CONTROL4 CORP
Form 10-K
February 16, 2016

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   36017

Control4 Corporation

(Exact name of registrant as specified in its charter)

Delaware	42 1583209
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
11734 S. Election Road	
Salt Lake City, Utah	84020
(Address of principal executive offices)	(Zip Code)

(801) 523 3100

(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, $0.0001 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 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 definition of "accelerated filer", "large 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
                                                 (do not check if a
                                                 smaller reporting company)

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

The aggregate market value of voting and non voting common equity held by non affiliates of the registrant as of June 30, 2015 was approximately $156.6 million (based on a closing sale price of $8.89 per share as reported for the NASDAQ Global Select Market on June 30, 2015). For purposes of this calculation, shares of common stock held by officers, directors and their affiliated holders and shares of common stock held by persons who hold more than 10% of the outstanding common stock of the registrant have been excluded from this calculation because such persons may be deemed to be affiliates. This determination of executive officer or affiliate status is not necessarily a conclusive determination for other purposes.

As of February 9, 2016, 23,443,890 shares of the registrant's Common Stock, $0.0001 par value, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement relating to its 2015 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10 K where indicated. Such Proxy Statement

will be filed with the U.S. Securities and Exchange Commission ("SEC") within 120 days after the end of the fiscal year to which this report relates.

Control4 Corporation

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For Fiscal Year Ended December 31, 2015

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Cautionary Note Regarding Forward-Looking Statements

This Annual Report on Form 10-K ("Form 10-K") contains "forward-looking statements" that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. All statements other than statements of historical fact contained in this Form 10-K are 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. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "could," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential" or " negative of these terms or other comparable terminology. We caution investors that any forward-looking statements are made as of the date they were first issued and are based on management's beliefs, expectations, and on assumptions made by, and information currently available to, management. Forward-looking statements are subject to risks, assumptions and uncertainties, many of which involve factors or circumstances that are beyond Control4's control. Control4's actual results could differ materially from those stated or implied in forward-looking statements due to a number of factors, including but not limited to, those discussed in the section titled "Risk Factors" included in this Form 10-K, as well as other documents that may be filed by the Company from time to time with the SEC. Control4 urges investors to consider these factors carefully in evaluating the forward-looking statements contained in this Form 10-K and not to give any such forward-looking statement any undue reliance. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors, nor can we assess the impact of all such risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. The forward-looking statements included in this Form 10-K represent Control4's views as of the date of this Form 10-K, and the Company anticipates that subsequent events and developments will cause its views to change. Control4 undertakes no intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

References in this Form 10-K to the "Company," "Control4," "we," "us," and "our" refer to Control4 Corporation and, where appropriate, its subsidiaries, unless otherwise stated.

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PART I.

ITEM 1. Business

Overview

Control4 is a leading provider of personalized, smart home solutions that are designed to enhance the daily lives of our customers. Our entertainment, smart lighting, comfort and convenience, and safety and security solutions unlock the potential of connected devices throughout the house, making entertainment systems easier to use and more accessible, homes more comfortable and energy efficient, and families more secure. Our premium smart home solutions provide consumers with the ability to integrate audio, video, lighting, temperature, security, communications and other functionalities into a unified home-automation solution, customized to match their lifestyle. Our advanced software, delivered through our controller products, cloud services and user-interface product, powers this customized experience, enabling cohesive interoperability with thousands of connected Control4 and third-party devices in the home.

In addition to selling our products through our independent dealer channels, we also sell third-party connected devices through our online store available on our dealer website in order to increase our share of our customers' overall spending on home automation products. This strategy allows our dealers to access top performing brands and tightly integrated solutions without establishing individual relationships with each of these third-party manufacturers, providing a convenience to our dealers to enable them to more efficiently service our joint end customers.

Our solution functions as the operating system of the home and enterprise, making connected devices work together to control, automate and personalize the homes and businesses of our consumers.

Consumer need for simplicity and a personalized experience, combined with advances in technology, are driving rapid growth in the connected home market. As a result of the significant growth in smart devices, mobile data networks, home broadband access and in-home wireless networking, consumers are more comfortable with constant connectivity and device interoperability. Accustomed to continuous network connectivity and control of their digital lives, consumers are now looking for affordable ways to extend and enhance this functionality in their homes and businesses, driving growth in the mainstream home automation market.

