be costly, divert management's attention and affect our ability to obtain or maintain liability insurance on acceptable terms and could harm our business.

Although we currently maintain some warranty reserves, we cannot assure you that these warranty reserves will be sufficient to cover future liabilities.

We rely on our service provider network to acquire additional subscribers, and the inability of our service providers to attract additional subscribers or retain their current subscribers could adversely affect our operating results.

Substantially all of our revenue is generated through the sales of our platform and solutions by our service providers, and our service providers are responsible for subscriber acquisition, as well as providing customer service and technical support for our platform and solutions to the subscribers. We provide our service providers with specific training and programs to assist them in selling and providing support for our platform and solutions, but we cannot assure that these steps will be effective. In addition, we rely on our service providers to sell our platform and solutions into new markets in the intelligent and connected home space. If our service providers are unsuccessful in marketing, selling, and supporting our platform and solutions, our operating results could be adversely affected.

In order for us to maintain our current revenue sources and grow our revenues, we must effectively manage and grow relationships with our service providers. Recruiting and retaining qualified service providers and training them in our technology

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and solutions requires significant time and resources. If we fail to maintain existing service providers or develop relationships with new service providers, our revenue and operating results would be adversely affected. In addition, to execute on our strategy to expand our sales internationally, we must develop relationships with service providers that sell into these markets.

Any of our service providers may choose to offer a product from one of our competitors instead of our platform and solutions, elect to develop their own competing solutions or simply discontinue their operations with us. For example, we entered into a license agreement in November 2013 with Vivint, Inc., or Vivint, pursuant to which we granted a license to use the intellectual property associated with our connected home solutions. Under the terms of this arrangement, Vivint has transitioned from selling our solutions directly to its customers to selling its own home automation product to its new customers. We now generate revenue from a monthly fee charged to Vivint on a per customer basis from sales of this service provider's product; however, these monthly fees are less on a per customer basis than fees from our SaaS solutions. Therefore, we receive less revenue on a per customer basis from Vivint compared to our SaaS subscriber base, which may result in a lower revenue growth rate. We must also work to expand our network of service providers to ensure that we have sufficient geographic coverage and technical expertise to address new markets and technologies. While it is difficult to estimate the total number of available service providers in our markets, there are a finite number of service providers that are able to perform the types of technical installations required for our platform and solutions. In the event that we saturate the available service provider pool, or if market or other forces cause the available pool of service providers to decline, it may be increasingly difficult to grow our business. If we are unable to expand our network of service providers, our business could be harmed. As the consumers' product and service options grow, it is important that we enhance our service provider footprint by broadening the expertise of our service providers, working with larger and more sophisticated service providers and expanding the mainstream solutions our service providers offer. If we do not succeed in this effort, our current and potential future service providers may be unable or unwilling to broaden their offerings to include our connected home solution, resulting in harm to our business.

We receive a substantial portion of our revenue from a limited number of service providers, and the loss of, or a significant reduction in, orders from one or more of our major service providers would result in decreased revenue and profitability.

Our success is highly dependent upon establishing and maintaining successful relationships with a variety of service providers. We market and sell our platform and solutions through an all-channel assisted sales model and we derive substantially all of our revenue from these service providers. We generally enter into agreements with our service providers outlining the terms of our relationship, including service provider pricing commitments, installation, maintenance and support requirements, and our sales registration process for registering potential sales to subscribers. These contracts, including our contract with Monitronics International, Inc., typically have an initial term of one year, with subsequent renewal terms of one year, and are terminable at the end of the initial term or renewal terms without cause upon written notice to the other party. In some cases, these contracts provide the service provider with the right to terminate prior to the expiration of the term without cause upon 30 days written notice, or, in the case of certain termination events, the right to terminate the contract immediately. While we have developed a network of over 5,000 service providers to sell, install and support our platform and solutions, we receive a substantial portion of our revenue from a limited number of channel partners. During the years ended December 31, 2015, 2014 and 2013, our 10 largest revenue service providers accounted for approximately 63.4%, 64.7% and 65.7% of our revenue. Vivint represented greater than 10% but not more than 15% of our revenue in 2014 and 2013. Monitronics International, Inc. represented greater than 15% but not more than 20% of our revenue in 2015, 2014 and 2013. United Technologies Corporation represented greater than 10% but not more than 15% of our revenue in 2014.

We anticipate that we will continue to be dependent upon a limited number of service providers for a significant portion of our revenue for the foreseeable future and, in some cases, a portion of our revenue attributable to individual service providers may increase in the future. The loss of one or more key service providers, a reduction in sales through any major service providers or the inability or unwillingness of any of our major service providers to pay for our platform and solutions would reduce our revenue and could impair our profitability.

We have relatively limited visibility regarding the consumers that ultimately purchase our solutions, and we often rely on information from third-party service providers to help us manage our business. If these service providers fail to provide timely or accurate information, our ability to quickly react to market changes and effectively manage our business may be harmed.

We sell our solutions through service providers. These service providers work with consumers to design, install, update and maintain their connected home installations and manage the relationship with our subscribers. While we are able to track orders from service providers and have access to certain information about the configurations of their Alarm.com systems that we receive through our platform, we also rely on service providers to provide us with information about consumer behavior, product and system feedback, consumer demographics and buying patterns. We use this channel sell-through data, along with other metrics, to forecast our revenue, assess consumer demand for our solution, develop new solutions, adjust pricing and make other strategic business decisions. Channel sell-through data is subject to limitations due to collection methods and the third-party nature of the data and thus may not be complete or accurate. If we do not receive consumer information on a timely or

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accurate basis, or if we do not properly interpret this information, our ability to quickly react to market changes and effectively manage our business may be harmed.

Consumers may choose to adopt point products that provide control of discrete home functions rather than adopting our connected home platform. If we are unable to increase market awareness of the benefits of our unified solutions, our revenue may not continue to grow, or it may decline.

Many vendors have emerged, and may continue to emerge, to provide point products with advanced functionality for use in the home, such as a thermostat that can be controlled by an application on a smartphone. We expect more and more consumer electronic and consumer appliance products to be network-aware and connected — each very likely to have its own smart device (phone or tablet) application. Consumers may be attracted to the relatively low costs of these point products and the ability to expand their home control solution over time with minimal upfront costs, despite some of the disadvantages of this approach, may reduce demand for our connected home solutions. If so, our service providers may switch and offer the point products and services of competing companies, which would adversely affect our sales and profitability. If a significant number of consumers in our target market choose to adopt point products rather than our connected home solutions, then our business, financial condition and results of operations will be harmed, and we may not be able to achieve sustained growth or our business may decline.

Mergers or other strategic transactions involving our competitors could weaken our competitive position, which could adversely affect our ability to compete effectively and harm our results of operations.

Our industry is highly fragmented, and we believe it is likely that some of our existing competitors will consolidate or be acquired. In addition, some of our competitors may enter into new alliances with each other or may establish or strengthen cooperative relationships with systems integrators, third-party consulting firms or other parties. Any such consolidation, acquisition, alliance or cooperative relationship could adversely affect our ability to compete effectively and lead to pricing pressure and our loss of market share and could result in a competitor with greater financial, technical, marketing, service and other resources, all of which could harm our business, results of operations and financial condition.

We are dependent on our connected home solutions, and the lack of continued market acceptance of our connected home solutions would result in lower revenue.

Our connected home solutions account for substantially all of our revenue and will continue to do so for the foreseeable future. As a result, our revenue could be reduced by:

- any decline in demand for our connected home solutions;
- the failure of our connected home solutions to achieve continued market acceptance;
- the introduction of products and technologies that serve as a replacement or substitute for, or represent an improvement over, our connected home solutions;
- technological innovations or new communications standards that our connected home solutions does not address; and
- our inability to release enhanced versions of our connected home solutions on a timely basis.

We are vulnerable to fluctuations in demand for Internet-connected devices in general and interactive security systems in particular. If the market for connected home solutions grows more slowly than anticipated or if demand for connected home solutions does not grow as quickly as anticipated, whether as a result of competition, product obsolescence, technological change, unfavorable economic conditions, uncertain geopolitical environment, budgetary constraints of our consumers or other factors, we may not be able to continue to increase our revenue and earnings and our stock price would decline.

A significant decline in our SaaS and license revenue renewal rate would have an adverse effect on our business, financial condition and operating results.

We generally bill our service providers based on the number of subscribers they have on our platform and the features being utilized by subscribers on a monthly basis in advance. Subscribers could elect to terminate our services in any

given month. If our efforts and our service providers' efforts to satisfy our existing subscribers are not successful, we may not be able to retain them or sell additional functionality to them and, as a result, our revenue and ability to grow could be adversely affected. We track our SaaS and license revenue renewal rate on an annualized basis, as reflected in the section of this Annual Report titled "Management's Discussion and Analysis — Key Metrics — SaaS and License Revenue Renewal Rate." However, our service providers, who resell our services to our subscribers, have indicated that they typically have three to five year service contracts with our subscribers. Our SaaS and license revenue renewal rate is calculated across our entire subscriber base,

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including subscribers whose contract with their service provider reached the end of its contractual term during the measurement period, as well as subscribers whose contract with their service provider has not reached the end of its contractual term during the measurement period, and is not intended to estimate the rate at which our subscribers renew their contracts with our service providers. As a result, we may not be able to accurately predict future trends in renewals and the resulting churn. Subscribers may choose not to renew their contracts for many reasons, including the belief that our service is not required for their needs or is otherwise not cost-effective, a desire to reduce discretionary spending, or a belief that our competitors' services provide better value. Additionally, our subscribers may not renew for reasons entirely out of our control, such as moving a residence or the dissolution of their business, which is particularly common for small to mid-sized businesses. A significant increase in our churn would have an adverse effect on our business, financial condition, and operating results.

If we are unable to develop new solutions, sell our platform and solutions into new markets or further penetrate our existing markets, our revenue may not grow as expected.

Our ability to increase sales will depend, in large part, on our ability to enhance and improve our platform and solutions, introduce new solutions in a timely manner, sell into new markets and further penetrate our existing markets. The success of any enhancement or new solution or service depends on several factors, including the timely completion, introduction and market acceptance of enhanced or new solutions, the ability to maintain and develop relationships with service providers, the ability to attract, retain and effectively train sales and marketing personnel and the effectiveness of our marketing programs. Any new product or service we develop or acquire may not be introduced in a timely or cost-effective manner, and may not achieve the broad market acceptance necessary to generate significant revenue. Any new markets into which we attempt to sell our platform and solutions, including new vertical markets and new countries or regions, may not be receptive. Our ability to further penetrate our existing markets depends on the quality of our platform and solutions and our ability to design our platform and solutions to meet consumer demand.

We benefit from integration of our solutions with third-party security platform providers. If these developers choose not to partner with us, or are acquired by our competitors, our business and results of operations may be harmed. Our solutions are incorporated into the hardware of our third-party security platform providers. For example, our hardware platform partners produce control devices that deliver our platform services to subscribers. It may be necessary in the future to renegotiate agreements relating to various aspects of these solutions or other third parties. The inability to easily integrate with, or any defects in, any third-party solutions could result in increased costs, or in delays in new product releases or updates to our existing solutions until such issues have been resolved, which could have a material adverse effect on our business, financial condition, results of operations, cash flows and future prospects and could damage our reputation. In addition, if these third-party solution providers choose not to partner with us, choose to integrate their solutions with our competitors' platforms, or are unable or unwilling to update their solutions, our business, financial condition and results of operations could be harmed. Further, if third-party solution providers that we partner with or that we would benefit from partnering with are acquired by our competitors, they may choose not to offer their solutions on our platform, which could adversely affect our business, financial condition and results of operations.

We rely on wireless carriers to provide access to wireless networks through which we provide our wireless alarm, notification and intelligent automation services, and any interruption of such access would impair our business.

We rely on wireless carriers to provide access to wireless networks for machine-to-machine data transmissions, which are an integral part of our services. Our wireless carriers may suspend wireless service to expand, maintain or improve their networks. Any suspension or other interruption of services would adversely affect our ability to provide our services to our service providers and subscribers and may adversely affect our reputation. In addition, the inability to maintain our existing contracts with our wireless carriers or enter into new contracts with such wireless carriers could have a material adverse effect on our business, financial condition and results of operations.

If we are unable to adapt to technological change, including maintaining compatibility with a wide range of devices, our ability to remain competitive could be impaired.

The market for connected home solutions is characterized by rapid technological change, frequent introductions of new products and evolving industry standards. Our ability to attract new subscribers and increase revenue from existing subscribers will depend in significant part on our ability to anticipate changes in industry standards, to continue to enhance our existing solutions or introduce new solutions on a timely basis to keep pace with technological developments, and to maintain compatibility with a wide range of connected devices in the home and business. We may change aspects of our operating system and may utilize open source technology in the future, which may cause difficulties including compatibility, stability and time to market. The success of this or any enhanced or new product or solution will depend on several factors, including the timely completion and market acceptance of the enhanced or new product or solution. Similarly, if any of our competitors implement new technologies before we are able to implement them, those competitors may be able to provide more effective products than ours, possibly at lower prices. Any delay or failure in the introduction of new or enhanced solutions could harm our business, results of operations and financial condition.



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The technology we employ may become obsolete, and we may need to incur significant capital expenditures to update our technology.

Our industry is characterized by rapid technological innovation. Our platform and solutions interact with the hardware and software technology of systems and devices located at our subscribers' properties. We may be required to implement new technologies or adapt existing technologies in response to changing market conditions, consumer preferences or industry standards, which could require significant capital expenditures. For example, many of our service providers are currently working to upgrade our solutions that were installed using 2G wireless technology, which could impact the delivery of our solutions for existing subscribers reliant upon 2G wireless technology. It is also possible that one or more of our competitors could develop a significant technical advantage that allows them to provide additional or superior quality products or services, or to lower their price for similar products or services, which could put us at a competitive disadvantage. Our inability to adapt to changing technologies, market conditions or consumer preferences in a timely manner could materially and adversely affect our business, financial condition, cash flows or results of operations.

We depend on our suppliers, and the loss of any key supplier could materially and adversely affect our business, financial condition and results of operations.

Our hardware products depend on the quality of components that we procure from third-party suppliers. Reliance on suppliers, as well as industry supply conditions, generally involves several risks, including the possibility of defective parts, which can adversely affect the reliability and reputation of our platform and solutions, and a shortage of components and reduced control over delivery schedules and increases in component costs, which can adversely affect our profitability. We have several large hardware suppliers from which we procure hardware on a purchase order basis, including one supplier that supplied products and components in an amount equal to 37% of our hardware and other revenue in 2015. If these suppliers are unable to continue to provide a timely and reliable supply, we could experience interruptions in delivery of our platform and solutions to service providers, which could have a material adverse effect on our business, financial condition and results of operations. If we were required to find alternative sources of supply, qualification of alternative suppliers and the establishment of reliable supplies could result in delays and a possible loss of sales, which could have a material adverse effect on our business, financial condition and results of operations.

Growth of our business will depend on market awareness and a strong brand, and any failure to develop, maintain, protect and enhance our brand would hurt our ability to retain or attract subscribers.

We believe that building and maintaining market awareness, brand recognition and goodwill in a cost-effective manner is critical to our overall success in achieving widespread acceptance of our existing and future solutions and is an important element in attracting new service providers and subscribers. An important part of our business strategy is to increase service provider and consumer awareness of our brand and to provide marketing leadership, services and support to our service provider network. This will depend largely on our ability to continue to provide high-quality solutions, and we may not be able to do so effectively. While we may choose to engage in a broader marketing campaign to further promote our brand, this effort may not be successful. Our efforts in developing our brand may be hindered by the marketing efforts of our competitors and our reliance on our service providers and strategic partners to promote our brand. If we are unable to cost-effectively maintain and increase awareness of our brand, our business, results of operations and financial condition could be harmed.

We operate in the emerging and evolving connected home market, which may develop more slowly or differently than we expect. If the connected home market does not grow as we expect, or if we cannot expand our platform and solutions to meet the demands of this market, our revenue may decline, fail to grow or fail to grow at an accelerated rate, and we may incur additional operating losses.

The market for solutions that bring objects and systems not typically connected to the Internet, such as home automation, security monitoring, video monitoring and energy management solutions, into an Internet-like structure is in an early stage of development, and it is uncertain whether, how rapidly or how consistently this market will develop, and even if it does develop, whether our platform and solutions will be accepted into the markets in which we operate. Some consumers may be reluctant or unwilling to use our platform and solutions for a number of reasons, including satisfaction with traditional solutions, concerns about additional costs and lack of awareness of the benefits

of our platform and solutions. Our ability to expand the sales of our platform and solutions into new markets depends on several factors, including the awareness of our platform and solutions, the timely completion, introduction and market acceptance of our platform and solutions, the ability to attract, retain and effectively train sales and marketing personnel, the ability to develop relationships with service providers, the effectiveness of our marketing programs, the costs of our platform and solutions and the success of our competitors. If we are unsuccessful in developing and marketing our platform and solutions into new markets, or if consumers do not perceive or value the benefits of our platform and solutions, the market for our platform and solutions might not continue to develop or might develop more slowly than we expect, either of which would harm our revenue and growth prospects.

Risks of liability from our operations are significant.

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The nature of the solutions we provide, including our interactive security solutions, potentially exposes us to greater risks of liability for employee acts or omissions or system failure than may be inherent in other businesses.

Substantially all of our service provider agreements contain provisions limiting our liability to service providers and our subscribers in an attempt to reduce this risk. However, in the event of litigation with respect to these matters, we cannot assure you that these limitations will be enforced, and the costs of such litigation could have a material adverse effect on us. In addition, there can be no assurance that we are adequately insured for these risks. Certain of our insurance policies and the laws of some states may limit or prohibit insurance coverage for punitive or certain other types of damages or liability arising from gross negligence.

Failure to maintain the security of our information and technology networks, including information relating to our service providers, subscribers and employees, could adversely affect us.

We are dependent on information technology networks and systems, including the Internet, to process, transmit and store electronic information and, in the normal course of our business, we collect and retain certain information pertaining to our service providers, subscribers and employees, including credit card information for many of our service providers and certain of our subscribers. If security breaches in connection with the delivery of our solutions allow unauthorized third parties to access any of this data or obtain control of our subscribers' systems, our reputation, business, results of operations and financial condition could be harmed.

The legal, regulatory and contractual environment surrounding information security, privacy and credit card fraud is constantly evolving and companies that collect and retain such information are under increasing attack by cyber-criminals around the world. A significant actual or potential theft, loss, fraudulent use or misuse of service provider, subscriber, employee or other personally identifiable data, whether by third parties or as a result of employee malfeasance or otherwise, non-compliance with our contractual or other legal obligations regarding such data or a violation of our privacy and security policies with respect to such data could result in loss of confidential information, damage to our reputation, early termination of our service provider contracts, significant costs, fines, litigation, regulatory investigations or actions and other liabilities or actions against us. Moreover, to the extent that any such exposure leads to credit card fraud or identity theft, we may experience a general decline in consumer confidence in our business, which may lead to an increase in attrition rates or may make it more difficult to attract new subscribers. Such an event could additionally result in adverse publicity and therefore adversely affect the market's perception of the security and reliability of our services. Security breaches of, or sustained attacks against, this infrastructure could create system disruptions and shutdowns that could result in disruptions to our operations. Techniques used to obtain unauthorized access or to sabotage systems change frequently and generally are not recognized until launched against a target. As a result, we may be unable to anticipate these techniques or to implement adequate preventative measures. We cannot be certain that advances in cyber-capabilities or other developments will not compromise or breach the technology protecting the networks that access our platform and solutions. If any one of these risks materializes our business, financial condition, results of operations and cash flows could be materially and adversely affected.

Our strategy includes pursuing acquisitions, and our potential inability to successfully integrate newly-acquired technologies, assets or businesses may harm our financial results. Future acquisitions of technologies, assets or businesses, which are paid for partially or entirely through the issuance of stock or stock rights, could dilute the ownership of our existing stockholders.

We have acquired businesses in the past. For example, we acquired EnergyHub, Inc. in 2013 and we acquired the assets of Horizon Analog, Inc. and Secure-i, Inc., respectively, in December 2014, and of HiValley Technology Inc. in March 2015. We also believe part of our growth will be driven by acquisitions of other companies or their technologies, assets and businesses. Any acquisitions we complete will give rise to risks, including:

- incurring higher than anticipated capital expenditures and operating expenses;
- failing to assimilate the operations and personnel or failing to retain the key personnel of the acquired company or business;
-

failing to integrate the acquired technologies, or incurring significant expense to integrate acquired technologies into our platform and solutions;

- disrupting our ongoing business;
- diverting our management's attention and other company resources;
- failing to maintain uniform standards, controls and policies;
- incurring significant accounting charges;
- impairing relationships with employees, service providers or subscribers;

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- finding that the acquired technology, asset or business does not further our business strategy, that
- we overpaid for the technology, asset or business or that we may be required to write off acquired assets or investments partially or entirely;
- failing to realize the expected synergies of the transaction;
- being exposed to unforeseen liabilities and contingencies that were not identified prior to acquiring the company; and
- being unable to generate sufficient revenue and profits from acquisitions to offset the associated acquisition costs.

Fully integrating an acquired technology, asset or business into our operations may take a significant amount of time. We may not be successful in overcoming these risks or any other problems encountered with acquisitions. To the extent we do not successfully avoid or overcome the risks or problems related to any such acquisitions, our results of operations and financial condition could be harmed. Acquisitions also could impact our financial position and capital requirements, or could cause fluctuations in our quarterly and annual results of operations. Acquisitions could include significant goodwill and intangible assets, which may result in future impairment charges that would reduce our stated earnings. We may incur significant costs in our efforts to engage in strategic transactions and these expenditures may not result in successful acquisitions.

We expect that the consideration we might pay for any future acquisitions of technologies, assets or businesses could include stock, rights to purchase stock, cash or some combination of the foregoing. If we issue stock or rights to purchase stock in connection with future acquisitions, net income per share and then-existing holders of our common stock may experience dilution.

We may pursue business opportunities that diverge from our current business model, which may cause our business to suffer.

We may pursue business opportunities that diverge from our current business model, including expanding our platform and solutions and investing in new and unproven technologies. For example, in 2013, we entered the energy management market through our acquisition of EnergyHub. We can offer no assurance that any such new business opportunities will prove to be successful. Among other negative effects, our pursuit of such business opportunities could reduce operating margins and require more working capital, materially and adversely affect our business, financial condition, results of operations and cash flows.

Evolving government and industry regulation and changes in applicable laws relating to the Internet and data privacy may increase our expenditures related to compliance efforts or otherwise limit the solutions we can offer, which may harm our business and adversely affect our financial condition.

As Internet commerce continues to evolve, federal, state or foreign agencies have adopted and could in the future adopt regulations covering issues such as user privacy and content. We are particularly sensitive to these risks because the Internet is a critical component of our SaaS business model. In addition, taxation of products or services provided over the Internet or other charges imposed by government agencies or by private organizations for accessing the Internet may be imposed. Any regulation imposing greater fees for Internet use or restricting information exchange over the Internet could result in a decline in the use of the Internet and the viability of Internet-based services, which could harm our business.

Our platform and solutions enable us to collect, manage and store a wide range of data related to our subscribers' interactive security, intelligent automation, video monitoring and energy management systems. A valuable component of our platform and solutions is our ability to analyze this data to present the user with actionable business intelligence. We obtain our data from a variety of sources, including our service providers, our subscribers and third-party providers. We cannot assure you that the data we require for our proprietary data sets will be available from these sources in the future or that the cost of such data will not increase. The United States federal government and various state governments have adopted or proposed limitations on the collection, distribution, storage and use of

personal information. Several foreign jurisdictions, including the European Union and the United Kingdom, have adopted legislation (including directives or regulations) that is more rigorous governing data collection and storage than in the United States. On October 6, 2015, the European Court of Justice issued a ruling that calls into question the continued availability of all provisions of the United States-European Union Safe Harbor Framework, a privacy protection mechanism that facilitated the transfer of personal data to the United States in compliance with the European Commission's Directive on Data Protection, and there is significant regulatory uncertainty surrounding the future of data transfers from the European Union to the United States. If our privacy or data security measures fail to comply, or are perceived to fail to comply, with current or future laws and regulations, we may be subject to litigation, regulatory investigations or other liabilities. Further, in the event of a breach of personal information that we hold, we may be subject to governmental fines, individual claims, remediation expenses, and/or harm to our reputation. Moreover, if future laws and regulations limit our ability to use and share this data or our ability to store, process and share data over the Internet, demand for our platform and solutions could decrease, our costs could increase, and our results of operations and financial condition could be harmed.

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Although we are not currently subject to the Health Insurance Portability and Accountability Act of 1996, and its implementing regulations, or HIPAA, which regulates the use, storage, and disclosure of personally identifiable health information, we may modify our platform and solutions to become HIPAA compliant. Becoming fully HIPAA compliant involves adopting and implementing privacy and security policies and procedures as well as administrative, physical and technical safeguards. Additionally, HIPAA compliance requires certain agreements with contracting partners to be in place and the appointment of a Privacy and Security Officer. Endeavoring to become HIPAA compliant may be costly both financially and in terms of administrative resources. It may take substantial time and require the assistance of external resources, such as attorneys, information technology, and/or other consultants. We would have to be HIPAA compliant to provide services for or on behalf of a health care provider or health plan pursuant to which patient information was exchanged. Thus, if we do not become fully HIPAA compliant, our expansion opportunities may be limited. Furthermore, it is possible that HIPAA may be expanded in the future to apply to certain of our platform and/or solutions as currently constituted.

We rely on the performance of our senior management and highly skilled personnel, and if we are unable to attract, retain and motivate well-qualified employees, our business and results of operations could be harmed.

We believe our success has depended, and continues to depend, on the efforts and talents of senior management and key personnel, including Stephen Trundle, our Chief Executive Officer, and our senior information technology managers. Our future success depends on our continuing ability to attract, develop, motivate and retain highly qualified and skilled employees. Qualified individuals are in high demand, and we may incur significant costs to attract them. In addition, the loss of any of our senior management or key personnel could interrupt our ability to execute our business plan, as such individuals may be difficult to replace. If we do not succeed in attracting well-qualified employees or retaining and motivating existing employees, our business and results of operations could be harmed.

We provide minimum service level commitments to certain of our service providers, and our failure to meet them could cause us to issue credits for future services or pay penalties, which could harm our results of operations. Certain of our service provider agreements currently, and may in the future, provide minimum service level commitments regarding items such as uptime, functionality or performance. If we are unable to meet the stated service level commitments for these service providers or suffer extended periods of service unavailability, we are or may be contractually obligated to provide these service providers with credits for future services, provide services at no cost or pay other penalties, which could adversely impact our revenue. We do not currently have any reserves on our balance sheet for these commitments.

We have already incurred and expect to incur a material amount of indebtedness, which could adversely affect our financial health.

We are party to a senior line of credit with Silicon Valley Bank, or SVB, and a syndicate of lenders, which we refer to as our 2014 Facility, that allows us to draw down an aggregate amount equal to \$50.0 million. As of December 31, 2015, we had an outstanding balance of \$6.7 million under our 2014 Facility. This indebtedness and certain covenants and obligations contained in the related documentation could adversely affect our financial health and business and future operations by, among other things:

- making it more difficult for us to satisfy our obligations, including with respect to our indebtedness;
- increasing our vulnerability to adverse economic and industry conditions; and
- limiting our flexibility in planning for, or reacting to, changes in our business and in the industry in which we operate.

Furthermore, substantially all of our assets, including our intellectual property, secure our 2014 Facility. If an event of default under the credit agreement occurs and is continuing, SVB may request the acceleration of the related indebtedness and foreclose on the security interests.

In addition, our 2014 Facility restricts our ability to make dividend payments and requires us to maintain a certain leverage ratio, which may restrict our ability to invest in future growth. Any of the foregoing could have a material

adverse effect on our business, financial condition or results of operations.

We may not be able to secure additional financing on favorable terms, or at all, to meet our future capital needs. In the future, we may require additional capital to respond to business opportunities, challenges, acquisitions or unforeseen circumstances and may determine to engage in equity or debt financings or enter into credit facilities for other reasons. In the future, we may not be able to timely secure debt or equity financing on favorable terms or at all. Any debt financing obtained by us in the future could involve restrictive covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. If we raise additional funds through further issuances of equity, convertible debt securities or other



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securities convertible into equity, our existing stockholders could suffer significant dilution in their percentage ownership of our company, and any new equity securities we issue could have rights, preferences and privileges senior to those of holders of our common stock, including shares of common stock sold in our initial public offering. If we are unable to obtain adequate financing or financing on terms satisfactory to us, when we require it, our ability to continue to grow or support our business and to respond to business challenges could be limited.

Goodwill and other identifiable intangible assets represent a significant portion of our total assets, and we may never realize the full value of our intangible assets.

As of December 31, 2015, we had \$31.0 million of goodwill and identifiable intangible assets. Goodwill and other identifiable intangible assets are recorded at fair value on the date of acquisition. We review such assets for impairment at least annually. Impairment may result from, among other things, deterioration in performance, adverse market conditions, adverse changes in applicable laws or regulations, including changes that restrict the activities of or affect the solutions we offer, challenges to the validity of certain registered intellectual property, reduced sales of certain products or services incorporating registered intellectual property, increased attrition and a variety of other factors. The amount of any quantified impairment must be expensed immediately as a charge to results of operations. Depending on future circumstances, it is possible that we may never realize the full value of our intangible assets. Any future determination of impairment of goodwill or other identifiable intangible assets could have a material adverse effect on our financial position and results of operations.

We may be subject to additional tax liabilities, which would harm our results of operations.

