

# ALARM.COM HOLDINGS, INC.

## FORM 10-K (Annual Report)

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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
<b>Common Stock, \$0.01 par value per share</b>	<b>The NASDAQ Stock Market LLC</b>

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 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

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.

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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,” “might,” “objective,” “ongoing,” “plan,” “predict,” “project,” “potential,” “should,” “will,” or “would,” or the negative of these terms, or other 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.

## 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.



## 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

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.



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.

## 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.

## 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

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 to 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.

- 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.

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**

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



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**



*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.

***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;

- 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.

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

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

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,

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.

***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.***



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;

- 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.

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

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.

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,

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.

***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.***



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.***



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;

- 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

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;

- 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**

## **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.**

## 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.

Year Ended December 31, 2015	High	Low
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.

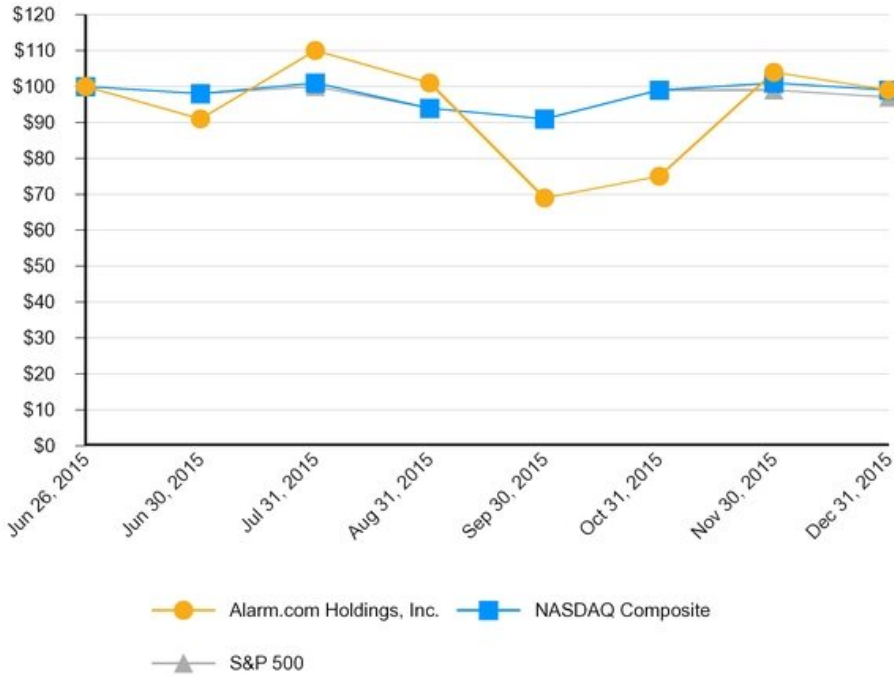
**Use of Proceeds from Initial Public Offering of Common Stock**

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.

**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.

**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).

	Year Ended December 31,				
	2015	2014	2013	2012	2011
<b>Consolidated Statements of Operations Data:</b>					
<b>Revenue:</b>					
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
<b>Cost of revenue: <sup>(1)</sup></b>					
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
<b>Operating expenses:</b>					
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
<b>Operating income</b>					
	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
<b>Income before income taxes</b>	17,465	20,319	7,212	16,209	15,670
Provision for income taxes	5,697	6,817	2,688	7,280	6,015
<b>Net income</b>	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)	—	—
<b>Net (loss) / income attributable to common stockholders</b>	\$ (7,219)	\$ 563	\$ 122	\$ (139,835)	\$ (12,660)



	Year Ended December 31,				
	2015	2014	2013	2012	2011
<b>Per share information attributable to common stockholders:</b>					
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
<b>Other Financial and Operating Data:</b>					
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
<b>Balance sheet and other data:</b>					
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)

(1) Excludes amortization and depreciation.

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

	Year Ended December 31,				
	2015	2014	2013	2012	2011
<b>Stock-based Compensation Expense Data:</b>					
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

(3) 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.

(4) 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. 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).

	<b>Year Ended December 31,</b>				
	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>Adjusted EBITDA</b>					
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	<u>22,502</u>	<u>14,819</u>	<u>23,735</u>	<u>11,576</u>	<u>8,184</u>
Adjusted EBITDA	<u>\$ 34,270</u>	<u>\$ 28,321</u>	<u>\$ 28,259</u>	<u>\$ 20,505</u>	<u>\$ 17,839</u>

(5) 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.

## 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.

- 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.

## **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**

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.

### 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
<b>Stock-based compensation expense data:</b>			
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:

	Year Ended December 31,		
	2015	2014	2013
<b>Components of cost of revenue as a percentage of revenue:</b>			
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.



**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**

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)%
<i>% of total revenue</i>	<i>17%</i>	<i>16%</i>	<i>23%</i>		

#### 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%
<i>% of total revenue</i>	<i>19%</i>	<i>14%</i>	<i>10%</i>		

#### 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

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%
<i>% of total revenue</i>	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)%
<i>% of total revenue</i>	—%	—%	—%		

#### 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

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):

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)							
<b>Revenue:</b>								
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
<b>Cost of revenue:</b>								
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
<b>Total operating expenses <sup>1</sup></b>	\$ 15,732	\$ 20,493	\$ 22,005	\$ 20,903	\$ 24,076	\$ 27,185	\$ 30,177	\$ 32,085
<b>Net income <sup>1</sup></b>	\$ 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)
<b>Net income / (loss) attributable to common stockholders <sup>1</sup></b>	\$ 148	\$ 88	\$ 118	\$ 202	\$ 146	\$ (16,478)	\$ 2,898	\$ 3,267
<b>Per share information attributable to common stockholders <sup>1</sup>:</b>								
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
<b>As a percent of total revenue:</b>								
<b>Revenue:</b>								
SaaS and license revenue	68%	64%	66%	68%	69%	66%	67%	68%
Hardware and other revenue	32%	36%	34%	32%	31%	34%	33%	32%
Total revenue	100%	100%	100%	100%	100%	100%	100%	100%
<b>Cost of revenue:</b>								
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%
<b>Total operating expenses</b>	43%	49%	51%	46%	52%	52%	56%	56%
<b>Net income</b>	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.

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.

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-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

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



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.

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

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 205-4 0)," 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 Resources

### Working 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.

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.

**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.

### **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.

**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.



**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.

	<b>Year Ended December 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>Adjusted EBITDA</b>			
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	<u>22,502</u>	<u>14,819</u>	<u>23,735</u>
Adjusted EBITDA	<u>\$ 34,270</u>	<u>\$ 28,321</u>	<u>\$ 28,259</u>

**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



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.

**ALARM.COM HOLDINGS, INC.  
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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

**ALARM.COM HOLDINGS, INC.**  
**Consolidated Statements of Operations**  
(in thousands, except share and per share data)

	Year Ended December 31,		
	2015	2014	2013
<b>Revenue:</b>			
SaaS and license revenue	\$ 140,936	\$ 111,515	\$ 82,620
Hardware and other revenue	67,952	55,797	47,602
Total revenue	<u>208,888</u>	<u>167,312</u>	<u>130,222</u>
<b>Cost of revenue:</b> <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	<u>77,374</u>	<u>67,179</u>	<u>54,958</u>
<b>Operating expenses:</b>			
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	<u>113,523</u>	<u>79,133</u>	<u>67,840</u>
<b>Operating income</b>	17,991	21,000	7,424
Interest expense	(178)	(196)	(269)
Other (expense) / income, net	(348)	(485)	57
<b>Income before income taxes</b>	<u>17,465</u>	<u>20,319</u>	<u>7,212</u>
Provision for income taxes	5,697	6,817	2,688
<b>Net income</b>	<u>11,768</u>	<u>13,502</u>	<u>4,524</u>
Dividends paid to participating securities	(18,987)	—	—
Income allocated to participating securities	—	(12,939)	(4,402)
<b>Net (loss) / income attributable to common stockholders</b>	<u>\$ (7,219)</u>	<u>\$ 563</u>	<u>\$ 122</u>
<b>Per share information attributable to common stockholders:</b>			
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.

**ALARM.COM HOLDINGS, INC.**  
**Consolidated Statements of Comprehensive Income**  
**(in thousands)**

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

See accompanying notes to the consolidated financial statements.

**ALARM.COM HOLDINGS, INC.**  
**Consolidated Balance Sheets**  
(in thousands, except share and per share data)

	December 31,	
	2015	2014
<b>Assets</b>		
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
<b>Total Assets</b>	<b>\$ 226,095</b>	<b>\$ 120,932</b>
<b>Liabilities, redeemable convertible preferred stock and stockholders' equity / (deficit)</b>		
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
<b>Total Liabilities</b>	<b>55,964</b>	<b>40,320</b>
Commitments and contingencies (Note 12)		
<b>Redeemable convertible preferred stock</b>		
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
<b>Stockholders' equity / (deficit)</b>		
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)
<b>Total Stockholders' Equity / (Deficit)</b>	<b>170,131</b>	<b>(121,844)</b>
<b>Total Liabilities, Redeemable Convertible Preferred Stock and Stockholders' Equity / (Deficit)</b>	<b>\$ 226,095</b>	<b>\$ 120,932</b>

See accompanying notes to the consolidated financial statements.

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

	Year Ended December 31,		
	2015	2014	2013
<b>Cash flows from operating activities:</b>			
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	<u>27,137</u>	<u>15,635</u>	<u>10,654</u>
<b>Cash flows used in investing activities:</b>			
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	<u>(18,049)</u>	<u>(6,288)</u>	<u>(18,431)</u>
<b>Cash flows from / (used in) financing activities:</b>			
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	—
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	<u>76,698</u>	<u>(358)</u>	<u>(560)</u>
<b>Net increase / (decrease) in cash and cash equivalents</b>	<u>85,786</u>	<u>8,989</u>	<u>(8,337)</u>
<b>Cash and cash equivalents at beginning of the period</b>	<u>42,572</u>	<u>33,583</u>	<u>41,920</u>
<b>Cash and cash equivalents at end of the period</b>	<u>\$ 128,358</u>	<u>\$ 42,572</u>	<u>\$ 33,583</u>

See accompanying notes to the consolidated financial statements.

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

	Year Ended December 31,		
	2015	2014	2013
<b>Supplemental disclosures:</b>			
Cash paid for interest	\$ 175	\$ 193	\$ 274
Cash paid for income taxes, net of refunds	8,508	6,490	6,204
<b>Noncash investing and financing activities:</b>			
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.



**ALARM.COM HOLDINGS, INC.**  
**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					
<b>Balance, January 1, 2013</b>	—	\$ —	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
<b>Balance, December 31, 2013</b>	—	\$ —	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
<b>Balance, December 31, 2014</b>	—	\$ —	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 based plans	—	—	277	3	341	—	—	—	344
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
<b>Balance, December 31, 2015</b>	—	\$ —	45,485	\$ 455	\$ 297,781	\$ (42)	\$ —	\$ (128,063)	\$ 170,131

See accompanying notes to the consolidated financial statements.

**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

**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

**ALARM.COM HOLDINGS, INC.**  
**Notes to the Consolidated Financial Statements - (Continued)**  
**December 31, 2015, 2014 and 2013**

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

**ALARM.COM HOLDINGS, INC.**  
**Notes to the Consolidated Financial Statements - (Continued)**  
**December 31, 2015, 2014 and 2013**

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.

**ALARM.COM HOLDINGS, INC.**  
**Notes to the Consolidated Financial Statements - (Continued)**  
**December 31, 2015, 2014 and 2013**

**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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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 205-4 0)," 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	<u>\$ 21,348</u>	<u>\$ 17,259</u>

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	<u>\$ 6,474</u>	<u>\$ 6,852</u>

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

	<b>2014</b>
<i>Calculation of Consideration:</i>	
Cash paid, net of working capital adjustment	\$ 2,610
Cash not yet paid	290
Total consideration	\$ 2,900
 <i>Estimated Tangible and Intangible Net Assets:</i>	
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):

	<b>2013</b>
<i>Calculation of Consideration :</i>	
Cash paid, net of working capital adjustment	\$ 8,263
Estimated contingent consideration liability	5,820
 Total consideration	 \$ 14,083
 <i>Estimated Tangible and Intangible Net Assets:</i>	
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):

	<b>Pro forma Year Ended December 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
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):

	<b>Year Ended December 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
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 year s ended December 31, 2015 and 2014 (in thousands):

	<b>Alarm.com</b>	<b>Other</b>	<b>Total</b>
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 year s 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 year s 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):

	<b>Fair Value Measurements on a Recurring Basis as of December 31, 2015</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets:</b>				
Money market account	\$ 122,818	\$ —	\$ —	\$ 122,818
<b>Liabilities:</b>				
Subsidiary unit awards	—	—	(532)	(532)
Contingent consideration liability from acquisition	—	—	(230)	(230)
	<u>\$ 122,818</u>	<u>\$ —</u>	<u>\$ (762)</u>	<u>\$ 122,056</u>

	<b>Fair Value Measurements on a Recurring Basis as of December 31, 2014</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets:</b>				
Money market account	\$ 38,578	\$ —	\$ —	\$ 38,578
	<u>\$ 38,578</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 38,578</u>

The following table summarizes the change in fair value of the Level 3 liabilities for subsidiary unit awards and the contingent consideration liability from acquisition for the year ended December 31, 2015 (in thousands):

	<b>Fair Value Measurements using significant unobservable inputs (Level 3)</b>
Beginning balance - December 31, 2014	\$ —
Obligations assumed	700
Transfers	152
Payments	—
Realized (gain) / loss	—
Unrealized (gain) / loss	(90)
Ending Balance - December 31, 2015	<u>\$ 762</u>

The money market account is included in our cash and cash equivalents in our consolidated balance sheets.

The liability for the subsidiary unit awards relates to agreements established with the presidents of two of our subsidiaries, who are also our employees, for cash awards contingent upon the subsidiary companies meeting certain financial milestones. Before our IPO, we used the intrinsic method available to non-public companies under ASC 718, "Compensation - Stock Compensation" to account for our liability for our subsidiary units. After our IPO, we have accounted for these subsidiary awards using fair value. The effect of this change had an immaterial impact to our consolidated financial statements. We established liabilities for the future payment for the repurchase of subsidiary units under the terms of the agreements based on estimating revenue, working capital, EBITDA and EBITDA margin of the subsidiary units for the periods of the two awards. We estimated the fair value of each liability by using a Monte Carlo simulation model for determining each of the projected measures by using an expected distribution of potential outcomes. The fair value of each liability is calculated with thousands of projected outcomes, the results of which are averaged and then discounted to estimate the present value. At each reporting date until the respective payment dates, we will remeasure these liabilities, using the same valuation approach based on the applicable subsidiary's revenue, and we will record any changes in general and administrative expense. The liability balances are included in our other liabilities in our consolidated balance sheets (See Note 12).

The amount of contingent consideration liability to be paid, up to a maximum of \$ 2.0 million, from our acquisition of SecurityTrax in the first quarter of 2015, will be determined based on revenue and adjusted EBITDA 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

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discounted to estimate the present value. At each reporting date until payment in first quarter of 2018, we will remeasure the contingent consideration liability, using the same valuation approach based on our subsidiary's revenue, an unobservable input, and we will record any changes in general and administrative expense. The contingent consideration liability balance is included in our other liabilities in our consolidated balance sheets (See Note 6).

We monitor the availability of observable market data to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period. There were no transfers between Levels 1, 2 or 3 during the years ended December 31, 2015, 2014 and 2013. We also monitor the value of the investments for other-than-temporary impairment on a quarterly basis. No other-than-temporary impairments occurred during the years ended December 31, 2015, 2014 and 2013.

For the year ended December 31, 2013, we recorded a goodwill impairment charge of \$4.8 million and other long-lived assets impairment charge of \$6.5 million. The remeasurement of the goodwill and other long-lived assets is classified as a Level 3 fair value assessment due to the significance of unobservable inputs developed in the determination of fair value.

**Note 11. Liabilities**

The components of accounts payable, accrued expenses and other current liabilities are as follows (in thousands):

	December 31,	
	2015	2014
Accounts payable	\$ 12,813	\$ 11,179
Accrued expenses	4,244	1,911
Other current liabilities	2,219	2,143
Accounts payable, accrued expenses and other current liabilities	<u>\$ 19,276</u>	<u>\$ 15,233</u>

The components of other liabilities (in thousands):

	December 31,	
	2015	2014
Deferred rent	\$ 8,435	\$ 1,013
Other liabilities	2,049	657
Other liabilities	<u>\$ 10,484</u>	<u>\$ 1,670</u>

**Note 12. Debt, Commitments and Contingencies**

The debt, commitments and contingencies described below are currently in effect and would require us, or our subsidiaries, to make payments to third parties under certain circumstances.

**Debt**

*Prior Facility*

In 2011, we entered into a Loan & Security Agreement with Silicon Valley Bank ("SVB"). We borrowed \$10.0 million under a term loan (the "Prior Facility") to be repaid in sixty monthly installments of principal and accrued interest. We had the option to prepay the Prior Facility without penalty provided that the Prior Facility had been outstanding for two or more years. Absent a prepayment, the Prior Facility would have terminated on the date of the last required principal payment, which was December 1, 2016. This facility was extinguished and repaid in May 2014.