We were founded in 2003 to deliver a premium home automation solution by enabling consumers to unify their connected devices into a personalized system at an accessible and affordable entry point, while retaining the ability to expand a home automation solution to include additional devices, services and features all the way to a luxurious,

fully-integrated whole-home experience. Sold through our worldwide network of over 3,500 active direct dealers, our solution sits at the center of the mainstream home automation market by providing connected, integrated and extensible control of over 9,300 third-party devices and services. These devices and services span a broad variety of product categories including music, video, lighting, temperature, security, communications and other devices. Our platform capabilities provide consumers with solutions that are easy to use, comprehensive, personalized, flexible and affordable.

Based on our analysis, we estimate that we have automated more than 226,000 homes representing cumulative sales of more than 489,000 of our controllers, the operating system of the connected home. We sell and deliver our solutions through an extensive worldwide dealer and distributor network and have solutions installed in 91 countries. In 2015, our top 100 dealers represented 22% of our total revenue and our top 10 dealers represented 6% of our total revenue.

In January 2016, we acquired Pakedge Device & Software, Inc. ("Pakedge"), a leader in advanced networking products, power distribution and management, as well as cloud network-managed services for both wireless and wired networking solutions in the connected home and business. The addition of Pakedge solutions allows us to offer innovative, integrated networking capabilities, which ensures that our consumers have a foundational system of connectivity that enables the seamless integration of connected devices throughout the home.

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We generated revenue of $128.5 million, $148.8 million and $163.2 million in 2013, 2014 and 2015, respectively. We had net income of $3.5 million and $8.2 million in 2013 and 2014, respectively, and a net loss of $1.7 million in 2015.

Our Industry

Within the last decade, the pace of innovation in the electronics industry has accelerated rapidly. Network-aware devices—such as televisions, smartphones, tablets, thermostats, audio systems, lighting, blinds, security systems and other appliances—that separately connect to a home network create the "connected controllable home." Home automation technology integrates devices in the connected home, unlocking the collective potential of these devices working together to improve consumers' lives. The home automation market is becoming a mainstream offering accessible by a broad base of consumers.

Whole home or business automation solutions unify the control of music, video, lighting, temperature, security, communications and other devices in the connected home or business to provide consumers with improved convenience, comfort, energy efficiency and security. The key functional elements of home or business automation include:

· Control. Controlling devices is the most basic capability of home automation solutions. From a single interface, consumers can operate a wide array of devices using wired or wireless connections. With the growth in smartphones and tablets, control functionality is increasingly extended to these mobile devices;

· Automation. After initial programming, automation enables devices to function without additional human intervention. Automation also enables various devices to work in concert to perform more complex tasks and to take actions based on external conditions;

· Personalization. Personalization enables home automation solutions to be tailored to the unique lifestyle requirements of individual consumers and their families. Personalization unlocks the full potential of home automation to enhance, enrich and simplify the lives of consumers; and

· Connectivity. An advanced networking system with the ability to provide reliable, scalable services for audio and video distribution and cloud-based management services for both the monitoring and repair of wireless and wired automation solutions, provides a foundational layer for home automation.

We expect the home automation market to experience three intertwined phases:

· the Connected Home (the number of network-aware devices in the home increases, requiring a more robust networking solution);

· the Automated Home (network-aware devices are connected and collectively orchestrated across devices based on personal preferences and actions, with and without human triggering); and

· the Intelligent Home (homes and the network-aware devices in them become dynamically anticipative and reactive without human prompting or intervention).

Our Solution

The Control4 solution, built around our advanced software platform, sits at the center of the fast growing mainstream segment of the home automation market. We unlock the potential of connected devices, making entertainment systems easier to use, homes more comfortable and energy efficient, and families more secure. Our solution functions as the operating system of the home, integrating music, video, lighting, temperature, security, communications and other devices into a unified automation solution that enhances our consumers' lives.

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The Control4 solution integrates more than 9,300 third-party devices and systems into a unified, easy-to-use solution for mainstream consumers. As a result, our solution provides the consumer with the following benefits:

· Easy to Use. Our solution is designed to be simple and intuitive. Through our unified software platform, consumers can easily interact with their entire automated home without learning multiple interfaces or numerous remote controls. We have designed our solution so that anyone, from a young child to a grandparent, can pick up a Control4 device (including a smartphone or tablet with Control4's app), push a button and watch a movie without any prior instruction;

· Broad Device Interoperability. Our open and flexible platform provides consumers with access to a broad universe of third-party devices that become connected and interoperable through our solution. Our platform is currently interoperable with over 9,300 third-party devices, and we continually add additional devices in order to ensure that Control4 is able to integrate with the typical home's connectable and controllable devices

· Advanced Personalization. Our adaptable solution enables our consumers to personalize the features and functionality of their Control4 system. Our modular design also enables the smooth integration of new third-party products to meet the evolving needs of our consumers as their lifestyles change;