We are subject to income, sales, use, value added and other taxes in the United States and other countries in which we conduct business, which laws and rates vary greatly by jurisdiction. Certain jurisdictions in which we do not collect sales, use, value added or other taxes on our sales may assert that such taxes are applicable, which could result in tax assessments, penalties and interest, and we may be required to collect such taxes in the future. Significant judgment is required in determining our worldwide provision for income taxes. These determinations are highly complex and require detailed analysis of the available information and applicable statutes and regulatory materials. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain. Although we believe our tax estimates are reasonable, the final determination of tax audits and any related litigation could be different from our historical tax practices, provisions and accruals. If we receive an adverse ruling as a result of an audit, or we unilaterally determine that we have misinterpreted provisions of the tax regulations to which we are subject, our tax provision, results of operations or cash flows could be harmed. In addition, liabilities associated with taxes are often subject to an extended or indefinite statute of limitations period. Therefore, we may be subject to additional tax liability (including penalties and interest) for a particular year for extended periods of time.

Our business is subject to the risks of earthquakes, fire, power outages, floods and other catastrophic events, and to interruption by manmade problems such as terrorism or global or regional economic, political and social conditions. A significant natural disaster, such as an earthquake, fire or a flood, or a significant power outage could harm our business, results of operations and financial condition. Natural disasters could affect our hardware vendors, our wireless carriers or our network operations centers. Further, if a natural disaster occurs in a region from which we derive a significant portion of our revenue, such as metropolitan areas in North America, consumers in that region may delay or forego purchases of our platform and solutions from service providers in the region, which may harm our results of operations for a particular period. In addition, terrorist acts or acts of war could cause disruptions in our business or the business of our hardware vendors, service providers, subscribers or the economy as a whole. More generally, these geopolitical, social and economic conditions could result in increased volatility in worldwide financial markets and economies that could harm our sales. Given our concentration of sales during the second and third quarters, any disruption in the business of our hardware vendors, service providers or subscribers that impacts sales during the second or third quarter of each year could have a greater impact on our annual results. All of the aforementioned risks may be augmented if the disaster recovery plans for us, our service providers and our suppliers prove to be inadequate. To the extent that any of the above results in delays or cancellations of orders, or delays in the manufacture, deployment or shipment of our platform and solutions, our business, financial condition and results of operations would be harmed.

Downturns in general economic and market conditions and reductions in spending may reduce demand for our platform and solutions, which could harm our revenue, results of operations and cash flows.

Our revenue, results of operations and cash flows depend on the overall demand for our platform and solutions. Concerns about the systemic impact of a potential widespread recession, energy costs, geopolitical issues, the availability and cost of credit and the global housing and mortgage markets have contributed to increased market volatility, decreased consumer confidence and diminished growth expectations in the U.S. economy and abroad. The current unstable general economic and market conditions have been characterized by a dramatic decline in consumer discretionary spending and have disproportionately affected providers of solutions that represent discretionary purchases. While the decline in consumer spending has recently moderated, these economic conditions could still lead to continued declines in consumer spending over the foreseeable future, and may have resulted in a resetting of consumer spending habits that may make it unlikely that such spending will return to prior levels for the foreseeable future.

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During weak economic times, the available pool of service providers may decline as the prospects for home building and home renovation projects diminish, which may have a corresponding impact on our growth prospects. In addition, there is an increased risk during these periods that an increased percentage of our service providers will file for bankruptcy protection, which may harm our reputation, revenue, profitability and results of operations. In addition, we may determine that the cost of pursuing any claim may outweigh the recovery potential of such claim. Likewise, consumer bankruptcies can detrimentally affect the business stability of our service providers. Prolonged economic slowdowns and reductions in new home construction and renovation projects may result in diminished sales of our platform and solutions. Further worsening, broadening or protracted extension of the economic downturn could have a negative impact on our business, revenue, results of operations and cash flows.

Failure to comply with laws and regulations could harm our business.

We conduct our business in the United States and are expanding internationally in various other countries. We are subject to regulation by various federal, state, local and foreign governmental agencies, including, but not limited to, agencies responsible for monitoring and enforcing employment and labor laws, workplace safety, product safety, environmental laws, consumer protection laws, federal securities laws and tax laws and regulations.

We are subject to the U.S. domestic bribery statute contained in 18 U.S.C. § 201, the U.S. Foreign Corrupt Practices Act of 1977, as amended, the U.S. Travel Act, and possibly other anti-bribery laws, including those that comply with the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions and other international conventions. Anti-corruption laws are interpreted broadly and prohibit our company from authorizing, offering, or providing directly or indirectly improper payments or benefits to recipients in the public or private-sector. Certain laws could also prohibit us from soliciting or accepting bribes or kickbacks. Our company has direct government interactions and in several cases uses third-party representatives, including dealers, for regulatory compliance, sales and other purposes in a variety of countries. These factors increase our anti-corruption risk profile. We can be held liable for the corrupt activities of our employees, representatives, contractors, partners and agents, even if we did not explicitly authorize such activity. Although we have implemented policies and procedures designed to ensure compliance with anti-corruption laws, there can be no assurance that all of our employees, representatives, contractors, partners, and agents will comply with these laws and policies.

We are also subject to data privacy and security laws, anti-money laundering laws (such as the USA PATRIOT Act), and import/export laws and regulations in the United States and in other jurisdictions.

Our global operations require us to import from and export to several countries, which geographically stretches our compliance obligations. Our platform and solutions are subject to export control and import laws and regulations, including the U.S. Export Administration Regulations, U.S. Customs regulations, and various economic and trade sanctions regulations administered by the U.S. Treasury Department's Office of Foreign Assets Controls. Exports of our platform and solutions must be made in compliance with these laws and regulations. If we fail to comply with these laws and regulations, we and certain of our employees could be subject to substantial civil or criminal penalties, including the possible loss of export or import privileges; fines, which may be imposed on us and responsible employees or managers; and, in extreme cases, the incarceration of responsible employees or managers. In addition, if our service providers fail to obtain appropriate import, export or re-export licenses or authorizations, we may also be adversely affected through reputational harm and penalties. Obtaining the necessary authorizations, including any required license, for a particular sale may be time-consuming, is not guaranteed and may result in the delay or loss of sales opportunities. In addition, changes in our platform or solutions or changes in applicable export or import laws and regulations may create delays in the introduction and sale of our platform and solutions in international markets, prevent our service providers with international operations from deploying our platform and solutions or, in some cases, prevent the export or import of our platform and solutions to certain countries, governments or persons altogether. Any change in export or import laws and regulations, shift in the enforcement or scope of existing laws and regulations, or change in the countries, governments, persons or technologies targeted by such laws and regulations, could also result in decreased use of our platform and solutions, or in our decreased ability to export or sell our platform and solutions to existing or potential service providers with international operations. Any decreased use of our platform and solutions or limitation on our ability to export or sell our platform and solutions would likely

adversely affect our business, financial condition and results of operations.

In addition, our software contains encryption technologies, certain types of which are subject to U.S. and foreign export control regulations and, in some foreign countries, restrictions on importation and/or use. Any failure on our part to comply with encryption or other applicable export control requirements could result in financial penalties or other sanctions under the U.S. export regulations, including restrictions on future export activities, which could harm our business and operating results. Regulatory restrictions could impair our access to technologies needed to improve our platform and solutions and may also limit or reduce the demand for our platform and solutions outside of the United States.

Furthermore, U.S. export control laws and economic sanctions programs prohibit the shipment of certain products and services to countries, governments and persons that are subject to U.S. economic embargoes and trade sanctions. Even though we take precautions to prevent our platform and solutions from being shipped or provided to U.S. sanctions targets, our platform and solutions could be shipped to those targets or provided by third-parties despite such precautions. Any such shipment could have negative consequences, including government investigations, penalties and reputational harm. Furthermore, any new embargo or sanctions program, or any change in the countries, governments, persons or activities targeted by such programs,

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could result in decreased use of our platform and solutions, or in our decreased ability to export or sell our platform and solutions to existing or potential service providers, which would likely adversely affect our business and our financial condition.

Changes in laws that apply to us could result in increased regulatory requirements and compliance costs which could harm our business, financial condition and results of operations. In certain jurisdictions, regulatory requirements may be more stringent than in the United States. Noncompliance with applicable regulations or requirements could subject us to whistleblower complaints, investigations, sanctions, settlements, mandatory product recalls, enforcement actions, disgorgement of profits, fines, damages, civil and criminal penalties or injunctions, suspension or debarment from contracting with certain governments or other customers, the loss of export privileges, multi-jurisdictional liability, reputational harm, and other collateral consequences. If any governmental or other sanctions are imposed, or if we do not prevail in any possible civil or criminal litigation, our business, results of operations and financial condition could be materially harmed. In addition, responding to any action will likely result in a materially significant diversion of management's attention and resources and an increase in defense costs and other professional fees. Enforcement actions and sanctions could further harm our business, results of operations, and financial condition.

From time to time, we are involved in legal proceedings as to which we are unable to assess our exposure and which could become significant liabilities in the event of an adverse judgment.

We are involved and have been involved in the past in legal proceedings from time to time. For example, on June 2, 2015, Vivint filed a lawsuit against us alleging that our technology directly and indirectly infringes six patents owned by Vivint. See the section of this Annual Report titled "Legal Proceedings" for additional information on this matter. Companies in our industry have been subject to claims related to patent infringement and product liability, as well as contract and employment-related claims. We may not be able to accurately assess the risks related to these suits, and we may be unable to accurately assess our level of exposure. As a result of these proceedings, we have, and may be required to seek in the future, licenses under patents or intellectual property rights owned by third parties, including open-source software and other commercially available software, which can be costly. For example, we have initiated and been involved with intellectual property litigation as a result of which we have entered into cross-license agreements relating to our and third-party intellectual property, and in one such case we initiated in 2013 and settled in January 2014, we incurred \$11.2 million of legal expense in 2013.

Our business operates in a regulated industry.

Our business, operations and service providers are subject to various U.S. federal, state and local consumer protection laws, licensing regulation and other laws and regulations, and, to a lesser extent, similar Canadian laws and regulations. Our advertising and sales practices and that of our service provider network are subject to regulation by the U.S. Federal Trade Commission, or the FTC, in addition to state consumer protection laws. The FTC and the Federal Communications Commission have issued regulations that place restrictions on, among other things, unsolicited automated telephone calls to residential and wireless telephone subscribers by means of automatic telephone dialing systems and the use of prerecorded or artificial voice messages. If our service providers were to take actions in violation of these regulations, such as telemarketing to individuals on the "Do Not Call" registry, we could be subject to fines, penalties, private actions or enforcement actions by government regulators. Although we have taken steps to insulate ourselves from any such wrongful conduct by our service providers, and to require our service providers to comply with these laws and regulations, no assurance can be given that we will not be exposed to liability as result of our service providers' conduct. Further, to the extent that any changes in law or regulation further restrict the lead generation activity of our service providers, these restrictions could result in a material reduction in subscriber acquisition opportunities, reducing the growth prospects of our business and adversely affecting our financial condition and future cash flows. In addition, most states in which we operate have licensing laws directed specifically toward the monitored security services industry. Our business relies heavily upon cellular telephone service to communicate signals. Cellular telephone companies are currently regulated by both federal and state governments.

Changes in laws or regulations could require us to change the way we operate, which could increase costs or otherwise disrupt operations. In addition, failure to comply with any such applicable laws or regulations could result in substantial fines or revocation of our operating permits and licenses, including in geographic areas where our services

have substantial penetration, which could adversely affect our business and financial condition. Further, if these laws and regulations were to change or if we fail to comply with such laws and regulations as they exist today or in the future, our business, financial condition and results of operations could be materially and adversely affected.

If the U.S. insurance industry were to change its practice of providing incentives to homeowners for the use of alarm monitoring services, we could experience a reduction in new subscriber growth or an increase in our subscriber attrition rate.

It has been common practice in the U.S. insurance industry to provide a reduction in rates for policies written on homes that have monitored alarm systems. There can be no assurance that insurance companies will continue to offer these rate reductions. If these incentives were reduced or eliminated, new homeowners who otherwise may not feel the need for alarm monitoring services would be removed from our potential subscriber pool, which could hinder the growth of our business, and existing subscribers may choose to disconnect or not renew their service contracts, which could increase our attrition rates. In either case, our results of operations and growth prospects could be adversely affected.

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We face many risks associated with our plans to expand internationally, which could harm our business, financial condition, and operating results.

We anticipate that our efforts to expand internationally will entail the marketing and advertising of our platform, solutions and brand. While our platform and solutions are designed for ease of localization, revenue in countries outside of the United States and Canada accounted for less than 1% of our revenue for the year ended December 31, 2015. We also do not have substantial experience in selling our platform and solutions in international markets outside of the United States and Canada or in conforming to the local cultures, standards, or policies necessary to successfully compete in those markets, and we may be required to invest significant resources in order to do so. We may not succeed in these efforts or achieve our consumer acquisition, service provider expansion or other goals. In some international markets, consumer preferences and buying behaviors may be different, and we may use business or pricing models that are different from our traditional model to provide our platform and solutions to consumers in those markets or we may be unsuccessful in implementing the appropriate business model. Our revenue from new foreign markets may not exceed the costs of establishing, marketing, and maintaining our international offerings. In addition, the current instability in the eurozone could have many adverse consequences on our international expansion, including sovereign default, liquidity and capital pressures on eurozone financial institutions, reducing the availability of credit and increasing the risk of financial sector failures and the risk of one or more eurozone member states leaving the euro, resulting in the possibility of capital and exchange controls and uncertainty about the impact of contracts and currency exchange rates.

In addition, conducting expanded international operations subjects us to new risks that we have not generally faced in our current markets. These risks include:

- localization of our solutions, including the addition of foreign languages and adaptation to new local practices and regulatory requirements;
- lack of experience in other geographic markets;
- strong local competitors;
- the cost and burden of complying with, lack of familiarity with, and unexpected changes in, foreign legal and regulatory requirements, including more stringent privacy regulations;
- difficulties in managing and staffing international operations;
- fluctuations in currency exchange rates or restrictions on foreign currency;
- potentially adverse tax consequences, including the complexities of transfer pricing, value added or other tax systems, double taxation and restrictions and/or taxes on the repatriation of earnings;
- dependence on third parties, including commercial partners with whom we do not have extensive experience;
- increased financial accounting and reporting burdens and complexities;
- political, social, and economic instability, terrorist attacks, and security concerns in general; and
- reduced or varied protection for intellectual property rights in some countries.

Operating in international markets also requires significant management attention and financial resources. The investment and additional resources required to establish operations and manage growth in other countries may not produce desired levels of revenue or profitability.

Our software contains encryption technologies, certain types of which are subject to U.S. and foreign export control regulations and, in some foreign countries, restrictions on importation and/or use. Any failure on our part to comply with encryption or other applicable export control requirements could result in financial penalties or other sanctions under the U.S. export regulations, including restrictions on future export activities, which could harm our business and operating results. Regulatory restrictions could impair our access to technologies needed to improve our platform and solutions and may also limit or reduce the demand for our platform and solutions outside of the United States.

Risks Related to Our Intellectual Property

If we fail to protect our intellectual property and proprietary rights adequately, our business could be harmed.



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We believe that our proprietary technology is essential to establishing and maintaining our leadership position. We seek to protect our intellectual property through trade secrets, copyrights, confidentiality, non-compete and nondisclosure agreements, patents, trademarks, domain names and other measures, some of which afford only limited protection. We also rely on patent, trademark, trade secret and copyright laws to protect our intellectual property. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our technology or to obtain and use information that we regard as proprietary. Our means of protecting our proprietary rights may not be adequate or our competitors may independently develop similar or superior technology, or design around our intellectual property. In addition, the laws of some foreign countries do not protect our proprietary rights to as great an extent as the laws of the United States. Intellectual property protections may also be unavailable, limited or difficult to enforce in some countries, which could make it easier for competitors to capture market share. Our failure or inability to adequately protect our intellectual property and proprietary rights could harm our business, financial condition and results of operations.

To prevent substantial unauthorized use of our intellectual property rights, it may be necessary to prosecute actions for infringement and/or misappropriation of our proprietary rights against third parties. Any such action could result in significant costs and diversion of our resources and management's attention, and we cannot assure you that we will be successful in such action. Furthermore, many of our current and potential competitors have the ability to dedicate substantially greater resources to enforce their intellectual property rights than we do. Accordingly, despite our efforts, we may not be able to prevent third parties from infringing upon or misappropriating our intellectual property.

An assertion by a third party that we are infringing its intellectual property could subject us to costly and time-consuming litigation or expensive licenses that could harm our business and results of operations.

The industries in which we compete are characterized by the existence of a large number of patents, copyrights, trademarks and trade secrets, and by frequent litigation based on allegations of infringement or other violations of intellectual property rights. We have been involved with patent litigation suits in the past and we may be involved with and subject to similar litigation in the future to defend our intellectual property position. For example, on June 2, 2015, Vivint filed a lawsuit against us in U.S. District Court, District of Utah, alleging that our technology directly and indirectly infringes six patents that Vivint purchased. Vivint is seeking preliminary and permanent injunctions, enhanced damages and attorney's fees. We answered the complaint on July 23, 2015. Among other things, we asserted defenses based on non-infringement and invalidity of the patents in question. Should Vivint prevail on its claims that one or more elements of our solution infringe one or more of its patents, we could be required to pay damages of Vivint's lost profits and/or a reasonable royalty for sales of our solution, enjoined from making, using, and selling our solution if a license or other right to continue selling such elements is not made available to us or we are unable to design around such patents, and required to pay ongoing royalties and comply with unfavorable terms if such a license is made available to us. While we believe we have valid defenses to Vivint's claims, any of these outcomes could result in a material adverse effect on our business. Even if we were to prevail, this litigation could be costly and time-consuming, divert the attention of our management and key personnel from our business operations and dissuade potential customers from purchasing our solution, which would also materially harm our business. During the course of litigation, we anticipate announcements of the results of hearings and motions, and other interim developments related to the litigation. If securities analysts or investors regard these announcements as negative, the market price of our common stock may decline.

We might not prevail in any intellectual property infringement litigation given the complex technical issues and inherent uncertainties in such litigation and our service provider contracts may require us to indemnify them against certain liabilities they may incur as a result of our infringement of any third party intellectual property. Defending such claims, regardless of their merit, could be time-consuming and distracting to management, result in costly litigation or settlement, cause development delays or require us to enter into royalty or licensing agreements. For example, in 2013, we incurred \$11.2 million in legal fees associated with intellectual property litigation that we asserted against a third party and the related counterclaims and in 2014, we incurred \$1.4 million of costs related to intellectual property claims. In addition, we currently have a limited portfolio of issued patents compared to our larger competitors, and therefore may not be able to effectively utilize our intellectual property portfolio to assert defenses or

counterclaims in response to patent infringement claims or litigation brought against us by third parties. Further, litigation may involve patent holding companies or other adverse patent owners who have no relevant products or revenues and against which our potential patents provide no deterrence, and many other potential litigants have the capability to dedicate substantially greater resources to enforce their intellectual property rights and to defend claims that may be brought against them. Given that our platform and solutions integrate with all aspects of the home, the risk that our platform and solutions may be subject to these allegations is exacerbated. As we seek to extend our platform and solutions, we could be constrained by the intellectual property rights of others. If our platform and solutions exceed the scope of in-bound licenses or violate any third-party proprietary rights, we could be required to withdraw those solutions from the market, re-develop those solutions or seek to obtain licenses from third parties, which might not be available on reasonable terms or at all. Any efforts to re-develop our platform and solutions, obtain licenses from third parties on favorable terms or license a substitute technology might not be successful and, in any case, might substantially increase our costs and harm our business, financial condition and results of operations. If we were compelled to withdraw any of our platform and solutions from the market, our business, financial condition and results of operations could be harmed.

We have indemnity obligations to certain of our service providers for certain expenses and liabilities resulting from intellectual property infringement claims regarding our platform and solutions, which could force us to incur substantial costs.

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We have indemnity obligations to certain of our service providers for intellectual property infringement claims regarding our platform and solutions. As a result, in the case of infringement claims against these service providers, we could be required to indemnify them for losses resulting from such claims or to refund amounts they have paid to us. We expect that some of our service providers may seek indemnification from us in connection with infringement claims brought against them. In addition, we may elect to indemnify service providers where we have no contractual obligation to indemnify them and we will evaluate each such request on a case-by-case basis. If a service provider elects to invest resources in enforcing a claim for indemnification against us, we could incur significant costs disputing it. If we do not succeed in disputing it, we could face substantial liability.

The use of open source software in our platform and solutions may expose us to additional risks and harm our intellectual property.

Some of our platform and solutions use or incorporate software that is subject to one or more open source licenses and we may incorporate open source software in the future. Open source software is typically freely accessible, usable and modifiable. Certain open source software licenses require a user who intends to distribute the open source software as a component of the user's software to disclose publicly part or all of the source code to the user's software. In addition, certain open source software licenses require the user of such software to make any derivative works of the open source code available to others on potentially unfavorable terms or at no cost.

The terms of many open source licenses to which we are subject have not been interpreted by U.S. or foreign courts, and accordingly there is a risk that those licenses could be construed in a manner that imposes unanticipated conditions or restrictions on our ability to commercialize our platform and solutions. In that event, we could be required to seek licenses from third parties in order to continue offering our platform and solutions, to re-develop our platform and solutions, to discontinue sales of our platform and solutions or to release our proprietary software code under the terms of an open source license, any of which could harm our business. Further, given the nature of open source software, it may be more likely that third parties might assert copyright and other intellectual property infringement claims against us based on our use of these open source software programs. Litigation could be costly for us to defend, have a negative effect on our operating results and financial condition or require us to devote additional research and development resources to change our solutions.

Although we are not aware of any use of open source software in our platform and solutions that would require us to disclose all or a portion of the source code underlying our core solutions, it is possible that such use may have inadvertently occurred in deploying our platform and solutions. Additionally, if a third-party software provider has incorporated certain types of open source software into software we license from such third party for our platform and solutions without our knowledge, we could, under certain circumstances, be required to disclose the source code to our platform and solutions. This could harm our intellectual property position as well as our business, results of operations and financial condition.

### Risks Related to Ownership of Our Common Stock

An active trading market for our common stock may not continue to develop or be sustained.

Prior to our recently completed initial public offering, there was no public market for our common stock. Although our common stock is listed on The NASDAQ Global Select Market, we cannot assure you that an active trading market for our shares will continue to develop or be sustained. If an active market for our common stock does not continue to develop or is not sustained, it may be difficult for investors in our common stock to sell shares without depressing the market price for the shares or to sell the shares at all.

The market price of our common stock has been and is likely to continue to be volatile.

The market price of our common stock may be highly volatile and may fluctuate substantially as a result of a variety of factors, some of which are related in complex ways. Since shares of our common stock were sold in our initial public offering in June 2015 at a price of \$14.00 per share, our stock price has ranged from an intraday low of \$10.26 to an intraday high of \$20.25 through December 31, 2015. Factors that may affect the market price of our common stock include:

- actual or anticipated fluctuations in our financial condition and operating results;

- variance in our financial performance from expectations of securities analysts;
- changes in the prices of our platform and solutions;
- changes in our projected operating and financial results;
- changes in laws or regulations applicable to our platform and solutions or marketing techniques;

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- announcements by us or our competitors of significant business developments, acquisitions or new solutions;
- our involvement in any litigation;
- our sale of our common stock or other securities in the future;
- changes in senior management or key personnel;
- trading volume of our common stock;
- changes in the anticipated future size and growth rate of our market; and
- general economic, regulatory and market conditions.

Recently, the stock markets have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. These fluctuations have often been unrelated or disproportionate to the operating performance of those companies. Broad market and industry fluctuations, as well as general economic, political, regulatory and market conditions, may negatively impact the market price of our common stock. In the past, companies that have experienced volatility in the market price of their securities have been subject to securities class action litigation. We may be the target of this type of litigation in the future, which could result in substantial costs and divert our management's attention.

We are an "emerging growth company," and as a result of the reduced disclosure requirements applicable to emerging growth companies, our common stock may be less attractive to investors.

We are an "emerging growth company," as defined in the Jumpstart Our Business Startups Act, or JOBS Act. For as long as we qualify as an emerging growth company, we intend to take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not "emerging growth companies" including not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding an annual non-binding advisory vote on executive compensation and non-binding stockholder approval of any golden parachute payments not previously approved. As we have elected to take advantage of the exemption from compliance with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, our auditors will not be required to attest to the effectiveness of our internal control over financial reporting. As a result, investors may become less comfortable with the effectiveness of our internal controls and the risk that material weaknesses or other deficiencies in our internal controls go undetected may increase. As we intend to provide reduced disclosures in our periodic reports and proxy statements regarding executive compensation while we are an emerging growth company, investors will have access to less information and analysis about our executive compensation, which may make it difficult for investors to evaluate our executive compensation practices. We cannot predict if investors will find our common stock less attractive because we will rely on these exemptions and provide reduced disclosure. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be harmed. We will remain an "emerging growth company" for up to five years or such earlier time that we no longer qualify as an emerging growth company. We will remain an emerging growth company until the earliest to occur of: the last day of the fiscal year in which we have more than \$1.0 billion in annual revenue; the date we qualify as a "large accelerated filer," with at least \$700 million of equity securities held by non-affiliates; the issuance, in any three-year period, by us of more than \$1.0 billion in non-convertible debt securities; or the last day of the fiscal year ending after the fifth anniversary of our initial public offering.

In addition, Section 107 of the JOBS Act provides that an emerging growth company can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised

accounting standards. In other words, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. However, we have chosen to “opt out” of such extended transition period, and as a result, we will comply with new or revised accounting standards on the relevant dates on which adoption of such standards is required for non-emerging growth companies. Section 107 of the JOBS Act provides that our decision to opt out of the extended transition period for complying with new or revised accounting standards is irrevocable.

We are obligated to develop and maintain a system of effective internal controls over financial reporting. We may not complete our analysis of our internal control over financial reporting in a timely manner, or these internal controls may not be determined to be effective, which may harm investor confidence in our company and, as a result, the value of our common stock.

We are required, pursuant to Section 404 of the Sarbanes-Oxley Act, to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting in the 2016 annual report we file with the U.S. Securities

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and Exchange Commission, or the SEC. This assessment will need to include disclosure of any material weaknesses identified by our management in our internal control over financial reporting. However, our auditors are not required to report on the effectiveness of our internal control over financial reporting pursuant to Section 404 until we no longer qualify as an “emerging growth company” as defined in the JOBS Act.

We are in the very early stages of the costly and challenging process of compiling the system and process documentation necessary to perform the evaluation needed to comply with Section 404. In this regard, we will need to continue to dedicate internal resources, engage outside consultants and adopt a detailed work plan to assess and document the adequacy of internal control over financial reporting, continue steps to improve control processes as appropriate, validate through testing that controls are functioning as documented and implement a continuous reporting and improvement process for internal control over financial reporting. As we continue to transition to the requirements of reporting as a public company, we may need to add additional finance staff. We may not be able to remediate any future material weaknesses, or to complete our evaluation, testing and any required remediation in a timely fashion. During the evaluation and testing process, if we identify one or more material weaknesses in our internal control over financial reporting, we will be unable to assert that our internal controls are effective. If we are unable to assert that our internal control over financial reporting is effective, or if our auditors are unable to express an opinion on the effectiveness of our internal controls when they are required to issue such opinion, investors could lose confidence in the accuracy and completeness of our financial reports, which could harm our stock price.

If securities or industry analysts do not publish research or reports about our business, or publish negative reports about our business, our share price and trading volume could decline.

The trading market for our common stock depends, in part, on the research and reports that securities or industry analysts publish about us or our business. We do not have any control over these analysts. If our financial performance fails to meet analyst estimates or one or more of the analysts who cover us downgrade our shares or change their opinion of our shares, our share price would likely decline. If one or more of these analysts cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which could cause our share price or trading volume to decline.

We have incurred and we will continue to incur increased costs as a result of being a public company.

We completed our initial public offering on July 1, 2015. As a new public company, we have incurred and we will continue to incur increased legal, accounting and other costs not incurred as a private company. The Sarbanes-Oxley Act and related rules and regulations of the SEC regulate the corporate governance practices of public companies. We expect that compliance with these requirements will continue to increase certain of our expenses and make some activities more time-consuming than they have been in the past when we were a private company. Such additional costs going forward could negatively affect our financial results.

We do not intend to pay dividends for the foreseeable future and, as a result, your ability to achieve a return on your investment will depend on appreciation in the price of our common stock.

We do not intend to pay any cash dividends in the foreseeable future. We anticipate that we will retain all of our future earnings for use in the development of our business and for general corporate purposes. Any determination to pay dividends in the future will be at the discretion of our board of directors. Accordingly, investors must rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investments.

Our future depends in part on the interests and influence of key stockholders.

As of December 31, 2015, our directors, executive officers and holders of more than 5% of our common stock, all of whom are represented on our board of directors, together with their affiliates beneficially own 78.5% of the voting power of our outstanding capital stock. As a result, these stockholders are able to determine the outcome of matters submitted to our stockholders for approval. This ownership could affect the value of your shares of common stock by, for example, these stockholders electing to delay, defer or prevent a change in corporate control, merger, consolidation, takeover or other business combination. This concentration of ownership may also adversely affect the market price of our common stock.

Anti-takeover provisions in our charter documents and under Delaware law could make an acquisition of us more difficult, limit attempts by our stockholders to replace or remove our current management and limit the market price of our common stock.