*2014 Facility*

On May 8, 2014, we repaid all of the outstanding principal and interest under the Prior Facility, which was accounted for as an extinguishment of debt, and replaced it with a \$ 50.0 million revolving credit facility (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 the Prior Facility. The 2014 Facility includes an option to increase the borrowing capacity available under the 2014 Facility 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 our intellectual property. The principal outstanding under the 2014 Facility is due upon maturity in May 2017.

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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% . The carrying value of 2014 Facility was \$ 6.7 million as of December 31, 2015 and 2014. The 2014 Facility includes a variable interest rate that approximates market and, as such, we determined that the carrying amount of the 2014 Facility approximates its fair value.

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. During the year ended December 31, 2015 , we were in compliance with all financial and non-financial covenants and there were no events of default.

### **Commitments and Contingencies**

#### *Repurchase of Subsidiary Units*

In 2012, we formed a subsidiary to develop and market home and commercial energy management devices and services. We granted an award of subsidiary stock to the founder and president. The terms of the award for the founder, who is also our employee, require a payment in cash on either the third or the fourth anniversary from the date the subsidiary first makes its products and services commercially available, which was determined to be April 1, 2014. The vesting of the award is based on the subsidiary meeting certain minimum financial targets. We recorded a liability of \$0.1 million and \$0 million related to this commitment in other liabilities in our consolidated balance sheets as of December 31, 2015 and 2014 .

In 2011, we formed a subsidiary that offers to professional residential property management and vacation rental management companies technology solutions for remote monitoring and control of properties, including access control and energy management. We granted an award of subsidiary stock to the founder and president. The terms of the award for the founder, who is our employee, require a payment in cash between the fourth and sixth anniversary of the date that the subsidiary's products and services first become commercially available, which was determined to be June 1, 2013. The vesting of the award is based on the subsidiary meeting certain minimum financial targets. We have recorded a liability of \$0.4 million and \$ 0.2 million related to the commitment in other liabilities in our consolidated balance sheets as of December 31, 2015 and 2014 .

At each reporting date until the respective payment dates, we will remeasure these liabilities, and we will record any changes in fair value in general and administrative expense. The liability balances are included in our other liabilities in our consolidated balance sheets.

#### *Leases*

We lease office space and office equipment under non-cancelable operating leases with various expiration dates through 2026. In August 2014, we signed a lease for new office space to relocate our headquarters to Tysons, Virginia. The relocation occurred in February 2016. The lease term ends in 2026 and the lease includes one five -year renewal option, an \$8.0 million tenant improvement allowance and scheduled rent increases. As of December 31, 2015 , we have utilized \$5.6 million of the tenant improvement allowance. Rent expense was \$4.9 million , \$2.8 million and \$1.2 million for the years ended December 31, 2015, 2014 and 2013.

The following table presents the future minimum lease payments under the non-cancelable operating leases at December 31, 2015 (in thousands):

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Year ending December 31	Minimum Lease Payments	
	2016	\$ 3,221
	2017	4,051
	2018	4,145
	2019	3,908
	2020	3,981
2021 and thereafter		21,072
	<u>\$</u>	<u>40,378</u>

**Indemnification Agreements**

We have various agreements that may obligate us to indemnify the other party to the agreement with respect to certain matters. Generally, these indemnification provisions are included in contracts arising in the normal course of business. Although we cannot predict the maximum potential amount of future payments that may become due under these indemnification agreements, we do not believe any potential liability that might arise from such indemnity provisions is probable or material.

**Legal Proceedings**

On June 2, 2015, Vivint, Inc. 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. The outcome of the legal claim and proceeding against us cannot be predicted with certainty. We believe we have valid defenses to Vivint's claims. Based on currently available information, we determined a loss is not probable or reasonably estimable at this time.

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.

Other than the preceding matters, we are not a party to any lawsuit or proceeding that, in the opinion of management, is reasonably possible or probable of having a material adverse effect on our financial position, results of operations or cash flows. We reserve for contingent liabilities based on ASC 450, "Contingencies," when it is determined that a liability, inclusive of defense costs, is probable and reasonably estimable. Litigation is subject to many factors that are difficult to predict, so there can be no assurance that, in the event of a material unfavorable result in one or more claims, we will not incur material costs.

**Note 13. Employee Benefit Plans**

**Employee Stock Purchase Plan**

We adopted our 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

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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.

**401(k) Defined Contribution Plan**

We adopted the Alarm.com Holdings 401(k) Plan ("the Plan") on April 30, 2009. All of our employees are eligible to participate in the Plan. Our discretionary match for 2015 and 2014 was 100% of employee contributions up to 6% of salary and up to a \$3,000 maximum match. Our discretionary match for 2013 was 50% of employee contributions up to 6% of salary and up to a \$3,000 maximum match. We recognized costs of \$1.0 million, \$0.6 million and \$0.3 million for the years ended December 31, 2015, 2014 and 2013 related to our matching contributions.

**Note 14. Redeemable Convertible Preferred Stock**

As of December 31, 2014, we had the following redeemable convertible preferred stock outstanding (amounts and shares in thousands except issuance price per share):

	Shares Authorized	Shares Issued and Outstanding	Carrying Amount	Aggregate Liquidation Preference	Issuance Price Per Share
Series B Redeemable Convertible Preferred Stock	1,810	1,810	\$ 136,523	\$ 191,132	\$ 75.44
Series B-1 Redeemable Convertible Preferred Stock	1,670	83	6,265	8,759	\$ 75.44
Series A Redeemable Convertible Preferred Stock	3,512	1,998	59,668	24,309	\$ 10.00
Total	<u>6,992</u>	<u>3,891</u>	<u>\$ 202,456</u>	<u>\$ 224,200</u>	

Upon completion of our IPO on July 1, 2015, all outstanding shares of redeemable convertible preferred stock converted into an aggregate of 35,017,884 shares of common stock.

As of December 31, 2015, we have no redeemable convertible preferred stock authorized or outstanding. Significant terms of Series B, B-1 and A redeemable convertible preferred stock prior to the completion of our IPO were as follows:

*Series B Redeemable Convertible Preferred Stock*

**Dividend Preferences**

In the event we declare a dividend, the Series B Preferred stockholders are entitled to receive dividends for each outstanding share of Series B Preferred on a pari passu basis with other stockholders, plus additional dividends equal to the declared dividend (the "Additional Dividends"). The Additional Dividends will be payable until such time as the Series B Preferred stockholders have been paid cumulative Additional Dividends in an aggregate amount equal to two fifths ( 0.40 ) times the original issue price of the Series B Preferred shares.

**Liquidation Preferences**

In the event of our liquidation or dissolution, the holders of Series B Preferred shares, along with holders of Series B-1 shares, will be paid out of the assets available before distribution or any payment is made to holders of Series A or Common. The liquidation preference is the greater of (1) a per share amount equal to one and two fifths ( 1.4 ) times the original issue price per share, plus any declared but unpaid dividends, less any Series B Preferred Additional Dividends previously paid, or (2) the amount that would have been paid had all the preferred stockholders been converted into common.

**Voting Rights**

Series B Preferred stockholders are entitled to cast the number of votes equal to the number of whole shares of common into which the Series B Preferred shares are convertible as of the record date of the vote. Certain actions of us, including mergers and acquisitions, dissolution, issuance of stock, declaration of dividends, the origination of debt, or amendments to our governing documents, requires the consent of a majority of the Series A stockholders, and Series B Preferred stockholders, voting as separate classes.

**Conversion**



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Shares of Series B Preferred are convertible at the option of the holder into shares of common at any time and without the payment of additional consideration. All outstanding shares of Series B Preferred shall be converted automatically into common immediately upon the closing of an initial public offering of stock in which aggregate gross proceeds from the offering exceed \$75.0 million. Each share of Series B Preferred will convert into the number of shares of common determined by dividing the original issuance price by the conversion price ("Series B Preferred Conversion Price"). In the event Series B Preferred is converted to common in connection with an initial public offering of our stock, the number of common shares to be issued depends in part on the initial public offering price of our common stock (the "IPO Price"). If our IPO Price is less than the Series B Preferred per share liquidation preference, or \$11.74, then the number of common shares issued upon conversion will be determined using a conversion price equal to the Series B Preferred Conversion Price multiplied by a fraction equal to the IPO Price divided by the Series B Preferred liquidation preference per share (the "IPO Conversion Price"). The initial Series B Preferred Conversion Price was \$75.44 per share. On June 14, 2013, in conjunction with a nine-for-one forward split of our common shares, we amended our Certificate of Incorporation and adjusted the Series B Preferred Conversion Price to \$8.38222222 per share. The Series B Preferred Conversion Price will be further adjusted if we issue additional shares of our capital stock and the consideration per share is less than the Series B Preferred Conversion Price in effect immediately prior to the issuance of the additional shares.

#### **Redemption**

In the event of certain capital transactions deemed to be liquidation events, the Series B Preferred stockholders may require the redemption of all outstanding Series B Preferred shares. In the event that the available proceeds from a liquidation event, or other available funds, are not sufficient to redeem all outstanding shares of Series B Preferred, we shall redeem a pro rata portion of each stockholder's Series B Preferred shares along with a pro rata portion of each stockholder's Series B-1 shares, on a pari passu basis, and we shall redeem the remaining shares as soon as adequate funds are available.

#### *Series B-1 Redeemable Convertible Preferred Stock*

#### **Dividend Preferences**

In the event we declare a dividend, the Series B-1 stockholders are entitled to receive dividends for each outstanding share of Series B-1 on a pari passu basis with other stockholders, plus Additional Dividends equal to the declared dividend. The Additional Dividends will be payable until such time the Series B-1 stockholders have been paid cumulative Additional Dividends in an aggregate amount equal to two fifths ( 0.40 ) times the original issue price of the Series B-1 shares.

#### **Liquidation Preferences**

In the event of our liquidation or dissolution, the holders of Series B-1 shares, along with holders of Series B Preferred shares, will be paid out of the assets available before distribution or any payment is made to holders of Series A or common. The liquidation preference is the greater of (1) a per share amount equal to one and two fifths ( 1.4 ) times the original issue price per share, plus any declared but unpaid dividends, less any Series B-1 Additional Dividends previously paid, or (2) the amount that would have been paid had all the preferred stockholders been converted into common.

#### **Conversion**

Shares of Series B-1 are convertible at the option of the holder into shares of common at any time and without the payment of additional consideration. All outstanding shares of Series B-1 shall be converted automatically into common immediately upon the closing of an initial public offering of stock in which aggregate gross proceeds from the offering exceed \$75.0 million. Each share of Series B-1 will convert into the number of shares of common determined by dividing the original issuance price by the conversion price ("Series B-1 Conversion Price"). In the event Series B-1 is converted to common in connection with an initial public offering of our stock, the number of common shares to be issued depends in part on the initial public offering price of our common stock (the "IPO Price"). If our IPO Price is less than the Series B-1 per share liquidation preference, or \$11.74, then the number of common shares issued upon conversion will be determined using a conversion price equal to the Series B-1 Conversion Price multiplied by a fraction equal to the IPO Price divided by the Series B-1 liquidation preference per share (the "IPO Conversion Price"). The initial Series B-1 Conversion Price was \$75.44 per share. On June 14, 2013, in conjunction with a nine-for-one forward split of our common shares, we amended our Certificate of Incorporation and adjusted the Series B-1 Conversion Price to \$8.38222222 per share. The Series B-1 Conversion Price will be further adjusted if we issue additional shares of our capital stock and the consideration per share is less than the Series B-1 Conversion Price in effect immediately prior to the issuance of the additional shares.

#### **Redemption**

In the event of certain capital transactions deemed to be liquidation events, the Series B-1 stockholders may require the redemption of all outstanding Series B-1 shares. In the event that the available proceeds from a liquidation event, or other

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available funds, are not sufficient to redeem all outstanding shares of Series B-1 stock, we shall redeem a pro rata portion of each shareholder's Series B-1 shares along with a pro rata portion of each stockholder's Series B Preferred shares, on a pari passu basis, and we shall redeem the remaining shares as soon as adequate funds are available.

*Series A Redeemable Convertible Preferred Stock*

**Liquidation Preferences**

In the event of our liquidation or dissolution, the holders of Series A shares will be paid out of the assets available before distribution or any payment is made to holders of common, but after satisfaction of the liquidation preferences of the Series B Preferred and Series B-1 stockholders. The liquidation preference is the greater of (1) the original issue price of the preferred stock plus a Series A additional preference equal to 8.0% per annum on the original issue price accruing on a daily basis from the original issuance date and until the date such Series A shares are liquidated, plus accrued and unpaid dividends, or (2) the amount that would have been paid had all the preferred stock holders been converted into Common.

**Voting Rights**

Series A stockholders are entitled to cast the number of votes equal to the number of whole shares of common into which the Series A shares are convertible as of the record date of the vote. Certain of our actions, including mergers and acquisitions, dissolution, issuance of stock, declaration of dividends, the origination of debt, or amendments to our governing documents, requires the consent of a majority of the Series A stockholders, and Series B Preferred stockholders, voting as separate classes.

**Conversion**

Shares of Series A are convertible at the option of the holder into shares of common at any time and without the payment of additional consideration. All outstanding shares of Series A will automatically convert into shares of common immediately upon the closing of an initial public offering of stock in which aggregate gross proceeds from the offering exceed \$75.0 million. Each share of Series A will convert into the number of shares of common determined by dividing the original issuance price by the conversion price ("Series A Conversion Price"). The initial Series A Conversion Price was \$10.00 per share. On June 14, 2013, in conjunction with a nine-for-one forward split of our common shares, we amended our Certificate of Incorporation and adjusted the Series A Conversion Price to \$1.11111111 per share. The Series A Conversion Price will be further adjusted if we issue additional shares of our capital stock and the consideration per share is less than the Series A Conversion Price in effect immediately prior to the issuance of the additional shares.

**Redemption**

In the event of certain capital transactions deemed to be liquidation events, the Series A stockholders may require the redemption of all outstanding Series A shares, subject to and following payment in full of the amounts payable to Series B Preferred and Series B-1 stockholders. In the event that the available proceeds from a liquidation event, or other available funds, are not sufficient to redeem all outstanding shares of Series A, we shall redeem a pro rata portion of each stockholder's Series A and we shall redeem the remaining shares as soon as adequate funds are available.

*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 (see Note 15) 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, which we refer to as the 2015 Dividends. The 2015 Dividends were paid to our stockholders of record as of June 12, 2015 and were paid in June 2015.

**Note 15. Stockholders' equity / (deficit)**

We are authorized to issue two classes of stock, common stock and preferred stock. On June 9, 2015, the board of directors amended and restated our Amended and Restated Certificate of Incorporation, effective upon the closing of our IPO, and authorized us to issue up to 300,000,000 shares of common stock and 10,000,000 shares of undesignated preferred stock. As of December 31, 2015 and December 31, 2014, there were 45.6 million and 2.8 million shares of common stock issued, and 45.5 million and 2.6 million shares of common stock outstanding, respectively. As of December 31, 2015, there were no preferred shares issued and outstanding.

Upon completion of our IPO on July 1, 2015, all outstanding shares of redeemable convertible preferred stock (see Note 14) converted into an aggregate of 35,017,884 shares of common stock. Additionally, we issued 7,525,000 shares of common stock in our IPO.

Each outstanding share of common stock is entitled to one vote per share.

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**Note 16. Stock-Based Compensation****Stock Options**

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. The 2015 Plan provides for the grant of incentive stock options to employees and for the grant of nonqualified stock options, stock appreciation rights, restricted stock awards, restricted stock unit awards, performance-based stock awards, and other forms of equity compensations to employees, directors and non-employee directors and consultants. The number of shares of common stock reserved for issuance under the 2015 Plan will automatically increase on January 1 each year, for a period of not more than ten years, commencing on January 1, 2016 through January 1, 2024, by 5% of the total number of shares of common stock outstanding on December 31st of the preceding calendar year, or a lesser number of shares as may be determined by the board of directors. As a result of the adoption of the 2015 Plan, no further grants may be made under the 2009 Plan described below. As of December 31, 2015, 4,663,399 shares remained available for future grant under the 2015 Plan.

The 2015 Plan (and the previous 2009 Plan) allow for the granting of incentive stock options to employees and for the granting of nonqualified stock options and restricted stock to our employees, directors and non-employee directors and consultants. Stock options under the 2015 Plan have been granted at exercise prices based on the closing price of our common stock on the date of grant. Stock options under the previous 2009 Plan have been granted at exercise prices as determined by the board of directors to our officers and employees. These stock options generally vest over a five -year period and each option, if not exercised or terminated, expires on the ten th anniversary of the grant date.