· Attractive Entry Point. With our recently released Entertainment and Automation series of controllers, or the EA Series, we have reduced the price point for entry-level consumers wanting to start with a single room multi-media automation experience to approximately $500 (excluding installation costs). Projects can then scale in sophistication and scope from a single room to a fully-integrated whole-home experience;

· Professional Installation and Support through Our Global Dealer Network. As the number and types of connected devices continues to grow, the need for local professional consultation, installation and support is essential for a successful home automation experience. We have built a global network of over 3,500 active certified independent dealers who offer our full range of products. Our certified independent dealers receive in-depth training and on-going education and support, enabling them to help consumers develop and install their personalized home automation experiences. The acquisition of Pakedge significantly expands our base of professional installers. To further increase consumer satisfaction, we also maintain a small Customer Advocacy & Care Group that works directly with consumers to understand unresolved questions and concerns and coordinate with their dealer to reach a resolution; and

· Remote Access. We have developed service offerings that complement our product solutions in order to provide consumers even more access, control and enhanced functionality over their automated homes. We offer a subscription service called 4Sight that provides consumers with the ability to remotely access, monitor and adjust settings in their homes (such as lights, temperature settings, door locks, gates and cameras) as well as receive event-based email alerts when predefined events either occur or do not occur by a specific time.

Our Growth Strategy

Our primary goal is to be the leading provider of premium home automation solutions. We believe we differentiate ourselves through our operating system which orchestrates the thousands of devices consumers choose to install in their homes. The following are key elements of our growth strategy:

· Enhance Our Software Platform and Products. We believe that our success to-date has been largely driven by our software platform's ability to deliver personalized solutions for the end consumer. In 2016, we released a completely redesigned family of controllers, the EA series, and we now offer a wider range of devices that address the demand for automation across the entire spectrum of home owners from a single room project to a fully-integrated whole home solution for a luxury estate, with enhanced functionality at each price point – particularly for music, as each controller now contains independent audio streaming functionality. In addition, our most recent release of our key software, Control4 OS 2.8.1, added new

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features that substantially enhance the consumer experience, particularly related to our comfort, entertainment and security solutions, as well as the ability to back-up Control4 projects in the Cloud. We will continue to invest in our software platform to develop and support new products, features and capabilities that deliver exceptional performance and value to our consumers;

· Strengthen and Expand Our Global Dealer and Distributor Network. We have developed a global network of over 3,500 active, independent, authorized direct dealers and 28 distributors to sell, install and support our solutions. We will continue to expand and optimize our dealer and distributor network to ensure that we have sufficient geographic coverage across both existing and new markets. We will also continue to devote significant resources to increase the productivity and competency of our dealers and distributors by providing them with ongoing training, tools and support. The acquisition of Pakedge significantly expands our base of professional installers and includes over 1,100 unique dealers of our networking line of products;

· Increase Penetration of Our North America Core Market. We intend to continue to focus on the residential market in North America, which represented approximately 76% of our revenue for the year ended December 31, 2015. We believe the residential market offers us an opportunity for significant long-term growth, and we will continue to devote sales and marketing resources to increase penetration of that core market, including by partnering with national and regional homebuilders to introduce entry- to mid-level Control4 systems as a standard feature in new home projects;

· Expand Our Focus on Adjacent Markets. We are also making investments to capitalize on opportunities outside the residential market and internationally. Internationally, our user interface is available in 26 languages and our products are distributed in 91 countries. In addition, we plan to continue to expand into adjacent markets as we begin to sell networking solutions to light commercial and distribution markets;

· Enhance Our Services. In addition to automating devices within the home, our solution also enables a wide variety of service and application opportunities. We plan to continue to enhance our 4Sight subscription services which provide consumers with remote home monitoring and control capabilities from any Internet-connected mobile device or computer;

· Pursue Technology Licensing Opportunities. We plan to continue to make our technology available to third parties through licensing agreements. We make our device auto-discovery technology, Simple Device Discovery Protocol ("SDDP"), available on a royalty-free basis to third parties to streamline and automate the setup, identification and configuration of their devices into our system. As of December 31, 2015, 157 third parties had agreed to license SDDP from us, representing 1,285 devices, and 44 of them had begun shipping SDDP-enabled devices. We also plan to expand our licensing activities to leverage third-party distribution channels, grow our partner relationships, simplify the home automation experience for dealers and consumers, and increase interoperability; and

· Pursue Strategic Acquisitions. We believe that our software platform has a strategic position as the operating system of the connected home. As a result, we believe we are ideally positioned to identify, acquire and integrate strategic acquisitions that are complementary to our current offerings, strengthen and expand our technology foundation, enhance our market positioning, distribution channels and sales, and are consistent with our overall growth strategy. For example, in January 2016, we acquired Pakedge, and in January 2015, we acquired Nexus Technologies

Pty, Ltd. ("Nexus"), a leading distributed audio/video provider, including its full line of Leaf branded products ("Leaf").