Provisions in our amended and restated certificate of incorporation and bylaws may have the effect of delaying or preventing a change in control or changes in our management. Our amended and restated certificate of incorporation and amended and restated bylaws include provisions that:

- authorize our board of directors to issue preferred stock, without further stockholder action and with voting liquidation, dividend and other rights superior to our common stock;



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- require that any action to be taken by our stockholders be effected at a duly called annual or special
- meeting and not by written consent, and limit the ability of our stockholders to call special meetings;
  
- establish an advance notice procedure for stockholder proposals to be brought before an annual meeting, including proposed nominations of persons for director nominees;
  
- establish that our board of directors is divided into three classes, with directors in each class serving three-year staggered terms;
  
- require the approval of holders of two-thirds of the shares entitled to vote at an election of directors
- to adopt, amend or repeal our bylaws or amend or repeal the provisions of our certificate of incorporation regarding the election and removal of directors and the ability of stockholders to take action by written consent or call a special meeting;
  
- prohibit cumulative voting in the election of directors; and
  
- provide that vacancies on our board of directors may be filled only by the vote of a majority of directors then in office, even though less than a quorum.

These provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors, which is responsible for appointing the members of our management. In addition, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which generally prohibits a Delaware corporation from engaging in any of a broad range of business combinations with any “interested” stockholder for a period of three years following the date on which the stockholder became an “interested” stockholder. Any of the foregoing provisions could limit the price that investors might be willing to pay in the future for shares of our common stock, and they could deter potential acquirers of our company, thereby reducing the likelihood that you would receive a premium for your common stock in an acquisition.

Our amended and restated certificate of incorporation designates the Court of Chancery of the State of Delaware as the exclusive forum for certain litigation that may be initiated by our stockholders, which could limit our stockholders’ ability to obtain a favorable judicial forum for disputes with us.

Pursuant to our amended and restated certificate of incorporation, unless we consent in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware is the sole and exclusive forum for (1) any derivative action or proceeding brought on our behalf, (2) any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers or other employees to us or our stockholders, (3) any action asserting a claim arising pursuant to any provision of the Delaware General Corporation Law, our amended and restated certificate of incorporation or our amended and restated bylaws or (4) any action asserting a claim governed by the internal affairs doctrine. Our amended and restated certificate of incorporation provides that any person or entity purchasing or otherwise acquiring any interest in shares of our common stock is deemed to have notice of and consented to the foregoing provision. The forum selection clause in our amended and restated certificate of incorporation may limit our stockholders’ ability to obtain a favorable judicial forum for disputes with us.

Future sales of our common stock in the public market could cause our share price to decline.

Sales of a substantial number of shares of our common stock in the public market could occur at any time. As of December 31, 2015, 45,581,662 shares of our common stock were issued and 45,485,294 shares of our common stock were outstanding. The majority of these shares were acquired prior to our initial public offering and were subject to lock-up agreements prohibiting holders of these shares from selling any of their shares for a period of 180 days following our initial public offering. These lock-up agreements have expired and, as a result, a substantial number of

our shares are now generally freely tradable, subject, in the case of sales by our affiliates, to the volume limitations and other provisions of Rule 144 under the Securities Act. If holders of these shares sell, or indicate an intent to sell, substantial amounts of our common stock in the public market, the trading price of our common stock could decline significantly. Furthermore, shares of our common stock subject to outstanding awards under our Amended and Restated 2009 Equity Incentive Plan, as well as the shares of our common stock reserved for future issuance under our 2015 Equity Incentive Plan, under our 2015 Employee Stock Purchase Plan and upon exercise of outstanding warrants, will become eligible for sale in the public market in the future, subject to certain legal and contractual limitations. If these additional shares are sold, or if it is perceived that they will be sold, in the public market, the trading price of our common stock could decline substantially.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

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### Our Facilities

We relocated our corporate headquarters to Tysons, Virginia in February 2016. Our principal offices occupy approximately 106,251 square feet of commercial space under a lease that we entered into in August 2014 and expires in 2026. We use this facility for sales and marketing, research and development, customer service and administrative purposes.

Prior to February 2016, our corporate headquarters was located in Vienna, Virginia. This facility consists of approximately 36,400 square feet of commercial space under a lease that expires in August 2016. We do not intend to renew this lease.

We also have offices in Bloomington, Minnesota; Centennial, Colorado; Brooklyn, New York; Boston and Needham, Massachusetts; Wilsonville, Oregon; Lawrence, Kansas and Fort Lauderdale, Florida, and own a demonstration home in Falls Church, Virginia. We and our subsidiaries use these properties for sales and training, research and development, technical support and administrative purposes.

### ITEM 3. LEGAL PROCEEDINGS

On June 2, 2015, Vivint, Inc., or Vivint, filed a lawsuit against us in U.S. District Court, District of Utah, alleging that our technology directly and indirectly infringes six patents that Vivint purchased. Vivint is seeking preliminary and permanent injunctions, enhanced damages and attorney's fees. We answered the complaint on July 23, 2015. Among other things, we asserted defenses based on non-infringement and invalidity of the patents in question. Should Vivint prevail on its claims that one or more elements of our solution infringe one or more of its patents, we could be required to pay damages of Vivint's lost profits and/or a reasonable royalty for sales of our solution, enjoined from making, using, and selling our solution if a license or other right to continue selling such elements is not made available to us or we are unable to design around such patents, and required to pay ongoing royalties and comply with unfavorable terms if such a license is made available to us. While we believe we have valid defenses to Vivint's claims, any of these outcomes could result in a material adverse effect on our business. Even if we were to prevail, this litigation could be costly and time-consuming, divert the attention of our management and key personnel from our business operations and dissuade potential customers from purchasing our solution, which would also materially harm our business. During the course of litigation, we anticipate announcements of the results of hearings and motions, and other interim developments related to the litigation. If securities analysts or investors regard these announcements as negative, the market price of our common stock may decline.

On February 9, 2016, we were sued along with one of our service providers in the Circuit Court for the City of Virginia Beach, Virginia by the estate of a deceased service provider customer alleging wrongful death, among other claims. The suit seeks a total of \$7 million in compensatory damages and \$350,000 in punitive damages. We are currently reviewing this matter and have made no determination yet regarding the merits of the case.

From time to time, we may be a party to litigation and subject to claims incident to the ordinary course of business. Although the results of litigation and claims cannot be predicted with certainty, we currently believe that the final outcome of these ordinary course matters will not have a material adverse effect on our business. Regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors.

### ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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## PART II.

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

## Market Information

Our common stock commenced trading on The NASDAQ Global Select Market on June 26, 2015 and trades under the symbol "ALRM." Prior to June 26, 2015, there was no public market for our common stock. The following table sets forth the high and low reported sales prices per share of our common stock for the periods indicated.

	High	Low
Year Ended December 31, 2015		
Second Quarter (beginning June 26, 2015)	\$ 17.88	\$ 14.71
Third Quarter	\$ 19.15	\$ 10.26
Fourth Quarter	\$ 20.25	\$ 11.45

On February 1, 2016, the closing price of our common stock on The NASDAQ Global Select Market was \$16.28.

## Holders

As of February 1, 2016, there were approximately 124 stockholders of record of our common stock, one of which is Cede & Co., a nominee for Depository Trust Company, or DTC. All of the shares of common stock held by brokerage firms, banks and other financial institutions as nominees for beneficial owners are deposited into participant accounts at DTC, and are considered to be held of record by Cede & Co. as one stockholder.

## Dividends

On June 12, 2015, our board of directors declared a cash dividend on our common and preferred stock in the amount of (1) \$0.36368 per share of common stock and Series A preferred stock and (2) \$0.72736 per share of Series B preferred stock and Series B-1 preferred stock or \$20.0 million in the aggregate. We paid these dividends on June 26, 2015 to our stockholders of record as of June 12, 2015.

We cannot provide any assurance that we will declare or pay cash dividends on our common stock in the future. We currently anticipate that we will retain all of our future earnings, if any, for use in the operation and expansion of our business and we do not anticipate paying cash dividends in the foreseeable future. Additionally, our ability to pay dividends on our common stock is limited by restrictions under the terms of the agreements governing our 2014 Facility with SVB, as further disclosed under "Sources of Liquidity" in Part II Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations." Payment of future cash dividends, if any, will be at the discretion of the board of directors after taking into account various factors, including our financial condition, operating results, current and anticipated cash needs, the requirements of current or then-existing debt instruments and other factors the board of directors deems relevant.

## Use of Proceeds from Initial Public Offering of Common Stock

On July 1, 2015, we closed our initial public offering, or IPO, in which we issued and sold 7,000,000 shares of common stock at a public offering price of \$14.00 per share, resulting in gross proceeds of \$98 million. On July 8, 2015, pursuant to the underwriters' exercise of their over-allotment option to purchase up to an additional 525,000 shares from us and up to an additional 525,000 shares from the selling stockholders, we issued and sold an additional 525,000 additional shares of our common stock and certain selling stockholders affiliated with ABS Capital Partners sold 525,000 shares of our common stock, resulting in additional gross proceeds to us of \$7.4 million. We did not receive any proceeds from the sale of shares by the selling stockholders. All of the shares issued and sold in our IPO were registered under the Securities Act pursuant to a registration statement on Form S-1 (File No. 333-204428), which was declared effective by the SEC on June 25, 2015. Goldman, Sachs & Co., Credit Suisse Securities (USA) LLC, and BofA Merrill Lynch acted as joint book-running managers of our IPO, which has now terminated, and

Stifel, Raymond James & Associates, Inc., William Blair & Company, LLC and Imperial Capital, LLC acted as co-managers.

The net proceeds to us, after deducting underwriting discounts and commission of approximately \$7.4 million and offering expenses of approximately \$5.0 million, were approximately \$93.0 million. No offering expenses were paid directly or indirectly to any of our directors or officers (or their associates) or persons owning ten percent or more of any class of our equity securities or to any other affiliates. We have invested a portion of the net offering proceeds into money market securities. There has been no material change in the planned use of proceeds from our IPO from those disclosed in the final prospectus for our IPO dated June 25, 2015 and filed with the SEC pursuant to Rule 424(b)(4) of the Securities Act on June 26, 2015. As of September 30, 2015, all expenses incurred in connection with our IPO have been paid.

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## Stock Performance Graph

The following graph shows a comparison from June 26, 2015 (the date our common stock commenced trading on The NASDAQ Global Select Market) through December 31, 2015 of the cumulative total return for (i) our common stock, (ii) the NASDAQ Composite Index and (iii) S&P 500 Index. The graph assumes an initial investment of \$100 on June 26, 2015 and reinvestment of dividends. The comparisons in the graph are not intended to forecast or be indicative of possible future performance of our common stock.

	6/26/2015	6/30/2015	7/31/2015	8/31/2015	9/30/2015	10/31/2015	11/30/2015	12/31/2015
Alarm.com Holdings, Inc.	\$100	\$91	\$110	\$101	\$69	\$75	\$104	\$99
NASDAQ Composite	100	98	101	94	91	99	101	99
S&P 500	100	98	100	94	91	99	99	97

## Recent Sales of Unregistered Securities

None.

## Issuer Purchases of Equity Securities

None.

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## Item 6. Selected Consolidated Financial Data

## SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

The selected consolidated statements of operations data for the years ended December 31, 2015, 2014 and 2013 and the selected consolidated balance sheet data as of December 31, 2015 and 2014 are derived from our audited consolidated financial statements included elsewhere in this Annual Report. The following selected consolidated statements of operations data for the years ended December 31, 2012 and 2011 and the selected consolidated balance sheet data as of December 31, 2013, 2012 and 2011 are derived from our audited consolidated financial statements not included in this Annual Report. Our historical results are not necessarily indicative of the results to be expected in the future. The selected consolidated financial data should be read together with Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and in conjunction with our consolidated financial statements, related notes, and other financial information included elsewhere in this Annual Report. The following tables set forth our selected consolidated financial and other data for the years ended and as of December 31, 2015, 2014, 2013, 2012 and 2011 (in thousands, except share and per share data).

Consolidated Statements of Operations Data:	Year Ended December 31,				
	2015	2014	2013	2012	2011
Revenue:					
SaaS and license revenue	\$ 140,936	\$ 111,515	\$ 82,620	\$ 55,655	\$ 32,161
Hardware and other revenue	67,952	55,797	47,602	40,820	32,898
Total revenue	208,888	167,312	130,222	96,475	65,059
Cost of revenue: <sup>(1)</sup>					
Cost of SaaS and license revenue	25,722	23,007	16,476	12,681	8,051
Cost of hardware and other revenue	51,652	44,172	38,482	28,773	21,102
Total cost of revenue	77,374	67,179	54,958	41,454	29,153
Operating expenses:					
Sales and marketing <sup>(2)</sup>	32,240	25,836	21,467	13,232	5,819
General and administrative <sup>(2)</sup>	35,473	26,113	29,928	14,099	6,817
Research and development <sup>(2)</sup>	40,002	23,193	13,085	8,944	5,613
Amortization and depreciation	5,808	3,991	3,360	2,230	1,988
Total operating expenses	113,523	79,133	67,840	38,505	20,237
Operating income	17,991	21,000	7,424	16,516	15,669
Interest expense	(178 )	(196 )	(269 )	(312 )	(9 )
Other (expense) / income, net	(348 )	(485 )	57 )	5 )	10 )
Income before income taxes	17,465	20,319	7,212	16,209	15,670
Provision for income taxes	5,697	6,817	2,688	7,280	6,015
Net income	11,768	13,502	4,524	8,929	9,655
Dividends paid to participating securities	(18,987 )	—	—	(8,182 )	(18,998 )
Cumulative dividend on redeemable convertible preferred stock	—	—	—	(1,855 )	(3,317 )
Deemed dividend to redeemable convertible preferred stock upon recapitalization	—	—	—	(138,727 )	—
Income allocated to participating securities	—	(12,939 )	(4,402 )	—	—
Net (loss) / income attributable to common stockholders	\$(7,219 )	\$563	\$122	\$(139,835 )	\$(12,660 )

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	Year Ended December 31,				
	2015	2014	2013	2012	2011
Per share information attributable to common stockholders:					
Net (loss) / income per share:					
Basic	\$(0.30 )	\$0.25	\$0.08	\$(108.55 )	\$(19.76 )
Diluted	\$(0.30 )	\$0.14	\$0.04	\$(108.55 )	\$(19.76 )
Weighted average common shares outstanding:					
Basic	24,108,362	2,276,694	1,443,469	1,288,162	640,850
Diluted	24,108,362	3,890,121	2,795,345	1,288,162	640,850
Cash dividends declared per share	\$0.36	\$—	\$—	\$0.26	\$0.60
	Year Ended December 31,				
	2015	2014	2013	2012	2011
Other Financial and Operating Data:					
SaaS and license revenue renewal rate <sup>(3)</sup>	93 %	93 %	93 %	94 %	94 %
Adjusted EBITDA <sup>(4)</sup>	\$34,270	\$28,321	\$28,259	\$20,505	\$17,839
	As of December 31,				
	2015	2014	2013	2012	2011
Balance sheet and other data:					
Cash and cash equivalents	\$128,358	\$42,572	\$33,583	\$41,920	\$16,817
Working capital, excluding deferred revenue <sup>(5)</sup>	134,260	47,553	32,762	38,756	15,262
Total assets	226,095	120,932	99,487	87,545	58,507
Redeemable convertible preferred stock	—	202,456	202,456	202,456	35,117
Total long-term obligations	26,885	17,572	14,923	15,352	14,377
Total stockholders' equity / (deficit)	170,131	(121,844 )	(140,690 )	(147,051 )	(3,188 )

<sup>(1)</sup> Excludes amortization and depreciation.

<sup>(2)</sup> Includes stock-based compensation expense as follows:

	Year Ended December 31,				
	2015	2014	2013	2012	2011
Stock-based Compensation Expense Data:					
Sales and marketing	\$372	\$338	\$102	\$196	\$39
General and administrative	2,486	1,862	495	418	89
Research and development	1,266	1,067	244	1,145	54
Total stock-based compensation expense	\$4,124	\$3,267	\$841	\$1,759	\$182

<sup>(3)</sup> We measure our SaaS and license revenue renewal rate on a trailing 12-month basis by dividing (a) the total SaaS and license revenue recognized during the trailing 12-month period from our subscribers who were subscribers on the first day of the period, by (b) total SaaS and license revenue we would have recognized during the period from those same subscribers assuming no terminations, or service level upgrades or downgrades. The SaaS and license revenue renewal rate represents both residential and commercial properties. Our SaaS and license revenue renewal rate is expressed as an annualized percentage. Our service providers, who resell our services to our subscribers, have indicated that they typically have three to five-year service contracts with our subscribers. Our SaaS and license revenue renewal rate is calculated across our entire subscriber base, including subscribers whose contract with their service provider reached the end of its contractual term during the measurement period, as well as subscribers whose contract with their service provider has not reached the end of its contractual term during the measurement period, and is not intended to estimate the rate at which our subscribers renew their contracts with our service providers. We believe that our SaaS and license revenue renewal rate allows us to measure our ability to retain and grow our SaaS and license revenue and serves as an indicator of the lifetime value of our subscriber base.



<sup>(4)</sup> We define Adjusted EBITDA as our net income before interest and other (expense) / income, net, provision for income taxes, amortization and depreciation expense, stock-based compensation expense, goodwill and intangible impairment charges, changes

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in fair value of acquisition related contingent liabilities and legal costs incurred in connection with certain intellectual property litigation. We do not consider these items to be indicative of our core operating performance. The non-cash items include amortization and depreciation expense, the stock-based compensation expense related to stock options and the sale of common stock, goodwill and intangible impairment charges and gain from the release of an acquisition-related contingent liability. Included in 2015 stock-based compensation expense is \$0.8 million related to the repurchase of an employee's stock awards. See the following table for a reconciliation of Adjusted EBITDA to net income, the most directly comparable financial measure calculated and presented in accordance with GAAP.

We have included Adjusted EBITDA in this report because it is a key measure that our management uses to understand and evaluate our core operating performance and trends, to generate future operating plans, to make strategic decisions regarding the allocation of capital and to make investments in initiatives that are focused on cultivating new markets for our solutions. In particular, the exclusion of certain expenses in calculating Adjusted EBITDA facilitates comparisons of our operating performance on a period-to-period basis and, in the case of exclusion of historical legal expenses, excludes items that we do not consider to be indicative of our core operating performance. Accordingly, we believe that Adjusted EBITDA provides useful information to investors and others in understanding and evaluating our operating results in the same manner as our management and board of directors.

Our use of Adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our financial results as reported under GAAP. Some of these limitations are: (a) although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and Adjusted EBITDA does not reflect cash capital expenditure requirements for such replacements or for new capital expenditure requirements; (b) Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs; (c) Adjusted EBITDA does not reflect the potentially dilutive impact of equity-based compensation; (d) Adjusted EBITDA does not reflect tax payments that may represent a reduction in cash available to us; and (e) other companies, including companies in our industry, may calculate Adjusted EBITDA or similarly titled measures differently, which reduces its usefulness as a comparative measure.

Because of these and other limitations, you should consider Adjusted EBITDA alongside our other GAAP-based financial performance measures, net income and our other GAAP financial results. The following table presents a reconciliation of Adjusted EBITDA to net income, the most directly comparable GAAP measure, for each of the periods indicated (in thousands).

	Year Ended December 31,				
	2015	2014	2013	2012	2011
Adjusted EBITDA					
Net income	\$11,768	\$13,502	\$4,524	\$8,929	\$9,655
Adjustments:					
Interest expense and other (expense) / income, net	526	681	212	307	(1 )
Income tax expense	5,697	6,817	2,688	7,280	6,015
Amortization and depreciation	5,808	3,991	3,360	2,230	1,988
Stock-based compensation expense	4,124	3,267	841	1,759	182
Goodwill and intangible asset impairment	—	—	11,266	—	—
Release of acquisition related contingent liability	—	—	(5,820 )	—	—
Litigation expense	6,347	63	11,188	—	—
Total adjustments	22,502	14,819	23,735	11,576	8,184
Adjusted EBITDA	\$34,270	\$28,321	\$28,259	\$20,505	\$17,839

<sup>(5)</sup> In the fourth quarter of 2015, we retrospectively adopted ASU 2015-17, "Income Taxes (Topic 740) Balance Sheet Classification of Deferred Taxes" which simplifies the presentation of deferred income taxes and requires entities to classify deferred income tax liabilities and assets for each jurisdiction as noncurrent on the balance sheet. To adopt this pronouncement, we reclassified the previously reported \$3.2 million current portion of deferred tax assets to long-term deferred tax assets on our balance sheet as of December 31, 2014 in this annual report. In addition, we retrospectively reclassified the previously reported current portion of deferred tax assets to long-term deferred tax assets for the balance sheet and other data table above resulting in a change in working capital as of December 31,

2014, 2013, 2012 and 2011.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations together with our consolidated financial statements and the related notes and other financial information included elsewhere in this Annual Report. Some of the information contained in this discussion and analysis or set forth elsewhere in this Annual Report, including information with respect to our plans and strategy for our business, includes forward-looking statements that involve risks and uncertainties. You should review Item 1A. "Risk Factors" and "Special Note Regarding Forward-Looking Statements" in this Annual Report for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.

Overview

We are the leading platform solution for the connected home. Through our cloud-based services, we make connected home technology broadly accessible to millions of home and business owners. Our multi-tenant software-as-a-service, or SaaS, platform enables home and business owners to intelligently secure their properties and automate and control a broad array of connected devices through a single, intuitive user interface.

Our connected home platform currently has more than 2.6 million residential and business subscribers and connects to tens of millions of devices. More than 20 billion data points were generated and processed by those subscribers and devices in the last year alone. We believe that this scale of subscribers, devices and data makes us the leader in smart home services market.

Our solutions are delivered through an established network of over 5,000 trusted service providers, who are experts at designing, selling, installing and supporting our solutions. Our technology platform was purpose-built for the entire connected home ecosystem, including the consumers who use it, the service providers who deliver it and the hardware partners whose devices are enabled by the platform. We power four primary solutions, which can be used individually or combined and integrated within a single user interface accessible through the web and mobile apps: interactive security, intelligent automation, video monitoring and energy management.

Our solutions are used by both homeowners and businesses and are delivered through our cloud-based platform enabling a breadth of connected home solutions, which can be integrated together or provided on a standalone basis. We enable quick, intuitive access to the consumer through our mobile app as well as enabling new ways to engage with the home through wearables like the Apple Watch, the TV through Apple TV and Amazon Fire TV and voice control through Amazon Echo.

We were founded in 2000 to revolutionize home security and improve the way people secure and interact with their homes and businesses. We identified an opportunity to apply new technology - in this case two-way wireless data transmission, cloud computing technologies and the rapid growth of Internet usage - to disrupt legacy security applications. We believe we were the first company to launch a SaaS platform providing an interactive home security solution.

We primarily generate revenue through our service providers who resell our services and pay us monthly fees, which comprises our SaaS revenue. Our service providers sell, install and support Alarm.com solutions that enable home and business owners to intelligently secure, connect, control and automate their properties. Our service providers have indicated that they typically have three to five-year service contracts with home or business owners, whom we refer to as our subscribers. We derive a small portion of our revenue from licensing our intellectual property to service providers on a per customer basis. SaaS and license revenue represented 67%, 67% and 63% of our revenue in 2015, 2014 and 2013. As of December 31, 2015, we had more than 2.6 million subscribers, a substantial majority of which were residential.

We also generate revenue from the sale of hardware that enables our solutions, including cellular radio modules, video cameras, image sensors and peripherals. We have a rich history of innovation in cellular technology that enables our robust SaaS offering. Hardware and other revenue represented 33%, 33% and 37% of our revenue in 2015, 2014 and 2013.

With less than one percent of our total revenues from customers located outside the United States and Canada in the year ended December 31, 2015, we believe there is significant opportunity to expand our international business. Our

products are currently localized and available in 21 countries outside of the United States and Canada. To date, nearly all of our revenue growth has been organic. We have completed small acquisitions, but those acquisitions have been related to technology or services complementary to our core offerings and have not contributed materially to our revenue. We have focused on growing our business and plan to continue to invest in growth. We expect our cost of revenue and operating expenses to continue to increase in absolute dollars in future periods. Marketing and sales expenses are expected to increase as we continue to expand our sales teams, increase our marketing activities and grow our international operations. Research and development expenses are expected to increase to support the enhancement of our existing products and the development of new products, including our enterprise management solutions. We also expect to incur additional general and administrative expenses as a result of both our growth and the infrastructure required to be a public company.

Highlights of our financial performance for the periods covered in this report include:

• Revenue increased 25% from \$167.3 million in 2014 to \$208.9 million in 2015. Revenue increased 28% from \$130.2 million in 2013 to \$167.3 million in 2014.

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SaaS and license revenue increased 26% from \$111.5 million in 2014 to \$140.9 million in 2015. SaaS and license revenue increased 35% from \$82.6 million in 2013 to \$111.5 million in 2014.

Net income decreased from \$13.5 million in 2014 to \$11.8 million in 2015. Net income increased from \$4.5 million in 2013 to \$13.5 million in 2014.

Adjusted EBITDA, a non-GAAP measurement of operating performance, increased from \$28.3 million in 2014 to \$34.3 million in 2015. Adjusted EBITDA was \$28.3 million in 2013.

Please see Non-GAAP Measures below in this section of the report for a discussion of the limitations of Adjusted EBITDA and a reconciliation of Adjusted EBITDA to net income, the most comparable GAAP measurement, for 2015, 2014 and 2013.

**Key Metrics**

We use the following key business metrics to help us monitor the performance of our business and to identify trends affecting our business (dollars in thousands):

	Year Ended December 31,			
	2015	2014	2013	
SaaS and license revenue	\$140,936	\$111,515	\$82,620	
Adjusted EBITDA	34,270	28,321	28,259	
	Twelve Months Ended December 31,			
	2015	2014	2013	
SaaS and license revenue renewal rate	93	% 93	% 93	%

**SaaS and License Revenue**

We believe that increasing SaaS and license revenue is an indicator of the productivity of our existing service providers and their ability to increase the number of subscribers using the Alarm.com connected home solutions, our ability to add new service providers reselling the Alarm.com solutions, the demand for our connected home solutions, and the pace at which the market for connected home solutions is growing.

**Adjusted EBITDA**

Adjusted EBITDA represents our net income before interest and other (expense) / income, net, provision for income taxes, amortization and depreciation expense, stock-based compensation expense, goodwill and intangible impairment charges and legal costs incurred in connection with certain intellectual property litigation. We do not consider these items to be indicative of our core operating performance. The non-cash items include amortization and depreciation expense and stock-based compensation expense.

Adjusted EBITDA is a key measure that our management uses to understand and evaluate our core operating performance and trends to generate future operating plans, to make strategic decisions regarding the allocation of capital, and to make investments in initiatives that are focused on cultivating new markets for our solutions. In particular, the exclusion of certain expenses in calculating Adjusted EBITDA facilitates comparisons of our operating performance on a period-to-period basis and, in the case of exclusion of acquisition-related adjustments and certain historical legal expenses, excludes items that we do not consider to be indicative of our core operating performance. Adjusted EBITDA is not a measure calculated in accordance with GAAP. Please see Non-GAAP Measures in this section for a discussion of the limitations of Adjusted EBITDA and a reconciliation of Adjusted EBITDA to net income, the most comparable GAAP measurement, for 2015, 2014 and 2013.

**SaaS and License Revenue Renewal Rate**

We measure our SaaS and license revenue renewal rate on a trailing 12-month basis by dividing (a) the total SaaS and license revenue recognized during the trailing 12-month period from our subscribers who were subscribers on the first day of the period, by (b) total SaaS and license revenue we would have recognized during the period from those same subscribers assuming no terminations, or service level upgrades or downgrades. The SaaS and license revenue renewal rate represents both residential and commercial properties. Our SaaS and license revenue renewal rate is expressed as an annualized percentage. Our service providers, who resell our services to our subscribers, have indicated that they typically have three to five year service contracts with our subscribers. Our SaaS and license revenue renewal rate is

calculated across our entire subscriber base, including subscribers whose contract with their service provider reached the end of its contractual term during the measurement period, as well as subscribers whose contract with their service provider has not reached the end of its contractual term during the measurement period, and is not intended to estimate the rate at which our subscribers renew their contracts with our service providers. We believe that our SaaS and license revenue renewal rate allows us to measure our ability to retain and grow our SaaS and license revenue and serves as an indicator of the lifetime value of our subscriber base.

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### Components of Operating Results

#### Revenue

We generate revenue primarily through the sale of our software-as-a-service, or SaaS, over our cloud-based connected home platform through our service provider channel. We also generate revenue from the sale of hardware products that enable our solutions.

#### SaaS and License Revenue

We generate the majority of our SaaS and license revenue primarily from monthly recurring fees charged to our service providers sold on a per subscriber basis for access to our cloud-based connected home platform and related solutions. Our fees per subscriber vary based upon the service plan and features utilized. We enter into contracts with our service providers that establish our pricing as well as other business terms and conditions. These contracts typically have an initial term of one year, with subsequent annual renewal terms. Our service providers typically enter into underlying contracts with their end-user customers, which we refer to as our subscribers, for their engagement with our solutions. Our service providers have indicated that those contracts generally range from three to five years in length.

We offer multiple service level packages for our solutions, including integrated solutions and a range of a la carte add-ons for additional features. The price paid by our service providers each month for the delivery of our solutions is based on the combination of packages and add-ons enabled for each subscriber. We use tiered pricing plans where our service providers may receive prospective pricing discounts driven by volume. We recognize our SaaS and license revenue on a monthly basis as we deliver our solutions to our subscribers.