The 2015 Plan (and the previous 2009 Plan) allow for the granting of options that may be exercised before the options have vested. Unvested shares issued as a result of early exercise are subject to repurchase by us upon termination of employment or services at the original exercise price. The proceeds from the early exercise of stock options are initially recorded as a current liability and are reclassified to common stock and additional paid-in capital as the awards vest and our repurchase right lapses. As of December 31, 2015 and 2014, there were 96,368 and 209,372 unvested shares of common stock outstanding subject to our right of repurchase. During the year ended December 31, 2015, we repurchased 287 unvested shares of common stock related to early exercised stock options in connection with employee terminations. As of December 31, 2015 and December 31, 2014, we recorded \$ 0.4 million and \$ 0.7 million in accounts payable, accrued expenses and other current liabilities on the consolidated balance sheets for the proceeds from the early exercise of the unvested stock options.

Included in the stock-based compensation expense for the year ended December 31, 2015 was \$0.8 million related to the cash settlement of recently exercised stock options of a terminated employee, at the company's election. We accounted for this cash settlement as a liability modification of the stock option awards.

We account for stock-based compensation awards based on the fair value of the award as of the grant date. We recognize stock-based compensation expense using the 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.

The following table summarizes the components of non-cash stock-based compensation expense (in thousands):

	<b>Year Ended December 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
Stock options	\$ 3,154	\$ 3,181	\$ 787
Compensation related to the sale of common stock	193	86	54
Compensation related to the cash settlement of stock options	777	—	—
Total stock-based compensation expense	<u>\$ 4,124</u>	<u>\$ 3,267</u>	<u>\$ 841</u>
Tax benefit from stock-based awards	<u>\$ 700</u>	<u>\$ 782</u>	<u>\$ 160</u>

Stock-based compensation expense is included in the following line items in the accompanying consolidated statements of operations (in thousands):

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**Stock-based compensation expense data:**

	Year Ended December 31,		
	2015	2014	2013
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	<u>\$ 4,124</u>	<u>\$ 3,267</u>	<u>\$ 841</u>

We value our stock options using the Black-Scholes option pricing model, which requires the input of subjective assumptions, including the risk-free interest rate, expected term, expected stock price volatility and dividend yield. The risk-free interest rate assumption is based upon observed interest rates for constant maturity U.S. Treasury securities consistent with the expected term of our stock options. The expected term represents the period of time the stock options are expected to be outstanding and is based on the "simplified method." Under the "simplified method," the expected term of an option is presumed to be the mid-point between the vesting date and the end of the contractual term. We use the "simplified method" due to the lack of sufficient historical exercise data to provide a reasonable basis upon which to otherwise estimate the expected term of the stock options. Expected volatility is based on historical volatilities for publicly traded stock of comparable companies over the estimated expected term of the stock options.

The following table summarizes the assumptions used for estimating the fair value of stock options granted for the years ended December 31:

	Year Ended December 31,		
	2015	2014	2013
Volatility	48.5 - 51.8%	47.2 - 49.6%	44.1 - 47.6%
Expected term	4.5 - 6.3 years	4.0 - 5.7 years	3.3 - 6.3 years
Risk-free interest rate	1.3 - 1.9%	1.4 - 1.9%	0.9 - 1.9%
Dividend rate	—%	—%	—%

The dividends declared and paid in June 2015 were in anticipation of our IPO, which we closed on July 1, 2015. Subsequent to the IPO, we do not expect to declare or pay dividends on a recurring basis. As such, we assume that the dividend rate is zero.

The following table summarizes the stock option activity for the year ended December 31, 2015 :

	Number of Options	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2014	3,345,993	\$ 2.68	7.0	\$ 27,725
Granted	540,548	12.10		
Exercised	(290,249)	1.63		3,272
Forfeited	(42,936)	5.97		
Cancelled	(5,443)	2.23		
Outstanding at December 31, 2015	<u>3,547,913</u>	<u>\$ 4.17</u>	<u>6.6</u>	<u>\$ 44,411</u>
Vested and expected to vest at December 31, 2015	<u>3,514,311</u>	<u>\$ 4.12</u>	<u>6.5</u>	<u>\$ 44,124</u>
Exercisable at December 31, 2015	<u>2,178,312</u>	<u>\$ 2.13</u>	<u>5.5</u>	<u>\$ 31,690</u>

The weighted average grant date fair value for our stock options granted during the years ended December 31, 2015, 2014 and 2013 was \$ 5.90, \$ 4.20 and \$ 4.02. The total fair value of stock options vested during the years ended December 31, 2015, 2014 and 2013 was \$ 2.7 million, \$ 1.5 million and \$ 0.5 million. The aggregate intrinsic value of stock options exercised during the year ended December 31, 2015 and 2014 was \$ 3.3 million, \$ 7.3 million and \$ 0.7 million. As of December 31, 2015, the total compensation cost related to nonvested awards not yet recognized was \$ 3.1 million, which will be recognized over a weighted average period of 2.2 years.

**Warrants**

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In 2010, we issued performance-based warrants to two of our executive officers that gives these individuals the right to purchase up to 841,896 shares of our common stock in the aggregate if certain performance targets and market conditions are achieved. In 2012, we issued an additional performance-based warrant to an executive officer that gives that executive officer the right to purchase up to 27,000 shares of our common stock if certain performance targets and market conditions are achieved. On March 30, 2015, we issued performance-based warrants to two employees. These warrants give these individuals the right to purchase up to 54,694 shares of our common stock in the aggregate if certain performance targets are achieved.

The first performance-based warrant for 750,015 shares of our common stock has an initial exercise price of \$0.001 per share and two separate tranches of shares become exercisable upon the occurrence of a triggering event, which is defined as: (1) a change in control event that results in any person or entity (other than our stockholders immediately prior to the transaction) owning more than 50% of the combined voting power of all classes of our capital stock, (2) a sale of substantially all of our assets, (3) an initial public offering, or (4) a liquidation or other dissolution of the Company. Upon the occurrence of a triggering event, the number of shares that become exercisable under the warrant is determined by the amount of cash consideration received by ABS Capital Partners, one of our stockholders, as a result of such triggering event. On July 11, 2012, we modified the terms of the performance-based warrant to provide for a \$3.1 million cash payment in the event that a triggering event has not occurred on or before January 3, 2013. We considered this to be an equity to cash settled liability modification and recorded \$3.1 million in compensation expense, included within general and administrative expense, on the modification date. The award was settled for \$3.1 million on January 3, 2013.

The second performance-based warrant for 91,881 shares of our common stock has an exercise price of \$ 0.41 per share and becomes exercisable if we have a change in control or if we complete an initial public offering. This warrant for 91,881 shares of our common stock expired in May 2015 upon the cessation of the holder of the warrant's employment with us.

The third performance-based warrant for 27,000 shares of our common stock has an exercise price of \$ 3.89 per share and becomes exercisable if we have a change in control or if we complete an initial public offering. This warrant expired in July 2015 because the minimum annual revenue and EBITDA targets of the subsidiary unit required under the warrant were not met during the exercise period. The exercise period began upon the occurrence of a triggering event, which was upon the effectiveness of the registration statement for our IPO, and closed 30 days after the effectiveness of our registration statement.

The fourth and fifth performance-based warrants, each for 27,347 shares of our common stock, have an exercise price of \$ 10.97 per share and we may elect to terminate the warrants in exchange for a one-time cash settlement in the event of a change in control. If the warrants become exercisable, the number of shares that become exercisable which cannot exceed 27,347 shares for each warrant, is based upon the achievement of certain minimum annual revenue targets. These warrants will expire upon the earlier of March 2025 and the date upon which the holder of the warrant is no longer our employee or an employee of an affiliate of ours. We believe that the achievement of the minimum annual revenue targets is probable, and we began recognizing expense related to these performance-based warrants on April 1, 2015.

As of December 31, 2015, 2014 and 2013, none of the warrants that remained outstanding were exercisable because the performance requirements had not been met. We recorded less than \$0.1 million expense associated with the performance-based warrants during the year ended December 31, 2015 and we did not record expense associated with the performance-based warrants during the years ended December 31, 2014 and 2013.

#### ***Sale of Common Stock Subscriptions***

On May 22, 2013, we sold 238,500 shares of our common stock to one of our executive officers for \$0.7 million, or \$2.95 per share, an amount below fair value. Under the terms of the sale, we had the right to repurchase the shares for \$2.95 per share subject to certain triggering events prior to April 2, 2017. Our repurchase right expired on July 1, 2015, the date of the closing of our IPO. The excess of the fair value over the sale price was being recorded to stock-based compensation expense, on a straight-line basis, over the four-year term of the repurchase agreement. In 2015, we recognized the remaining unamortized expense upon the expiration of our repurchase right. For the years ended December 31, 2015, 2014 and 2013, we recognized \$0.2 million, less than \$0.1 million and less than \$0.1 million in general and administrative expense in our consolidated statement of operations.

#### **Note 17. Earnings Per Share**

##### ***Basic and Diluted Earnings Per Share***

The components of basic and diluted EPS are as follows (in thousands, except share and per share amounts):

**ALARM.COM HOLDINGS, INC.**  
**Notes to the Consolidated Financial Statements - (Continued)**  
**December 31, 2015, 2014 and 2013**

	Year Ended December 31,		
	2015	2014	2013
Net income	\$ 11,768	\$ 13,502	\$ 4,524
Less: dividends paid to participating securities	(18,987)	—	—
Less: income allocated to participating securities	—	(12,939)	(4,402)
Net income available for common stockholders (A)	<u>\$ (7,219)</u>	<u>\$ 563</u>	<u>\$ 122</u>
Weighted average common shares outstanding — basic (B)	24,108,362	2,276,694	1,443,469
Dilutive effect of stock options	—	1,613,427	1,351,876
Weighted average common shares outstanding — diluted (C)	<u>24,108,362</u>	<u>3,890,121</u>	<u>2,795,345</u>
Earnings per share:			
Basic (A/B)	\$ (0.30)	\$ 0.25	\$ 0.08
Diluted (A/C)	\$ (0.30)	\$ 0.14	\$ 0.04

Diluted net loss per common share is the same as basic net loss per common share for the year ended December 31, 2015 because the effects of potentially dilutive items were anti-dilutive due to our net loss attributable to common stockholders. The following securities have been excluded from the calculation of diluted weighted average common shares outstanding because the effect is anti-dilutive:

	Year Ended December 31,		
	2015	2014	2013
Redeemable convertible preferred stock:			
Series A	—	1,998,257	1,998,257
Series B	—	1,809,685	1,809,685
Series B-1	—	82,934	82,934
Stock options	522,997	219,400	1,908,630
Common stock subject to repurchase	96,368	209,372	—

**Note 18. Significant Service Providers**

During the years ended December 31, 2015, 2014 and 2013 our 10 largest revenue service providers accounted for 63%, 65% and 66% of our revenue. One of our service providers individually represented greater than 15% but not more than 20% of our revenue for the year ended December 31, 2015, 2014 and 2013. Two of our service providers individually represented greater than 10% but not more than 15% of our revenue for the year ended December 31, 2014. One of our service providers individually represented greater than 10% but not more than 15% of our revenue for the year ended December 31, 2013.

Trade accounts receivable from two service providers totaled \$3.1 million and \$2.7 million as of December 31, 2015. No other individual service provider represented more than 10% of accounts receivable as of December 31, 2015. Trade accounts receivable from three service providers totaled \$ 3.1 million, \$ 2.7 million and \$ 1.1 million, as of December 31, 2014. No other individual service provider represented more than 10% of accounts receivable as of December 31, 2014.

**Note 19. Income Taxes**

The components of our income tax expense for the years ended December 31, 2015, 2014 and 2013 are as follows (in thousands):

**ALARM.COM HOLDINGS, INC.**  
**Notes to the Consolidated Financial Statements - (Continued)**  
**December 31, 2015, 2014 and 2013**

	Year Ended December 31,		
	2015	2014	2013
Current			
Federal	7,730	7,266	3,965
State	1,519	1,286	878
	<u>9,249</u>	<u>8,552</u>	<u>4,843</u>
Deferred			
Federal	(3,372)	(1,702)	(1,919)
State	(180)	(33)	(236)
	<u>(3,552)</u>	<u>(1,735)</u>	<u>(2,155)</u>
	<u>5,697</u>	<u>6,817</u>	<u>2,688</u>

The difference between the income tax expense at the Federal statutory rate and income tax expense in the accompanying consolidated statements of operations is as follows:

	Year Ended December 31		
	2015	2014	2013
Federal statutory rate	35.0 %	35.0 %	35.0 %
State income tax expense, net of Federal benefit	4.5	4.0	4.7
Nondeductible transaction costs	—	—	0.4
Goodwill and intangible impairment	—	—	23.3
Release of acquisition related contingent liability	—	—	(28.2)
Nondeductible meals and entertainment	1.2	0.9	2.2
Research and development tax credits	(8.9)	(6.2)	—
Other	0.8	(0.2)	(0.1)
	<u>32.6 %</u>	<u>33.5 %</u>	<u>37.3 %</u>

The components of our net deferred tax assets (liabilities) are as follows (in thousands):

	December 31	
	2015	2014
Deferred tax assets, non- current		
Provision for doubtful accounts	\$ 1,345	\$ 1,266
Accrued expenses	2,936	964
Deferred revenue	3,416	3,098
Deferred rent	3,331	490
Stock-based compensation	2,233	1,334
Acquisition costs	126	117
Subsidiary unit compensation	425	88
Equity investments	180	29
Inventory reserve	123	—
Net operating losses	3,183	3,824
Capital losses	—	11
	<u>17,298</u>	<u>11,221</u>
Deferred tax liabilities, non-current		
Intangible assets and prepaid patent licenses	(2,098)	(1,799)
Depreciation	(3,105)	(1,059)
Contingent consideration	(180)	—
Total deferred tax liabilities	<u>\$ (5,383)</u>	<u>\$ (2,858)</u>
Net deferred tax assets	<u>\$ 11,915</u>	<u>\$ 8,363</u>

**ALARM.COM HOLDINGS, INC.**  
**Notes to the Consolidated Financial Statements - (Continued)**  
**December 31, 2015, 2014 and 2013**

A reconciliation of the beginning and ending amounts of unrecognized tax benefits (without related interest expense) is as follows (in thousands):

	Year Ended December 31		
	2015	2014	2013
Beginning balance	\$ 208	\$ —	\$ —
Additions based on tax positions related to the current year	152	69	—
Additions for tax positions of prior year	146	139	—
Ending balance	<u>\$ 506</u>	<u>\$ 208</u>	<u>\$ —</u>

Our effective income tax rates were 32.6% , 33.5% and 37.3% for the years ended December 31, 2015 , 2014 and 2013. For the year s ended December 31, 2015 and 2014, our effective tax rates were below the statutory rate primarily due to the research and development tax credits claimed, partially offset by the impact of state taxes and non-deductible meal and entertainment expenses. For the year ended December 31, 2013 our effective tax rate was above the statutory rate primarily due to the impact of state taxes and non-deductible meal and entertainment expenses, partially offset by the net adjustment to the contingent liability and goodwill carrying values.

We recognize a valuation allowance if, based on the weight of available evidence, both positive and negative, it is more likely than not that some portion, or all, of net deferred tax assets will not be realized. 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 and December 31, 2014 . Accordingly, we have not recorded a valuation allowance as of December 31, 2015 and 2014.

We apply guidance for uncertainty in income taxes that requires the application of a more likely than not threshold to the recognition and de-recognition of uncertain tax positions. If the recognition threshold is met, this guidance permits us to recognize a tax benefit measured at the largest amount of the tax benefit that, in our judgment, is more likely than not to be realized upon settlement. We recorded an unrecognized tax benefit of \$0.3 million for research and development tax credits claimed during the year ended December 31, 2015 and \$ 0.2 million for research and development tax credits claimed during the year ended December 31, 2014 . We did not record any unrecognized tax benefits during 2013. As of December 31, 2015 , we had accrued approximately \$4,000 of total interest related to unrecognized tax benefits. We recognize interest and penalties related to unrecognized tax benefits as a component of income tax expense.

We are not aware of any events that make it reasonably possible that there would be a significant change in our unrecognized tax benefits over the next 12 months. As of December 31, 2015 , all of the \$0.5 million of unrecognized tax benefits, if recognized, would reduce our income tax expense and the effective tax rate.

We file income tax returns in the United States. We are no longer subject to U.S. income tax examinations for years prior to 2011, with the exception that operating loss carryforwards generated prior to 2011 may be subject to tax audit adjustment. We are generally no longer subject to state and local income tax examinations by tax authorities for years prior to 2011.

As of December 31, 2015 , we had U.S. net operating loss carryforwards of approximately \$8.7 million , which are scheduled to begin to expire in 2030. The net operating loss carryforward arose in connection with the EnergyHub acquisition. Utilization of net operating loss carryforwards may be subject to annual limitations due to ownership change limitations as provided by the Internal Revenue Code of 1986, as amended.

#### **Note 20. Segment Information**

We have two reportable segments:

- Alarm.com segment
- Other segment

Our chief operating decision maker is the chief executive officer. Management determined that the operational data used by the chief operating decision maker is that of the two reportable segments. Management bases strategic goals and decisions on these segments and the data presented below is used to measure financial results. Our Alarm.com segment represents our cloud-based platform for the connected home and related 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 year 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.