Our Products and Services

The primary benefits we provide consumers and dealers lie in the value and competitive differentiation of our software platform in our integrated solution. We deliver value and differentiation to consumers and generate revenues by embedding our software into a range of physical products.

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Software Platform

At the center of the Control4 product line is the Control4 Home Operating System, which we refer to as the C4 OS, and the associated application software and software development kits, or SDKs. The high-level software components include:

· Director. Director is a real-time, extensible home operating system that is responsible for monitoring and receiving events from numerous devices and services, processing those events according to consumer personalized settings, and then dispatching commands to the appropriate devices to perform predefined actions. Director runs on our controllers;

· Navigator. Navigator displays intuitive and rich graphical user interfaces on televisions, in-wall and table-top touch panels, smartphones and tablets, as well as list-based devices such as remote controls with LCD text-displays;

· Composer Express. Composer Express is a mobile configuration tool that simplifies the set-up process for Control4 home automation installation projects. The tool allows authorized Control4 dealers and installers to more quickly and easily configure one-room home theaters, and enables the installer to set-up hundreds of devices in complex whole-home installations by simply walking around the home using a WiFi-enabled tablet or smartphone to auto-integrate the devices within the Control4 Home Operating System. Composer Express uses Control4's Simple Device Discovery Protocol (SDDP) to automatically discover all SDDP-enabled devices, allowing the installer to integrate these devices with a single touch. Authorized independent Control4 dealers and installers may also use Composer Express to quickly add new customer accounts, register controllers, update the Control4 OS and assign 4Sight licenses using an Apple iOS or Android tablet or smartphone;

· Composer Professional Edition. Composer Professional Edition is a software application that enables trained and certified independent Control4 dealers and installers to design, configure and personalize a Control4 home automation system for consumers;

· Composer Home Edition and Composer Media Edition. Composer Home Edition and Media Edition enable consumers to view and configure their dealer installed and Control4 managed devices. These drag-and-drop programs provide the ability to manage digital media and create and modify simple programs and policies (such as changing lighting scenes, modifying custom buttons and controlling behaviors among devices based on schedules or times of the day); and

· Control4 SDKs. DriverWorks SDK is a software development kit that enables dealers, programmers and device manufacturers to independently develop and test custom two-way interface drivers to support the integration of a new device or device model into our system, or to customize and enhance an existing driver. DriverWorks SDK has enabled 9,300 different products and services to be incorporated into the Control4 ecosystem.

Products with Embedded Software and Services

Our products leverage our software platform to provide consumers with a comprehensive and easy-to-use connected home experience. We designed our software platform to be extensible, which has allowed us to improve and augment the functionality of hardware products (both those designed by us and by others) over time. We also design and manufacture our products via contract manufacturers as well as certify partner products for sale through our dealers. Our products and services include:

· Controllers. Our controllers run our Director software to monitor, process and automate events, statuses and actions for numerous devices and services, creating a comprehensive connected home experience. Currently we offer three Entertainment and Automation Series controllers: (1) the EA-1 is designed for a single-room audio/video entertainment automation, such as a family-room, home-theater, a study, or

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bedroom; (2) the EA-3 is designed to integrate and control automation in small-to-mid-sized homes; and (3) the EA-5 is designed to integrate and control automation in large homes and estates.

· Interface Devices. We offer touch panels, handheld remote controls and keypads as interface devices. We also develop and deliver software applications for Apple iOS and Android smartphones and tablets that enable these personal devices to become control interfaces to Control4 connected homes, both on-premises and remotely.

· Networking Devices. With the Pakedge acquisition, we offer advanced networking products and cloud network-managed services with a range of routers, switches, wireless access points, power control, and cloud-based management solutions for the connected home and business.

· Audio Solutions. Our new EA series controllers offer high-resolution audio with bit depth up to 24bit and sample rates up to 192kHz. In addition, we offer audio distribution and amplification products that scale from single room systems to whole home distributed audio systems. We offer 4-zone and 8-zone power amplifiers, 4x4 and 8x8 matrix amplifiers, a 16x16 audio matrix switch, and a single-zone wireless amplifier for retrofit installations. These products make up the backbone of a distributed audio solution. Consumers are able to listen to their personal music library as well as streaming music services via our music streamer, which is built into the EA-1, EA-3 and EA-5 controll