We also generate SaaS and license revenue from the fees paid to us when we license our intellectual property to service providers on a per customer basis for use of our patents. In November 2013, we entered into a license agreement with Vivint Inc., or Vivint, who represented at least 10% but not more than 15% of our revenue in 2013 and 2014, pursuant to which we granted Vivint a license to use the intellectual property associated with our connected home solutions. Vivint began generating customers and paying us license revenue in the second quarter of 2014. Pursuant to this arrangement, Vivint has transitioned from selling our SaaS solutions directly to its customers to selling its own home automation product to its new customers, and we receive less revenue from Vivint from license fees as compared to its subscribers that continue to utilize our SaaS platform. Additionally, in some markets, our EnergyHub subsidiary sells its demand response software with an annual service fee, with pricing based on the number of subscribers or amount of aggregate electricity demand made available for a utility's or market's control.

#### Hardware and Other Revenue

We generate hardware and other revenue primarily from the sale of cellular radio modules that provide access to our cloud-based platform, video cameras and the sale of other devices, including image sensors and other peripherals. We sell hardware to our service providers as well as distributors. The purchase of hardware occurs in a transaction that is separate and typically in advance of the purchase of our platform services. We recognize hardware and other revenue when the hardware is delivered to our service providers or distributors, net of a reserve for estimated returns. Our terms for hardware sales typically allow service providers to return hardware up to one year past the date of original sale. We expect hardware and other revenue to decrease as a percentage of total revenue as we anticipate such revenue to grow at a lower rate than SaaS and license revenue.

Hardware and other revenue also includes activation fees charged to service providers for activation of a subscriber's account on our platform. We record activation fees initially as deferred revenue and we recognize these fees on a straight-line basis over an estimated life of the subscriber relationship, which is currently ten years. Hardware and other revenue also includes fees paid by service providers for our marketing services.

#### Cost of Revenue

Our cost of SaaS and license revenue primarily includes the amounts paid to wireless network providers and, to a lesser extent, the costs of running our network operating centers. Our cost of hardware and other revenue primarily includes cost of raw materials and amounts paid to our third-party manufacturer for production and fulfillment of our cellular radio modules and image sensors, and procurement costs for our video cameras, which we purchase from an original equipment manufacturer, and other devices.



We record the cost of SaaS and license revenue as expenses are incurred, which corresponds to the delivery period of our services to our subscribers. We record the cost of hardware and other revenue when the hardware and other services are delivered to the service provider, which is when title transfers. Our cost of revenue excludes amortization and depreciation.

We expect our cost of revenue to increase on an absolute dollar basis primarily from growth in SaaS and license revenue.

Operating Expenses

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Our operating expenses consist of sales and marketing, general and administrative, research and development, and amortization and depreciation expenses. Salaries, bonuses, stock-based compensation, benefits and other personnel related costs are the most significant components of each of these expense categories, excluding amortization and depreciation. We include stock-based compensation expense in connection with the grant of stock options in the applicable operating expense category based on the respective equity award recipient's function (sales and marketing, general and administrative or research and development). We grew from 165 employees at January 1, 2013 to 507 employees at December 31, 2015, and we expect to continue to hire new employees to support future growth of our business.

**Sales and Marketing Expense.** Sales and marketing expense consists primarily of personnel and related expenses for our sales and marketing teams, including salaries, bonuses, stock-based compensation, benefits, travel, and commissions. Our sales and marketing teams engage in sales, account management, service provider and sales support, advertising, promotion of our products and services and marketing.

The number of employees in sales and marketing functions grew from 67 at January 1, 2013 to 188 at December 31, 2015. We expect to continue to invest in our sales and marketing activities to expand our business both domestically and internationally and, as a result, expect our sales and marketing expense to increase on an absolute dollar basis and as a percentage of our total revenue in the short term. We intend to increase the size of our sales force to provide additional support to our existing service provider base to drive their productivity in selling our solutions as well as to enroll new service providers in North America and in international markets. We also intend to increase our marketing investments in the form of marketing programs and customer lead generation to support our service providers' efforts to enroll new subscribers and expand the adoption of our solutions.

**General and Administrative Expense.** General and administrative expense consists primarily of personnel and related expenses for our administrative, legal, information technology, human resources, finance and accounting personnel, including salaries, bonuses, stock-based compensation, benefits and other personnel costs. Additional expenses included in this category are legal costs incurred to defend and license our intellectual property and non-personnel costs, such as travel related expenses, rent, subcontracting and professional fees, audit fees, tax services, and insurance expenses. Also included in general and administrative expenses are valuation gains or losses on acquisition related contingent liabilities and goodwill and intangible asset impairment.

The number of employees in general and administrative functions grew from 20 at January 1, 2013 to 58 at December 31, 2015. We expect our general and administrative expense in 2016 to increase on an absolute dollar basis primarily from the inclusion of incremental intellectual property litigation expenses. We anticipate that we will incur additional costs for personnel and professional services as we continue to operate as a public company. These costs include increases in our finance and legal personnel, additional external legal and audit fees and expenses associated with compliance with the Sarbanes-Oxley Act of 2002 and other regulations governing public companies. We also expect to incur increased costs for directors' and officers' liability insurance and an enhanced investor relations function.

**Research and Development Expense.** Research and development expense consists primarily of personnel and related expenses for our employees working on our product development and software and device engineering teams, including salaries, bonuses, stock-based compensation, benefits and other personnel costs. Also included are non-personnel costs such as consulting and professional fees paid to third-party development resources.

The number of employees in research and development functions grew from 78 at January 1, 2013 to 261 at December 31, 2015. Our research and development efforts are focused on innovating new features and enhancing the functionality of our platform and the solutions we offer to our service providers and subscribers. We will also continue to invest in efforts to extend our platform to adjacent markets and internationally. We expect research and development expenses to continue to increase on an absolute dollar basis and as a percentage of revenue in the short term to maintain our leadership position in the development of smart home and enterprise technology, and continued enhancement of our Enterprise Tools platform for our service provider partners.

**Amortization and Depreciation.** Amortization and depreciation consists of amortization of intangible assets originating from our acquisitions as well as our internally-developed capitalized software. Our depreciation expense is related to investments in property and equipment. Acquired intangible assets include developed technology, customer related intangibles, trademarks and trade names. We expect in the near term that amortization and depreciation may

fluctuate based on our acquisition activity, development of our platform and capitalized expenditures.

Interest Expense

Interest expense consists of interest expense associated with our debt facilities.

Other (Expense) / Income, Net

Other (expense) / income, net consists of our portion of the income or loss from our minority investments in other businesses accounted for under the equity method, interest income earned on our cash and cash equivalents and our notes receivable and gain or loss on the fair value of derivative instruments.

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## Provision for Income Taxes

We are subject to U.S. federal, state and local income taxes as well as foreign income taxes. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. As a result, we recognize tax liabilities based on estimates of whether additional taxes will be due. Our effective tax rate differs from the statutory rate primarily due to the tax impact of state taxes, goodwill impairment, non-deductible transaction costs, non-deductible meals and entertainment and the impact of research and development tax credits.

## Results of Operations

The following table sets forth our selected consolidated statements of operations and data as a percentage of revenue for the periods presented (in thousands):

## Consolidated Statements of Operations

	Year Ended December 31,					
	2015		2014		2013	
	\$	%	\$	%	\$	%
Revenue:						
SaaS and license revenue	\$140,936	67	\$111,515	67	\$82,620	63
Hardware and other revenue	67,952	33	55,797	33	47,602	37
Total revenue	208,888	100	167,312	100	130,222	100
Cost of revenue: <sup>(1)</sup>						
Cost of SaaS and license revenue	25,722	12	23,007	14	16,476	13
Cost of hardware and other revenue	51,652	25	44,172	26	38,482	30
Total cost of revenue	77,374	37	67,179	40	54,958	42
Operating expenses:						
Sales and marketing <sup>(2)</sup>	32,240	15	25,836	15	21,467	16
General and administrative <sup>(2)</sup>	35,473	17	26,113	16	29,928	23
Research and development <sup>(2)</sup>	40,002	19	23,193	14	13,085	10
Amortization and depreciation	5,808	3	3,991	2	3,360	3
Total operating expenses	113,523	54	79,133	47	67,840	52
Operating income	17,991	9	21,000	13	7,424	6
Interest expense	(178)	—	(196)	—	(269)	—
Other (expense) / income, net	(348)	—	(485)	—	57	—
Income before income taxes	17,465	8	20,319	12	7,212	6
Provision for income taxes	5,697	3	6,817	4	2,688	2
Net income	\$11,768	6	\$13,502	8	\$4,524	3

<sup>(1)</sup> Excludes amortization and depreciation.

<sup>(2)</sup> Operating expenses include stock-based compensation expense as follows (in thousands):

	Year Ended December 31,		
	2015	2014	2013
Stock-based compensation expense data:			
Sales and marketing	\$372	\$338	\$102
General and administrative	2,486	1,862	495
Research and development	1,266	1,067	244
Total stock-based compensation expense	\$4,124	\$3,267	\$841

The following table sets forth the components of cost of revenue as a percentage of revenue:



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	Year Ended December 31,					
	2015		2014		2013	
Components of cost of revenue as a percentage of revenue:						
Cost of SaaS and license revenue as a percentage of SaaS and license revenue	18	%	21	%	20	%
Cost of hardware and other revenue as a percentage of hardware and other revenue	76	%	79	%	81	%
Total cost of revenue as a percentage of total revenue	37	%	40	%	42	%
Comparison of Years Ended December 31, 2015 to December 31, 2014 and December 31, 2014 to December 31, 2013						
Revenue	Year Ended December 31,			% Change		
	2015	2014	2013	2015 vs. 2014	2014 vs. 2013	
	(in thousands)					
Revenue						
SaaS and license revenue	\$ 140,936	\$ 111,515	\$ 82,620	26	% 35	%
Hardware and other revenue	67,952	55,797	47,602	22	% 17	%
Total revenue	\$ 208,888	\$ 167,312	\$ 130,222	25	% 28	%

## 2015 Compared to 2014

The \$41.6 million increase in total revenue from 2014 to 2015 was the result of a \$29.4 million, or 26%, increase in SaaS and license revenue and a \$12.2 million, or 22%, increase in hardware and other revenue. The increase in SaaS and license revenue from 2014 to 2015 was primarily due to growth in our subscriber base, including the revenue impact from subscribers we added in 2014, as well as the increase of our subscriber base during 2015. To a lesser extent, SaaS and license revenue increased from 2014 to 2015 due to an increase in fees paid to us for licenses to use our intellectual property. Hardware and other revenue from 2014 to 2015 increased \$4.5 million from a 45% increase in the volume of video cameras sold, \$1.1 million from a 36% increase in the volume of image sensors sold, \$1.1 million from a 7% increase in volume of cellular radio modules sold and \$1.4 million from an increase in the volume of peripherals sold, including our new thermostat. Our Other segment contributed \$0.9 million of the increase in SaaS and license revenue and \$3.9 million of the increase in hardware and other revenue from 2014 to 2015.

## 2014 Compared to 2013

The increase in total revenue from 2013 to 2014 was the result of a \$28.9 million, or 35%, increase in SaaS and license revenue and an \$8.2 million, or 17%, increase in hardware and other revenue. The increase in SaaS and license revenue from 2013 to 2014 was primarily attributable to growth in our subscriber base, including the full year revenue impact from subscribers we added in 2013, as well as the increase of our subscriber base during 2014. The increase in hardware and other revenue from 2013 to 2014 was primarily attributable to a \$3.6 million increase in revenue from sales of our video cameras as a result of a 36% increase in the volume of video cameras sold and a \$1.9 million increase in revenue from sales of our cellular radio modules as a result of an increase in volume.

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## Cost of Revenue

	Year Ended December 31,			% Change		
	2015	2014	2013	2015 vs. 2014	2014 vs. 2013	
	(in thousands)					
Cost of revenue <sup>(1)</sup>						
Cost of SaaS and license revenue	\$25,722	\$23,007	\$16,476	12	% 40	%
Cost of hardware and other revenue	51,652	44,172	38,482	17	% 15	%
Total cost of revenue	\$77,374	\$67,179	\$54,958	15	% 22	%
% of total revenue	37	% 40	% 42	%		

<sup>(1)</sup> Excludes amortization and depreciation.

## 2015 Compared to 2014

The \$10.2 million increase in cost of revenue from 2014 to 2015 was the result of a \$2.7 million, or 12%, increase in cost of SaaS and license revenue and a \$7.5 million, or 17%, increase in cost of hardware and other revenue. The increase in cost of SaaS and license revenue related primarily to the growth in our subscribers driving an increase in the costs to make our SaaS platform available to our service providers and subscribers. Cost of SaaS and license revenue as a percentage of SaaS and license revenue was 18%, 21% and 20% for 2015, 2014 and 2013. This decrease in cost of sales relative to revenue growth was driven by achieving economies of scale from growth in our subscriber base. The increase in costs of hardware and other revenue related primarily to our increase in hardware and other revenue. Cost of hardware and other revenue as a percentage of hardware and other revenue was 76% for 2015 and 79% for 2014. These cost savings came from a reduction in the cost of certain hardware SKUs realized from an increase in sales volume and improvements to our supply chain logistics which reduced the carrying cost of some of our hardware products. Total cost of revenue as percent to total revenue was 37% for 2015 and 40% for 2014.

## 2014 Compared to 2013

The increase in cost of revenue from 2013 to 2014 was the result of a \$6.5 million, or 40%, increase in SaaS and license costs and a \$5.7 million, or 15%, increase in hardware costs. The increase in SaaS and license costs from 2013 to 2014 related primarily to the growth in our subscribers driving an increase in the costs to make our SaaS platform available to our service providers and subscribers. The increase in hardware and other costs from 2013 to 2014 related primarily to our higher hardware and other revenue.

## Sales and Marketing Expense

	Year Ended December 31,			% Change		
	2015	2014	2013	2015 vs. 2014	2014 vs. 2013	
	(in thousands)					
Sales and marketing	\$32,240	\$25,836	\$21,467	25	% 20	%
% of total revenue	15	% 15	% 16	%		

## 2015 Compared to 2014

The \$6.4 million increase in sales and marketing expense from 2014 to 2015 was primarily due to an increase in our sales force and our marketing team to support our growth and for international expansion. Our personnel and related costs for our Alarm.com segment, including salary, benefits, stock-based compensation and travel expenses, increased by \$4.9 million from 2014 to 2015. Our consulting fees increased \$1.0 million from 2014 to 2015. These increases were partially offset by a \$2.1 million decrease in marketing and advertising expenses from 2014 to 2015 related to the timing of our marketing initiatives. Our Other segment contributed \$2.2 million of the increase in sales and marketing expense from 2014 to 2015 primarily due to personnel and related costs. The number of employees in our sales and marketing teams increased from 159 at December 31, 2014 to 188 at December 31, 2015.

## 2014 Compared to 2013





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The increase in sales and marketing expense from 2013 to 2014 was due to an increase in our sales force and our marketing team, partially offset by a \$1.7 million decrease in marketing and advertising expenses. Our personnel and related costs for our Alarm.com segment, including salary, benefits, stock-based compensation and travel expenses, increased by \$3.5 million compared to the same period in the prior year. Sales and marketing expense for 2014 also increased by \$2.0 million primarily due to personnel and related expense for our Other segment. The number of employees in our sales and marketing teams increased from 102 at December 31, 2013 to 159 at December 31, 2014.

## General and Administrative Expense

	Year Ended December 31,			% Change	
	2015	2014	2013	2015 vs. 2014	2014 vs. 2013
	(in thousands)				
General and administrative	\$35,473	\$26,113	\$29,928	36	% (13 )%
% of total revenue	17	% 16	% 23	%	

## 2015 Compared to 2014

The \$9.4 million increase in general and administrative expense from 2014 to 2015 was primarily due to \$6.3 million of legal expenses related to intellectual property litigation and to a lesser extent, an increase in employees and facilities to support our growth and an increase in personnel and professional services as we continue to operate as a public company. Our personnel and related costs for our Alarm.com segment, including salary, benefits, stock-based compensation and travel expenses, increased by \$2.6 million for 2015 compared to 2014. Included in this increase is \$0.8 million of stock-based compensation for the repurchase of a former employee's awards and also increases in professional services to implement public company compliance measures including Sarbanes-Oxley Act of 2002. Our rent expense increased \$1.9 million in 2015 compared to 2014 due to new facilities including our new corporate headquarters. General and administrative expense from our Other segment decreased \$0.3 million from a \$0.6 million reduction in consulting fees and external legal fees partially offset by a \$0.2 million increase in rent to support growth in 2015 compared to 2014. Overall, the total number of employees in general and administrative functions increased from 54 at December 31, 2014 to 58 at December 31, 2015.

## 2014 Compared to 2013

The decrease in general and administrative expense from 2013 to 2014 was primarily due to a decrease in legal expenses of \$7.8 million compared to the prior year due to intellectual property litigation we initiated in 2013 and settled in early 2014. This decrease was partially offset by an increase in employees and consultants to support our growth. Our personnel and related costs for our Alarm.com segment, including salary, benefits, stock-based compensation and travel expenses, increased by \$3.0 million compared to the same period in the prior year. Professional services fees including accounting and audit services increased by \$1.4 million. Our rent expense increased \$1.4 million in 2014 compared to 2013 due to new facilities to support our growth. General and administrative expense from our Other segment decreased by \$3.2 million compared to the same period in the prior year as a result of a decrease in acquisition-related charges, offset by a \$2.3 million increase in personnel and related costs. During the third quarter of 2013, we recorded a \$11.3 million loss on goodwill and intangible asset impairment related to our EnergyHub acquisition, partially offset by a \$5.8 million gain on the release of an acquisition related contingent liability. The number of employees in general and administrative functions increased from 34 at December 31, 2013 to 54 at December 31, 2014.

## Research and Development Expense

	Year Ended December 31,			% Change	
	2015	2014	2013	2015 vs. 2014	2014 vs. 2013
	(in thousands)				
Research and development	\$40,002	\$23,193	\$13,085	72	% 77 %
% of total revenue	19	% 14	% 10	%	

## 2015 Compared to 2014

The \$16.8 million increase in research and development expense for 2015 compared to 2014 was primarily due to an increase in employees in research and development functions. Our personnel and related costs for our Alarm.com segment, including salary, benefits, stock-based compensation and travel expenses, increased by \$8.8 million for 2015 compared to 2014. In addition, research and development expenses, including those performed by external consultants, increased by \$0.8 million for 2015 compared to 2014. Our Other segment contributed \$6.4 million of the increase in research and development expense

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from 2014 to 2015. Research and development expenses, including those performed by external consultants for our Other segment, increased by \$4.9 million and included charges we recorded related to the renegotiation of a contract with a manufacturer. The manufacturer was working with our Other segment business focused on the retail channel and we reduced the scale of that initiative. In addition, personnel and related expense for our Other segment increased by \$1.6 million compared to 2014. Overall, the total number of employees in research and development functions increased from 187 at December 31, 2014 to 261 at December 31, 2015.

**2014 Compared to 2013**

The increase in research and development expense from 2013 to 2014 was primarily due to an increase in employees in research and development functions. Our personnel and related costs for our Alarm.com segment, including salary, benefits, stock-based compensation and travel expenses, increased by \$5.7 million compared to the prior year. In addition, research and development performed by external consultants increased by \$1.4 million compared to 2013. Research and development expense for 2014 also increased by \$2.7 million primarily due to personnel and related expense for our Other segment. The number of employees in research and development functions increased from 117 at December 31, 2013 to 187 at December 31, 2014.

**Amortization and Depreciation**

	Year Ended December 31,			% Change	
	2015	2014	2013	2015 vs. 2014	2014 vs. 2013
	(in thousands)				
Amortization and depreciation	\$5,808	\$3,991	\$3,360	46	% 19
% of total revenue	3	% 2	% 3	%	%

**2015 Compared to 2014**

The increase in amortization and depreciation from 2014 to 2015 was primarily due to a \$1.2 million increase in depreciation of computer and network equipment to accommodate our growth in headcount, additional facilities and for our network operations centers. In addition, depreciation from internally developed capitalized software increased \$0.2 million in the same period. The acquired intangibles for our Secure-i and SecurityTrax acquisitions, which occurred in the fourth quarter of 2014 and the first quarter of 2015, contributed to the \$0.6 million increase in amortization from 2014 to 2015.

**2014 Compared to 2013**

The increase in amortization and depreciation expense from 2013 to 2014 was primarily due to a \$1.1 million increase in depreciation expense primarily due to additional computer equipment and from the expansion of our headquarters to accommodate our growth in headcount, as well as the purchase of equipment for our network operations centers. This increase was partially offset by a \$0.5 million decrease in amortization of intangibles.

**Interest Expense**

	Year Ended December 31,			% Change	
	2015	2014	2013	2015 vs. 2014	2014 vs. 2013
	(in thousands)				
Interest expense	\$(178)	\$(196)	\$(269)	(9)	% (27)
% of total revenue	—	% —	% —	%	%

**2015 Compared to 2014**

The decrease in interest expense from 2014 to 2015 was due to lower average borrowings outstanding and a more favorable interest rate on our revolving line of credit than on our prior debt facility, which was replaced in May 2014.

**2014 Compared to 2013**

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The decrease in interest expense was due to lower average borrowings outstanding and a more favorable interest rate on our revolving line of credit.

## Other (Expense) / Income, Net

	Year Ended December 31,			% Change	
	2015	2014	2013	2015 vs. 2014	2014 vs. 2013
	(in thousands)				
Other (expense) / income, net	\$(348 )	\$(485 )	\$57	(28 )%	(951 )%
% of total revenue	—	% —	% —	%	

## 2015 Compared to 2014

Included in other (expense) / income, net are losses of an equity method investment that is in the start-up phase of its operations. We expect that this investment will continue to incur losses in the near term. These losses are partially offset by interest income earned on notes receivable.

## 2014 Compared to 2013

The change in other (expense) / income, net was due to \$0.5 million in losses of an equity method investment that is in the start-up phase of its operations. We expect that this investment will continue to incur losses in the near term. We also recorded a \$0.2 million impairment loss on a cost method investment and a \$0.1 million loss on a derivative, which was offset by \$0.3 million of interest income earned on note receivables.

## Provision for Income Taxes

	Year Ended December 31,			% Change	
	2015	2014	2013	2015 vs. 2014	2014 vs. 2013
	(in thousands)				
Provision for Income Taxes	\$5,697	\$6,817	\$2,688	(16 )%	154 %
% of total revenue	3	% 4	% 2	%	

## 2015 Compared to 2014

Our effective tax rate decreased from 34% in 2014 to 33% in 2015, primarily related to the increase in the amount of research and development tax credits recorded for 2015 and prior years during each of the periods, offset to a lesser extent, by an increase in state income tax expense due to expanding our operations to additional states.

## 2014 Compared to 2013

Our effective tax rate decreased from 37% in 2013 to 34% in 2014, primarily due to the impact of research and development tax credits claimed for the current and prior years recorded in 2014. These decreases were partially offset by the non-recurring benefit provided by the net of the non-deductible goodwill impairment and the non-taxable gain on the release of an acquisition liability which were recorded in 2013.

## Quarterly Results of Operations

The following tables show selected unaudited quarterly consolidated statement of operations data for each of our eight most recently completed quarters, as well as the percentage of revenue for each line item. In the opinion of management, the information for each of these quarters has been prepared on the same basis as our audited financial statements and include all adjustments, consisting of normal recurring adjustments and accruals, necessary for the fair statement of financial information in accordance with generally accepted accounting principles. This information should be read in conjunction with the audited consolidated financial statements and related notes included elsewhere in this report. Historical results are not necessarily indicative of results that may be achieved in future periods, and operating results for quarterly periods are not necessarily indicative of operating results for a full year. The selected consolidated statements of operation data in amounts and as a percentage of total revenue are presented below (amounts in thousands):

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Selected Consolidated Statement of Operations Data:	Three Months Ended								
	March 31, 2014	June 30, 2014	September 30, 2014	December 31, 2014	March 31, 2015	June 30, 2015	September 30, 2015	December 31, 2015	
	(unaudited)								
Revenue:									
SaaS and license revenue	\$25,204	\$26,975	\$28,473	\$30,863	\$31,955	\$34,134	\$36,158	\$38,689	
Hardware and other revenue	11,647	15,103	14,359	14,688	14,056	17,815	17,849	18,232	
Total revenue	36,851	42,078	42,832	45,551	46,011	51,949	54,007	56,921	
Cost of revenue:									
Cost of SaaS and license revenue	5,008	5,669	6,002	6,328	6,033	6,297	6,764	6,628	
Cost of hardware and other revenue	8,993	12,354	11,546	11,279	10,776	14,190	13,205	13,481	
Total cost of revenue	14,001	18,023	17,548	17,607	16,809	20,487	19,969	20,109	
Total operating expenses <sup>1</sup>	\$15,732	\$20,493	\$22,005	\$20,903	\$24,076	\$27,185	\$30,177	\$32,085	
Net income <sup>1</sup>	\$4,273	\$2,076	\$2,667	\$4,486	\$3,041	\$2,509	\$2,943	\$3,275	
Dividends paid to participating securities	—	—	—	—	—	(18,987 )	—	—	
Income allocated to participating securities <sup>1</sup>	(4,125 )	(1,988 )	(2,549 )	(4,284 )	(2,895 )	—	(45 )	(8 )	
Net income / (loss) attributable to common stockholders <sup>1</sup>	\$148	\$88	\$118	\$202	\$146	\$(16,478)	\$2,898	\$3,267	
Per share information attributable to common stockholders <sup>1</sup> :									
Net income / (loss) per share:									
Basic	\$0.08	\$0.04	\$0.05	\$0.08	\$0.06	\$(6.09 )	\$0.06	\$0.07	
Diluted	\$0.04	\$0.02	\$0.03	\$0.05	\$0.04	\$(6.09 )	\$0.06	\$0.07	
As a percent of total revenue:									
Revenue:	68	% 64	% 66	% 68	% 69	% 66	% 67	% 68	%

SaaS and license revenue									
Hardware and other revenue	32	% 36	% 34	% 32	% 31	% 34	% 33	% 32	%
Total revenue	100	% 100	% 100	% 100	% 100	% 100	% 100	% 100	%
Cost of revenue:									
Cost of SaaS and license revenue	14	% 13	% 14	% 14	% 13	% 12	% 13	% 12	%
Cost of hardware and other revenue	24	% 29	% 27	% 25	% 23	% 27	% 24	% 24	%
Total cost of revenue	38	% 43	% 41	% 39	% 37	% 39	% 37	% 35	%
Total operating expenses	43	% 49	% 51	% 46	% 52	% 52	% 56	% 56	%
Net income	12	% 5	% 6	% 10	% 7	% 5	% 5	% 6	%

<sup>1</sup> See Note 23 to our consolidated financial statements for a discussion of immaterial adjustments we recorded after the third quarter of 2015.

#### Quarterly Trends

Our quarterly SaaS and license revenue has increased sequentially for all periods presented due to growth in our subscriber base driven by the effectiveness of our service providers' ability to resell our services. Hardware and other revenue fluctuates from quarter to quarter based on the timing of hardware orders from our service providers and hardware distributors.

The cost of revenue, in absolute dollars, has increased over time due to the increase in revenue. The cost of revenue as a percent of revenue is lower in quarters when SaaS and license revenue represents a greater percentage of total revenue. The cost of SaaS and license revenue as a percentage of SaaS and license revenue has declined over time due to efficiencies of scale as our subscriber base has grown.

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Our most significant operating expenses are employee-related costs, including salaries, benefits and stock-based compensation, which have increased in each of the quarters presented. The increase in employee-related costs was primarily related to research and development, as our headcount has grown to support the growth in our core operations and also from business acquisitions. Our headcount has also increased in our investments in businesses we are developing in adjacent markets. Amortization and depreciation has also increased due to our growth in headcount and expansion of facilities to support our growth, as well as from business acquisitions. The quarters ended September 30, 2015 and December 31, 2015 included \$3.0 million and \$2.8 million of legal expenses related to intellectual property litigation.

**Segment Information**

We have two reportable segments: Alarm.com and Other. Our Alarm.com segment represents our cloud-based platform for the connected home and related connected home solutions. Our Alarm.com segment also includes the results of Horizon Analog, a research company that focuses on cost-effective collection and analysis of data relating energy usage and consumer behavior and energy disaggregation, Secure-i, a commercial video as a service provider, and SecurityTrax, a provider of SaaS-based, customer relationship management software tailored for security system dealers. This segment contributed over 96% of our revenue for the years ended December 31, 2015, 2014 and 2013. Our Other segment is focused on researching and developing home and commercial automation and energy management products and services in adjacent markets. The consolidated subsidiaries that make up our Other segment are in the investment stage and have incurred significant operating expenses relative to their revenue. Our Other segment grew from 12 employees at January 1, 2013 to 83 employees at December 31, 2015.

The following table sets forth our revenue, inter-segment revenue and operating expenses by segment for the periods presented (in thousands):

Segment Information	Year Ended December 31, 2015		2014		2013	
	Revenue	Operating Expenses	Revenue	Operating Expenses	Revenue	Operating Expenses
Alarm.com	\$202,752	\$91,544	\$165,603	\$65,566	\$129,222	\$55,340
Other	9,052	21,979	2,388	13,567	1,208	12,500
Inter-segment Alarm.com	(952	) —	(646	) —	(208	) —
Inter-segment Other	(1,964	) —	(33	) —	—	—
Total	\$208,888	\$113,523	\$167,312	\$79,133	\$130,222	\$67,840

**Critical Accounting Policies and Significant Judgments and Estimates**

Our management's discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States, or GAAP. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue, costs and expenses during the reported period. In accordance with GAAP, we base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions, and to the extent that there are differences between our estimates and actual results, our future financial statement presentation, financial condition, results of operations and cash flows will be affected. Our most critical accounting policies are summarized below. See Note 2 to our consolidated financial statements for a description of our other significant accounting policies.