**ALARM.COM HOLDINGS, INC.**  
**Notes to the Consolidated Financial Statements - (Continued)**  
**December 31, 2015, 2014 and 2013**

Management evaluates the performance of its segments and allocates resources to them based on operating income. The reportable segment operational data is presented in the table below as of December 31, 2015 and December 31, 2014 and for the years ended December 31, 2015, 2014 and 2013 (in thousands):

**Segment Information:**

	Year Ended December 31, 2015				
	Alarm.com	Other	Intersegment Alarm.com	Intersegment Other	Total
Revenue	\$ 202,752	\$ 9,052	\$ (952)	(1,964)	\$ 208,888
Operating income / (loss)	38,437	(20,151)	(279)	(16)	17,991
Assets	215,315	10,780			226,095

	Year Ended December 31, 2014				
	Alarm.com	Other	Intersegment Alarm.com	Intersegment Other	Total
Revenue	\$ 165,603	\$ 2,388	\$ (646)	\$ (33)	\$ 167,312
Operating income / (loss)	34,271	(13,255)	(154)	138	21,000
Assets	108,935	11,997			120,932

	Year Ended December 31, 2013				
	Alarm.com	Other	Intersegment Alarm.com	Intersegment Other	Total
Revenue	\$ 129,222	\$ 1,207	\$ (207)	\$ —	\$ 130,222
Operating income / (loss)	19,733	(12,297)	(48)	36	7,424

We derived substantially all revenue from North America for the years ended December 31, 2015, 2014 and 2013. Substantially all our long lived assets were in North America as of December 31, 2015 and December 31, 2014.

**Note 21. Related Party Transactions**

Our installation partner in which we have a 48.2% ownership interest performs installation services for security dealers and also provides installation services for us and certain of our subsidiaries. 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. We account for this investment using the equity method (see Note 8). During the years ended December 31, 2015, 2014 and 2013, we recorded \$0.8 million, \$0.3 million and \$0 of cost of hardware and other revenue in connection with this installation partner. As of December 31, 2015 and December 31, 2014, our accounts payable balance to our installation partner was \$0.5 million and \$0.1 million. In September 2014, we loaned \$315,000 to our installation partner under a secured promissory note that accrues interest at 8.0%. Interest is payable monthly with the entire principal balance plus accrued but unpaid interest due at maturity in September 2016. For the year ended December 31, 2015 and 2014, we recorded \$26,000 and \$7,000 of interest income related to this note receivable.

In June 2015, two of our significant stockholders, entities affiliated with Technology Crossover Ventures ("TCV"), and entities affiliated with ABS Capital Partners ("ABS"), entered into a Securities Purchase Agreement (the "Secondary Sale Agreement"). Pursuant to the terms of the Secondary Sale Agreement, ABS agreed to sell to TCV, and TCV agreed to buy from ABS, 888,988 shares of our common stock at a purchase price of \$13.02 per share.

**ALARM.COM HOLDINGS, INC.**  
**Notes to the Consolidated Financial Statements - (Continued)**  
**December 31, 2015, 2014 and 2013**

**Note 22. Other Comprehensive Income**

The table below presents the tax effects related to other comprehensive income (loss) and reclassifications made to the consolidated statements of operations (in thousands):

	Available-for-sale security		
	Before tax	Tax	After Tax
As of January 1, 2013	\$ —	\$ —	\$ —
Other comprehensive income / (loss) before reclassification	92	(36)	56
Amounts reclassified from accumulated other comprehensive income	—	—	—
Net current period other comprehensive income	<u>\$ 92</u>	<u>\$ (36)</u>	<u>\$ 56</u>
As of December 31, 2013	<u>\$ 92</u>	<u>\$ (36)</u>	<u>\$ 56</u>
As of January 1, 2014	\$ 92	\$ (36)	\$ 56
Other comprehensive income / (loss) before reclassification	(30)	11	(19)
Amounts reclassified from accumulated other comprehensive income to other (expense) / income, net	(62)	25	(37)
Net current period other comprehensive income	<u>\$ (92)</u>	<u>\$ 36</u>	<u>\$ (56)</u>
As of December 31, 2014	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

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 . There were no components of other comprehensive income in 2015 .

**ALARM.COM HOLDINGS, INC.**  
**Notes to the Consolidated Financial Statements - (Continued)**  
**December 31, 2015, 2014 and 2013**

**Note 23. Quarterly Financial Data (Unaudited)**

The following tables show selected unaudited quarterly consolidated statement of operations data for each of our eight most recently completed quarters. 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. 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 are presented below (in thousands, except per share data):

Selected Consolidated Statement of Operations Data:	Three Months Ended							
	Reported				Revised <sup>1</sup>		Reported	
	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)							
<b>Total revenue</b>	\$ 36,851	\$ 42,078	\$ 42,832	\$ 45,551	\$ 46,011	\$ 51,949	\$ 54,007	\$ 56,921
<b>Net income</b>	\$ 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	(4,125)	(1,988)	(2,549)	(4,284)	(2,895)	—	(45)	(8)
<b>Net income / (loss) attributable to common stockholders</b>	\$ 148	\$ 88	\$ 118	\$ 202	\$ 146	\$ (16,478)	\$ 2,898	\$ 3,267
<b>Per share information attributable to common stockholders:</b>								
<b>Net income / (loss) per share:</b>								
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

<sup>1</sup> In the fourth quarter of 2015, we identified an error related to the amount of stock-based compensation expense that we recorded in the third quarter of 2015. In the table above, we have revised our previously reported financial results to correct the error. For the three months ended September 30, 2015, the correction increased general and administrative expense by \$480,000, reduced the provision for income taxes by \$194,000, reduced net income by \$286,000 and reduced basic and diluted net income per share attributable to common stockholders by \$0.01. We have concluded that the impact of the error is immaterial to the previously issued quarterly financial statements. The consolidated statements of operations for the three and nine months ended September 30, 2015 will be revised in our Form 10-Q for the quarterly period end September 30, 2016.

**Schedule II – Valuation and Qualifying Accounts and Reserves**

**Alarm.com Holdings, Inc.**  
**Schedule II**  
**Valuation and Qualifying Accounts and Reserves**  
**(In thousands)**

Description	Balance at Beginning of Year	Additions Charged Against (Credited to) Revenue	Additions Charged to Other Accounts	Deductions	Balance at End of Year
<b>Year ended December 31, 2015</b>					
Allowance for doubtful accounts	\$ 1,397		\$ 276	\$ (358)	\$ 1,315
Allowance for hardware returns	1,838	1,559		(1,281)	2,116
<b>Year ended December 31, 2014</b>					
Allowance for doubtful accounts	304		1,371	(278)	1,397
Allowance for hardware returns	952	1,863		(977)	1,838
<b>Year ended December 31, 2013</b>					
Allowance for doubtful accounts	580		592	(868)	304
Allowance for hardware returns	906	1,781		(1,735)	952
	105				

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**ITEM 9A. CONTROLS AND PROCEDURES**

***Evaluation of Disclosure Controls and Procedures***

We maintain “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act, that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2015. Based on the evaluation of our disclosure controls and procedures as of December 31, 2015, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

***Management’s Report on Internal Control over Financial Reporting and Attestation Report of the Registered Public Accounting Firm***

This Annual Report does not include a report of management’s assessment regarding internal control over financial reporting or an attestation report of our registered public accounting firm due to a transition period established by rules of the SEC for newly public companies.

***Changes in Internal Control over Financial Reporting***

There were no changes in our internal control over financial reporting during the fourth quarter of 2015 that have materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

***Inherent Limitations on Effectiveness of Controls***

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

**ITEM 9B. OTHER INFORMATION**

None.

**PART III.**

We will file a definitive Proxy Statement for our Annual Meeting, or our 2016 Proxy Statement, with the SEC, pursuant to Regulation 14A, not later than 120 days after the end of our fiscal year. Accordingly, certain information required by Part III has been omitted under General Instruction G(3) to Form 10 K. Only those sections of the 2016 Proxy Statement that specifically address the items set forth herein are incorporated by reference.

**Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information required by Item 10 is hereby incorporated by reference to the sections of our 2016 Proxy Statement under the captions "Information Regarding Committees of the Board Of Directors," "Election of Directors," "Management" and "Section 16(a) Beneficial Ownership Reporting."

We have adopted a written Code of Business Conduct and Ethics, or the Code of Conduct, applicable to all of our employees, executive officers and directors, including our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. A current copy of the Code of Conduct is available on the Investors section of our website, [www.alarm.com](http://www.alarm.com), under "Corporate Governance." We intend to disclose on our website any amendments to, or waivers from, our Code of Conduct that are required to be disclosed pursuant to SEC rules.

**Item 11. EXECUTIVE COMPENSATION**

The information required by Item 11 is hereby incorporated by reference to the sections of our 2016 Proxy Statement under the captions "Executive Compensation" and "Director Compensation."

**Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information required by Item 12 is hereby incorporated by reference to the sections of our 2016 Proxy Statement under the captions "Security Ownership of Certain Beneficial Owners and Management" and "Securities Authorized for Issuance under Equity Compensation Plans."

**Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE**

The information required by Item 13 is hereby incorporated by reference to the sections of our 2016 Proxy Statement under the captions "Transactions with Related Persons" and "Director Independence."

**Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

The information required by Item 14 is hereby incorporated by reference to the section of our 2016 Proxy Statement under the caption "Principal Accountant Fees and Services."

**Part IV.**

**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

**(a) The following documents are filed as part of this Annual Report:**

- (1) Consolidated Financial Statements and Report of Independent Registered Public Accounting Firm
- (2) Consolidated Financial Statement Schedule
- (3) Exhibits are incorporated herein by reference or are filed with this Annual Report as indicated below (numbered in accordance with Item 601 of Regulation S-K).

**(b) Exhibits**

Exhibit	Description	Incorporated by Reference			
		Schedule / Form	File Number	Exhibit	File Date
2.1	Agreement and Plan of Merger by and among the Registrant, Energyhub Holdings, Inc. EnergyHub, Inc. and Shareholder Representative Services LLC, as stockholder representative, dated May 3, 2013	S-1	333-204428	2.1	May 22, 2015
3.1	Amended and Restated Certificate of Incorporation of the Registrant	8-K	001-37461	3.1	July 2, 2015
3.2	Amended and Restated Bylaws of the Registrant	8-K	001-37461	3.2	July 2, 2015
4.1	Form of common stock certificate of the Registrant	S-1	333-204428	4.1	May 22, 2015
4.2	Amended and Restated Registration Rights Agreement by and among the Registrant and certain of its stockholders, dated July 11, 2012	S-1	333-204428	4.2	May 22, 2015
10.1	Deed of Lease between Registrant and 8150 Leesburg Pike, L.L.C., dated April 21, 2009, as amended July 21, 2010, April 28, 2011, January 10, 2012, June 5, 2012, December 7, 2012, March 12, 2013 and May 29, 2013	S-1	333-204428	10.1	May 22, 2015
10.2	Deed of Office Lease Agreement between Registrant and Marshall Property LLC, dated August 8, 2014	S-1	333-204428	10.2	May 22, 2015
10.3†	Amended and Restated 2009 Stock Incentive Plan, Form of Non-Qualified Stock Option Agreement and Form of Early Exercise Notice and Restricted Stock Purchase Agreement thereunder	S-1	333-204428	10.3	May 22, 2015
10.4†	2015 Equity Incentive Plan	10-Q	001-37461	10.1	August 14, 2015
10.5†#	Form of Option Grant Package under 2015 Equity Incentive Plan				
10.6†	Form of RSU Notice and Agreement under 2015 Equity Incentive Plan	S-1/A	333-204428	10.6	June 10, 2015
10.7#	Form of Early Exercise Restricted Stock Purchase Agreement				
10.8†	2015 Employee Stock Purchase Plan	10-Q	001-37461	10.2	August 14, 2015
10.9†	Non-Employee Director Compensation Policy	S-1/A	333-204428	10.8	June 10, 2015
10.10†	Form of Indemnity Agreement by and between Registrant and each of its directors and executive officers	S-1/A	333-204428	10.9	June 10, 2015
10.11	Senior Secured Credit Facilities Credit Agreement by and among the Registrant, Alarm.com Incorporated, Silicon Valley Bank, Bank of America, N.A. and the several lenders from time to time parties thereto, dated May 8, 2014	S-1	333-204428	10.10	May 22, 2015
10.12#	Second Amendment to Credit Agreement by and among the Registrant, Alarm.com Incorporated, Silicon Valley Bank, Bank of America, N.A. and the several lenders from time to time parties thereto, dated December 7, 2015				
10.13*	Alarm.com Dealer Program Agreement by and between the Registrant and Monitronics Funding LP, dated October 22, 2007, as amended by Amendment No. 1 dated January 15, 2008 and the Second Amendment dated February 23, 2013	S-1/A	333-204428	10.11	June 19, 2015
10.14 † #	Third Amendment to Alarm.com Dealer Program Agreement by and between the Registrant and Monitronics International, Inc.				
21.1	Subsidiaries of the Registrant	S-1	333-204428	21.1	May 22, 2015
23.1#	Consent of PricewaterhouseCoopers LLP, independent registered public accounting firm				
24.1#	Power of Attorney. Reference is made to the signature page hereto				
31.1#**	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				
31.2#**	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				
32.1#**	Certification of Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				
101.INS#	XBRL Instance Document				
101.SCH#	XBRL Taxonomy Extension Schema Document				
101.CAL#	XBRL Taxonomy Extension Calculation Linkbase Document				
101.DEF#	XBRL Taxonomy Extension Definition Linkbase Document				
101.LAB#	XBRL Taxonomy Extension Label Linkbase Document				
101.PRE#	XBRL Taxonomy Extension Presentation Linkbase Document				

† Indicates management contract or compensatory plan.

# Filed herewith.

\* Confidential treatment has been granted from the Securities and Exchange Commission as to certain portions of this document.

† Confidential treatment has been requested from the Securities and Exchange Commission as to certain portions of this document.

\*\* These certifications are being furnished solely to accompany this annual report pursuant to 18 U.S.C. Section 1350, and are not being filed for purposes of Section 18 of the Securities Exchange Act of 1934 and are not to be incorporated by reference into any filing of the registrant, whether made before or after the date hereof, regardless of any general incorporation language in such filing.



**SIGNATURE**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**Alarm.com Holdings, Inc.**

Date: February 29, 2016

By: /s/ Stephen Trundle

Stephen Trundle  
President, Chief Executive Officer and Director  
(Principal Executive Officer)

Date: February 29, 2016

By: /s/ Jennifer Moyer

Jennifer Moyer  
Chief Financial Officer  
(Principal Financial Officer and Principal Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Stephen Trundle</u> Stephen Trundle	President, Chief Executive Officer and Director (Principal Executive Officer)	February 29, 2016
<u>/s/ Jennifer Moyer</u> Jennifer Moyer	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	February 29, 2016
<u>/s/ Timothy McAdam</u> Timothy McAdam	Chairman of the Board of Directors	February 29, 2016
<u>/s/ Donald Clarke</u> Donald Clarke	Director	February 29, 2016
<u>/s/ Hugh Panero</u> Hugh Panero	Director	February 29, 2016
<u>/s/ Mayo Shattuck</u> Mayo Shattuck	Director	February 29, 2016
<u>/s/ Ralph Terkowitz</u> Ralph Terkowitz	Director	February 29, 2016

**EXHIBIT INDEX**

Exhibit	Description	Incorporated by Reference			
		Schedule / Form	File Number	Exhibit	File Date
2.1	Agreement and Plan of Merger by and among the Registrant, Energyhub Holdings, Inc. EnergyHub, Inc. and Shareholder Representative Services LLC, as stockholder representative, dated May 3, 2013	S-1	333-204428	2.1	May 22, 2015
3.1	Amended and Restated Certificate of Incorporation of the Registrant	8-K	001-37461	3.1	July 2, 2015
3.2	Amended and Restated Bylaws of the Registrant	8-K	001-37461	3.2	July 2, 2015
4.1	Form of common stock certificate of the Registrant	S-1	333-204428	4.1	May 22, 2015
4.2	Amended and Restated Registration Rights Agreement by and among the Registrant and certain of its stockholders, dated July 11, 2012	S-1	333-204428	4.2	May 22, 2015
10.1	Deed of Lease between Registrant and 8150 Leesburg Pike, L.L.C., dated April 21, 2009, as amended July 21, 2010, April 28, 2011, January 10, 2012, June 5, 2012, December 7, 2012, March 12, 2013 and May 29, 2013	S-1	333-204428	10.1	May 22, 2015
10.2	Deed of Office Lease Agreement between Registrant and Marshall Property LLC, dated August 8, 2014	S-1	333-204428	10.2	May 22, 2015
10.3†	Amended and Restated 2009 Stock Incentive Plan, Form of Non-Qualified Stock Option Agreement and Form of Early Exercise Notice and Restricted Stock Purchase Agreement thereunder	S-1	333-204428	10.3	May 22, 2015
10.4†	2015 Equity Incentive Plan	10-Q	001-37461	10.1	August 14, 2015
10.5†#	Form of Option Grant Package under 2015 Equity Incentive Plan				
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**ALARM.COM HOLDINGS, INC.  
STOCK OPTION GRANT NOTICE  
(2015 EQUITY INCENTIVE PLAN)**

Alarm.com Holdings, Inc. (the “ *Company* ”), pursuant to its 2015 Equity Incentive Plan (the “ *Plan* ”), hereby grants to Optionholder an option to purchase the number of shares of the Company’s Common Stock set forth below. This option is subject to all of the terms and conditions as set forth in this notice, in the Option Agreement, the Plan and the Notice of Exercise, all of which are attached hereto and incorporated herein in their entirety. Capitalized terms not explicitly defined herein but defined in the Plan or the Option Agreement will have the same definitions as in the Plan or the Option Agreement. If there is any conflict between the terms in this notice and the Plan, the terms of the Plan will control.

Optionholder:	_____
Date of Grant:	_____
Vesting Commencement Date:	_____
Number of Shares Subject to Option:	_____
Exercise Price (Per Share):	_____
Total Exercise Price:	_____
Expiration Date:	_____

**Type of Grant:**    Incentive Stock Option    Nonstatutory Stock Option

**Exercise Schedule :**    Same as Vesting Schedule    Early Exercise Permitted

**Vesting Schedule :**   Twenty percent (20%) of the shares subject to this option shall vest on the one-year anniversary of the vesting commencement date (the “ *Anniversary Date* ”); the balance of the shares vest in a series of forty-eight (48) successive equal monthly installments on the first calendar day of each month thereafter, beginning on the first calendar day of the month following the Anniversary Date, provided the Optionholder remains in Continuous Service as of and through each such date.

**Payment:**   By one or a combination of the following items (described in the Option Agreement):

- By cash, check, bank draft or money order payable to the Company
- Pursuant to a Regulation T Program if the shares are publicly traded
- By delivery of already-owned shares if the shares are publicly traded
- If and only to the extent this option is a Nonstatutory Stock Option, and subject to the Company’s consent at the time of exercise, by a “net exercise” arrangement

**[Forfeiture :**   This option is subject to the forfeiture provisions of Section 10 of the Option Agreement.]

**Additional Terms/Acknowledgements:** Optionholder acknowledges receipt of, and understands and agrees to, this Stock Option Grant Notice, the Option Agreement and the Plan. Optionholder acknowledges and agrees that this Stock Option Grant Notice and the Option Agreement may not be modified, amended or revised except as provided in the Plan. Optionholder further acknowledges that as of the Date of Grant, this Stock Option Grant Notice, the Option Agreement, and the Plan set forth the entire understanding between Optionholder and the Company regarding this option award and supersede all prior oral and written agreements, promises and/or representations on that subject with the exception of (i) options previously granted and delivered to Optionholder, (ii) any compensation recovery policy that is adopted by the Company or is otherwise required by applicable law and (iii) any written employment or severance arrangement that would provide for vesting acceleration of this option upon the terms and conditions set forth therein.

By accepting this option, Optionholder consents to receive such documents by electronic delivery and to participate in the Plan through an online or electronic system established and maintained by the Company or another third party designated by the Company.

**ALARM.COM HOLDINGS, INC.**

**OPTIONHOLDER:**

By: \_\_  
Signature

—  
Signature

Title: \_\_

Date: \_\_

Date: \_\_

**ATTACHMENTS :** Option Agreement, 2015 Equity Incentive Plan and Notice of Exercise

**ATTACHMENT I**  
**OPTION AGREEMENT**

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**ALARM.COM HOLDINGS, INC.  
2015 EQUITY INCENTIVE PLAN**

**OPTION AGREEMENT  
(INCENTIVE STOCK OPTION OR NONSTATUTORY STOCK OPTION)**

Pursuant to your Stock Option Grant Notice (“*Grant Notice*”) and this Option Agreement, Alarm.com Holdings, Inc. (the “*Company*”) has granted you an option under its 2015 Equity Incentive Plan (the “*Plan*”) to purchase the number of shares of the Company’s Common Stock indicated in your Grant Notice at the exercise price indicated in your Grant Notice. The option is granted to you effective as of the date of grant set forth in the Grant Notice (the “*Date of Grant*”). If there is any conflict between the terms in this Option Agreement and the Plan, the terms of the Plan will control. Capitalized terms not explicitly defined in this Option Agreement or in the Grant Notice but defined in the Plan will have the same definitions as in the Plan.

The details of your option, in addition to those set forth in the Grant Notice and the Plan, are as follows:

**1. VESTING.** Subject to the provisions contained herein, your option will vest as provided in your Grant Notice. Vesting will cease upon the termination of your Continuous Service.

**2. NUMBER OF SHARES AND EXERCISE PRICE.** The number of shares of Common Stock subject to your option and your exercise price per share in your Grant Notice will be adjusted for Capitalization Adjustments.

**3. EXERCISE RESTRICTION FOR NON-EXEMPT EMPLOYEES.** If you are an Employee eligible for overtime compensation under the Fair Labor Standards Act of 1938, as amended (that is, a “*Non-Exempt Employee*”), and except as otherwise provided in the Plan, you may not exercise your option until you have completed at least six (6) months of Continuous Service measured from the Date of Grant, even if you have already been an employee for more than six (6) months. Consistent with the provisions of the Worker Economic Opportunity Act, you may exercise your option as to any vested portion prior to such six (6) month anniversary in the case of (i) your death or disability, (ii) a Corporate Transaction in which your option is not assumed, continued or substituted, (iii) a Change in Control or (iv) your termination of Continuous Service on your “retirement” (as defined in the Company’s benefit plans).

**4. METHOD OF PAYMENT.** You must pay the full amount of the exercise price for the shares you wish to exercise. You may pay the exercise price in cash or by check, bank draft or money order payable to the Company or in any other manner permitted by your Grant Notice, which may include one or more of the following:

(a) Pursuant to a program developed under Regulation T as promulgated by the Federal Reserve Board that, prior to the issuance of Common Stock, results in either the receipt of cash (or check) by the Company or the receipt of irrevocable instructions to pay the aggregate exercise price to the Company from the sales proceeds. This manner of payment is also known as a “broker-assisted exercise”, “same day sale”, or “sell to cover”.



(b) By delivery to the Company (either by actual delivery or attestation) of already-owned shares of Common Stock that are owned free and clear of any liens, claims, encumbrances or security interests, and that are valued at Fair Market Value on the date of exercise. "Delivery" for these purposes, in the sole discretion of the Company at the time you exercise your option, will include delivery to the Company of your attestation of ownership of such shares of Common Stock in a form approved by the Company. You may not exercise your option by delivery to the Company of Common Stock if doing so would violate the provisions of any law, regulation or agreement restricting the redemption of the Company's stock.

(c) If this option is a Nonstatutory Stock Option, subject to the consent of the Company at the time of exercise, by a "net exercise" arrangement pursuant to which the Company will reduce the number of shares of Common Stock issued upon exercise of your option by the largest whole number of shares with a Fair Market Value that does not exceed the aggregate exercise price. You must pay any remaining balance of the aggregate exercise price not satisfied by the "net exercise" in cash or other permitted form of payment. Shares of Common Stock will no longer be outstanding under your option and will not be exercisable thereafter if those shares (i) are used to pay the exercise price pursuant to the "net exercise," (ii) are delivered to you as a result of such exercise, and (iii) are withheld to satisfy your tax withholding obligations.

5. **WHOLE SHARES.** You may exercise your option only for whole shares of Common Stock.

6. **SECURITIES LAW COMPLIANCE.** In no event may you exercise your option unless the shares of Common Stock issuable upon exercise are then registered under the Securities Act or, if not registered, the Company has determined that your exercise and the issuance of the shares would be exempt from the registration requirements of the Securities Act. The exercise of your option also must comply with all other applicable laws and regulations governing your option, and you may not exercise your option if the Company determines that such exercise would not be in material compliance with such laws and regulations (including any restrictions on exercise required for compliance with Treas. Reg. 1.401(k)-1(d)(3), if applicable).

7. **TERM.** You may not exercise your option before the Date of Grant or after the expiration of the option's term. The term of your option expires, subject to the provisions of Section 5(h) of the Plan, upon the earliest of the following:

(a) immediately upon the date on which the event giving rise to your termination of Continuous Service for Cause occurs (or, if required by law, the date of termination of Continuous Service for Cause);

(b) three (3) months after the termination of your Continuous Service for any reason other than Cause, your Disability or your death (except as otherwise provided in Section 7(d) below); *provided, however*, that if during any part of such three (3) month period your option is not exercisable solely because of the condition set forth in the section above relating to "Securities Law Compliance," your option will not expire until the earlier of the Expiration Date or until it has been exercisable for an aggregate period of three (3) months after the termination of your Continuous Service; *provided further*, if during any part of such three (3) month period, the sale of any Common Stock received upon exercise of your option would violate the Company's insider trading policy, then your option will not expire until the earlier of the Expiration Date or until it has been exercisable for an aggregate period of three (3) months after the termination of your Continuous Service during which the sale of the Common Stock received upon exercise of your option would not be in violation of the Company's insider trading policy. Notwithstanding the foregoing, if (i) you are a Non-Exempt

Employee, (ii) your Continuous Service terminates within six (6) months after the Date of Grant, and (iii) you have vested in a portion of your option at the time of your termination of Continuous Service, your option will not expire until the earlier of (x) the later of (A) the date that is seven (7) months after the Date of Grant, and (B) the date that is three (3) months after the termination of your Continuous Service, and (y) the Expiration Date;

(c) twelve (12) months after the termination of your Continuous Service due to your Disability (except as otherwise provided in Section 7(d)) below;

(d) eighteen (18) months after your death if you die either during your Continuous Service;

(e) the Expiration Date indicated in your Grant Notice; or

(f) the day before the tenth (10th) anniversary of the Date of Grant.

If your option is an Incentive Stock Option, note that to obtain the federal income tax advantages associated with an Incentive Stock Option, the Code requires that at all times beginning on the Date of Grant and ending on the day three (3) months before the date of your option's exercise, you must be an employee of the Company or an Affiliate, except in the event of your death or Disability. The Company has provided for extended exercisability of your option under certain circumstances for your benefit but cannot guarantee that your option will necessarily be treated as an Incentive Stock Option if you continue to provide services to the Company or an Affiliate as a Consultant or Director after your employment terminates or if you otherwise exercise your option more than three (3) months after the date your employment with the Company or an Affiliate terminates.

## **8. EXERCISE.**

(a) You may exercise the vested portion of your option (and the unvested portion of your option if your Grant Notice so permits) during its term by (i) delivering a Notice of Exercise (in a form designated by the Company) or completing such other documents and/or procedures designated by the Company for exercise (including, if applicable, the delivery of an Early Exercise Restricted Stock Purchase Agreement, as contemplated by Section 8(d), below) and (ii) paying the exercise price and any applicable withholding taxes to the Company's Secretary, stock plan administrator, or such other person as the Company may designate, together with such additional documents as the Company may then require.

(b) By exercising your option you agree that, as a condition to any exercise of your option, the Company may require you to enter into an arrangement providing for the payment by you to the Company of any tax withholding obligation of the Company arising by reason of (i) the exercise of your option, (ii) the lapse of any substantial risk of forfeiture to which the shares of Common Stock are subject at or after the time of exercise, or (iii) the disposition of shares of Common Stock acquired upon such exercise.

(c) If your option is an Incentive Stock Option, by exercising your option you agree that you will notify the Company in writing within fifteen (15) days after the date of any disposition of any of the shares of the Common Stock issued upon exercise of your option that occurs within two (2) years after the Date of Grant or within one (1) year after such shares of Common Stock are transferred upon exercise of your option.

**(d) Exercise Prior to Vesting (“Early Exercise”)** . If permitted in your Grant Notice (i.e., the “Exercise Schedule” indicates “Early Exercise Permitted”) and subject to the provisions of your option, you may elect at any time that is both (i) during the period of your Continuous Service and (ii) during the term of your option, to exercise all or part of your option, including the unvested portion of your option; *provided, however*, that:

**(i)** a partial exercise of your option shall be deemed to cover first vested shares of Common Stock and then the earliest vesting installment of unvested shares of Common Stock;

**(i)** as a condition of such exercise, you shall enter into the Company’s form of Early Exercise Restricted Stock Purchase Agreement as provided by the Company at the time of exercise with a vesting schedule that will result in the shares of restricted Common Stock being subject to same vesting schedule and other conditions as if no early exercise had occurred;

**(ii)** any shares of Common Stock so purchased from installments that have not vested as of the date of exercise shall be subject to the risk of forfeiture and repurchase and reacquisition restrictions in favor of the Company as set forth in the Early Exercise Restricted Stock Purchase Agreement; and

**(iii)** if your option is an Incentive Stock Option, then, to the extent that the aggregate Fair Market Value (determined at the time of grant) of the shares of Common Stock with respect to which your option plus all other Incentive Stock Options you hold are exercisable for the first time by you during any calendar year (under all plans of the Company and its Affiliates) exceeds \$100,000, your option(s) or portions thereof that exceed such limit (according to the order in which they were granted) shall be treated as Nonstatutory Stock Options.

**9. TRANSFERABILITY.** Except as otherwise provided in this Section 9, your option is not transferable, except by will or by the laws of descent and distribution, and is exercisable during your life only by you.

**(a) Certain Trusts.** Upon receiving written permission from the Board or its duly authorized designee, you may transfer your option to a trust if you are considered to be the sole beneficial owner (determined under Section 671 of the Code and applicable state law) while the option is held in the trust. You and the trustee must enter into transfer and other agreements required by the Company.

**(b) Domestic Relations Orders.** Upon receiving written permission from the Board or its duly authorized designee, and provided that you and the designated transferee enter into transfer and other agreements required by the Company, you may transfer your option pursuant to the terms of a domestic relations order, official marital settlement agreement or other divorce or separation instrument as permitted by Treasury Regulation 1.421-1(b)(2) that contains the information required by the Company to effectuate the transfer. You are encouraged to discuss the proposed terms of any division of this option with the Company prior to finalizing the domestic relations order or marital settlement agreement to help ensure the required information is contained within the domestic relations order or marital settlement agreement. If this option is an Incentive Stock Option, this option may be deemed to be a Nonstatutory Stock Option as a result of such transfer.

(c) **Beneficiary Designation.** Upon receiving written permission from the Board or its duly authorized designee, you may, by delivering written notice to the Company, in a form approved by the Company and any broker designated by the Company to handle option exercises, designate a third party who, on your death, will thereafter be entitled to exercise this option and receive the Common Stock or other consideration resulting from such exercise. In the absence of such a designation, your executor or administrator of your estate will be entitled to exercise this option and receive, on behalf of your estate, the Common Stock or other consideration resulting from such exercise.

#### 10. FORFEITURE FOR DETRIMENTAL ACTIVITY

(a) **Definition of Detrimental Activity.** Notwithstanding any other provision of this Option Agreement to the contrary, you shall not engage, directly or indirectly, in any Detrimental Activity prior to, or during the two (2) year period following the termination of your Continuous Service (the “**Restricted Period**”). For purposes of this Section 10, “**Detrimental Activity**” shall mean: (i) to perform, provide, or attempt to perform or provide, wireless and web-enabled security system technology or wireless health solutions that is competitive with any product or service offered by the Company (“**Conflicting Services**”) within the Restricted Territory or assist any other company to perform or provide Conflicting Services within the Restricted Territory; (ii) to induce, or attempt to induce, any employee of the Company to be employed or perform services for you or any company that is competitive to the Company; or (iii) to solicit, divert, take away, contact, call upon, accept business from, or service any current or prospective customer, dealer or partner of the Company for the purpose of providing any wireless and web-enabled security system technology or wireless health solution that competes with any product or service then offered by the Company. For purposes of this Section 10, “**Restricted Territory**” means the geographic territory serviced by you within the last twelve (12) months of your employment with the Company.

(b) **Forfeiture and Clawback.** If you engage in any Detrimental Activity during the Restricted Period without the Company’s express written consent, the Company shall have the right to cause a forfeiture of your rights under this option and/or a clawback of proceeds you receive in connection with this option, including, but not limited to, the right to: (i) cancel any outstanding portion of the option, (ii) cause a forfeiture of any Common Stock acquired by you upon the exercise of this option (but the Company will pay you the option price without interest), and (iii) with respect to the period commencing twelve (12) months prior to and ending two (2) years following the termination of your Continuous Service, require you to pay over to the Company any consideration paid to you upon the sale, transfer or other transaction involving this option or the sale of shares of Common Stock received upon exercise of this option, in such manner and on such terms and conditions as may be required, and the Company shall be entitled to set-off against the amount of any such proceeds any amount owed to you by the Company to the fullest extent permitted by law.

(c) **Remedies Cumulative.** The right of the Company to cancel your option and demand a return of any shares of Common Stock and/or consideration paid to you pursuant to your option, to the extent permitted by law, is cumulative and in addition to every other right and remedy given to the Company at law or in equity, including rights to injunctive relief. In addition, you and the Company agree that this Section 10 does not supersede and shall in no way limit the application of any Invention Assignment and Restrictive Covenants Agreement between you and the Company entered into in connection with your employment with the Company, and should be interpreted consistently with any such agreement.