**Revenue Recognition and Deferred Revenue**

We derive our revenue from two primary sources: the sale of software-as-a-service, or SaaS, cloud-based connected home platform and the sale of hardware products that enable our solutions. We sell our hardware and platform

solutions to service providers that resell our hardware and solutions to home and business owners, who are the service providers' customers, and whom we refer to as our subscribers. We also sell our hardware to distributors who resell the hardware to service providers. We enter into contracts with our service providers that establish pricing for access to our connected home platform solutions and for the sale of hardware. These contracts typically have an initial term of one year, with subsequent renewal terms of one year. Our service providers typically enter into underlying contracts with our subscribers, which our service providers have indicated range from three to five years in length.



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Our hardware includes cellular radio modules that enable access to our cloud-based platform, as well as video cameras, image sensors and other peripherals. Our service providers purchase our hardware in anticipation of installing the hardware in a home or business when they create a new subscriber account, or for use in an existing subscriber's property. The purchase of hardware occurs in a transaction that is separate and typically in advance of the purchase of our platform services. Service providers transact with us to purchase our platform solutions and resell our solutions to a new subscriber, or to upgrade or downgrade the solutions of an existing subscriber, at which time the subscriber's access to our platform solutions is enabled and the delivery of the services commences. The purchase of hardware and the purchase of our platform solutions are separate transactions as, at the point of sale of the hardware, the service provider is not obligated to purchase a platform solution for the hardware sold, and the level and duration of platform solutions, if any, to be provided through the hardware sold cannot be determined.

We recognize revenue with respect to our solutions when all of the following conditions are met:

• Persuasive evidence of an arrangement exists;

• Delivery to the customer, which may be either a service provider, distributor or a subscriber, has occurred or service has been rendered;

• Fees are fixed or determinable; and

• Collection of the fees is reasonably assured.

We consider a signed contract with a service provider to be persuasive evidence that an agreement exists, and the fees to be fixed or determinable if the fees are contractually agreed to with our service providers. Collectability is evaluated based on a number of factors, including a credit review of new service providers, and the payment history of existing service providers. If collectability is not reasonably assured, revenue is deferred until collection becomes reasonably assured, which is generally upon the receipt of payment.

### SaaS and License Revenue

We generate the majority of our SaaS and license revenue primarily from monthly fees charged to our service providers sold on a per subscriber basis for access to our cloud-based connected home platform and the related solutions. Our fees per subscriber vary based upon the service plan and features utilized.

Under negotiated terms in our contractual arrangements with our service providers, we are entitled to, and recognize revenue based on a monthly fee that is billed in advance of the month of service. We have demonstrated that we can sell our SaaS offering on a stand-alone basis, as it can be sold separately from hardware and activation services. As there is no minimum required initial service term nor is there a stated renewal term in our contractual arrangements, we recognize revenue over the period of service, which is monthly. Our service providers typically incur and pay the same monthly fee per subscriber account for the entire period a subscriber account is active.

We offer multiple service level packages for our solutions including a range of solutions and a range of a la carte add-ons for additional features. The fee paid by our service providers each month for the delivery of our solutions is based on the combination of packages and add-ons enabled for each subscriber. We utilize tiered pricing plans where our service providers may receive prospective pricing discounts driven by volume.

We also generate SaaS and license revenue from the fees paid to us when we license our intellectual property to service providers on a per customer basis for use of our patents. In addition, in some markets our EnergyHub subsidiary sells its demand response software with an annual service fee, with pricing based on the number of subscribers or amount of aggregate electricity demand made available for a utility's or market's control.

### Hardware and Other Revenue

We generate hardware and other revenue primarily from the sale of cellular radio modules that provide access to our cloud-based platform and, to a lesser extent, the sale of other devices, including video cameras, image sensors and peripherals. We recognize hardware and other revenue when the hardware is received by our service provider or distributor, net of a reserve for estimated returns. Amounts due from the sale of hardware are payable in accordance with the terms of our agreements with our service providers or distributors, and are not contingent on resale to end-users, or to service providers in the case of sales of hardware to distributors. Our terms for hardware sales sold directly to either service providers or distributors typically allow for the return of hardware up to one year past the date of sale. Our distributors sell directly to our service providers under terms between the two parties. We record a percentage of hardware and other revenue of approximately 2 to 4%, based on historical returns, as a reserve against

revenue for hardware returns. We evaluate our hardware reserve on a quarterly basis or if there is an indication of significant changes in return experience. Historically, our returns of hardware have not significantly differed from our estimated reserve.

Hardware and other revenue also includes activation fees charged to service providers for activation of a new subscriber account on our platform, as well as fees paid by service providers for our marketing services. Our service providers use services on our platform to assist in the installation of our solutions in a subscriber's property. This installation marks the beginning of the

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service period on our platform and on occasion, we earn activation revenue for fees charged for this service. The activation fee is non-refundable, separately negotiated and specified in our contractual arrangements with our service providers and is charged to the service provider for each subscriber activated on our platform. Activation fees are not offered on a stand-alone basis separate from our SaaS offering and are billed and received at the beginning of the arrangement. We record activation fees initially as deferred revenue and we recognize these fees ratably over the expected term of the subscribers' account which we estimate is ten years based on our annual attrition rate. The portion of these activation fees included in current and long-term deferred revenue as of our balance sheet date represents the amounts that will be recognized ratably as revenue over the following twelve months, or longer as appropriate, until the ten-year expected term is complete.

**Business Combinations**

We are required to allocate the purchase price of acquired companies to the identifiable tangible and intangible assets acquired and liabilities assumed at the acquisition date based upon their estimated fair values. Goodwill as of the acquisition date represents the excess of the purchase consideration of an acquired business over the fair value of the underlying net tangible and intangible assets acquired net of liabilities assumed. This allocation and valuation require management to make significant estimates and assumptions, especially with respect to long-lived and intangible assets.

Critical estimates in valuing intangible assets include but are not limited to estimates about future expected cash flows from customer contracts, customer lists, proprietary technology and non-competition agreements, the acquired company's brand awareness and market position, assumptions about the period of time the brand will continue to be used in our solutions, as well as expected costs to develop the in-process research and development into commercially viable products and estimated cash flows from the projects when completed, and discount rates. Our estimates of fair value are based upon assumptions we believe to be reasonable, but which are inherently uncertain and unpredictable. Assumptions may be incomplete or inaccurate, and unanticipated events and circumstances may occur.

Other estimates associated with the accounting for these acquisitions may change as additional information becomes available regarding the assets acquired and liabilities assumed.

**Goodwill and Intangible Assets**

Goodwill represents the excess of (1) the aggregate of the fair value of consideration transferred in a business combination, over (2) the fair value of assets acquired, net of liabilities assumed. Goodwill is allocated to our reporting units, which are our operating segments or one level below our operating segments. Goodwill is not amortized, but is subject to annual impairment tests. We perform our annual impairment review of goodwill on October 1 and when a triggering event occurs between annual impairment tests. We test our goodwill at the reporting unit level. We perform a quantitative analysis every three years. We review goodwill for impairment using the two-step process if, based on our assessment of the qualitative factors, we determine that it is more likely than not that the fair value of a reporting unit is less than its carrying value.

For our 2015 annual impairment review, we performed a qualitative assessment for our Alarm.com reporting unit, our only reporting unit with a goodwill balance. This reporting unit had a fair value that exceeded its carrying value by more than 100% in the last quantitative assessment performed in 2014. We first assessed qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Qualitative factors we consider include, but are not limited to, macroeconomic conditions, industry and market conditions, company specific events, changes in circumstances and market capitalization. For the year ended December 31, 2015, we assessed the qualitative factors and determined that it was more likely than not that the fair value of the reporting unit exceeded the carrying value and that the two-step impairment test was not required. If a two-step impairment test is required, the fair value of the reporting unit is compared with its carrying value (including goodwill). If the fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit and step two is required to measure the amount of the impairment, if any. Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation and the residual fair value after this allocation is the implied fair value of the reporting unit goodwill. If the carrying value of goodwill exceeds the

implied fair value, an impairment charge would be recorded to operating expenses in the period the determination is made. If the fair value of the reporting unit exceeds its carrying value, step two does not need to be performed. Intangible assets are initially valued at fair value using generally accepted valuation methods appropriate for the type of intangible asset. Intangible assets with definite lives are amortized over their estimated useful lives and are reviewed for impairment if indicators of impairment arise. The fair value of the intangible assets is compared with their carrying value and an impairment loss would be recognized for the amount by which the carrying amount exceeds the fair value. For the year ended December 31, 2015, we determined there were no indicators of impairment of our definite-lived intangible assets.

#### Accounting for Income Taxes

We account for income taxes under the asset and liability method as required by accounting standards codification, or ASC 740, "Income Taxes," which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that are included in the financial statements. Under this method, deferred tax assets and liabilities are

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determined based on the differences between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

We record deferred tax assets to the extent we believe these assets will more likely than not be realized. In making such a determination, we consider all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations. During 2013, in connection with the EnergyHub acquisition, we acquired significant net operating losses, a deferred tax asset, which we recorded at its expected realizable value. Based on our historical and expected future taxable earnings, we believe it is more likely than not that we will realize all of the benefit of the existing deferred tax assets at December 31, 2015, 2014 and 2013. Accordingly, we have not recorded a valuation allowance in any of those years.

We are subject to income taxes in the U.S. and other foreign jurisdictions. Significant judgment is required in evaluating uncertain tax positions. We record uncertain tax positions in accordance with ASC 740-10 on the basis of a two-step process whereby (1) we determine whether it is more likely than not that the tax positions will be sustained based on the technical merits of the position and (2) with respect to those tax positions that meet the more-likely-than-not recognition threshold, we recognize the largest amount of tax benefit that is greater than 50% likely to be realized upon ultimate settlement with the related tax authority.

## Recent Accounting Pronouncements

## Adopted

On November 20, 2015, the FASB issued ASU 2015-17, "Income Taxes (Topic 740) Balance Sheet Classification of Deferred Taxes," which simplifies the presentation of deferred income taxes and requires entities to classify deferred income tax liabilities and assets as noncurrent on the balance sheet. Prior to this accounting standard update, Topic 740, Income Taxes, required an entity to separate deferred income tax liabilities and assets for each jurisdiction into current and noncurrent amounts on the balance sheets. The amendments in this update may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. The amendment is effective for annual periods, including periods within those annual periods beginning after December 15, 2016 with early adoption permitted. In the fourth quarter of 2015, we early adopted and retrospectively applied this update for all periods presented. To retrospectively adopt this pronouncement, we reclassified the previously reported \$3.2 million current portion of deferred tax assets to long-term deferred tax assets on our balance sheet as of December 31, 2014.

On August 18, 2015, the FASB issued ASU 2015-15, "Interest - Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements - Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015, EITF Meeting," which clarifies the application of ASU 2015-03 related to presentation and subsequent measurement of debt issuance costs related to line-of-credit arrangements to allow for an entity to defer and present debt issuance costs as an asset and subsequently amortize the deferred debt issuance costs ratably over the line-of-credit arrangement, regardless of whether there are any outstanding borrowings. ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs," otherwise requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability, consistent with the presentation of a debt discount. We adopted these pronouncements in the third quarter of 2015. The adoption did not have an impact on our financial statements. We continue to present the debt issuance costs associated with our revolving credit facility as an asset that is amortized ratably over the term of the agreement.

On April 10, 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity," which amends the definition of a discontinued operation in ASC 205-20 and requires entities to provide additional disclosures about discontinued operations as well as disposal transactions that do not meet the discontinued operations criteria. The guidance narrowed the definition of discontinued operations for disposal of a component or group of components that represents a strategic shift that has or will have a major impact on an entity's operations or financial results. The guidance also expands the scope to include equity method investments and businesses that, upon initial acquisition, qualify as held for sale. The expanded disclosure requirements include statement of financial position and statement of cash flows disclosures for all comparative periods. The ASU 2014-08 is effective prospectively for all

disposals (or classifications as held for sale) in periods beginning on or after December 15, 2014 with early adoption permitted. We adopted this pronouncement in the first quarter of 2015, and it did not have a material impact on our financial statements.

Not yet adopted

On February 25, 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)" which requires lessees to recognize assets and liabilities for operating leases with lease terms greater than twelve months in the balance sheet. The update also requires improved disclosures to help users of financial statement better understand the amount, timing and uncertainty of cash flows arising from leases. The update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. We are required to adopt ASU 2016-02 in the first quarter of 2019, and we are currently assessing the impact of this pronouncement on our financial statements.

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On January 5, 2016, the FASB issued ASU 2016-01, "Financial Instruments - Overall (Subtopic 825-10)" which requires all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee). The amendments allow equity investments that do not have readily determinable fair values to be remeasured at fair value either upon the occurrence of an observable price change or upon identification of an impairment. The amendments also require enhanced disclosures about those investments. The amendments improve financial reporting by providing relevant information about an entity's equity investments and reducing the number of items that are recognized in other comprehensive income. The amendments in this update also simplify the impairment assessment of equity investments without readily determinable fair values by requiring assessment for impairment qualitatively at each reporting period, similar to the qualitative assessment for long-lived assets, goodwill, and indefinite lived intangible assets. Upon determining that impairment exists, an entity should calculate the fair value of that investment and recognize as an impairment in net income any amount by which the carrying value exceeds the fair value of the investment. This impairment assessment reduces the complexity of the other-than-temporary impairment guidance entities were required to follow before the issuance of this update. In addition, the amendments require entities that are required to disclose the fair value of financial instruments measured at amortized cost on the balance sheet to measure that fair value using exit price notion consistent with Topic 820, Fair Value Measurement and supersedes the requirement to disclose the methods and significant assumptions used in calculating the fair value of financial instruments. The amendments in this update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, with early adoption permitted under early application guidance outlined in the update. We are required to adopt this pronouncement in the first quarter of 2018, and we do not anticipate that adoption of the pronouncement will have a material impact on our financial statements.

On September 25, 2015, the FASB issued ASU 2015-16, "Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments," which requires entities to apply the guidance prospectively to adjustments to provisional amounts that occur after the effective date. Under current guidance, the acquirer retrospectively adjusts provisional amounts recognized as of the acquisition date with a corresponding adjustment to goodwill. Adjustments are required when new information is obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts initially recognized or would have resulted in the recognition of additional assets or liabilities. The amendments in ASU 2015-16 eliminate the requirement to retrospectively account for those adjustments. The amendment is effective for annual periods, including periods within those annual periods beginning after December 15, 2015 with early adoption permitted. We are required to adopt this pronouncement prospectively in the first quarter of 2016, and we do not anticipate that adoption of the pronouncement will have a material impact on our financial statements.

On August 12, 2015, the FASB issued ASU 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date," which defers the effective date for all entities for one year of ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)," issued on May 28, 2014. ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. The guidance supersedes the revenue recognition guidance in Topic 605, "Revenue Recognition," and most industry-specific guidance throughout the Industry Topics of the FASB Accounting Standards Codification. The guidance also supersedes some cost guidance included in Subtopic 605-35, "Revenue Recognition - Contract-Type and Production-Type Contracts." ASU 2014-9, as amended, is effective for annual periods, and interim periods within those years, beginning after December 31, 2017. An entity is required to apply the amendments using one of the following two methods: (1) retrospectively to each prior period presented with three possible expedients: (a) for completed contracts that begin and end in the same reporting period no restatement is required; (b) for completed contract with variable consideration an entity may use the transaction price at completion rather than restating estimated variable consideration amounts in comparable reporting periods; and (c) for comparable reporting periods before date of initial application reduced disclosure requirements related to transaction price; (2) retrospectively with the cumulative effect of initially applying the amendment recognized at the date of initial application with additional disclosures for the differences of the prior guidance to the reporting periods

compared to the new guidance and an explanation of the reasons for significant changes. We are required to adopt ASU 2014-09 in the first quarter of 2018, and we are currently assessing the impact of this pronouncement on our financial statements.

On July 22, 2015, the FASB issued ASU 2015-11, "Simplifying the Measurement of Inventory," which requires entities to measure most inventory "at the lower of cost and net realizable value," thereby simplifying the current guidance under which an entity must measure inventory at the lower of cost or market (market in this context is defined as one of three different measures). The guidance does not apply to inventories that are measured by using either the last-in, first-out method or the retail inventory method. Under current guidance, an entity subsequently measures inventory at the lower of cost or market, with market defined as replacement cost provided that it is not above the ceiling (net realizable value) or below the floor (net realizable value less an approximately normal profit margin) which is unnecessarily complex. The amendment does not change other guidance on measuring inventory. The amendment is effective for annual periods, including periods within those annual periods beginning after December 15, 2016 with early adoption permitted. We are required to adopt this pronouncement prospectively in the first quarter of 2017, and we are currently assessing the impact of this pronouncement on our financial statements.

On April 15, 2015, the FASB issued ASU 2015-05, "Intangibles - Goodwill and Other - Internal- Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement," which clarifies the accounting for fees paid by a customer in a cloud computing arrangement by providing guidance as to whether an arrangement includes the sale or license of software. The amendment requires a customer to determine whether a cloud computing arrangement contains a



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software license. If the arrangement contains a software license, the customer would account for the fees related to the software license element in a manner consistent with how the acquisition of other software licenses is accounted for under ASC 350-40; if the arrangement does not contain a software license, the customer would account for the arrangement as a service contract. The guidance will not change GAAP for a customer's accounting for service contracts. The amendment is effective for annual periods, including periods within those annual periods beginning after December 31, 2015 with early adoption permitted. We can elect to adopt the amendments either prospectively to all arrangements entered into or materially modified after the effective date or retrospectively. We are required to adopt this pronouncement in the first quarter of 2016, and we do not anticipate that adoption of the pronouncement will have a material effect on our financial statements.

On February 18, 2015, the FASB issued ASU 2015-02, "Consolidation (Topic 810): Amendments to the Consolidation Analysis," which requires an entity to evaluate whether it should consolidate certain legal entities. All legal entities are subject to reevaluation under the revised consolidation model. The amendment modifies the evaluation of whether limited partnerships and similar legal entities are variable interest entities ("VIEs"). The amendment eliminates the presumption that a general partner should consolidate a limited partnership. The amendment affects the consolidation analysis of reporting entities that are involved with VIEs particularly those that have fee arrangements and related party relationships. The amendment also provides a scope exception from consolidation guidance for reporting entities that comply with the requirements for registered money market funds. We are required to adopt ASU 2015-02 in the first quarter of 2016, and we do not anticipate that adoption of the pronouncement will have a material effect on our financial statements.

On August 27, 2014, the FASB issued ASU 2014-15, "Presentation of Financial Statements — Going Concern (Subtopic 205-40)," which requires management to perform interim and annual assessments regarding conditions or events that raise substantial doubt about a company's ability to continue as a going concern and to provide related disclosures, if applicable. We are required to adopt ASU 2014-15 in the first quarter of 2017, with early adoption permitted. We do not anticipate that the adoption of this standard will have a material effect on our financial statements.

On June 19, 2014, the FASB issued ASU 2014-12, "Compensation - Stock Compensation (Topic 718)," which affects any entity that grants its employees share-based payments in which the terms of the award stipulate that a performance target that affects vesting could be achieved after the requisite service period. The amendments require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. We are required to adopt ASU 2014-12 in the first quarter of 2016 and the adoption of this standard is not expected to have a material effect on our financial statements.

Liquidity and Capital ResourcesWorking Capital and Capital Expenditure Requirements

The following table summarizes our cash, cash equivalents, accounts receivable and working capital, which we define as current assets minus current liabilities excluding deferred revenue, for the periods indicated (in thousands):

	As of December 31,		
	2015	2014	2013
Cash and cash equivalents	\$128,358	\$42,572	\$33,583
Accounts receivable, net	21,348	17,259	16,579
Working capital, excluding deferred revenue	134,260	47,553	32,762

Our cash and cash equivalents as of December 31, 2015 are available for working capital purposes. We do not enter into investments for trading purposes, and our investment policy is to invest any excess cash in short term, highly liquid investments that limit the risk of principal loss; therefore, our cash and cash equivalents are held in demand deposit accounts that generate very low returns. In the fourth quarter of 2015, we retrospectively adopted ASU 2015-17, "Income Taxes (Topic 740) Balance Sheet Classification of Deferred Taxes" which simplifies the

presentation of deferred income taxes and requires entities to classify deferred income tax liabilities and assets as noncurrent on the balance sheets. To adopt this pronouncement, we reclassified the previously reported \$3.2 million current portion of deferred tax assets to long-term deferred tax assets on our balance sheet as of December 31, 2014, which is included in this Annual Report. In addition, we retrospectively reclassified the previously reported current portion of deferred tax assets to long-term deferred tax assets resulting in a change in working capital as of December 31, 2014 and 2013, in the table above.

As of December 31, 2015, we had \$128.4 million in cash and cash equivalents. We consider all highly liquid instruments purchased with an original maturity from the date of purchase of three months or less to be cash equivalents.

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We believe our existing cash and cash equivalents and our future cash flows from operating activities will be sufficient to meet our anticipated cash needs for at least the next 12 months. Over the next twelve months, we expect our capital expenditure requirements to be approximately \$10 million, including approximately \$4.4 million anticipated to be incurred for leasehold improvements related to the relocation of our corporate headquarters, of which, \$2.4 million will be funded by tenant improvement allowances. Included in the terms of our new office lease, the landlord provided us with an \$8.0 million tenant improvement allowance. As of December 31, 2015, we have used \$5.6 million of this allowance. Our future working capital and capital expenditure requirements will depend on many factors, including the rate of our revenue growth, the amount and timing of our investments in human resources and capital equipment, future acquisitions and investments, and the timing and extent of our introduction of new solutions and platform and solution enhancements. To the extent our cash and cash equivalents and cash flows from operating activities are insufficient to fund our future activities, we may need to borrow additional funds through our bank credit arrangements or raise funds from public or private equity or debt financings. If we raise additional funds through the incurrence of indebtedness, such indebtedness would likely have rights that are senior to holders of our equity securities and could contain covenants that restrict our operations. Any additional equity financing would be dilutive to our stockholders.

### Sources of Liquidity

To date, we have principally financed our operations through cash generated by operating activities and, to a lesser extent, from the sale of capital stock. We have raised \$121.4 million in net cash, primarily from our initial public offering and also the sale of our preferred stock and to a lesser extent, from the proceeds of sales of common stock and stock option exercises.

In May 2014, we entered into a \$50 million revolving credit facility, or the 2014 Facility, with Silicon Valley Bank, or SVB, as administrative agent, and a syndicate of lenders to finance working capital and certain permitted acquisitions and investments. As of December 31, 2015, \$6.7 million was outstanding, no letters of credit were utilized and \$43.3 million remained available for borrowing under the 2014 Facility. The 2014 Facility contains various financial and other covenants that require us to maintain a maximum consolidated coverage ratio and a fixed charge coverage ratio, and limit our capacity to incur other indebtedness, liens, make certain payments including dividends, and enter into other transactions. The 2014 Facility is secured by substantially all of our assets, including our intellectual property. As of December 31, 2015, we were in compliance with all covenants under the 2014 Facility. The 2014 Facility is discussed in more detail below under “Debt Obligations.”

### Dividends

On June 12, 2015, our board of directors declared a cash dividend on our common and preferred stock in the amount of (1) \$0.36368 per share of common stock and Series A preferred stock and (2) \$0.72736 per share of Series B preferred stock and Series B-1 preferred stock or \$20.0 million in the aggregate. We paid these dividends on June 26, 2015 to our stockholders of record as of June 12, 2015.

We cannot provide any assurance that we will declare or pay cash dividends on our common stock in the future. We currently anticipate that we will retain all of our future earnings, if any, for use in the operation and expansion of our business and we do not anticipate paying cash dividends in the foreseeable future. Additionally, our ability to pay dividends on our common stock is limited by restrictions under the terms of the agreements governing the 2014 Facility. Payment of future cash dividends, if any, will be at the discretion of the board of directors after taking into account various factors, including our financial condition, operating results, current and anticipated cash needs, the requirements of current or then-existing debt instruments and other factors the board of directors deems relevant.

### Initial Public Offering

On July 1, 2015, we closed our initial public offering, or IPO, in which we issued and sold 7,000,000 shares of common stock at a public offering price of \$14.00 per share, resulting in gross proceeds of \$98.0 million. In addition, on July 8, 2015, we closed the underwriters' exercise of their over-allotment option to purchase 525,000 additional shares of our common stock from us, resulting in additional gross proceeds to us of \$7.4 million. In total, we issued 7,525,000 shares of common stock and raised \$105.4 million in gross proceeds, or \$93.0 million in net proceeds after deducting underwriting discounts and commissions of \$7.4 million and offering costs of \$5.0 million.

The principal purposes of the IPO were to increase our financial flexibility, create a public market for our common stock, and facilitate our future access to the capital markets. We have used and expect to continue to use the net proceeds of the IPO for working capital and other general corporate purposes. We may use a portion of the proceeds from the IPO for acquisitions or strategic investments in complementary businesses or technologies. These expectations are subject to change.

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## Historical Cash Flows

The following table sets forth our cash flows for the year ended December 31, 2015, 2014 and 2013 (in thousands):

	Year Ended December 31,		
	2015	2014	2013
Cash flows from operating activities	\$27,137	\$15,635	\$10,654
Cash flows used in investing activities	(18,049	) (6,288	) (18,431
Cash flows from / (used in) financing activities	76,698	(358	) (560

## Operating Activities

Cash flows from operating activities have typically been generated from our net income and by changes in our operating assets and liabilities, particularly from accounts receivable and accounts payable, accrued expenses and other current liabilities, adjusted for non-cash expense items such as amortization and depreciation, and stock-based compensation.

For 2015, cash flows from operating activities were \$27.1 million, an increase of \$11.5 million from 2014, as the result of a \$15.0 million increase in cash from operating assets and liabilities partially offset by \$1.7 million decrease in net income and a \$1.7 million decrease in adjustments for non-cash items.

The \$15.0 million increase in cash from operating assets and liabilities was due to the following:

The year over year increase in cash flows of \$8.5 million provided by an increase in other liabilities balances was primarily the result of our new lease which expires in 2026 and utilizing tenant improvement allowances for our corporate headquarters. These terms increased the long-term deferred rent balance to \$8.4 million as of December 31, 2015 from \$1.0 million balance as of December 31, 2014.

Our accounts payable, accrued expenses and other current liabilities balance increased primarily from the increase in operating expenses and timing of payables resulting in a year over year increase in cash flows of \$5.5 million.

From December 31, 2015 to 2014 inventory balances were \$6.5 million as of December 31, 2015 and \$6.9 million as of December 31, 2014 resulting in \$0.4 million of cash flows from inventory in 2015, or a \$4.7 million year over year increase in cash flows from fluctuations in our inventory balances. During 2014, cash used for inventory was \$4.3 million which resulted from an increase in our investment in video camera inventory.

Our accounts receivable balance increased primarily from our increase in sales and timing of payments resulting in a year over year decrease in cash flows of \$2.0 million.

Cash flows related to a change in other assets balances decreased \$1.6 million year over year primarily from an increase in pre-payments relating to the timing of inventory and also meetings and events.

For 2015, cash flows from operating activities consisted of cash generated by our \$11.8 million of net income and \$8.1 million of adjustments for non-cash items and \$7.2 million of changes in operating assets and liabilities.

Adjustments for non-cash items in 2015 included \$5.8 million for amortization and depreciation, \$3.6 million for deferred income taxes, \$3.3 million for stock-based compensation, \$1.6 million for reserve for product returns, and \$0.3 million for provision for doubtful accounts. Adjustments for non-cash items in 2014 included \$4.0 million for amortization and depreciation, \$3.3 million for stock-based compensation, and \$1.9 million for reserve for product returns.

For 2014, cash flows from operating activities were \$15.6 million, an increase of \$5.0 million from 2013, and resulted primarily from an increase in net income as adjusted for non-cash items. Our inventory balance increased due to an increase in the quantity of video cameras needed to meet our fulfillment requirements. As our revenue increased in 2014, our accounts receivable balance increased but to a lesser extent than accounts receivable balances grew in the prior period. The cash flows from operating activities consisted of cash generated by our \$13.5 million of net income and \$9.9 million of adjustments for non-cash items offset by \$7.7 million of changes in operating assets and liabilities. Adjustments for non-cash items in 2014 included \$4.0 million for amortization and depreciation, \$1.9 million for reserve for product returns, \$1.7 million benefit for deferred income taxes, \$1.4 million for provision for doubtful accounts and \$3.3 million for stock-based compensation.

For 2013, cash flows from operating activities were \$10.7 million primarily from cash generated by our \$4.5 million of net income and \$10.5 million of adjustments for non-cash items. This decrease in cash flows from operating assets and liabilities was primarily the result of increases in accounts receivable due to an increase in sales and higher

balances of inventory and other long-term assets at year end. Adjustments for non-cash items included \$3.4 million for amortization and depreciation, \$1.8 million for reserve for product returns and \$11.3 million impairment for goodwill and intangible assets from our EnergyHub acquisition, partially offset by a \$5.8 million gain from the release of the contingent liability from the EnergyHub acquisition related earn-out in 2013.

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## Investing Activities

Our investing activities include acquisitions, capital expenditures, minority equity investments in companies, notes receivable issued to companies with offerings complementary to ours and payments made to license intellectual property. Our capital expenditures have primarily been for general business use, including leasehold improvements as we have expanded our office space to accommodate our growth in headcount, computer equipment used internally, and expansion of our network operations centers.

During 2015, our cash used in investing activities was \$18.0 million primarily from \$10.3 million of capital expenditures related to leasehold improvements for our new corporate headquarters and expansion of our network operations centers. In addition, we purchased certain assets of SecurityTrax for \$5.6 million and paid \$0.4 million of cash holdback payments related to two of our previous acquisitions. We also paid \$1.0 million to purchase licenses to patents.