(d) Reform. In the event that a court finds this Section 10, or any of its restrictions, to be ambiguous, unenforceable, or invalid, you and the Company agree that the court will read the Agreement as a whole and interpret the restriction(s) at issue to be enforceable and valid to the maximum extent allowed by law. If the court declines to enforce this Section 10 in the manner provided in the preceding sentence, you and the Company agree that this Section 10 will be automatically modified to provide the Company with the maximum protection of its business interests allowed by law and you agree to be bound by this Section 10 as modified.

**11. OPTION NOT A SERVICE CONTRACT.** Your option is not an employment or service contract, and nothing in your option will be deemed to create in any way whatsoever any obligation on your part to continue in the employ of the Company or an Affiliate, or of the Company or an Affiliate to continue your employment. In addition, nothing in your option will obligate the Company or an Affiliate, their respective stockholders, boards of directors, officers or employees to continue any relationship that you might have as a Director or Consultant for the Company or an Affiliate.

**12. WITHHOLDING OBLIGATIONS.**

(a) At the time you exercise your option, in whole or in part, and at any time thereafter as requested by the Company, you hereby authorize withholding from payroll and any other amounts payable to you, and otherwise agree to make adequate provision for (including by means of a "same day sale" pursuant to a program developed under Regulation T as promulgated by the Federal Reserve Board to the extent permitted by the Company), any sums required to satisfy the federal, state, local and foreign tax withholding obligations of the Company or an Affiliate, if any, which arise in connection with the exercise of your option.

(b) If this option is a Nonstatutory Stock Option, then upon your request and subject to approval by the Company, and compliance with any applicable legal conditions or restrictions, the Company may withhold from fully vested shares of Common Stock otherwise issuable to you upon the exercise of your option a number of whole shares of Common Stock having a Fair Market Value, determined by the Company as of the date of exercise, not in excess of the minimum amount of tax required to be withheld by law (or such lower amount as may be necessary to avoid classification of your option as a liability for financial accounting purposes). If the date of determination of any tax withholding obligation is deferred to a date later than the date of exercise of your option, share withholding pursuant to the preceding sentence shall not be permitted unless you make a proper and timely election under Section 83(b) of the Code, covering the aggregate number of shares of Common Stock acquired upon such exercise with respect to which such determination is otherwise deferred, to accelerate the determination of such tax withholding obligation to the date of exercise of your option. Notwithstanding the filing of such election, shares of Common Stock shall be withheld solely from fully vested shares of Common Stock determined as of the date of exercise of your option that are otherwise issuable to you upon such exercise. Any adverse consequences to you arising in connection with such share withholding procedure shall be your sole responsibility.

(c) You may not exercise your option unless the tax withholding obligations of the Company and/or any Affiliate are satisfied. Accordingly, you may not be able to exercise your option when desired even though your option is vested, and the Company will have no obligation to issue a certificate for such shares of Common Stock or release such shares of Common Stock from any escrow provided for herein, if applicable, unless such obligations are satisfied.

**13. TAX CONSEQUENCES .** You hereby agree that the Company does not have a duty to design or administer the Plan or its other compensation programs in a manner that minimizes your tax liabilities. You will not make any claim against the Company, or any of its Officers, Directors, Employees or Affiliates related to tax liabilities arising from your option or your other compensation. In particular, you acknowledge that this option is exempt from Section 409A of the Code only if the exercise price per share specified in the Grant Notice is at least equal to the “fair market value” per share of the Common Stock on the Date of Grant and there is no other impermissible deferral of compensation associated with the option.

**14. NOTICES.** Any notices provided for in your option or the Plan will be given in writing (including electronically) and will be deemed effectively given upon receipt or, in the case of notices delivered by mail by the Company to you, five (5) days after deposit in the United States mail, postage prepaid, addressed to you at the last address you provided to the Company. The Company may, in its sole discretion, decide to deliver any documents related to participation in the Plan and this option by electronic means or to request your consent to participate in the Plan by electronic means. By accepting this option, you consent to receive such documents by electronic delivery and to participate in the Plan through an on-line or electronic system established and maintained by the Company or another third party designated by the Company.

**15. PERSONAL DATA .** You understand that your employer, if applicable, the Company, and/or its Affiliates hold certain personal information about you, including but not limited to your name, home address, telephone number, date of birth, social security or equivalent tax identification number, salary, nationality, job title, and details of your option (the “*Personal Data*”). Certain Personal Data may also constitute “*Sensitive Personal Data*” or similar classification under applicable local law and be subject to additional restrictions on collection, processing and use of the same under such laws. Such data include but are not limited to Personal Data and any changes thereto, and other appropriate personal and financial data about you. You hereby provide express consent to the Company or its Affiliates to collect, hold, and process any such Personal Data and Sensitive Personal Data. You also hereby provide express consent to the Company and/or its Affiliates to transfer any such Personal Data and Sensitive Personal Data outside the country in which you are employed or retained, including transfers to the United States. The legal persons for whom such Personal Data are intended are the Company and any broker company providing services to the Company in connection with the administration of the Plan.

**16. GOVERNING PLAN DOCUMENT.** Your option is subject to all the provisions of the Plan, the provisions of which are hereby made a part of your option, and is further subject to all interpretations, amendments, rules and regulations, which may from time to time be promulgated and adopted pursuant to the Plan. If there is any conflict between the provisions of your option and those of the Plan, the provisions of the Plan will control. In addition, your option (and any compensation paid or shares issued under your option) is subject to recoupment in accordance with The Dodd–Frank Wall Street Reform and Consumer Protection Act and any implementing regulations thereunder, any clawback policy adopted by the Company and any compensation recovery policy otherwise required by applicable law.

**17. CHOICE OF LAW.** The interpretation, performance and enforcement of this Agreement shall be governed by the laws of the State of Delaware without regard to such state’s conflicts of laws rules.

**18. WAIVER.** The failure of the Company or any successor or assign, or you, to enforce at any time any provision of this Agreement shall in no way be construed to be a waiver of such provision or of any other provision hereof.

**19. OTHER DOCUMENTS .** You hereby acknowledge receipt of and the right to receive a document providing the information required by Rule 428(b)(1) promulgated under the Securities Act, which includes the Plan prospectus. In addition, you acknowledge receipt of the Company's policy permitting certain individuals to sell shares only during certain "window" periods and the Company's insider trading policy, in effect from time to time.

**20. EFFECT ON OTHER EMPLOYEE BENEFIT PLANS .** The value of this option will not be included as compensation, earnings, salaries, or other similar terms used when calculating your benefits under any employee benefit plan sponsored by the Company or any Affiliate, except as such plan otherwise expressly provides. The Company expressly reserves its rights to amend, modify, or terminate any of the Company's or any Affiliate's employee benefit plans.

**21. VOTING RIGHTS .** You will not have voting or any other rights as a stockholder of the Company with respect to the shares to be issued pursuant to this option until such shares are issued to you. Upon such issuance, you will obtain full voting and other rights as a stockholder of the Company. Nothing contained in this option, and no action taken pursuant to its provisions, will create or be construed to create a trust of any kind or a fiduciary relationship between you and the Company or any other person.

**22. SEVERABILITY .** If all or any part of this Option Agreement or the Plan is declared by any court or governmental authority to be unlawful or invalid, such unlawfulness or invalidity will not invalidate any portion of this Option Agreement or the Plan not declared to be unlawful or invalid. Any Section of this Option Agreement (or part of such a Section) so declared to be unlawful or invalid shall, if possible, be construed in a manner which will give effect to the terms of such Section or part of a Section to the fullest extent possible while remaining lawful and valid.

**23. MISCELLANEOUS .**

(a) The rights and obligations of the Company under your option will be transferable to any one or more persons or entities, and all covenants and agreements hereunder will inure to the benefit of, and be enforceable by the Company's successors and assigns.

(b) You agree upon request to execute any further documents or instruments necessary or desirable in the sole determination of the Company to carry out the purposes or intent of your option.

(c) You acknowledge and agree that you have reviewed your option in its entirety, have had an opportunity to obtain the advice of counsel prior to executing and accepting your option, and fully understand all provisions of your option.

(d) This Option Agreement will be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

(e) All obligations of the Company under the Plan and this Option Agreement will be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of the Company.

\* \* \*

This Option Agreement will be deemed to be signed by you upon the signing by you of the Grant Notice to which it is attached.

9.

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**ATTACHMENT II**

**2015 EQUITY INCENTIVE PLAN**

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**ATTACHMENT III**  
**NOTICE OF EXERCISE**

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**NOTICE OF EXERCISE  
ALARM.COM HOLDINGS, INC.**

Attention: Stock Plan Administrator  
8150 Leesburg Pike  
Vienna, Virginia 22182

Date of Exercise: \_\_\_\_\_

This constitutes notice to Alarm.com Holdings, Inc. (the "**Company**") under my stock option that I elect to purchase the below number of shares of Common Stock of the Company (the "**Shares**") for the price set forth below.

Type of option (check one):

Incentive

Nonstatutory

Stock option dated:

\_\_\_\_\_

\_\_\_\_\_

Number of Shares as  
to which option is  
exercised:

\_\_\_\_\_

\_\_\_\_\_

Certificates to be  
issued in name of:

\_\_\_\_\_

\_\_\_\_\_

Total exercise price:

\$ \_\_\_\_\_

\$ \_\_\_\_\_

Cash payment delivered  
herewith:

\$ \_\_\_\_\_

\$ \_\_\_\_\_

Value of \_\_\_\_\_ Shares delivered  
herewith:

\$ \_\_\_\_\_

\$ \_\_\_\_\_

Value of \_\_\_\_\_ Shares pursuant to net  
exercise (to the extent permitted by the  
Company at the time of exercise):

\$ \_\_\_\_\_

\$ \_\_\_\_\_

Regulation T Program (cashless exercise):

\$ \_\_\_\_\_

\$ \_\_\_\_\_

By this exercise, I agree (i) to provide such additional documents as you may require pursuant to the terms of the Alarm.com Holdings, Inc. 2015 Equity Incentive Plan and/or the applicable Option Agreement (including, if applicable, an Early Exercise Restricted Stock Purchase Agreement, as contemplated by the Option Agreement), (ii) to provide for the payment by me to you (in the manner designated by you) of your withholding obligation, if any, relating to the exercise of this option, and (iii) if this exercise relates to an Incentive Stock Option, to notify you in writing within fifteen (15) days after the date of any disposition of any of the Shares issued upon exercise of this option that occurs within two (2) years after the date of grant of this option or within one (1) year after such Shares are issued upon exercise of this option.

Very truly yours,

—

Signature

Print Name

ALARM.COM HOLDINGS, INC.

2015 EQUITY INCENTIVE PLAN

EARLY EXERCISE RESTRICTED STOCK PURCHASE AGREEMENT

This Early Exercise Restricted Stock Purchase Agreement (“ *Agreement* ”) is made as of [\_\_\_\_\_], by and between Alarm.com Holdings, Inc., a Delaware corporation (the “ *Company* ”), and [\_\_\_\_\_] (“ *Purchaser* ”). To the extent any capitalized terms used in this Agreement are not defined, they shall have the meaning ascribed to them in the Company’s 2015 Equity Incentive Plan (as amended and in effect from time-to-time, the “ *Plan* ”).

WITNESSETH:

**WHEREAS**, Purchaser was awarded an option to purchase up to [\_\_\_\_\_] shares of Common Stock (“ *Common Stock* ”) of the Company (the “ *Option* ”) pursuant to the Plan;

**WHEREAS**, the Option consists of a Stock Option Grant Notice (the “ *Grant Notice* ”) and a Stock Option Agreement (the “ *Option Agreement* ”, and together with the Grant Notice, the “ *Option Documents* ”);

**WHEREAS**, the Grant Notice provides that “early exercise” of the Option is permitted in accordance with the terms of the Option Documents; and

**WHEREAS**, Purchaser desires to exercise all or a portion of the Option on the terms and conditions contained herein, and wishes to take advantage of the early exercise provision of Purchaser’s Option Documents and therefore to enter into this Agreement.

**NOW, THEREFORE, IT IS AGREED** between the parties as follows:

1. Exercise of Option. Subject to the terms and conditions hereof, Purchaser hereby elects to exercise Purchaser’s Option to purchase [\_\_\_\_\_] shares of the Common Stock (the “ *Shares* ”). Of these Shares, Purchaser has elected to purchase [\_\_\_\_\_] of those Shares which have become vested as of the date hereof pursuant to the Vesting Schedule set forth in the Grant Notice (the “ *Vested Shares* ”) and [\_\_\_\_\_] Shares which are unvested as of the date hereof pursuant to the Vesting Schedule set forth in the Grant Notice (the “ *Unvested Shares* ”). The Unvested Shares shall be subject to the Reacquisition Right set forth in Section 3(b) below.

Purchaser acknowledges that, in connection with the exercise of the Option, Purchaser has delivered to the Company a properly completed and executed Notice of Exercise in the form attached as **Attachment III** to the Option Documents as well as any and all other documents, agreements and information required to be delivered pursuant to the terms and conditions of the Option Documents and the Plan.

As noted in the Notice of Exercise, the purchase price for the Shares shall be \$[\_\_\_\_\_] per Share for a total purchase price of \$[\_\_\_\_\_] and Purchaser has delivered the purchase price to the Company in the following manner: [\_\_\_\_\_].

The term “ **Shares** ” refers to the purchased Shares and all securities received in replacement of the Shares or as stock dividends or splits, all securities received in replacement of the Shares in a recapitalization, merger, reorganization, exchange or the like, and all new, substituted or additional securities or other properties to which Purchaser is entitled by reason of Purchaser’s ownership of the Shares. The number of Shares and/or class of securities subject to this Agreement may also be adjusted from time to time for Capitalization Adjustments. **[The Shares also remain subject to the provisions of Section 10 of the Option Agreement].**

2. Time and Place of Exercise. The purchase and sale of the Shares under this Agreement shall occur at the principal office of the Company simultaneously with the execution and delivery of this Agreement in accordance with the provisions of the Option; provided, however, that payment shall be provided in the form provided herein and in the Notice of Exercise. Following such date, subject to the restrictions and conditions of this Agreement, the Company will issue to Purchaser the Shares to be purchased by Purchaser (which shall be issued in Purchaser’s name) against payment of the purchase price therefor by Purchaser.

3. Limitations on Transfer.

(a) Transfer Restrictions. In addition to any other limitation on transfer created by applicable securities laws or any stockholders’ agreement to which Purchaser is a party, Purchaser shall not sell, assign, hypothecate, donate, encumber or otherwise dispose of any interest in the Unvested Shares while the Shares are subject to the Company’s Reacquisition Right (as defined below); *provided, however* , that an interest in the Unvested Shares may be transferred pursuant to a domestic relations order as defined in the Code. After any Shares have been released from such Reacquisition Right, Purchaser shall not assign, encumber or dispose of any interest in such Shares except in compliance with this Agreement, the Company’s bylaws and applicable securities laws.

(b) Reacquisition Right.

(i) In the event Purchaser’s Continuous Service terminates, Purchaser will forfeit and the Company will automatically reacquire (the “ **Reacquisition Right** ”), without any required action or notice to Purchaser, on the date that is ninety (90) days after the termination of Participant Continuous Service (the “ **Reacquisition Date** ”) all Unvested Shares as of the date of Purchaser’s termination of Continuous Service for a per Share price equal to the Reacquisition Price (as defined below). Purchaser hereby agrees to take whatever action the Company deems necessary to effectuate the Company’s reacquisition of the Unvested Shares and the exercise of the Reacquisition Right hereunder. Notwithstanding anything to the contrary in this Section 3(b) or in this Agreement, the Company may elect to waive, in its sole discretion, its Reacquisition Right in whole or in part by providing written notice to you, at any time prior to or on the Reacquisition Date, and the Escrow Agent may then release to you the number of shares of Common Stock not being reacquired by the Company and/or cause any applicable restrictions to be removed from the Shares with the Company’s transfer agent (or other applicable custodian).

(ii) As used herein, the term “ **Reacquisition Price** ” shall mean the lower of (x) the Fair Market Value of the Common Stock (as determined under the Plan) on the date of reacquisition or (y) the price equal to Purchaser’s Exercise Price per Share as indicated in Section 1 and in the Grant Notice.

(iii) The Reacquisition Price may, at the Company’s option, be paid (A) by delivery to Purchaser or Purchaser’s executor with such notice of a check in the amount of the aggregate Reacquisition

Price for the Shares being purchased, or (B) in the event Purchaser is indebted to the Company, by cancellation by the Company of an amount of such indebtedness equal to the purchase price for the Shares being reacquired, or (C) by a combination of (A) and (B) so that the combined payment and cancellation of indebtedness equals such aggregate Reacquisition Price. Upon delivery of such notice and payment of the purchase price in any of the ways described above, the Company shall become the legal and beneficial owner of the Shares being repurchased and all rights and interest therein or related thereto, and the Company shall have the right to transfer to its own name the number of Shares being repurchased by the Company, without further action by Purchaser.

(iv) One hundred percent (100%) of the Unvested Shares shall initially be subject to the Reacquisition Right. The Unvested Shares shall be released from the Reacquisition Right in accordance with the Vesting Schedule set forth in the Grant Notice, including any provisions regarding acceleration of vesting, as if such Unvested Shares were still subject to the Option Documents. Fractional shares shall be rounded to the nearest whole share.

(v) To the extent the Reacquisition Right remains in effect following a Corporate Transaction or Change in Control, unless otherwise provided by the Board pursuant to the terms of the Plan, it will apply to the new capital stock, cash or other property received in exchange for the Unvested Shares in consummation of the Corporate Transaction or Change in Control, as applicable, but only to the extent the Unvested Shares were at the time covered by such right.

4. Escrow of Unvested Shares. For purposes of facilitating the enforcement of the provisions of Section 3 above, Purchaser agrees, immediately upon receipt of the certificate(s), if certificated, for the Shares subject to the Company's Reacquisition Right described in Section 3(b), to deliver such certificate(s), together with an Assignment Separate from Certificate in the form attached to this Agreement as Attachment A-1 executed by Purchaser and by Purchaser's spouse (if required for transfer), in blank, to the Secretary of the Company, or the Secretary's designee, to hold such certificate(s) and Assignment Separate from Certificate in escrow and to take all such actions and to effectuate all such transfers and/or releases as are in accordance with the terms of this Agreement. Purchaser hereby acknowledges that the Secretary of the Company, or the Secretary's designee, is so appointed as the escrow holder with the foregoing authorities as a material inducement to make this Agreement and that said appointment is coupled with an interest and is accordingly irrevocable. Purchaser agrees that said escrow holder shall not be liable to any party hereof (or to any other party). The escrow holder may rely upon any letter, notice or other document executed by any signature purported to be genuine and may resign at any time. Purchaser agrees that if the Secretary of the Company, or the Secretary's designee, resigns as escrow holder for any or no reason, the Company shall have the power to appoint a successor to serve as escrow holder pursuant to the terms of this Agreement. Alternatively, the Company in its sole discretion, may elect not to issue any certificate representing the Unvested Shares and instead document Purchaser's interest therein by registering such shares of Common Stock with the Company's transfer agent (or another custodian selected by the Company) in book entry form in Purchaser's name with the applicable restrictions noted in the book-entry system, in which case certificate(s) representing all or a part of shares of Common Stock will not be issued unless and until the Reacquisition Right with respect to such Unvested Shares has lapsed.

5. Rights as a Stockholder. Subject to the provisions of this Agreement, Purchaser will exercise all rights and privileges of a stockholder of the Company with respect to the shares of Common Stock deposited

in escrow. Purchaser will be deemed to be the holder of the shares for purposes of receiving any dividends that may be paid with respect to such shares (which will be subject to the same vesting and forfeiture restrictions as apply to the shares to which they relate) and for purposes of exercising any voting rights relating to such shares, even if some or all of such shares have not yet vested and been released from the Company's Reacquisition Right.

6. Restrictive Legends and Stop-Transfer Orders.

(a) Legends. All certificates and/or book entries representing the Common Stock issued hereunder will be endorsed with appropriate legends determined by the Company (in addition to any other legend that may be required by other agreements between Purchaser and the Company).

(b) Stop-Transfer Notices. Purchaser agrees that, in order to ensure compliance with the restrictions referred to herein, the Company may issue appropriate "stop transfer" instructions to its transfer agent, if any, and that, if the Company transfers its own securities, it may make appropriate notations to the same effect in its own records.

(c) Refusal to Transfer. The Company shall not be required (i) to transfer on its books any Shares that have been sold or otherwise transferred in violation of any of the provisions of this Agreement or (ii) to treat as owner of such Shares or to accord the right to vote or pay dividends to any purchaser or other transferee to whom such Shares shall have been so transferred.

7. No Employment Rights. Nothing in this Agreement shall affect in any manner whatsoever the right or power of the Company, or an Affiliate, to terminate Purchaser's employment or consulting relationship, for any reason, with or without cause.

8. Withholding Obligations.

(a) As of the date the Option is exercised, the date Shares are issued to the Purchaser and/or at any time thereafter as requested by the Company, Purchaser hereby authorizes withholding from payroll and any other amounts payable to Purchaser, and Purchaser otherwise agrees to make adequate provision for any sums required to satisfy the federal, state, local and foreign tax withholding obligations of the Company or an Affiliate, if any, which arise in connection with the Option or this Agreement (the "**Withholding Taxes**"). The Company may, in its sole discretion, satisfy all or any portion of the Withholding Taxes obligation by any of the following means or by a combination of such means: (i) withholding from any amounts otherwise payable to Purchaser by the Company; (ii) causing Purchaser to tender a cash payment; (iii) withholding shares of Common Stock from the shares of Common Stock issued or otherwise issuable to Purchaser in connection with the Option or this Agreement that are not subject to the Reacquisition Right with a Fair Market Value equal to the amount of such Withholding Taxes or (iv) permitting or requiring Purchaser to enter into a "same day sale" commitment, if applicable, with a broker-dealer that is a member of the Financial Industry Regulatory Authority (a "**FINRA Dealer**") whereby Purchaser irrevocably elects to sell a portion of the shares subject to this Agreement or the Option to the extent not subject to the Reacquisition Right to satisfy the Withholding Taxes and whereby the FINRA Dealer irrevocably commits to forward the proceeds necessary to satisfy the Withholding Taxes directly to the Company and/or its Affiliates; provided, however, that the number of such shares of Common Stock withheld may not exceed the amount necessary to satisfy the Company's required tax withholding obligations using the minimum statutory withholding rates for federal, state, local and



foreign tax purposes, including payroll taxes, that are applicable to supplemental taxable income; and provided, further, that to the extent necessary to qualify for an exemption from application of Section 16(b) of the Exchange Act, if applicable, such share withholding procedure will be subject to the express prior approval of the Company's Compensation Committee.

(b) Unless the tax withholding obligations of the Company and any Affiliate are satisfied, the Company will have no obligation to issue a certificate for such shares, delivery of such shares and/or release such shares from any escrow (as applicable) provided for in this Agreement.

(c) In the event the Company's obligation to withhold arises prior to the delivery or release to Purchaser of Common Stock or it is determined after the delivery of Common Stock to Purchaser that the amount of the Company's withholding obligation was greater than the amount withheld by the Company, Purchaser agrees to indemnify and hold the Company harmless from any failure by the Company to withhold the proper amount.

9. Section 83(b) Election. Purchaser understands that Section 83(a) of the Internal Revenue Code of 1986, as amended (the "**Code**"), taxes as ordinary income for a Nonstatutory Stock Option and as alternative minimum taxable income for an Incentive Stock Option the difference between the amount paid for the Shares and the Fair Market Value of the Shares as of the date any restrictions on the Shares lapse. In this context, "restriction" means the Company's Reacquisition Right set forth in Section 3(b) of this Agreement. Purchaser understands that Purchaser may elect to be taxed at the time the Shares are purchased, rather than when and as the Reacquisition Right expires, by filing an election under Section 83(b) (an "**83(b) Election**") of the Code with the Internal Revenue Service within 30 days from the date of purchase. Even if the Fair Market Value of the Shares at the time of the execution of this Agreement equals the amount paid for the Shares, the election must be made to avoid income and alternative minimum tax treatment under Section 83(a) in the future. Purchaser understands that failure to file such an election in a timely manner may result in adverse tax consequences for Purchaser. Purchaser further understands that an additional copy of such election form should be filed with his or her federal income tax return for the calendar year in which the date of this Agreement falls. Purchaser acknowledges that the foregoing is only a summary of the effect of United States federal income taxation with respect to purchase of the Shares hereunder, and does not purport to be complete.

Purchaser agrees that Purchaser will execute and deliver to the Company with this executed Agreement a copy of the Acknowledgment and Statement of Decision Regarding Section 83(b) Election (the "**Acknowledgment**") attached hereto as Attachment A-2. Purchaser further agrees that Purchaser will execute and submit with the Acknowledgment a copy of the 83(b) Election attached hereto as Attachment A-3 (for income tax purposes in connection with the early exercise of a Nonstatutory Stock Option) if Purchaser has indicated in the Acknowledgment his or her decision to make such an election.

The Company has no duty or obligation to minimize the tax consequences to Purchaser in connection with the Option or this Agreement and shall not be liable to Purchaser for any adverse tax consequences to Purchaser arising in connection herewith or therewith. Purchaser is hereby advised to consult with Purchaser's own personal tax, financial and/or legal advisors regarding the tax consequences of this Agreement and by signing this Agreement, Purchaser agrees that Purchaser has done so or knowingly and voluntarily declined to do so. Purchaser understands that Purchaser (and not the Company) shall be responsible for Purchaser's own tax liability that may arise as a result of this investment or the transactions contemplated by this Agreement.

Purchaser agrees to review with Purchaser's own tax advisors the federal, state, local and foreign tax consequences of this investment and the transactions contemplated by this Agreement. Purchaser will rely solely on such advisors and not on any statements or representations of the Company or any of its agents.

10. Governing Plan Documents. This Agreement is subject to all the provisions of the Plan, the provisions of which are hereby made a part hereof, and is further subject to all interpretations, amendments, rules and regulations which may from time to time be promulgated and adopted pursuant to the Plan. In the event of any conflict between the provisions of this Agreement and those of the Plan, the provisions of the Plan will control. In addition, this Agreement (and any compensation paid or shares issued under this Agreement) is subject to recoupment in accordance with The Dodd-Frank Wall Street Reform and Consumer Protection Act and any implementing regulations thereunder, any clawback policy adopted by the Company, **[the provisions of Section 10 of the Option Agreement,]** and any compensation recovery policy otherwise required by applicable law.

11. Miscellaneous.

(a) Governing Law. This Agreement and all acts and transactions pursuant hereto and the rights and obligations of the parties hereto shall be governed, construed and interpreted in accordance with the laws of the State of Delaware, without giving effect to principles of conflicts of law.

(b) Entire Agreement; Enforcement of Rights. This Agreement, its attachments and the related Option Documents and Plan set forth the entire agreement and understanding of the parties relating to the subject matter herein and merges all prior discussions between them. No modification of or amendment to this Agreement, nor any waiver of any rights under this Agreement, shall be effective unless in writing signed by the parties to this Agreement. The failure by either party to enforce any rights under this Agreement shall not be construed as a waiver of any rights of such party.

(c) Severability. If one or more provisions of this Agreement are held to be unenforceable under applicable law, the parties agree to renegotiate such provision in good faith. In the event that the parties cannot reach a mutually agreeable and enforceable replacement for such provision, then (i) such provision shall be excluded from this Agreement, (ii) the balance of the Agreement shall be interpreted as if such provision were so excluded and (iii) the balance of the Agreement shall be enforceable in accordance with its terms.

(d) Construction. This Agreement is the result of negotiations between and has been reviewed by each of the parties hereto and their respective counsel, if any; accordingly, this Agreement shall be deemed to be the product of all of the parties hereto, and no ambiguity shall be construed in favor of or against any one of the parties hereto.

(e) Notices. Any notice required or permitted by this Agreement shall be in writing and shall be deemed sufficient when delivered personally or sent by telegram or fax or 48 hours after being deposited in the U.S. mail, as certified or registered mail, with postage prepaid, and addressed to the party to be notified at such party's address as set forth below or as subsequently modified by written notice.

(f) Effect on Other Employee Benefit Plans. The value of amounts payable under this Agreement will not be included as compensation, earnings, salaries, or other similar terms used when calculating your benefits under any employee benefit plan sponsored by the Company or any Affiliate, except

as such plan otherwise expressly provides. The Company expressly reserves its rights to amend, modify, or terminate any of the Company's or any Affiliate's employee benefit plans.

(g) Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original and all of which together shall constitute one instrument.

(h) Successors and Assigns. The rights and obligations of the Company are transferable by the Company to any one or more persons or entities, and all covenants and agreements hereunder will inure to the benefit of, and be enforceable by the Company's successors and assigns. The rights and obligations of Purchaser under this Agreement may only be assigned with the prior written consent of the Company.

(i) Further Assurances. Purchaser agrees upon request to execute any further documents or instruments necessary or desirable in the sole determination of the Company to carry out the purposes or intent of this Agreement.

The parties have executed this Agreement as of the date first set forth above.

**COMPANY:**

**ALARM.COM HOLDINGS, INC.**

By: \_\_

Name (print): \_\_

Title: \_\_

**PURCHASER:**

(Signature) \_\_\_\_\_

(Print Name) \_\_\_\_\_

Address: \_\_ \_\_\_\_\_

I, \_\_\_\_\_, spouse of Purchaser, have read and hereby approve the foregoing Agreement. In consideration of the Company's granting my spouse the right to purchase the Shares as set forth in the Agreement, I hereby agree to be bound irrevocably by the Agreement and further agree that any community property or similar interest that I may have in the Shares shall hereby be similarly bound by the Agreement. I hereby appoint my spouse as my attorney-in-fact with respect to any amendment or exercise of any rights under the Agreement.

\_\_\_\_\_  
Spouse of Purchaser (if applicable)

ATTACHMENT A-1

ASSIGNMENT SEPARATE FROM CERTIFICATE

FOR VALUE RECEIVED and pursuant to that certain Early Exercise Restricted Stock Purchase Agreement between the undersigned (“**Purchaser**”) and ALARM.COM HOLDINGS, INC. (the “**Company**”) dated \_\_\_\_\_, \_\_\_\_ (the “**Agreement**”), Purchaser hereby sells, assigns and transfers unto the Company \_\_\_\_\_ (\_\_\_\_\_) shares of the Common Stock of the Company, standing in Purchaser’s name on the books of the Company and represented by Certificate No. \_\_\_\_\_, and does hereby irrevocably constitute and appoint \_\_\_\_\_ to transfer said stock on the books of the Company with full power of substitution in the premises.

THIS ASSIGNMENT MAY ONLY BE USED AS AUTHORIZED BY THE AGREEMENT AND THE ATTACHMENTS THERETO.

Dated: \_\_

(Signature) \_\_\_\_\_

(Print Name) \_\_\_\_\_

Spouse of Purchaser (if applicable) \_\_\_\_\_

*Instruction: Please do not fill in any blanks other than the signature line. The purpose of this assignment is to enable the Company to exercise its Reacquisition Right set forth in the Agreement without requiring additional signatures on the part of Purchaser.*

**ATTACHMENT A-2**  
**ACKNOWLEDGMENT AND STATEMENT OF DECISION**  
**REGARDING SECTION 83(b) ELECTION**

The undersigned (which term includes the undersigned's spouse), a purchaser of \_\_\_\_\_ shares of Common Stock of ALARM.COM HOLDINGS, INC., a Delaware corporation (the "**Company**") by exercise of an option (the "**Option**") granted pursuant to the Company's 2015 Equity Incentive Plan (the "**Plan**"), hereby states as follows:

1. The undersigned acknowledges receipt of a copy of the Plan relating to the offering of such shares. The undersigned has carefully reviewed the Plan and the option agreement pursuant to which the Option was granted.

2. The undersigned either [check and complete as applicable]:

(a) \_\_\_\_\_ has consulted, and has been fully advised by, the undersigned's own tax advisor regarding the federal, state and local tax consequences of purchasing shares under the Plan, and particularly regarding the advisability of making elections pursuant to Section 83(b) of the Internal Revenue Code of 1986, as amended (the "Code") and pursuant to the corresponding provisions, if any, of applicable state law; or

(b) \_\_\_\_\_ has knowingly chosen not to consult such a tax advisor.

3. The undersigned hereby states that the undersigned has decided [check as applicable]:

(c) \_\_\_\_\_ to make an election pursuant to Section 83(b) of the Code, and is submitting to the Company, together with the undersigned's executed Early Exercise Notice and Restricted Stock Purchase Agreement, an executed form entitled "Election Under Section 83(b) of the Internal Revenue Code of 1986"; or

(d) \_\_\_\_\_ not to make an election pursuant to Section 83(b) of the Code.

4. Neither the Company nor any Affiliate or representative of the Company has made any warranty or representation to the undersigned with respect to the tax consequences of the undersigned's purchase of shares under the Plan or of the making or failure to make an election pursuant to Section 83(b) of the Code or the corresponding provisions, if any, of applicable state law.

Dated: \_\_

(Signature) \_\_\_\_\_

(Print Name) \_\_\_\_\_

Spouse of Purchaser (if applicable) \_\_\_\_\_

**ATTACHMENT A-3  
ELECTION UNDER SECTION 83(b)  
OF THE INTERNAL REVENUE CODE OF 1986**

[Date of Mailing]

Department of the Treasury  
Internal Revenue Service  
[Address]  
[Address]

Re:Election Under Section 83(b)

Ladies and Gentlemen:

The undersigned taxpayer hereby elects, pursuant to Section 83(b) of the Internal Revenue Code of 1986, as amended, to include in gross income as compensation for services the excess (if any) of the fair market value of the shares described below over the amount paid for those shares. The following information is supplied in accordance with Treasury Regulation § 1.83-2:

1. The name, address, taxpayer identification number and taxable year of the undersigned are as follows:

NAME OF TAXPAYER: \_\_

NAME OF SPOUSE: \_\_

ADDRESS: \_\_

IDENTIFICATION NO. OF TAXPAYER: \_\_

IDENTIFICATION NO. OF SPOUSE: \_\_

TAXABLE YEAR: \_\_

2. The property with respect to which the election is made is described as follows:

\_\_\_\_\_ shares of the Common Stock \$0.01 par value, of ALARM.COM HOLDINGS, INC., a Delaware corporation (the “*Company*”).