During 2014, our cash used in investing activities totaled \$6.3 million. Of that amount, we paid \$6.9 million for capital expenditures and advanced \$0.8 million in loans to a service provider and an installation partner to finance the creation of new subscriber accounts. We purchased certain assets of two businesses in 2014, Secure-i, Inc. and Horizon Analog, Inc., for \$3.2 million. We also received a \$2.0 million repayment of a note receivable from a platform partner and a \$2.5 million distribution representing a partial return of a cost method investment.

During 2013, our cash used in investing activities totaled \$18.4 million. Of that amount, we paid \$8.1 million, net of cash received, to acquire EnergyHub. Additionally, we invested in companies that are complementary, consisting of \$4.5 million in investments and \$1.5 million in loans. We made these investments to create solutions that will leverage our cloud platform in adjacent markets, to invest in the development of devices that may connect to our cloud based platform, or in a service provider to finance the creation of new subscriber accounts. We also paid \$2.3 million for capital expenditures.

## Financing Activities

Cash generated by financing activities include proceeds from the sale of common stock, borrowings under credit facilities, and proceeds from the issuance of common stock from employee option exercises. Cash used in financing activities includes repurchases of common stock, dividends paid on our preferred stock and common stock and payments of offering costs in connection with our IPO.

On July 1, 2015, we closed our IPO of 7,000,000 shares of common stock at an offering price of \$14.00 per share, resulting in gross proceeds of \$98.0 million. In addition, on July 8, 2015, we closed the underwriters exercise of their over-allotment option to purchase 525,000 additional shares of our common stock from us, resulting in additional gross proceeds of \$7.4 million. We raised a total of \$105.4 million in gross proceeds from the IPO, or \$98.0 million in net proceeds after deducting underwriting discounts and commissions of \$7.4 million.

During 2015, our cash from financing activities was \$76.7 million primarily from \$98.0 million of net proceeds received from the sale of our common stock in our IPO. We paid a \$20.0 million dividend in June 2015. In connection with our preparation for our IPO, we incurred and paid \$2.6 million of deferred offering costs in 2015 and \$2.4 million in 2014, primarily for legal and accounting fees. The total of these offering costs was \$5.0 million and was netted against additional paid-in-capital upon the close of the IPO. We also recorded a \$0.9 million tax windfall benefit from stock-based awards.

During 2014, our cash used in financing activities totaled \$0.4 million. We utilized borrowings of \$6.7 million under our new 2014 Facility to extinguish and repay \$7.5 million of debt outstanding and paid \$0.3 million of related debt issuance costs. In connection with our preparation for our initial public offering, we paid \$2.4 million of deferred offering costs, primarily for legal and accounting fees. These payments were partially offset by \$1.5 million of proceeds from the early exercise of employee stock-based awards. These proceeds are recorded as liabilities until the underlying equity award is vested as we have the ability to buy back unvested equity awards from employees that terminate service. We also received \$0.6 million in proceeds from the exercise of vested employee stock options and recorded a \$1.1 million tax windfall benefit from stock-based awards.

During 2013, net cash used in financing activities totaled \$0.6 million, primarily consisting of \$1.5 million in repayments on our prior credit facility, partially offset by \$0.8 million in aggregate proceeds from sales of common stock and stock option exercises.





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## Contractual Obligations

The following table presents our aggregate contractual obligations and the periods in which future payments are due as of December 31, 2015. Future events could cause actual payments to differ from these estimates.

Contractual Obligations	Total	Less Than 1 Year	1 to 3 Years	3 to 5 Years	More Than 5 Years
Debt:	(in thousands)				
Principal payments	\$6,700	\$—	\$6,700	\$—	\$—
Interest payments	241	178	63	—	—
Unused line fee payments	118	87	31	—	—
Operating lease commitments	40,378	3,221	8,196	7,889	21,072
Other long-term liabilities	2,045	—	1,533	328	184
Total contractual obligations	\$49,482	\$3,486	\$16,523	\$8,217	\$21,256

The commitment amounts in the table above are associated with contracts that are enforceable and legally binding and that specify all significant terms, including fixed or minimum services to be used, fixed, minimum or variable price provisions, and the approximate timing of the actions under the contracts. The table does not include obligations under agreements that we can cancel without a significant penalty.

As of December 31, 2015, we have no outstanding letters of credit under our 2014 Facility.

## Off-Balance Sheet Arrangements

We do not have any relationships with unconsolidated entities or financial partnerships, including entities sometimes referred to as structured finance or special purpose entities that were established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. We do not engage in off-balance sheet financing arrangements. In addition, we do not engage in trading activities involving non-exchange traded contracts.

## Debt Obligations

In 2011, we entered into a Loan & Security Agreement with SVB. We borrowed \$10.0 million under a term loan. On May 8, 2014, we repaid all of the outstanding principal and interest under that term loan and replaced it with a \$50.0 million revolving credit facility, or the 2014 Facility, with SVB, as administrative agent, and a syndicate of lenders. We utilized \$6.7 million under the 2014 Facility to repay in full our indebtedness under our previous term loan. The 2014 Facility includes an option to increase the borrowing capacity to \$75.0 million with the consent of the lenders. The 2014 Facility is available to us to finance working capital and certain permitted acquisitions and investments, and is secured by substantially all of our assets, including intellectual property. The 2014 Facility matures in May 2017. The outstanding principal balance on the 2014 Facility accrues interest at a rate equal to either (1) the Eurodollar Base Rate, or LIBOR, plus an applicable margin based on our consolidated leverage ratio, or (2) the higher of (a) the Wall Street Journal prime rate and (b) the Federal Funds rate plus 0.50% plus an applicable margin based on our consolidated leverage ratio, or ABR, at our option. Borrowings under LIBOR rates accrue interest at LIBOR plus 2.25%, LIBOR plus 2.5%, and LIBOR plus 2.75% when our consolidated leverage ratio is less than 1.00:1.00, greater than or equal to 1.00:1.00 but less than 2.00:1.00, and greater than or equal to 2.00:1.00, respectively. Borrowings under ABR rates accrue interest at ABR plus 1.25%, ABR plus 1.5%, and ABR plus 1.75% when our consolidated leverage ratio is less than 1.00:1.00, greater than or equal to 1.00:1.00 but less than 2.00:1.00, and greater than or equal to 2.00:1.00, respectively. The 2014 Facility also carries an unused line commitment fee of 0.20% to 0.25% depending on our consolidated leverage ratio. For the year ended December 31, 2015, the effective interest rate on the 2014 Facility was 2.63%.

On December 7, 2015, we amended the 2014 Facility. The amendment reduces the rate at which borrowings under LIBOR rates accrue interest to LIBOR plus 2.00%, LIBOR plus 2.25%, and LIBOR plus 2.50% when our consolidated leverage ratio is less than 1.00:1.00, greater than or equal to 1.00:1.00 but less than 2.00:1.00, and greater than or equal to 2.00:1.00, respectively. Borrowings under ABR rates accrue interest at ABR plus 1.00%, ABR plus 1.25%, and ABR plus 1.50% when our consolidated leverage ratio is less than 1.00:1.00, greater than or equal to

1.00:1.00 but less than 2.00:1.00, and greater than or equal to 2.00:1.00, respectively.

The 2014 Facility contains various financial and other covenants that require us to maintain a maximum consolidated leverage ratio not to exceed 2.50:1.00 and a consolidated fixed charge coverage ratio of at least 1.25:1.00. As of December 31, 2015, we were in compliance with all covenants under the 2014 Facility.

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## Non-GAAP Measures

We define Adjusted EBITDA as our net income before interest and other (expense) / income, net, provision for income taxes, amortization and depreciation expense, stock-based compensation expense, goodwill and intangible impairment charges, changes in fair value of acquisition related contingent liabilities and legal costs incurred in connection with certain intellectual property litigation. We do not consider these items to be indicative of our core operating performance. The non-cash items include amortization and depreciation expense, the stock-based compensation expense related to stock options and the sale of common stock, goodwill and intangible impairment charges and gain from the release of an acquisition-related contingent liability. See the following table for a reconciliation of Adjusted EBITDA to net income, the most directly comparable financial measure calculated and presented in accordance with GAAP.

We have included Adjusted EBITDA in this report because it is a key measure that our management uses to understand and evaluate our core operating performance and trends, to generate future operating plans, to make strategic decisions regarding the allocation of capital and to make investments in initiatives that are focused on cultivating new markets for our solutions. In particular, the exclusion of certain expenses in calculating Adjusted EBITDA facilitates comparisons of our operating performance on a period-to-period basis and, in the case of exclusion of historical legal expenses, excludes items that we do not consider to be indicative of our core operating performance. Accordingly, we believe that Adjusted EBITDA provides useful information to investors and others in understanding and evaluating our operating results in the same manner as our management and board of directors. Our use of Adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our financial results as reported under GAAP. Some of these limitations are: (a) although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and Adjusted EBITDA does not reflect cash capital expenditure requirements for such replacements or for new capital expenditure requirements; (b) Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs; (c) Adjusted EBITDA does not reflect the potentially dilutive impact of equity-based compensation; (d) Adjusted EBITDA does not reflect tax payments that may represent a reduction in cash available to us; and (e) other companies, including companies in our industry, may calculate Adjusted EBITDA or similarly titled measures differently, which reduces its usefulness as a comparative measure.

Because of these and other limitations, you should consider Adjusted EBITDA alongside our other GAAP-based financial performance measures, net income and our other GAAP financial results. The following table presents a reconciliation of Adjusted EBITDA to net income, the most directly comparable GAAP measure, for each of the periods indicated.

	Year Ended December 31,		
	2015	2014	2013
Adjusted EBITDA			
Net income	\$ 11,768	\$ 13,502	\$ 4,524
Adjustments:			
Interest expense and other (expense) / income, net	526	681	212
Income tax expense	5,697	6,817	2,688
Amortization and depreciation	5,808	3,991	3,360
Stock-based compensation expense	4,124	3,267	841
Goodwill and intangible asset impairment	—	—	11,266
Release of acquisition related contingent liability	—	—	(5,820)
Litigation expense	6,347	63	11,188
Total adjustments	22,502	14,819	23,735
Adjusted EBITDA	\$ 34,270	\$ 28,321	\$ 28,259

## ITEM 7A. QUALITATIVE AND QUANTITATIVE 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 the result of fluctuations in interest rates, as well as to a

lesser extent, foreign exchange rates and inflation.

**Interest Rate Risk**

We are primarily exposed to changes in short-term interest rates with respect to our cost of borrowing under our credit facilities with SVB. We monitor our cost of borrowing under our various facilities, taking into account our funding requirements, and our expectation for short-term rates in the future. As of December 31, 2015, an increase or decrease in the interest rate on

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our 2014 Facility with SVB by 100 basis points would increase or decrease our annual interest expense by approximately \$67,000, respectively.

Foreign Currency Exchange Risk

Because substantially all of our revenue and operating expenses are denominated in U.S. dollars, we do not believe that our exposure to foreign currency exchange risk is material to our business, financial condition or results of operations. If a significant portion of our revenue and operating expenses becomes denominated in currencies other than U.S. dollars, we may not be able to effectively manage this risk, and our business, financial condition and results of operations could be adversely affected by translation and by transactional foreign currency conversions.

Inflation Risk

We do not believe that inflation has had a material effect on our business, financial condition or results of operations. If our costs become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could harm our business, financial condition and results of operations.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of  
Alarm.com Holdings, Inc.:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Alarm.com Holdings, Inc. and its subsidiaries at December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it presents deferred income taxes in 2015.

/s/ PricewaterhouseCoopers LLP  
McLean, Virginia  
February 29, 2016

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## ALARM.COM HOLDINGS, INC.

## Consolidated Statements of Operations

(in thousands, except share and per share data)

	Year Ended December 31,			
	2015	2014	2013	
Revenue:				
SaaS and license revenue	\$140,936	\$111,515	\$82,620	
Hardware and other revenue	67,952	55,797	47,602	
Total revenue	208,888	167,312	130,222	
Cost of revenue: <sup>(1)</sup>				
Cost of SaaS and license revenue	25,722	23,007	16,476	
Cost of hardware and other revenue	51,652	44,172	38,482	
Total cost of revenue	77,374	67,179	54,958	
Operating expenses:				
Sales and marketing	32,240	25,836	21,467	
General and administrative	35,473	26,113	29,928	
Research and development	40,002	23,193	13,085	
Amortization and depreciation	5,808	3,991	3,360	
Total operating expenses	113,523	79,133	67,840	
Operating income	17,991	21,000	7,424	
Interest expense	(178	) (196	) (269	)
Other (expense) / income, net	(348	) (485	) 57	)
Income before income taxes	17,465	20,319	7,212	
Provision for income taxes	5,697	6,817	2,688	
Net income	11,768	13,502	4,524	
Dividends paid to participating securities	(18,987	) —	) —	)
Income allocated to participating securities	—	(12,939	) (4,402	)
Net (loss) / income attributable to common stockholders	\$(7,219	) \$563	) \$122	)
Per share information attributable to common stockholders:				
Net (loss) / income per share:				
Basic	\$(0.30	) \$0.25	) \$0.08	)
Diluted	\$(0.30	) \$0.14	) \$0.04	)
Weighted average common shares outstanding:				
Basic	24,108,362	2,276,694	1,443,469	
Diluted	24,108,362	3,890,121	2,795,345	
Cash dividends declared per share	\$0.36	\$—	\$—	

(1) Exclusive of amortization and depreciation shown in operating expenses below.  
See accompanying notes to the consolidated financial statements.



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## ALARM.COM HOLDINGS, INC.

## Consolidated Statements of Comprehensive Income

(in thousands)

	Year Ended December 31,		
	2015	2014	2013
Net income	11,768	13,502	4,524
Other comprehensive income, net of tax:			
Change in unrealized (losses) / gains on marketable securities	—	(56	) 56
Comprehensive income	\$ 11,768	\$ 13,446	\$ 4,580

See accompanying notes to the consolidated financial statements.

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## ALARM.COM HOLDINGS, INC.

## Consolidated Balance Sheets

(in thousands, except share and per share data)

	December 31,	
	2015	2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 128,358	\$ 42,572
Accounts receivable, net	21,348	17,259
Inventory	6,474	6,852
Other current assets	4,870	1,919
Total current assets	161,050	68,602
Property and equipment, net	15,446	8,130
Intangible assets, net	6,318	5,092
Goodwill	24,723	21,374
Deferred tax assets	11,915	8,363
Other assets	6,643	9,371
Total Assets	\$ 226,095	\$ 120,932
Liabilities, redeemable convertible preferred stock and stockholders' equity / (deficit)		
Current liabilities:		
Accounts payable, accrued expenses and other current liabilities	\$ 19,276	\$ 15,233
Accrued compensation	7,514	5,816
Deferred revenue	2,289	1,699
Total current liabilities	29,079	22,748
Deferred revenue	9,701	9,202
Long-term debt	6,700	6,700
Other liabilities	10,484	1,670
Total Liabilities	55,964	40,320
Commitments and contingencies (Note 12)		
Redeemable convertible preferred stock		
Series B redeemable convertible preferred stock, \$0.001 par value, 0 and 1,809,685 shares authorized; 0 and 1,809,685 shares issued and outstanding as of December 31, 2015 and 2014, liquidation preference of \$0 and \$191,132 as of December 31, 2015 and 2014.	—	136,523
Series B-1 redeemable convertible preferred stock, \$0.001 par value, 0 and 1,669,680 shares authorized; 0 and 82,934 shares issued and outstanding as of December 31, 2015 and 2014, liquidation preference of \$0 and \$8,759 as of December 31, 2015 and 2014.	—	6,265
Series A redeemable convertible preferred stock, \$0.001 par value, 0 and 3,511,725 shares authorized; 0 and 1,998,257 shares issued and outstanding as of December 31, 2015 and 2014, liquidation preference of \$0 and \$24,309 as of December 31, 2015 and 2014.	—	59,668
Stockholders' equity / (deficit)		
Preferred stock, \$0.001 par value, 10,000,000 and 0 shares authorized; 0 shares issued and outstanding as of December 31, 2015 and 2014.	—	—
Common stock, \$0.01 par value, 300,000,000 and 100,000,000 shares authorized; 45,581,662 and 2,823,816 shares issued; and 45,485,294 and 2,614,444 shares outstanding as of December 31, 2015 and 2014.	455	26
Additional paid-in capital	297,781	7,168
Treasury stock (35,523 shares at cost of \$1.20 per share)	(42	) (42
Accumulated other comprehensive income	—	—
Accumulated deficit	(128,063	) (128,996
Total Stockholders' Equity / (Deficit)	170,131	(121,844

Total Liabilities, Redeemable Convertible Preferred Stock and Stockholders' Equity / (Deficit)	\$226,095	\$120,932
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See accompanying notes to the consolidated financial statements.

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ALARM.COM HOLDINGS, INC.  
 Consolidated Statements of Cash Flows  
 (in thousands)

	Year Ended December 31,		
	2015	2014	2013
Cash flows from operating activities:			
Net income	\$ 11,768	\$ 13,502	\$ 4,524
Adjustments to reconcile net income to net cash from operating activities:			
Provision for doubtful accounts	276	1,371	592
Reserve for product returns	1,559	1,863	1,781
Amortization on patents	391	201	201
Amortization and depreciation	5,808	3,991	3,360
Amortization of debt issuance costs	108	70	—
Deferred income taxes	(3,552)	(1,735)	(2,164)
Change in fair value of contingent liability	(470)	—	—
Undistributed losses from equity investees	681	514	112
Stock-based compensation	3,347	3,267	841
Impairment of cost method investment	—	200	—
Goodwill and intangible asset impairment	—	—	11,266
Gain on release of contingent liability	—	—	(5,820)
Other, net	—	129	330
Changes in operating assets and liabilities (net of business acquisitions):			
Accounts receivable	(5,910)	(3,898)	(8,678)
Inventory	378	(4,334)	(1,412)
Other assets	(2,725)	(1,136)	(1,038)
Accounts payable, accrued expenses and other current liabilities	5,966	444	5,169
Deferred revenue	1,081	1,234	1,618
Other liabilities	8,431	(48)	(28)
Cash flows from operating activities	27,137	15,635	10,654
Cash flows used in investing activities:			
Business acquisitions, net of cash acquired	(6,049)	(3,186)	(8,148)
Additions to property and equipment	(10,347)	(6,892)	(2,275)
Investment in cost and equity method investees	(247)	—	(4,516)
Distribution from cost method investee	—	2,545	—
Issuances of notes receivable	(406)	(755)	(1,492)
Purchases of licenses to patents	(1,000)	—	—
Purchases of marketable securities	—	—	(2,000)
Disposition of marketable securities	—	2,000	—
Cash flows used in investing activities	(18,049)	(6,288)	(18,431)
Cash flows from / (used in) financing activities:			
Proceeds from issuance of common stock from initial public offering, net of underwriting discount and commission	97,976	—	—
Proceeds from issuance of debt, net of debt issuance costs	—	6,376	—
Repayments of term loan	—	(7,500)	(1,500)
Dividends paid to common stockholders	(1,013)	—	—
Dividends paid to employees for unvested shares	(57)	—	—
Dividends paid to redeemable convertible preferred stockholders	(18,930)	—	—
Payments of offering costs	(2,632)	(2,399)	—
Repurchases of common stock	(1)	(7)	(5)
Proceeds from early exercise of stock-based awards	129	1,548	—

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Issuances of common stock from equity based plans	344	554	785
Tax windfall benefit from stock-based awards	882	1,070	160
Cash flows from / (used in) financing activities	76,698	(358	) (560
Net increase / (decrease) in cash and cash equivalents	85,786	8,989	(8,337
Cash and cash equivalents at beginning of the period	42,572	33,583	41,920
Cash and cash equivalents at end of the period	\$128,358	\$42,572	\$33,583
See accompanying notes to the consolidated financial statements.			

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## ALARM.COM HOLDINGS, INC.

## Consolidated Statements of Cash Flows - Continued

(in thousands)

	Year Ended December 31,		
	2015	2014	2013
Supplemental disclosures:			
Cash paid for interest	\$175	\$193	\$274
Cash paid for income taxes, net of refunds	8,508	6,490	6,204
Noncash investing and financing activities:			
Conversion of redeemable convertible preferred stock to common stock	\$202,456	\$—	\$—
Cash not yet paid for business acquisitions	417	434	—
Contingent liability from business acquisition	230	—	—
Cash not yet paid for capital expenditures	625	—	—
Reclassification of deferred offering costs to additional paid-in-capital	5,024	—	—
Deferred offering costs in accounts payable, accrued expenses and other current liabilities	—	403	—
Conversion of note receivable into cost method investment	—	—	250

See accompanying notes to the consolidated financial statements.

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Consolidated Statements of Equity  
(in thousands)

	Preferred Stock	Common Stock	Additional Paid-In- Capital	Treasury Stock	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Stockholders' (Deficit) / Equity		
	Shares	Amount	Shares	Amount	Shares	Amount	Amount		
Balance, January 1, 2013	—	\$ —	1,251	\$ 13	\$ —	\$ (42 )	\$ —	\$ (147,022 )	\$ (147,051 )
Common stock issued in connection with equity based plans	—	—	408	4	781	—	—	—	785
Stock-based compensation expense	—	—	—	—	841	—	—	—	841
Tax benefit from stock-based awards	—	—	—	—	160	—	—	—	160
Common stock repurchased	—	—	(2 )	—	(5 )	—	—	—	(5 )
Other comprehensive income	—	—	—	—	—	—	56	—	56
Net income	—	—	—	—	—	—	—	4,524	4,524
Balance, December 31, 2013	—	\$ —	1,657	\$ 17	\$ 1,777	\$ (42 )	\$ 56	\$ (142,498 )	\$ (140,690 )
Common stock issued in connection with equity based plans	—	—	735	7	547	—	—	—	554
Vesting of common stock subject to repurchase	—	—	223	2	802	—	—	—	804
Stock-based compensation expense	—	—	—	—	3,267	—	—	—	3,267
Tax benefit from stock-based awards	—	—	—	—	782	—	—	—	782
Common stock repurchased	—	—	(1 )	—	(7 )	—	—	—	(7 )
Other comprehensive income	—	—	—	—	—	—	(56 )	—	(56 )
Net income	—	—	—	—	—	—	—	13,502	13,502
Balance, December 31, 2014	—	\$ —	2,614	\$ 26	\$ 7,168	\$ (42 )	\$ —	\$ (128,996 )	\$ (121,844 )
Issuance of common stock from initial public offering, net of issuance costs	—	—	7,525	75	92,878	—	—	—	92,953
Conversion of redeemable convertible preferred stock to common stock	—	—	35,018	350	202,106	—	—	—	202,456
Common stock issued in connection with equity	—	—	277	3	341	—	—	—	344

based plans												
Vesting of common stock subject to repurchase	—	—	126	2	451	—	—	—	453			
Stock-based compensation expense	—	—	—	—	3,347	—	—	—	3,347			
Tax benefit from stock-based awards, net	—	—	—	—	700	—	—	—	700			
Modification of employee stock-based award and repurchase of common stock	—	—	(75	)	(1	)	(45	)	—	—	(46	)
Dividends paid to common stockholders	—	—	—	—	(673	)	—	—	(340	)	(1,013	)
Dividends paid to employees with unvested common stock	—	—	—	—	(38	)	—	—	(19	)	(57	)
Dividends paid to redeemable convertible preferred stockholders	—	—	—	—	(8,454	)	—	—	(10,476	)	(18,930	)
Net income	—	—	—	—	—	—	—	—	11,768	—	11,768	—
Balance, December 31, 2015	—	\$—	45,485	\$455	\$297,781	\$ (42	)	\$ —	\$ (128,063	)	\$ 170,131	—

See accompanying notes to the consolidated financial statements.



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ALARM.COM HOLDINGS, INC.

Notes to the Consolidated Financial Statements

December 31, 2015, 2014 and 2013

Note 1. Organization

Alarm.com Holdings, Inc. (referred herein as “Alarm.com”, the “Company”, or “we”) is a cloud-based software platform solution for the connected home. Our multi-tenant software-as-a-service (“SaaS”) platform allows home and business owners to intelligently secure and manage their properties and remotely interact with a broad array of connected devices through a single, intuitive interface. Our solution is delivered through an established network of thousands of authorized and licensed service providers. Our four primary solutions are interactive security, intelligent automation, video monitoring and energy management, which can be used individually or integrated into a single user interface. We derive revenue from the sale of our software-as-a-service over our integrated platform, license fees, hardware, activation fees and other revenue. Our fiscal year ends on December 31st.

Initial Public Offering

Our registration statement on Form S-1 relating to our initial public offering (“IPO”) was declared effective by the Securities and Exchange Commission (the “SEC”) on June 25, 2015. On July 1, 2015, we closed our IPO of 7,000,000 shares of common stock at an offering price of \$14.00 per share, resulting in gross proceeds of \$98.0 million. In addition, on July 8, 2015, we closed the underwriters' exercise of their over-allotment option to purchase up to an additional 525,000 shares of our common stock from us and up to an additional 525,000 shares from the selling stockholders. Consequently, we issued and sold an additional 525,000 additional shares of our common stock and certain selling stockholders affiliated with ABS Capital Partners sold 525,000 shares of our common stock, resulting in additional gross proceeds to us of \$7.4 million. We did not receive any proceeds from the sale of shares by the selling stockholders. In total we issued 7,525,000 shares of common stock and raised \$105.4 million in gross proceeds, or \$93.0 million in net proceeds after deducting underwriting discounts and commissions of \$7.4 million and offering costs of \$5.0 million. Upon completion of the IPO, on July 1, 2015, all outstanding shares of convertible preferred stock converted into an aggregate of 35,017,884 shares of common stock.

In addition, upon the closing of the IPO, our Certificate of Incorporation was amended and restated to authorize 10,000,000 shares of undesignated preferred stock and 300,000,000 shares of common stock.

Dividend

On June 12, 2015, our board of directors declared a cash dividend on our common and preferred stock in the amount of (1) \$0.36368 per share of common stock and Series A preferred stock and (2) \$0.72736 per share of Series B preferred stock and Series B-1 preferred stock or \$20.0 million in the aggregate. We paid the dividends on June 26, 2015 to our stockholders of record as of June 12, 2015.

Note 2. Summary of Significant Accounting Policies

Principles of Consolidation

Our consolidated financial statements include our accounts and those of our majority-owned and controlled subsidiaries after elimination of intercompany accounts and transactions. Equity investments over which we are able

to exercise significant influence but do not control the investee are accounted for using the equity method.

We determine whether we have a controlling financial interest in an entity by first evaluating whether the entity is a voting interest entity or a variable interest entity (“VIE”). Voting interest entities are entities that have sufficient equity and provide equity investor voting rights that give them power to make significant decisions relating to the entity’s operations. The usual condition for a controlling financial interest in a voting interest entity is ownership of a majority voting interest. In VIEs, a controlling financial interest is attained through means other than voting rights and the entities lack one or more of the characteristics of a voting entity.

We account for our unconsolidated investments in businesses under the cost or equity method dependent on factors such as percent ownership and factors that would determine significant influence. Our cost method investments are recorded at cost. Equity method investments are recorded at cost and adjusted to record our share of the company’s undistributed gains and losses in our consolidated statements of operations. We evaluate our cost and equity method investments for impairment whenever events or circumstances indicate that carrying amount of such investments may not be recoverable.

#### Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting

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ALARM.COM HOLDINGS, INC.

Notes to the Consolidated Financial Statements - (Continued)

December 31, 2015, 2014 and 2013

period. Our estimates, judgments and assumptions are continually evaluated based on available information and experience. Because of the use of estimates inherent in the financial reporting process, actual results could differ from those estimates. Estimates are used when accounting for revenue recognition, allowances for doubtful accounts receivable, allowance for hardware returns, estimates of obsolete inventory, long-term incentive compensation, stock-based compensation, income taxes, legal reserves, contingent consideration and goodwill and intangible assets.

**Cash and Cash Equivalents**

We consider all highly liquid instruments purchased with an original maturity from the date of purchase of three months or less to be cash equivalents. As of December 31, 2015 and 2014, we have invested approximately \$122.8 million and \$38.6 million in cash equivalents in the form of money market funds with one financial institution. We consider these money market funds to be Level 1 financial instruments.

**Accounts Receivable**

Accounts receivable are principally derived from sales to customers located in the United States and Canada. Substantially all of our sales in Canada are transacted in U.S. dollars. During the years ended December 31, 2015, 2014 and 2013, less than 1% of our revenue was generated outside of North America and as of December 31, 2015 and 2014, 2% of accounts receivable balances were related to service providers outside of North America. Our accounts receivable are stated at estimated realizable value. We utilize the allowance method to provide for doubtful accounts based on management's evaluation of the collectability of the amounts due. Our estimate is based on historical collection experience and a review of the current status of accounts receivable. Each of our service providers are evaluated for creditworthiness through a credit review process at the inception of the arrangement or if risk indicators arise during our arrangement at such other time. Our terms for hardware sales to our service providers and distributors typically allow for returns for up to one year. We apply our estimate as a percentage of sales monthly, based on historical data, as a reserve against revenue to account for our provision for returns. We have not experienced write-offs for uncollectible accounts or sales returns that have differed significantly from our estimates.

**Inventory**

Our inventory, which is comprised of raw materials and finished goods, includes materials used to produce our wireless communications network enabled radios, video cameras, home automation system parts and peripherals, is stated at the lower of cost or market, and is charged to cost of sales on a first in, first out ("FIFO") basis. We periodically evaluate our inventory quantities for obsolescence based on criteria such as customer demand and changing technology and record an obsolescence write down when necessary.

**Marketable Securities**

In 2013 and 2014, we had investments in marketable equity securities consisting of available for sale securities, which were stated at fair value, with unrealized gains and temporary unrealized losses reported as a component of other comprehensive income, net of tax, until realized. When realized, we recognized gains and losses on the sales of the securities on a specific identification method and include the realized gains or losses in other (expense) / income, net in the consolidated statements of operations. We included interest, dividends, and amortization of premium or discount on securities classified as available for sale in other (expense) / income, net in the consolidated statements of operations. As of December 31, 2015 and 2014, there were no investments in marketable equity securities.

**Internal-Use Software**

We capitalize the costs related to the design of internal-use software related to the development of our platform during the application development stage of the projects. The costs are primarily comprised of salaries, benefits and stock-based compensation expense of the projects' engineers and product development teams. Our internally developed software is reported at cost less accumulated depreciation. Depreciation begins once the project is ready for its intended use, which is usually when the code goes into production in weekly software builds on our platform. We

depreciate the asset on a straight-line basis over a period of three years, which is the estimated useful life. We utilize continuous agile development methods to update our software for our SaaS multi-tenant platform on a weekly basis, which primarily consists of bug-fixes and user interface changes. We evaluate whether a project should be capitalized if it adds significant functionality to our platform. Maintenance activities or minor upgrades are expensed in the period performed.

#### Revenue Recognition and Deferred Revenue

We derive our revenue from two primary sources: the sale of software-as-a-service ("SaaS") cloud-based connected home platform and the sale of hardware products that enable our solutions. We sell our hardware and platform solutions to service providers that resell our hardware and solutions to home and business owners, who are the service providers' customers, and

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ALARM.COM HOLDINGS, INC.

Notes to the Consolidated Financial Statements - (Continued)

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whom we refer to as our subscribers. We also sell our hardware to distributors who resell the hardware to service providers. We enter into contracts with our service providers that establish pricing for access to our connected home platform solutions and for the sale of hardware. These contracts typically have an initial term of one year, with subsequent renewal terms of one year. Our service providers typically enter into underlying contracts with our subscribers, which our service providers have indicated range from three to five years in length.

Our hardware includes cellular radio modules that enable access to our cloud-based platform, as well as video cameras, image sensors and other peripherals. Our service providers purchase our hardware in anticipation of installing the hardware in a home or business when they create a new subscriber account, or for use in an existing subscriber's property. The purchase of hardware occurs in a transaction that is separate and typically in advance of the purchase of our platform services. Service providers transact with us to purchase our platform solutions and resell our solutions to a new subscriber, or to upgrade or downgrade the solutions of an existing subscriber, at which time the subscriber's access to our platform solutions is enabled and the delivery of the services commences. The purchase of hardware and the purchase of our platform solutions are separate transactions as, at the point of sale of the hardware, the service provider is not obligated to purchase a platform solution for the hardware sold, and the level and duration of platform solutions, if any, to be provided through the hardware sold cannot be determined.

We recognize revenue with respect to our solutions when all of the following conditions are met:

• Persuasive evidence of an arrangement exists;

• Delivery to the customer, which may be either a service provider, distributor or a subscriber, has occurred or service has been rendered;

• Fees are fixed or determinable; and

• Collection of the fees is reasonably assured.

We consider a signed contract with a service provider to be persuasive evidence that an agreement exists, and the fees to be fixed or determinable if the fees are contractually agreed to with our service providers. Collectability is evaluated based on a number of factors, including a credit review of new service providers, and the payment history of existing service providers. If collectability is not reasonably assured, revenue is deferred until collection becomes reasonably assured, which is generally upon the receipt of payment.

**SaaS and License Revenue**

We generate the majority of our SaaS and license revenue primarily from monthly fees charged to our service providers sold on a per subscriber basis for access to our cloud-based connected home platform and the related solutions. Our fees per subscriber vary based upon the service plan and features utilized.

Under negotiated terms in our contractual arrangements with our service providers, we are entitled to, and recognize revenue based on a monthly fee that is billed in advance of the month of service. We have demonstrated that we can sell our SaaS offering on a stand-alone basis, as it can be sold separately from hardware and activation services. As there is no minimum required initial service term nor is there a stated renewal term in our contractual arrangements, we recognize revenue over the period of service, which is monthly. Our service providers typically incur and pay the same monthly fee per subscriber account for the entire period a subscriber account is active.

We offer multiple service level packages for our solutions including a range of solutions and a range of a la carte add-ons for additional features. The fee paid by our service providers each month for the delivery of our solutions is based on the combination of packages and add-ons enabled for each subscriber. We utilize tiered pricing plans where our service providers may receive prospective pricing discounts driven by volume.

We also generate SaaS and license revenue from the fees paid to us when we license our intellectual property to service providers on a per customer basis for use of our patents. In addition, in some markets our EnergyHub subsidiary sells its demand response software with an annual service fee, with pricing based on the number of

subscribers or amount of aggregate electricity demand made available for a utility's or market's control.

#### Hardware and Other Revenue

We generate hardware and other revenue primarily from the sale of cellular radio modules that provide access to our cloud-based platform and, to a lesser extent, the sale of other devices, including video cameras, image sensors and peripherals. We recognize hardware and other revenue when the hardware is received by our service provider or distributor, net of a reserve for estimated returns. Amounts due from the sale of hardware are payable in accordance with the terms of our agreements with our service providers or distributors, and are not contingent on resale to end-users, or to service providers in the case of sales of hardware to distributors. Our terms for hardware sales sold directly to either service providers or distributors typically allow for

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ALARM.COM HOLDINGS, INC.

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the return of hardware up to one year past the date of sale. Our distributors sell directly to our service providers under terms between the two parties. We record a percentage of hardware and other revenue of approximately 2 to 4%, based on historical returns, as a reserve against revenue for hardware returns. We evaluate our hardware reserve on a quarterly basis or if there is an indication of significant changes in return experience. Historically, our returns of hardware have not significantly differed from our estimated reserve.

Hardware and other revenue also includes activation fees charged to service providers for activation of a new subscriber account on our platform, as well as fees paid by service providers for our marketing services. Our service providers use services on our platform to assist in the installation of our solutions in a subscriber's property. This installation marks the beginning of the service period on our platform and on occasion, we earn activation revenue for fees charged for this service. The activation fee is non-refundable, separately negotiated and specified in our contractual arrangements with our service providers and is charged to the service provider for each subscriber activated on our platform. Activation fees are not offered on a stand-alone basis separate from our SaaS offering and are billed and received at the beginning of the arrangement. We record activation fees initially as deferred revenue and we recognize these fees ratably over the expected term of the subscribers' account which we estimate is ten years based on our annual attrition rate. The portion of these activation fees included in current and long-term deferred revenue as of our balance sheet date represents the amounts that will be recognized ratably as revenue over the following twelve months, or longer as appropriate, until the ten-year expected term is complete. The combined current and long-term balance for deferred revenue for activation fees was \$11.0 million and \$10.3 million as of December 31, 2015 and 2014.

**Cost of Revenue**

Our cost of SaaS and license revenue primarily includes the amounts paid to wireless network providers and, to a lesser extent, the costs of running our network operation centers which are expensed as incurred. Our cost of hardware and other revenue primarily includes cost of raw materials and amounts paid to our third-party manufacturer for production and fulfillment of our cellular radio modules and image sensors, and procurement costs for our video cameras, which we purchase from an original equipment manufacturer, and other devices. We carry our inventory at lower cost or market and the cost is charged to cost of sales on a FIFO basis when the inventory is shipped from our manufacturer and received by our service providers. Our cost of revenue excludes amortization and depreciation.

**Fair Value Measurements**

The accounting standard for fair value measurements provides a framework for measuring fair value and requires disclosures regarding fair value measurements. Fair value is defined as the price that would be received for an asset or the exit price that would be paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants on the measurement date. This accounting standard established a fair value hierarchy, which requires an entity to maximize the use of observable inputs, where available. The following summarizes the three levels of inputs:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date;

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for similar assets and liabilities, either directly or indirectly; quoted prices in markets that are not active; and

Level 3 - Unobservable inputs supported by little or no market activity.

The carrying amount of financial assets, including cash and cash equivalents, accounts receivable and accounts payable approximates fair value because of the short maturity and liquidity of those instruments.

Assets and Liabilities Measured at Fair Value on a Recurring Basis - In 2013 and 2014, we had an available for sale investment and derivatives that were recorded at fair value on a recurring basis. In 2015, we recorded at fair value on a

recurring basis a liability for two subsidiary awards and a contingent consideration liability related to an acquisition. Assets Measured at Fair Value on a Nonrecurring Basis - We measure certain assets, including property and equipment, goodwill, intangible assets, cost and equity method investments at fair value on a nonrecurring basis. These assets are recognized at fair value when they are deemed to be other-than-temporarily impaired.

#### Concentration of Credit Risk

The financial instruments that potentially subject us to concentrations of credit risk consists principally of cash and cash equivalents and accounts receivables. All of our cash and cash equivalents are held at financial institutions that management believes to be of high credit quality. Our cash and cash equivalent accounts may exceed federally issued limits at times. We have not experienced any losses on cash and cash equivalents to date. To manage accounts receivable risk, we evaluate the credit worthiness of our service providers and maintain an allowance for doubtful accounts. The majority of our accounts receivable balance is made up of our service providers in North America. We assess the concentrations of credit risk with respect to accounts receivables based on one industry and geographic region and feel that our reserve for uncollectible accounts is appropriate based on our history and this concentration.



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ALARM.COM HOLDINGS, INC.

Notes to the Consolidated Financial Statements - (Continued)

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**Stock-Based Compensation**

We compensate our executive officers, board of directors and our employees with incentive stock-based compensation plans. In June 2015, our board of directors adopted, our stockholders approved, and we registered the shares for our 2015 Equity Incentive Plan (the "2015 Plan"), pursuant to which we reserved and registered 4,700,000 shares of common stock for issuance to our employees, directors and non-employee directors and consultants. The registration included 141,222 shares of our common stock previously reserved for issuance under our Amended and Restated 2009 Stock Incentive Plan (the "2009 Plan") that were added to the shares reserved under the 2015 Plan upon its effectiveness.

We record stock-based compensation expense based upon the award's grant date fair value and use an accelerated attribution method, net of estimated forfeitures, in which compensation cost for each vesting tranche in an award is recognized ratably from the service inception date to the vesting date for that tranche. Our equity awards generally vest over five years and are settled in shares of our common stock. During 2015, 2014 and 2013, we recognized compensation expense of \$4.1 million, \$3.3 million and \$0.8 million, and associated income tax benefit of \$0.7 million, \$0.8 million and \$0.2 million, respectively, in connection with our stock-based compensation plans. We account for stock-based compensation arrangements with non-employees using a fair value approach. The fair value of these options is measured using the Black-Scholes option pricing model reflecting the same assumptions as applied to employee options in each of the reported periods, other than the expected life, which is assumed to be the remaining contractual life of the option. The compensation costs of these arrangements are subject to remeasurement over the vesting terms, as earned.

**Employee Stock Purchase Plan**

We adopted our Employee Stock Purchase Plan (the "2015 ESPP") in June 2015. Under the 2015 ESPP, 1,200,000 shares have been initially reserved for future grant with provisions established to increase the number of shares available on January 1 of each subsequent year for nine years. The annual automatic increase in the number of shares available for issuance under the 2015 ESPP is the lesser of 1% of each class of common stock outstanding as of December 31 of the preceding fiscal year, 1,500,000 shares of common stock or such lesser number as determined by the board of directors. The 2015 ESPP allows eligible employees to purchase shares of our common stock at 90% of the fair market value, rounded up to the nearest cent, based on the closing price of our common stock on the purchase date. The maximum number of shares of our common stock that a participant may purchase during any calendar year shall not exceed such number of shares having a fair market value equal to the lesser of \$15,000 or 10% of the participant's base compensation for that year.

The 2015 ESPP is considered compensatory for purposes of share-based compensation expense due to the 10% discount on the fair market value of the common stock. In 2015, there were no purchases of shares as our first offering period under the plan ended on February 15, 2016. We recognized less than \$0.1 million of compensation expense in 2015. Compensation expense is recognized for the amount of the discount, net of forfeitures, over the six-month purchase period, based on the monthly closing price of our common stock as an estimate of the final purchase price for the period. This estimate is adjusted monthly until the purchase is finalized. As of December 31, 2015, 1,200,000 shares remain available for future issuance.

**Business Combinations**

The purchase price of an acquisition is allocated to the assets acquired, including intangible assets, and liabilities assumed, based on their respective fair values at the acquisition date. Acquisition-related costs are expensed as incurred. The excess of the cost of an acquired entity over the net of the amounts assigned to the assets acquired and liabilities assumed is recognized as goodwill. The net assets and results of operations of an acquired entity are included in our consolidated financial statements from the acquisition date.

#### Impairment of Long-Lived Assets

We evaluate the recoverability of our long-lived assets for impairment whenever events or circumstances indicate that the carrying amount of the assets may not be recoverable. Recoverability of long-lived assets are measured by comparison of the carrying amount of the asset to the future undiscounted cash flows the asset is expected to generate. If the asset is considered to be impaired, the amount of any impairment is measured as the difference between the carrying value and the fair value of the impaired asset.

#### Goodwill and Intangible Assets

Goodwill represents the excess of (1) the aggregate of the fair value of consideration transferred in a business combination, over (2) the fair value of assets acquired, net of liabilities assumed. Goodwill is allocated to our reporting units, which are our operating segments or one level below our operating segments. Goodwill is not amortized, but is subject to annual impairment tests. We perform our annual impairment review of goodwill on October 1 and when a triggering event occurs between annual impairment tests. We test our goodwill at the reporting unit level. We review goodwill for impairment using the two-step process if, based on our assessment of the qualitative factors, we determine that it is more likely than not that the fair value of a reporting unit is less than its carrying value.

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ALARM.COM HOLDINGS, INC.

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For our 2015 annual impairment review, we performed a qualitative assessment for our Alarm.com reporting unit, our only reporting unit with a goodwill balance. This reporting unit had a fair value that exceeded its carrying value by more than 100% in the last quantitative assessment performed in 2014. We perform a quantitative analysis every three years. We first assessed qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Qualitative factors we consider include, but are not limited to, macroeconomic conditions, industry and market conditions, company specific events, changes in circumstances and market capitalization. For the year ended December 31, 2015, we assessed the qualitative factors and determined that it was more likely than not that the fair value of the reporting unit exceeded the carrying value and that the two-step impairment test was not required.

If a two-step impairment test is required, the fair value of the reporting unit is compared with its carrying value (including goodwill). If the fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit and step two is required to measure the amount of the impairment, if any. Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation and the residual fair value after this allocation is the implied fair value of the reporting unit goodwill. If the carrying value of goodwill exceeds the implied fair value, an impairment charge would be recorded to operating expenses in the period the determination is made. If the fair value of the reporting unit exceeds its carrying value, step two does not need to be performed. Intangible assets are initially valued at fair value using generally accepted valuation methods appropriate for the type of intangible asset. Intangible assets with definite lives are amortized over their estimated useful lives and are reviewed for impairment if indicators of impairment arise. The fair value of the intangible assets is compared with their carrying value and an impairment loss would be recognized for the amount by which the carrying amount exceeds the fair value. For the year ended December 31, 2015, we determined there were no indicators of impairment of our definite-lived intangible assets.

**Advertising Costs**

We expense advertising costs as incurred. Advertising costs totaled \$3.7 million, \$5.9 million and \$8.2 million for the years ended December 31, 2015, 2014 and 2013. Advertising costs are included within sales and marketing expenses on our consolidated statements of operations.

**Accounting for Income Taxes**

We account for income taxes under the asset and liability method as required by accounting standards codification, or ASC 740, "Income Taxes," which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that are included in the financial statements. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

We record net deferred tax assets to the extent we believe these assets will more likely than not be realized. In making such a determination, we consider all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations.

We are subject to income taxes in the United States. Significant judgment is required in evaluating uncertain tax positions. We record uncertain tax positions in accordance with ASC 740-10 on the basis of a two-step process whereby (1) we determine whether it is more likely than not that the tax positions will be sustained based on the

technical merits of the position, and (2) with respect to those tax positions that meet the more-likely-than-not recognition threshold, we recognize the largest amount of tax benefit that is greater than 50% likely to be realized upon ultimate settlement with the related tax authority. We record interest and penalties as a component of our income tax provision.

#### Earnings per Share (“EPS”)

Our basic net (loss) / income per share attributable to common stockholders is calculated by dividing the net income attributable to common stockholders by the weighted-average number of shares of common stock outstanding for the period.

Our diluted net (loss) / income per share attributable to common stockholders is calculated by giving effect to all potentially dilutive common stock when determining the weighted-average number of common shares outstanding. For purposes of the diluted net (loss) / income per share calculation, options to purchase common stock, redeemable convertible preferred stock, and unvested shares issued upon the early exercise of options that are subject to repurchase are considered to be potential common stock.

We have issued securities other than common stock that participate in dividends (“participating securities”), and therefore utilize the two-class method to calculate net (loss) / income per share. These participating securities include redeemable convertible preferred stock and unvested shares issued upon the early exercise of options that are subject to repurchase, both of which have non-forfeitable rights to participate in any dividends declared on our common stock. The two-class method requires a

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portion of net income to be allocated to the participating securities to determine the net (loss) / income attributable to common stockholders. Net (loss) / income attributable to the common stockholders is equal to the net income less dividends paid on preferred stock and unvested shares with any remaining earnings allocated in accordance with the bylaws between the outstanding common and preferred stock as of the end of each period.

Recent Accounting Pronouncements

Adopted

On November 20, 2015, the FASB issued ASU 2015-17, "Income Taxes (Topic 740) Balance Sheet Classification of Deferred Taxes," which simplifies the presentation of deferred income taxes and requires entities to classify deferred income tax liabilities and assets as noncurrent on the balance sheet. Prior to this accounting standard update, Topic 740, Income Taxes, required an entity to separate deferred income tax liabilities and assets for each jurisdiction into current and noncurrent amounts on the balance sheets. The amendments in this update may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. The amendment is effective for annual periods, including periods within those annual periods beginning after December 15, 2016 with early adoption permitted. In the fourth quarter of 2015, we early adopted and retrospectively applied this update for all periods presented. To retrospectively adopt this pronouncement, we reclassified the previously reported \$3.2 million current portion of deferred tax assets to long-term deferred tax assets on our balance sheet as of December 31, 2014.

On August 18, 2015, the FASB issued ASU 2015-15, "Interest- Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements - Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015, EITF Meeting," which clarifies the application of ASU 2015-03 related to presentation and subsequent measurement of debt issuance costs related to line-of-credit arrangements to allow for an entity to defer and present debt issuance costs as an asset and subsequently amortize the deferred debt issuance costs ratably over the line-of-credit arrangement, regardless of whether there are any outstanding borrowings. ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs," otherwise requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability, consistent with the presentation of a debt discount. We adopted these pronouncements in the third quarter of 2015. The adoption did not have an impact on our financial statements. We continue to present the debt issuance costs associated with our revolving credit facility as an asset that is amortized ratably over the term of the agreement.

On April 10, 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity," which amends the definition of a discontinued operation in ASC 205-20 and requires entities to provide additional disclosures about discontinued operations as well as disposal transactions that do not meet the discontinued operations criteria. The guidance narrowed the definition of discontinued operations for disposal of a component or group of components that represents a strategic shift that has or will have a major impact on an entity's operations or financial results. The guidance also expands the scope to include equity method investments and businesses that, upon initial acquisition, qualify as held for sale. The expanded disclosure requirements include statement of financial position and statement of cash flows disclosures for all comparative periods. The ASU 2014-08 is effective prospectively for all disposals (or classifications as held for sale) in periods beginning on or after December 15, 2014 with early adoption permitted. We adopted this pronouncement in the first quarter of 2015, and it did not have a material impact on our financial statements.

Not yet adopted

On February 25, 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)" which requires lessees to recognize assets and liabilities for operating leases with lease terms greater than twelve months in the balance sheet. The update also requires improved disclosures to help users of financial statement better understand the amount, timing and

uncertainty of cash flows arising from leases. The update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. We are required to adopt ASU 2016-02 in the first quarter of 2019, and we are currently assessing the impact of this pronouncement on our financial statements.

On January 5, 2016, the FASB issued ASU 2016-01, "Financial Instruments - Overall (Subtopic 825-10)" which requires all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee). The amendments allow equity investments that do not have readily determinable fair values to be remeasured at fair value either upon the occurrence of an observable price change or upon identification of an impairment. The amendments also require enhanced disclosures about those investments. The amendments improve financial reporting by providing relevant information about an entity's equity investments and reducing the number of items that are recognized in other comprehensive income. The amendments in this update also simplify the impairment assessment of equity investments without readily determinable fair values by requiring assessment for impairment qualitatively at each reporting period, similar to the qualitative assessment for long-lived assets, goodwill, and indefinite lived intangible assets. Upon determining that impairment exists, an entity should calculate the fair value of that investment and recognize as an impairment in net income any amount by which the carrying value exceeds the fair value

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of the investment. This impairment assessment reduces the complexity of the other-than-temporary impairment guidance entities were required to follow before the issuance of this update. In addition, the amendments require entities that are required to disclose the fair value of financial instruments measured at amortized cost on the balance sheet to measure that fair value using exit price notion consistent with Topic 820, Fair Value Measurement and supersedes the requirement to disclose the methods and significant assumptions used in calculating the fair value of financial instruments. The amendments in this update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, with early adoption permitted under early application guidance outlined in the update. We are required to adopt this pronouncement in the first quarter of 2018, and we do not anticipate that adoption of the pronouncement will have a material impact on our financial statements.

On September 25, 2015, the FASB issued ASU 2015-16, "Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments," which requires entities to apply the guidance prospectively to adjustments to provisional amounts that occur after the effective date. Under current guidance, the acquirer retrospectively adjusts provisional amounts recognized as of the acquisition date with a corresponding adjustment to goodwill. Adjustments are required when new information is obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts initially recognized or would have resulted in the recognition of additional assets or liabilities. The amendments in ASU 2015-16 eliminate the requirement to retrospectively account for those adjustments. The amendment is effective for annual periods, including periods within those annual periods beginning after December 15, 2015 with early adoption permitted. We are required to adopt this pronouncement prospectively in the first quarter of 2016, and we do not anticipate that adoption of the pronouncement will have a material impact on our financial statements.

On August 12, 2015, the FASB issued ASU 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date," which defers the effective date for all entities for one year of ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)," issued on May 28, 2014. ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. The guidance supersedes the revenue recognition guidance in Topic 605, "Revenue Recognition," and most industry-specific guidance throughout the Industry Topics of the FASB Accounting Standards Codification. The guidance also supersedes some cost guidance included in Subtopic 605-35, "Revenue Recognition - Contract-Type and Production-Type Contracts." ASU 2014-9, as amended, is effective for annual periods, and interim periods within those years, beginning after December 31, 2017. An entity is required to apply the amendments using one of the following two methods: (1) retrospectively to each prior period presented with three possible expedients: (a) for completed contracts that begin and end in the same reporting period no restatement is required; (b) for completed contract with variable consideration an entity may use the transaction price at completion rather than restating estimated variable consideration amounts in comparable reporting periods; and (c) for comparable reporting periods before date of initial application reduced disclosure requirements related to transaction price; (2) retrospectively with the cumulative effect of initially applying the amendment recognized at the date of initial application with additional disclosures for the differences of the prior guidance to the reporting periods compared to the new guidance and an explanation of the reasons for significant changes. We are required to adopt ASU 2014-09 in the first quarter of 2018, and we are currently assessing the impact of this pronouncement on our financial statements.

On July 22, 2015, the FASB issued ASU 2015-11, "Simplifying the Measurement of Inventory," which requires entities to measure most inventory "at the lower of cost and net realizable value," thereby simplifying the current guidance under which an entity must measure inventory at the lower of cost or market (market in this context is defined as one of three different measures). The guidance does not apply to inventories that are measured by using either the last-in,

first-out method or the retail inventory method. Under current guidance, an entity subsequently measures inventory at the lower of cost or market, with market defined as replacement cost provided that it is not above the ceiling (net realizable value) or below the floor (net realizable value less an approximately normal profit margin) which is unnecessarily complex. The amendment does not change other guidance on measuring inventory. The amendment is effective for annual periods, including periods within those annual periods beginning after December 15, 2016 with early adoption permitted. We are required to adopt this pronouncement prospectively in the first quarter of 2017, and we are currently assessing the impact of this pronouncement on our financial statements.

On April 15, 2015, the FASB issued ASU 2015-05, "Intangibles - Goodwill and Other - Internal- Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement," which clarifies the accounting for fees paid by a customer in a cloud computing arrangement by providing guidance as to whether an arrangement includes the sale or license of software. The amendment requires a customer to determine whether a cloud computing arrangement contains a software license. If the arrangement contains a software license, the customer would account for the fees related to the software license element in a manner consistent with how the acquisition of other software licenses is accounted for under ASC 350-40; if the arrangement does not contain a software license, the customer would account for the arrangement as a service contract. The guidance will not change GAAP for a customer's accounting for service contracts. The amendment is effective for annual periods, including periods within those annual periods beginning after December 31, 2015 with early adoption permitted. We can elect to adopt the amendments either prospectively to all arrangements entered into or materially modified after the effective date or retrospectively. We are required to adopt this pronouncement in the first quarter of 2016, and we do not anticipate that adoption of the pronouncement will have a material effect on our financial statements.



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On February 18, 2015, the FASB issued ASU 2015-02, "Consolidation (Topic 810): Amendments to the Consolidation Analysis," which requires an entity to evaluate whether it should consolidate certain legal entities. All legal entities are subject to reevaluation under the revised consolidation model. The amendment modifies the evaluation of whether limited partnerships and similar legal entities are variable interest entities ("VIEs"). The amendment eliminates the presumption that a general partner should consolidate a limited partnership. The amendment affects the consolidation analysis of reporting entities that are involved with VIEs particularly those that have fee arrangements and related party relationships. The amendment also provides a scope exception from consolidation guidance for reporting entities that comply with the requirements for registered money market funds. We are required to adopt ASU 2015-02 in the first quarter of 2016, and we do not anticipate that adoption of the pronouncement will have a material effect on our financial statements.

On August 27, 2014, the FASB issued ASU 2014-15, "Presentation of Financial Statements — Going Concern (Subtopic 205-40)," which requires management to perform interim and annual assessments regarding conditions or events that raise substantial doubt about a company's ability to continue as a going concern and to provide related disclosures, if applicable. We are required to adopt ASU 2014-15 in the first quarter of 2017, with early adoption permitted. We do not anticipate that the adoption of this standard will have a material effect on our financial statements.

On June 19, 2014, the FASB issued ASU 2014-12, "Compensation - Stock Compensation (Topic 718)," which affects any entity that grants its employees share-based payments in which the terms of the award stipulate that a performance target that affects vesting could be achieved after the requisite service period. The amendments require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. We are required to adopt ASU 2014-12 in the first quarter of 2016 and the adoption of this standard is not expected to have a material effect on our financial statements.

## Note 3. Accounts Receivable, Net

The components of accounts receivable are as follows (in thousands):

	December 31,	
	2015	2014
Accounts receivable	\$24,779	\$20,494
Allowance for doubtful accounts	(1,315	) (1,397
Allowance for product returns	(2,116	) (1,838
Accounts receivable, net	\$21,348	\$17,259

For the years ended December 31, 2015, 2014 and 2013, we recorded a \$1.6 million, \$1.9 million and \$1.8 million reserve for product returns in our hardware and other revenue. For the years ended December 31, 2015, 2014 and 2013, we recorded a \$0.3 million, \$1.4 million and \$0.6 million provision for doubtful accounts receivable. Historically, we have not experienced write-offs for uncollectible accounts or sales returns that have differed significantly from our estimates.

## Note 4. Inventory

The components of inventory are as follows (in thousands):

	December 31,	
	2015	2014

Raw materials	\$3,026	\$3,371
Finished goods	3,448	3,481
Total inventory	\$6,474	\$6,852

Note 5. Property and Equipment, net

Furniture and fixtures, computer software and equipment and leasehold improvements are recorded at cost and presented net of depreciation. Furniture and fixtures and computer software and equipment are depreciated straight-line over lives ranging from three to five years. Internally developed internal-use software is amortized on a straight-line basis over a three year period. During the application development phase we categorize capitalized costs in our construction in progress account until the build

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is put into production and we move the asset to internal-use software. We record land at historical cost. Leasehold improvements are amortized on a straight-line basis over the shorter of the lease terms or the asset lives.

The components of property and equipment are as follows (in thousands):

	December 31	
	2015	2014
Furniture and fixtures	\$2,257	\$1,097
Computer software and equipment	8,297	6,524
Internal-use software	975	555
Construction in progress	8,662	2,002
Leasehold improvements	3,387	2,983
Land	398	398
Total property and equipment	\$23,976	\$13,559
Accumulated depreciation	(8,530	) (5,429
Property and equipment, net	\$15,446	\$8,130

Depreciation expense related to property and equipment for the years ended December 31, 2015, 2014 and 2013 was \$3.6 million, \$2.4 million and \$1.3 million. Included in the those amounts, was depreciation expense related to internal-use software of \$0.3 million, \$0.1 million and \$16,000 for the years ended December 31, 2015, 2014 and 2013. For the year ended December 31, 2015, we disposed of and wrote off \$0.5 million of primarily fully depreciated property and equipment.

## Note 6. Acquisitions

## SecurityTrax Acquisition

On March 13, 2015, in accordance with an asset purchase agreement, we completed our purchase of certain assets of HiValley Technology, Inc., (“SecurityTrax”) that constituted a business. SecurityTrax is a provider of SaaS-based, customer relationship management software tailored for security system dealers. The consideration included \$5.6 million cash paid at closing, \$0.4 million of cash not yet paid and established a contingent liability of \$0.7 million for earn-out considerations to be paid to the former owners. The agreement also contains \$2.0 million in potential payments associated with the continued employment of key employees through March 31, 2018 that will be accounted for as compensation expense over the period. We included the results of SecurityTrax’s operations since its acquisition date in the Alarm.com segment (see Note 20). During 2015, we paid \$0.2 million of the cash not yet paid and the remaining \$0.2 million balance as of December 31, 2015 was included in other current liabilities on our consolidated balance sheet.

The table below sets forth the consideration paid to SecurityTrax’s sellers and the estimated fair value of the tangible and intangible net assets acquired (in thousands):

	2015
Calculation of Consideration:	
Cash paid, net of working capital adjustment	\$5,612
Cash not yet paid	400
Contingent consideration liability	700
Total consideration	\$6,712
Estimated Tangible and Intangible Net Assets:	
Current assets	\$14

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Customer relationships	1,699	
Developed technology	1,407	
Trade name	271	
Current liabilities	(7	)
Goodwill	3,328	
Total estimated tangible and intangible net assets	\$6,712	

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Goodwill of \$3.3 million reflects the value of acquired workforce and expected synergies from pairing SecurityTrax's solutions to security service providers with our offerings. The goodwill will be deductible for tax purposes. We developed our estimate of the fair value of intangible net assets using a multi-period excess earnings method for customer relationships, the relief from royalty method for the developed technology, replacement cost method for the developed technology home page and the relief from royalty method for the trade name. The purchase price allocation presented above was finalized in 2015.

**Fair Value of Net Assets Acquired and Intangibles**

In accordance with ASC 805, the assets and liabilities of SecurityTrax we acquired were recorded at their respective fair values as of March 13, 2015, the date of the acquisition.

**Customer Relationships**

We recorded the customer relationships intangible separately from goodwill based on determination of the length, strength and contractual nature of the relationship that SecurityTrax shared with its customers. We valued two groups of customer relationships using the multi-period excess earnings method, an income approach. We used several assumptions in the income approach, including revenue growth, operating expenses, charge for contributory assets, and a 22.5% discount rate used to calculate the present value of the cash flows. For the second group of customer relationships, we used the same assumptions in addition to a customer retention rate of 90%. We are amortizing the customer relationships, valued at \$1.7 million, on a straight-line basis over a weighted-average estimated useful life of 7 years.

**Developed Technology**

Developed technology recorded separately from goodwill consists of intellectual property such as proprietary software used internally for revenue producing activities. SecurityTrax's proprietary software is offered for sale on a SaaS hosted basis to customers. We valued the developed technology by applying the relief from royalty method, an income approach. We used several assumptions in the relief from royalty method, which included revenue growth, a market royalty rate of 25% and a 22.5% discount rate used to calculate the present value of the cash flows. An additional component of the developed technology which we refer to as the "home page" organized customer data and functioned as the billing and administration tool. We valued the home page component by applying the replacement cost model, a cost approach. We used several assumptions in the replacement cost approach, which included analyzing costs that a company would expect to incur to recreate an asset of equivalent utility. In addition, we made an adjustment for developer's profit of 30.4% which brought the asset to fair value on an exit-price basis. We are amortizing the developed technology, valued at \$1.4 million, on a straight-line basis over a weighted-average estimated useful life of 8 years.

**Contingent Consideration Liability**

The amount of contingent consideration liability to be paid, up to a maximum of \$2.0 million, to the former owners will be determined based on revenue and EBITDA of the acquired business for the year ended December 31, 2017. We estimated the fair value of the contingent consideration liability by using a Monte Carlo simulation model for determining projected revenue by using an expected distribution of potential outcomes. The fair value of contingent consideration liability is calculated with thousands of projected revenue outcomes, the results of which are averaged and then discounted to estimate the present value. We used several assumptions including an 8.45% discount rate and a 7.5% revenue risk adjustment. We recorded the contingent consideration, valued at \$0.7 million, as a contingent consideration liability in other liabilities in our consolidated balance sheet. At each reporting date, we remeasure the liability and record any changes in general and administrative expense, until we pay the contingent consideration, if any, in the first quarter of 2018. The discount rate is based on the composite B rated yield as of the valuation date and has not changed, except for the additional discount rate for the difference between composite B rated yield and the

CCC credit rating, which has increased from 3.8% to 9.19% in 2015. As of December 31, 2015, we adjusted the fair value of the contingent consideration liability to \$0.2 million using the same method and an updated forecast with a 14.25% discount rate and a 4.7% revenue risk adjustment, which resulted in \$0.5 million of income for the year ended December 31, 2015.

#### Secure-i Acquisition

On December 8, 2014, in accordance with an asset purchase agreement, we completed our purchase of certain assets of Secure-i, Inc. ("Secure-i") that constituted a business. Secure-i is a provider of internet based remote video hosting services including off-site storage, viewing and management from web-based browsers and mobile applications. Total consideration included \$2.6 million in cash and \$0.3 million in cash not yet paid. We recorded \$0.7 million of intangibles and \$2.2 million of goodwill in connection with the acquisition. During the second quarter of 2015, we finalized the working capital adjustment and recorded an additional \$20 thousand of goodwill. We included the results of Secure-i's operations since its acquisition date in the Alarm.com segment (see Note 20). During 2015, we paid \$145,000 of the cash not yet paid and the remaining \$145,000 balance as of December 31, 2015 was included in other current liabilities on our consolidated balance sheet.

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The table below sets forth the consideration paid to Secure-i's sellers and the estimated fair value of the tangible and intangible net assets received in the acquisition (in thousands):

	2014
Calculation of Consideration:	
Cash paid, net of working capital adjustment	\$2,610
Cash not yet paid	290
Total consideration	\$2,900
Estimated Tangible and Intangible Net Assets:	
Current assets	\$ 16
Other long-term assets	43
Customer relationships	208
Developed technology	228
Other intangibles	262
Liabilities	(59 )
Goodwill	2,202
Total estimated tangible and intangible net assets	\$2,900

Goodwill of \$2.2 million reflects the value of acquired workforce and expected synergies between Secure-i's commercial video services and our offerings. The goodwill will be deductible for tax purposes. Our estimate of the fair value of tangible and intangible net assets was developed using a multi-period excess earnings method for customer relationships and the replacement cost method for developed technology. Included in other intangibles is a vendor relationship valued using the relief from royalty method and best practices materials valued using replacement cost method and a trade name valued using the relief from royalty method.

**Fair Value of Net Assets Acquired and Intangibles**

In accordance with ASC 805, the assets and liabilities of Secure-i we acquired were recorded at their respective fair values as of December 8, 2014, the date of the acquisition.

**Customer Relationships**

The customer relationships intangible was recorded separate from goodwill based on determination of the length, strength and contractual nature of the relationship that Secure-i shared with its customers. We valued this customer relationship information using the multi-period excess earnings method, an income approach. We used several assumptions in the income approach, including revenue growth, a customer retention rate of 90 percent, operating expenses, charge for contributory assets, and a 20 percent discount rate used to calculate the present value of the cash flows. The customer relationships, valued at \$0.2 million, are being amortized on a straight-line basis over the estimated useful life of 12 years.

**Developed Technology**

Developed technology recorded separately from goodwill consists of intellectual property such as proprietary software used internally for revenue producing activities. Secure-i's proprietary software is offered for sale on a SaaS hosted basis. The developed technology was valued by applying the replacement cost model, a cost approach. We used several assumptions in the replacement cost approach, which included analyzing costs that a company would expect to incur in order to recreate an asset of equivalent utility adjusted downward for by 20% to account for inflation and technical, functional or economic obsolescence. In addition, there was an adjustment for developer's profit of 35%

which brought the asset to fair value on an exit-price basis. The developed technology, valued at \$0.2 million, is being amortized on a straight-line basis over an estimated useful life of 3 years.

Horizon Analog Acquisition

On December 10, 2014, in accordance with an asset purchase agreement, we completed our purchase of certain assets of Horizon Analog, Inc. ("Horizon Analog") that constituted a business. Horizon Analog is a producer of research that focuses on cost-effective collection and analysis of data relating to energy usage and consumer behavior and energy disaggregation. Total consideration included \$0.6 million in cash and \$0.1 million in cash not yet paid. We recorded less than \$0.1 million of property



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and equipment and \$0.7 million of goodwill in connection with the acquisition, which reflects the acquired workforce and synergies expected from combining our operations with those of Horizon Analog. The goodwill is deductible for tax purposes. We included the results of Horizon Analog's operations since its acquisition date in the Alarm.com segment (see Note 20). During 2015, we paid \$72,000 of the cash not yet paid and the remaining \$72,000 balance as of December 31, 2015 was included in other current liabilities on our consolidated balance sheet.

**EnergyHub Acquisition**

On May 7, 2013, in accordance with a merger agreement, we completed our purchase of 100% of the stock of EnergyHub, Inc. ("EnergyHub"), a developer of software and hardware solutions focused on helping consumers, utilities, and service providers reduce energy consumption through EnergyHub's demand response and energy efficiency platform. We paid \$8.3 million in cash in initial consideration and established a contingent liability of \$5.8 million for earn-out considerations to be paid to the former owners. We included the results of EnergyHub's operations since its acquisition date in the Other segment (see Note 20).

The table below sets forth the consideration transferred to EnergyHub stockholders and the estimated fair value of tangible and intangible net assets received in the acquisition (in thousands):

	2013	
Calculation of Consideration:		
Cash paid, net of working capital adjustment	\$8,263	
Estimated contingent consideration liability	5,820	
 Total consideration	 \$14,083	
 Estimated Tangible and Intangible Net Assets:		
Current assets	\$173	
Other long-term assets	32	
Customer relationships	4,420	
Developed technology	2,320	
Trade name	860	
Deferred tax asset — long-term	4,755	
Current liabilities	(337	)
Deferred tax liability — long-term	(2,949	)
Goodwill	4,809	
 Total estimated tangible and intangible net assets	 \$14,083	

Goodwill of \$4.8 million represents the value of expected synergies between us and EnergyHub and is calculated as the total consideration less tangible and intangible net assets, including the value of acquired workforce. We estimate that goodwill will not be deductible for tax purposes. Our estimate of the fair value of tangible and intangible net assets was developed using a multi-period excess earnings method for customer relationships and the relief from royalty method for the developed technology intangible. Significant estimates used in the valuation included revenue growth rates, expense and contributory asset charges, royalty rates and the discount rate.

Management determined the estimated fair value of the contingent earn-out payments to be \$5.8 million. Payment of the earn-out consideration was principally contingent upon EnergyHub achieving certain agreed upon revenue targets during 2013 through 2015 and, if EnergyHub achieved those targets, we would be required to make payments at the end of 2013, 2014 and 2015 up to a maximum amount of \$16.8 million. See “Impairment” below for a discussion of the treatment of the earn-out in 2013 through 2015.

**Fair Value of Net Assets Acquired and Intangibles**

In accordance with ASC 805, the assets and liabilities of EnergyHub we acquired were recorded at their respective fair values as of May 7, 2013, the date of the acquisition.

**Customer Relationships**

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The customer relationships intangible was recorded separate from goodwill based on determination of the length, strength and contractual nature of the relationship that EnergyHub shared with its customers. We valued this customer relationship information using the multi-period excess earnings method, an income approach. We used several assumptions in the income approach, including revenue growth, a customer retention rate of 75 percent, operating expenses, charge for contributory assets and trade name, and a 24 percent discount rate used to calculate the present value of the cash flows. The customer relationships, valued at \$4.4 million, are being amortized on a straight-line basis over the estimated useful life of 4.5 years.

Developed Technology

Developed technology recorded separately from goodwill consists of intellectual property such as proprietary software used internally for revenue producing activities. EnergyHub's proprietary software, Mercury, is offered for sale on a SaaS hosted basis to customers and has an established revenue stream. The developed technology was valued by applying the relief from royalty method, an income approach. We used several assumptions in the relief from royalty method, including revenue growth, a royalty rate of 7 percent, and a 24 percent discount rate used to calculate the present value of cash flows. The developed technology, valued at \$2.3 million, is being amortized on a straight-line basis over an estimated useful life of 7.5 years.

Trade Name

The EnergyHub trade name was recorded separate from goodwill based on an evaluation of the importance of the trade name and the brand recognition in the market, the importance of the trade name to the EnergyHub's customers, and the amount of revenue associated with the trade name. In developing the estimated fair value, we valued the trade name utilizing the relief from royalty method, an income approach. Significant assumptions used in the relief from royalty method were revenue growth, royalty rate, and the discount rate to calculate the present value of cash flows. The trade name, valued at \$0.9 million, is being amortized on a straight-line basis over the estimated useful life of 7 years.

Impairment and Earn-out Obligation

A triggering event occurred in September 2013 that indicated an impairment of intangibles and goodwill had occurred related to our EnergyHub reporting unit. We determined that a potential strategic partnership agreement which was expected to contribute a material amount of revenue over the earn-out period was no longer expected to be executed. Therefore, EnergyHub's revenue over the earn-out period was expected to be materially less than originally estimated at the time of the acquisition. Revenue from this potential strategic partnership represented a material percentage of the revenue growth assumptions included in the forecast used to assign fair value to the customer relationships, developed technology and trade name. As a result, we prepared an interim review of the carrying value of goodwill and other intangible assets. The business failed step one of the goodwill impairment test, and we performed step two to determine the amount of the impairments. Under step one of the impairment analysis, EnergyHub was valued using the discounted cash flow method. To estimate the value of our total invested capital, the debt-free after tax cash flows for EnergyHub were discounted by a 25 percent required rate of return. We used the guideline company method to assess the reasonableness of this value. The total invested capital was compared to our carrying value to determine whether goodwill was impaired as indicated when the carrying value of EnergyHub is higher than the estimated value. The carrying value of the finite lived intangible assets (customer relationships, developed technology and trade name intangibles) were compared to the sum of our pre-tax and undiscounted cash flows, and we determined that the goodwill and intangible assets were impaired. We recognized an impairment charge for goodwill of \$4.8 million and intangible assets of \$6.5 million, which are recorded in general and administrative expense for the year ended December 31, 2013 in our consolidated statement of operations. Due to the triggering event, EnergyHub's revenue results were expected to be materially less than the revenue targets established in the earn-out agreement. Therefore

we determined that the earn-out fair value was zero for 2013 through 2015. We recorded a \$5.8 million gain on the release of the contingent liability in general and administrative expense for the year ended December 31, 2013 in our consolidated statement of operations. The earn-out had a fair value of \$0 as of December 31, 2015 and 2014.

#### Unaudited Pro Forma Information

The following pro forma data is presented as if (1) EnergyHub was included in our historical consolidated statements of operations beginning January 1, 2012, (2) Secure-i and Horizon Analog were included in our historical consolidated statements of operations beginning January 1, 2013 and (3) SecurityTrax was included in our historical consolidated statements of operations beginning January 1, 2014. These pro forma results do not necessarily represent what would have occurred if all the business combinations had taken place on January 1, 2012, 2013 and 2014, as applicable, nor do they represent the results that may occur in the future.

This pro forma financial information includes our historical financial statements and those of our business combinations with the following adjustments: (1) we adjusted for amortization expense assuming the fair value adjustments to intangible assets had been applied beginning January 1, 2012, 2013 and 2014, as applicable; (2) we adjusted for transaction costs incurred in 2015, 2014 and 2013 and reclassified them to 2014, 2013 and 2012, respectively, as applicable, and (3) we included adjustments for income taxes associated with these pro forma adjustments.

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The pro forma adjustments were based on available information and upon assumptions that we believe are reasonable to reflect the impact of these acquisitions on our historical financial information on a supplemental pro forma basis, as follows (in thousands):

	Pro forma Year Ended December 31,		
	2015	2014	2013
Revenue	\$209,110	\$168,921	\$131,295
Net income	11,722	12,476	4,794

**Business Combinations in Operations**

The operations of each of the business combinations discussed above were included in the consolidated financial statements as of each of their respective acquisition dates. The following table presents the revenue and earnings of the business combinations in the year of acquisition as reported within the consolidated financial statements for the years ended December 31, 2015 for SecurityTrax, December 31, 2014 for Secure-i and Horizon Analog and December 31, 2013 for EnergyHub (in thousands):

	Year Ended December 31,		
	2015	2014	2013
Revenue	\$986	\$41	\$410
Net loss	(436	) (140	) (4,391

**Note 7. Goodwill and Intangible Assets, Net**

The changes in goodwill by operating segment are outlined below for the years ended December 31, 2015 and 2014 (in thousands):

	Alarm.com	Other	Total
Balance as of January 1, 2014	\$18,480	\$—	\$18,480
Goodwill acquired	2,894	—	2,894
Balance as of December 31, 2014	21,374	—	21,374
Goodwill acquired	3,349	—	3,349
Balance as of December 31, 2015	\$24,723	\$—	\$24,723

In March 2015, we acquired SecurityTrax and recorded \$3.3 million of goodwill in the Alarm.com segment (See Note 6). In December 2014, we acquired Secure-i and Horizon Analog and recorded \$2.9 million of goodwill in the Alarm.com segment (See Note 6).

There were no impairments of goodwill recorded during the years ended December 31, 2015 or 2014. In the third quarter of 2013, we experienced a triggering event related to EnergyHub, which resulted in testing goodwill for impairment and subsequently recording a \$4.8 million goodwill impairment charge in general and administrative expense in the consolidated statement of operations for the year ended December 31, 2013 (See Note 6).

The following table reflects changes in the net carrying amount of the components of intangible assets for the years ended December 31, 2015 and 2014 (in thousands):

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	Customer Relationships	Developed Technology	Trade Name	Other	Total
Balance as of January 1, 2014	\$4,571	\$1,273	\$118	\$—	\$5,962
Intangible assets acquired	208	228	28	234	698
Amortization	(926)	(583)	(52)	(7)	(1,568)
Balance as of December 31, 2014	3,853	918	94	227	5,092
Intangible assets acquired	1,699	1,407	271	—	3,377
Amortization	(1,103)	(839)	(92)	(117)	(2,151)
Balance as of December 31, 2015	\$4,449	\$1,486	\$273	\$110	\$6,318

For the years ended December 31, 2015, 2014 and 2013, we recorded \$2.2 million, \$1.6 million and \$2.1 million of amortization related to our intangible assets. There were no impairments of long-lived assets during the years ended December 31, 2015 and 2014. During the third quarter of 2013, we experienced a triggering event related to EnergyHub and recorded an intangible asset impairment charge of \$6.5 million in general and administrative expense in the consolidated statement of operations for the year ended December 31, 2013 (See Note 6).

The following tables reflect the weighted-average remaining life and carrying value of finite-lived intangible assets as of December 31, 2015 and 2014 (in thousands):

	December 31, 2015			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	Weighted-average Remaining Life
Customer relationships	\$10,666	\$(6,217)	\$4,449	4.5
Developed technology	5,390	(3,904)	1,486	4.8
Trade name	914	(641)	273	4.7
Other	234	(124)	110	0.9
Total intangible assets	\$17,204	\$(10,886)	\$6,318	
	December 31, 2014			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	Weighted-average Remaining Life
Customer relationships	\$8,967	\$(5,114)	\$3,853	4.4
Developed technology	3,983	(3,065)	918	1.6
Trade name	643	(549)	94	1.8
Other	234	(7)	227	1.9
Total intangible assets	\$13,827	\$(8,735)	\$5,092	

The following table reflects the future estimated amortization expense for intangible assets (in thousands):

Year ending December 31,	Amortization
2016	1,726
2017	1,400
2018	1,329
2019	579
2020 and thereafter	1,284

Note 8. Investments in Other Entities

Cost Method Investment in Connected Home Service Provider

We own 20,000 Series A Convertible Preferred Membership Units and 2,667 Series B Convertible Preferred Membership units of a Brazilian connected home solutions provider, which represents an interest of 12.4% on a fully diluted basis, and was purchased for \$0.4 million. On April 15, 2015, we purchased an additional 2,333 of Series B-1 Convertible Preferred Membership Units at \$23.31 per unit or \$0.1 million, which increased our aggregate equity interest to 12.6% on a fully diluted basis. The entity resells our products and services to residential and commercial customers in Brazil. Based upon the level of equity investment at

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risk, the connected home service provider is a VIE. We do not control the marketing, sales, installation, or customer maintenance functions of the entity and therefore do not direct the activities of the entity that most significantly impact its economic performance. We have determined that we are not the primary beneficiary of the entity and do not consolidate its financial results into ours. We account for this investment using the cost method. As of December 31, 2015 and 2014, the fair value of this cost method investment was not estimated as there were no events or changes in circumstances that may have had a significant adverse effect on the fair value of the investment. The \$0.4 million investment balance is included in other assets in our consolidated balance sheets as of December 31, 2015 and 2014.

**Investments in and Loans to an Installation Partner**

We own 48,190 common units of an installation partner, which represents an interest of 48.2% on a fully diluted basis, and was purchased for \$1.0 million. The entity performs installation services for security dealers, as well as subsidiaries reported in our Other segment. Based upon the level of equity investment at risk, we determined that the installation partner was not a VIE. We accounted for this investment under the equity method because we have the ability to exercise significant influence over the operating and financial policies of the entity. Under the equity method, we recognize our share of the earnings or losses of the installation partner in other (expense) / income, net in our consolidated statements of operations in the periods they are reported by the installation partner.

In September 2014, we loaned \$315,000 to our installation partner under a secured promissory note that accrues interest at 8.0%. The note receivable is included in other current assets in our consolidated balance sheets. Interest is payable monthly with the entire principal balance plus accrued but unpaid interest due at maturity in September 2016. This event did not cause us to reconsider our conclusion that the installation partner had sufficient equity investment at risk and therefore was not a VIE. We continued to account for the investment under the equity method.

In the fourth quarter of 2015, accumulated operating losses at our installation partner exceeded its equity contributions, and we began to record 100% of its net losses, or \$230,000, against our \$315,000 note receivable.

On December 11, 2015, we purchased an additional 9,290 common units of the same company for \$0.2 million, which did not change our proportional share of ownership interest. This event caused us to reconsider our conclusions that the installation partner has sufficient equity investment at risk and we now consider the installation partner to be a VIE. We do not control the ability to obtain funding, the annual operating plan, marketing, sales or cash management functions of the entity and therefore do not direct the activities of the entity that most significantly impact its economic performance. We have determined that we are not the primary beneficiary of our installation partner and do not consolidate its financial results into ours. We continue to account for the investment under the equity method. Due to this investment, the investment partner received additional equity contributions, and we returned to recording our share of its earnings or losses against our investment.

The loss in other (expense) / income, net was \$0.7 million, \$0.5 million and \$0.1 million for the years ended December 31, 2015, 2014 and 2013. The \$1.2 million investment, net of equity losses, is included in other assets in our consolidated balance sheets and was \$0.1 million and \$0.4 million as of December 31, 2015 and 2014. The note receivable is included in other current assets in our consolidated balance sheets and was \$0.1 million as of December 31, 2015. As of December 31, 2014 the note receivable was \$0.3 million and was included in other assets in our consolidated balance sheets.

**Investments in and Loans to a Platform Partner**

We have invested in the form of loans and equity investments in a platform partner which produces connected devices to provide it with the capital required to bring its devices to market and integrate them onto our connected home platform.

In 2013, a previous loan to the platform partner in the form of a note of \$250,000 plus accrued interest automatically converted into preferred shares during a qualified financing event where we paid \$3.5 million in cash to purchase



3,548,820 shares of our platform partner's Series A convertible preferred shares, or an 18.7% interest on as-converted and fully diluted basis. The terms of our investment in the convertible preferred shares included a freestanding option to make an additional investment in the platform partner (the "2013 Option"). We also loaned the same platform partner \$2.0 million in the form of a secured convertible note (the "2013 Note"). The 2013 Note converted automatically into equity at a 12.5% discount from the price per share at which new shares of capital stock are issued by the platform provider in a qualified financing (the "Automatic Conversion Feature").

We recorded the 2013 Option at its initial fair value of \$0.2 million. The 2013 Option did not meet the definition of derivative as it was private company stock that was not readily convertible into cash and therefore, was not measured at fair value at each reporting period. The investment in the Series A convertible preferred shares was recorded at its initial fair value of \$3.5 million and accounted for it as a cost method investment. The 2013 Note was accounted for as an available for sale security and was recorded at fair value in marketable securities at an initial fair value of \$1.9 million. For the year ended December 31, 2013, we recorded an unrealized gain of \$92,000, net of tax of \$36,000, in our consolidated statement of comprehensive income related to change in fair value. The Automatic Conversion Feature was an embedded derivative that required bifurcation from the 2013 Note. It was recorded at its initial fair value of \$0.1 million in other assets as a marketable security and was remeasured at fair value each reporting period with changes recorded in other (expense) / income, net. For the year ended December 31, 2013, we recorded a gain of \$63,000 in other (expense) / income, net in our consolidated statement of operations.

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In 2014, we entered into a Series 1 Preferred Stock purchase agreement with the platform partner and another investor. The other investor invested cash to purchase shares of the platform partner's Series 1 Preferred Stock. As a result of the purchase, our 3,548,820 shares of Series A convertible preferred shares converted into 3,548,820 shares of common stock, and we hold an 8.6% interest in the platform partner on an as-converted and fully diluted basis. In conjunction with the transaction, we received a \$2.5 million dividend that we recorded as a return of investment as it was in excess of the accumulated earnings and profits of the investee since the date of the investment. Additionally, the platform partner repaid the \$2.0 million 2013 Note and accrued interest of \$0.2 million and as a result, the Automatic Conversion Feature expired. As a result of the transaction, we recorded a \$62,000 realized gain on the 2013 Note, our 2013 Option and Automatic Conversion feature expired and we recognized \$200,000 and \$125,000 of impairment losses in other (expense) / income, net in our consolidated statement of operations for the year ended December 31, 2014.

Based upon the level of equity investment at risk, the platform partner is a VIE. We have concluded that we are not the primary beneficiary of the platform partner VIE. We do not control the product design, software development, manufacturing, marketing, or sales functions of the platform partner and, therefore, we do not direct the activities of the platform partner that most significantly impact its economic performance. We account for this investment under the cost method. As of December 31, 2015, the fair value of this cost method investment was not estimated as there were no events or changes in circumstances that may have had a significant adverse effect on the fair value of the investment.

As of December 31, 2015 and 2014, our \$1.0 million cost method investment in a platform partner was recorded in other assets in our consolidated balance sheets.

Note 9. Other Assets

Patent Licenses

From time to time, we enter into agreements to license patents. We have \$3.3 million in patent licenses related to two such agreements. We are amortizing the patent licenses over the estimated useful lives of the patents, which range from three to eleven years. The net balance as of December 31, 2015 and 2014 was \$2.2 million and \$1.5 million. Amortization expense on patent licenses was \$0.4 million for the year ended December 31, 2015 and \$0.2 million for each of the years ended December 31, 2014 and 2013 and is included in cost of SaaS and license revenue in our consolidated statements of operations.

Loan to a Distribution Partner

In 2013, we entered into a revolving loan agreement with a distribution partner. The distribution partner is also a service provider with whom we have a standard agreement to resell our connected home service and hardware. We evaluate the credit quality of our distribution partner for purposes of the revolving loan agreement using the same methods that we employ to evaluate its creditworthiness as a service provider, including a credit review at the inception of the arrangement and if risk indicators arise. At the inception of the loan agreement, we determined the credit quality of our distribution partner to be good. No risk indicators have arisen to cause us to change that assessment.

Under the terms of the revolving loan agreement, we agreed to loan our distribution partner up to \$2.8 million, with the proceeds of the loan used to finance the creation of new customer accounts that use our products and services. The amount that our distribution partner may draw down on the loan is based on the number of its qualifying new customer accounts created each month. The loan bears interest at a rate of 8.0% per annum, and requires monthly interest payments, with the entire principal balance due on the loan maturity date, July 24, 2018. The balance outstanding under the loan is collateralized by the customer accounts owned by our distribution partner, as well as all of the physical assets and accounts receivable associated with those customer accounts. As of December 31, 2015 and

2014, our distribution partner has borrowed \$2.4 million and \$2.0 million under this loan agreement, respectively, and this note receivable is included in other assets on our consolidated balance sheets.

**Deferred Offering Costs**

Deferred offering costs of \$0 and \$2.8 million, consisting primarily of legal and accounting fees, were included in other assets on the consolidated balance sheets as of December 31, 2015 and 2014. Upon the consummation of the IPO on July 1, 2015, aggregate deferred offering costs of \$5.0 million were offset against the proceeds of the offering.

**Marketable Securities**

We disposed of our marketable securities during the year ended December 31, 2014 and there were no marketable securities outstanding as of December 31, 2015 and 2014.

In 2014, we received repayment of the 2013 Note (see Note 8) and recorded a \$62,000 realized gain in other (expense) / income, net. Consequently, the Automatic Conversion Feature (see Note 8) expired and we recorded a \$125,000 impairment loss in other (expense) / income, net. There were no other-than-temporary impairments recognized in accumulated other comprehensive income in 2015, 2014, and 2013.

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Note 10. Fair Value Measurements

The following presents our assets and liabilities measured at fair value on a recurring basis as of December 31, 2015 and December 31, 2014 (in thousands):

	Fair Value Measurements on a Recurring Basis as of			
	December 31, 2015			
	Level 1	Level 2	Level 3	Total
Assets:				
Money market account	\$122,818	\$—	\$—	\$122,818
Liabilities:				
Subsidiary unit awards	—	—	(532	) (532