3. The date on which the property was transferred is: \_\_\_\_\_

4. The property is subject to the following restrictions:

Repurchase option at the lower of cost or fair market value in favor of the Company upon termination of taxpayer’s employment or consulting relationship. This repurchase option lapses over a specified vesting period.

5. The fair market value at the time of transfer, determined without regard to any restriction other than a restriction which by its terms will never lapse, of such property is: \$ \_\_\_\_\_

6. The amount (if any) paid for such property: \$ \_\_\_\_\_

7. The amount to include in gross income is \$ \_\_\_\_\_

The undersigned taxpayer will file this election with the Internal Revenue Service office with which taxpayer files his or her annual income tax return not later than 30 days after the date of transfer of the property. A copy of the election also will be furnished to the person for whom the services were performed and the transferee of the property. Additionally, the undersigned will include a copy of the election with his or her income tax return for the taxable year in which the property is transferred. The undersigned is the person performing the services in connection with which the property was transferred.

The undersigned understands that the foregoing election may not be revoked except with the consent of the Commissioner.

Dated: \_\_\_\_ \_\_\_\_

Taxpayer

Dated: \_\_\_\_ \_\_\_\_

Spouse of Taxpayer



**SECOND AMENDMENT TO CREDIT AGREEMENT**

This Second Amendment to Credit Agreement (this “ *Amendment* ”) dated as of December 7, 2015, is by and among **ALARM.COM INCORPORATED**, a Delaware corporation (“ *Alarm* ”), **ALARM.COM HOLDINGS, INC.**, a Delaware corporation (“ *Holdings* ”), and together with Alarm, individually and collectively, jointly and severally, the “ *Borrower* ”), the several banks and other financial institutions or entities party hereto, including **SILICON VALLEY BANK** (“ *SVB* ”) (each a “ *Lender* ” and, collectively, the “ *Lenders* ”), **SVB**, as the Issuing Lender and the Swingline Lender, and SVB, as administrative agent and collateral agent for the Lenders (in such capacity, the “ *Administrative Agent* ”).

**WITNESSETH:**

**WHEREAS**, the Borrower, the Lenders, the Administrative Agent, the Issuing Lender and the Swingline Lender are party to that certain Credit Agreement dated as of May 8, 2014, as amended by a First Amendment to Credit Agreement dated February 23, 2015 (as amended, modified, supplemented or restated and in effect from time to time, the “ *Credit Agreement* ”); and

**WHEREAS**, the Borrower has requested that the Required Lenders and the Administrative Agent agree to modify and amend certain terms and conditions of the Credit Agreement.

**NOW, THEREFORE**, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. Capitalized Terms. All capitalized terms used herein and not otherwise defined shall have the same meaning herein as in the Credit Agreement.
2. Amendment to the definition of “Applicable Margin” in Section 1.1 of the Credit Agreement. The definition of “Applicable Margin” in Section 1.1 of the Credit Agreement is hereby amended and restated in full to read as follows:

“ *Applicable Margin* ”: the rate per annum set forth under the relevant column heading below:

<u>Consolidated Leverage Ratio</u>	<u>Eurodollar Loans/Letter of Credit Fees</u>	<u>ABR Loans</u>
≥ 2.00:1.00	2.50%	1.50%
≥ 1.00:1.00 but < 2.00:1.00	2.25%	1.25%
< 1.00:1.00	2.00%	1.00%

Notwithstanding the foregoing, if the Borrower fails to deliver the financial statements required by Section 6.1 and the related Compliance Certificate required by Section 6.2(b), by the respective date required thereunder after the end of any related fiscal quarter of Holdings, the Applicable Margin shall be the rates corresponding to the Consolidated Leverage Ratio of  $\geq 2.00:1.00$  in the foregoing table until such financial statements and Compliance Certificate are delivered, and (b) no reduction to the Applicable Margin shall become effective at any time when an Event of Default has occurred and is continuing.

If, as a result of any restatement of or other adjustment to the financial statements of the Loan Parties or for any other reason, the Administrative Agent determines that (x) the Consolidated Leverage Ratio as calculated by the Borrower as of any applicable date was inaccurate and (y) a proper calculation of the Consolidated Leverage Ratio would have resulted in different pricing for any period, then (i) if the proper calculation of the Consolidated Leverage Ratio would have resulted in higher pricing for such period, the Borrower shall automatically and retroactively be obligated to pay to the Administrative Agent, for the benefit of the applicable Lenders, promptly on demand by the Administrative Agent, an amount equal to the excess of the amount of interest and fees that should have been paid for such period over the amount of interest and fees actually paid for such period; and (ii) if the proper calculation of the Consolidated Leverage Ratio would have resulted in lower pricing for such period, neither the Administrative Agent nor any Lender shall have any obligation to repay any interest or fees to the Borrower. ”

3. Amendment to the definition of “Change of Control” in Section 1.1 of the Credit Agreement. The definition of “Change of Control” in Section 1.1 of the Credit Agreement is hereby amended and restated in full to read as follows:

“ **Change of Control** ”: (a) any “person” or “group” (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act) becomes the “beneficial owner” (as defined in Rules 13d-3 and 13d-5 under the Exchange Act), directly or indirectly, of 35% or more of the voting Capital Stock of Holdings; (b) [reserved]; or (c) at any time, Holdings shall cease to own and control, of record and beneficially, directly or indirectly, 100% of each class of outstanding Capital Stock of Alarm and each other Loan Party free and clear of all Liens (except Liens created by the Security Documents). A public offering of Capital Stock of the Borrower pursuant to a registration statement filed with the SEC or any successor or similar authority shall not constitute a “Change of Control”.”

4. Amendment to Section 6.1 of the Credit Agreement. Section 6.1 of the Credit Agreement is hereby amended and restated in its entirety to read as follows:

“6.1 **Financial Statements** . Furnish to the Administrative Agent, with sufficient copies for distribution to each Lender:

(a) as soon as available, but in any event within 90 days after the end of each fiscal year of the Borrower, a copy of the audited consolidated balance sheet of Holdings and its consolidated Subsidiaries as at the end of such fiscal year and the related audited consolidated statements of income and of cash flows for such fiscal year, setting forth in each case in comparative form the figures for the previous year, together with an unqualified opinion of certified public accountants of nationally recognized standing and reasonably acceptable to the Administrative Agent;

(b) [Reserved]; and

(c) as soon as available, but in any event not later than 45 days after the end of each of the first three (3) fiscal quarters occurring during each fiscal year of the Borrower, the unaudited consolidated balance sheet of Holdings and its consolidated Subsidiaries as at the end of such quarter and the related unaudited consolidated statements of income and of cash flows for such quarter and the portion of the fiscal year through the end of such quarter, setting forth in each case in comparative form the figures for the previous year, certified by a Responsible Officer of the Borrower as being fairly stated in all material respects (subject to normal year-end audit adjustments).

All such financial statements shall be complete and correct in all material respects and shall be prepared in reasonable detail and in accordance with GAAP applied (except as approved by such accountants or officer, as the case may be, and disclosed in reasonable detail therein) consistently throughout the periods reflected therein and with prior periods.”

5. Amendment to Section 7.8(m)(vii) of the Credit Agreement. Section 7.8(m)(vii) of the Credit Agreement is hereby amended and restated in its entirety to read as follows:

“(vii) except with respect to an acquisition in which the acquisition consideration is less than \$10,000,000, delivery by the Borrower to the Administrative Agent of (i) a description of the proposed acquisition, and (ii) to the extent available, a due diligence package, in each case, prior to closing of the acquisition;”

6. Conditions Precedent to Effectiveness. This Amendment shall not be effective until each of the following conditions precedent have been fulfilled to the satisfaction of the Administrative Agent:

(a) This Amendment shall have been duly executed and delivered by the respective parties hereto. The Administrative Agent shall have received a fully executed copy hereof.

- (b) All necessary consents and approvals to this Amendment shall have been obtained by the Loan Parties.
- (c) After giving effect to this Amendment, no Default or Event of Default shall have occurred and be continuing.
- (d) The Administrative Agent shall have received the fees costs and expenses required to be paid pursuant to Section 8 of this Amendment (including the reasonable and documented fees and disbursements of legal counsel required to be paid thereunder).

7. Representations and Warranties. The Borrower hereby represents and warrants to the Administrative Agent and the Lenders as follows:

(a) This Amendment is, and each other Loan Document to which it is or will be a party, when executed and delivered by each Loan Party that is a party thereto, will be the legally valid and binding obligation of such Loan Party, enforceable against such Loan Party in accordance with its respective terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or limiting creditors' rights generally and equitable principals (whether enforcement is sought by proceedings in equity or at law).

(b) Its representations and warranties set forth in this Amendment, the Credit Agreement, as amended by this Amendment and after giving effect hereto, and the other Loan Documents to which it is a party are (i) to the extent qualified by materiality, true and correct in all respects and (ii) to the extent not qualified by materiality, true and correct in all material respects, in each case, on and as of the date hereof, as though made on such date (except to the extent that such representations and warranties relate solely to an earlier date, in which case such representations and warranties shall have been true and correct in all material respects as of such earlier date).

(c) The execution and delivery by each Loan Party of this Amendment, the performance by such Loan Party of its obligations hereunder and the performance of the Borrower under the Credit Agreement, as amended by this Amendment, (i) have been duly authorized by all necessary organizational action on the part of such Loan Party and (ii) will not (A) violate any provisions of the certificate of incorporation or formation or organization or by-laws or limited liability company agreement or limited partnership agreement of such Loan Party or (B) constitute a violation by such Loan Party of any applicable material Requirement of Law.

Each Loan Party acknowledges that the Administrative Agent and the Lenders have acted in good faith and have conducted in a commercially reasonable manner their relationships with each Loan Party in connection with this Amendment and in connection with the other Loan Documents. Each Loan Party understands and acknowledges that the Administrative Agent and the Lenders are entering into this Amendment in reliance upon, and in partial consideration for, the

above representations, warranties, and acknowledgements, and agrees that such reliance is reasonable and appropriate.

8. Payment of Costs and Expenses. The Borrower shall pay to the Administrative Agent all reasonable costs and out-of-pocket expenses of every kind in connection with the preparation, negotiation, execution and delivery of this Amendment and any documents and instruments relating hereto or thereto (which costs include, without limitation, the reasonable and documented fees and expenses of any attorneys retained by the Administrative Agent).

9. Choice of Law. **THIS AMENDMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK**. Each party hereto submits to the exclusive jurisdiction of the State and Federal courts in the Southern District of the State of New York; provided, however, that nothing in the Credit Agreement as amended by this Amendment shall be deemed to operate to preclude the Administrative Agent or any Lender from bringing suit or taking other legal action in any other jurisdiction to realize on the Collateral or any other security for the Obligations, or to enforce a judgment or other court order in favor of such Agent or such Lender. **TO THE EXTENT PERMITTED BY APPLICABLE LAW, EACH PARTY HERETO WAIVES ITS RIGHT TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION ARISING OUT OF OR BASED UPON THIS AMENDMENT, THE OTHER LOAN DOCUMENTS OR ANY CONTEMPLATED TRANSACTION, INCLUDING CONTRACT, TORT, BREACH OF DUTY AND ALL OTHER CLAIMS. EACH PARTY HERETO ACKNOWLEDGES THAT THIS WAIVER IS A MATERIAL INDUCEMENT TO ENTER INTO A BUSINESS RELATIONSHIP, THAT EACH HAS ALREADY RELIED ON THIS WAIVER IN ENTERING INTO THIS AMENDMENT, AND THAT EACH WILL CONTINUE TO RELY ON THIS WAIVER IN ITS RELATED FUTURE DEALINGS. EACH PARTY HERETO FURTHER WARRANTS AND REPRESENTS THAT IT HAS REVIEWED THIS WAIVER WITH ITS LEGAL COUNSEL AND THAT IT KNOWINGLY AND VOLUNTARILY WAIVES ITS JURY TRIAL RIGHTS FOLLOWING CONSULTATION WITH LEGAL COUNSEL.**

10. Counterpart Execution. This Amendment may be executed in any number of counterparts and by different parties on separate counterparts, each of which, when executed and delivered, shall be deemed to be an original, and all of which, when taken together, shall constitute but one and the same Amendment. Delivery of an executed counterpart of this Amendment by telefacsimile or by e-mail transmission of an Adobe file format document (also known as a PDF file) shall be equally as effective as delivery of an original executed counterpart of this Amendment. Any party delivering an executed counterpart of this Amendment by telefacsimile or by e-mail transmission of an Adobe file format document (also known as a PDF file) also shall deliver an

original executed counterpart of this Amendment but the failure to deliver an original executed counterpart shall not affect the validity, enforceability, and binding effect of this Amendment.

11. Effect on Loan Documents.

(a) The amendments set forth herein shall be limited precisely as written and shall not be deemed (a) to be a forbearance, waiver, or modification of any other term or condition of the Credit Agreement or of any Loan Documents or to prejudice any right or remedy which the Administrative Agent may now have or may have in the future under or in connection with the Loan Documents; (b) to be a consent to any future consent or modification, forbearance, or waiver to the Credit Agreement or any other Loan Document, or to any waiver of any of the provisions thereof; or (c) to limit or impair the Administrative Agent's right to demand strict performance of all terms and covenants as of any date. Each Loan Party hereby ratifies and reaffirms its obligations under the Credit Agreement and the other Loan Documents to which it is a party and agrees that none of the amendments or modifications to the Credit Agreement set forth in this Amendment shall impair such Loan Party's obligations under the Loan Documents or the Administrative Agent's rights under the Loan Documents. Each Loan Party hereby further ratifies and reaffirms the validity and enforceability of all of the Liens heretofore granted, pursuant to and in connection with the Guarantee and Collateral Agreement or any other Loan Document to the Administrative Agent on behalf and for the benefit of the Secured Parties, as collateral security for the obligations under the Loan Documents, in accordance with their respective terms, and acknowledges that all of such Liens, and all collateral heretofore pledged as security for such obligations, continues to be and remain collateral for such obligations from and after the date hereof. Each Loan Party acknowledges and agrees that the Credit Agreement and each other Loan Document is still in full force and effect and acknowledges as of the date hereof that such Loan Party has no defenses to enforcement of the Loan Documents. Each Loan Party waives any and all defenses to enforcement of the Credit Agreement as amended hereby and each other Loan Documents that might otherwise be available as a result of this Amendment of the Credit Agreement. To the extent any terms or provisions of this Amendment conflict with those of the Credit Agreement or other Loan Documents, the terms and provisions of this Amendment shall control.

(b) To the extent that any terms and conditions in any of the Loan Documents shall contradict or be in conflict with any terms or conditions of the Credit Agreement, after giving effect to this Amendment, such terms and conditions are hereby deemed modified or amended accordingly to reflect the terms and conditions of the Credit Agreement as modified or amended hereby.

(c) This Amendment is a Loan Document.

12. Entire Agreement. This Amendment constitutes the entire agreement between the Loan Parties and the Lenders pertaining to the subject matter contained herein and supersedes all prior agreements, understandings, offers and negotiations, oral or written, with respect hereto and

no extrinsic evidence whatsoever may be introduced in any judicial or arbitration proceeding, if any, involving this Amendment. All of the terms and provisions of this Amendment are hereby incorporated by reference into the Credit Agreement, as applicable, as if such terms and provisions were set forth in full therein, as applicable. All references in the Credit Agreement to "this Agreement", "hereto", "hereof", "hereunder" or words of like import shall mean the Credit Agreement as amended hereby.

13. Severability. The provisions of this Amendment are severable, and if any clause or provision shall be held invalid or unenforceable in whole or in part in any jurisdiction, then such invalidity or unenforceability shall affect only such clause or provision, or part thereof, in such jurisdiction and shall not in any manner affect such clause or provision in any other jurisdiction, or any other clause or provision in this Amendment in any jurisdiction.

**[SIGNATURE PAGES FOLLOW]**

**IN WITNESS WHEREOF**, the parties hereto have caused this Amendment to be duly executed and delivered by their proper and duly authorized officers as of the day and year first above written.

**BORROWER:**

**ALARM.COM INCORPORATED**

By: /s/ Jennifer A. Moyer

Name: Jennifer A. Moyer

Title: CFO

**ALARM.COM HOLDINGS, INC.**

By: /s/ Jennifer A. Moyer

Name: Jennifer A. Moyer

Title: CFO

**ADMINISTRATIVE AGENT:**

**SILICON VALLEY BANK,**  
as the Administrative Agent

By: /s/ Will Deevy

Name: Will Deevy

Title: Vice President

**LENDERS:**

**SILICON VALLEY BANK,**  
as Issuing Lender, Swingline Lender and as a Lender

By: /s/ Will Deevy

Name: Will Deevy

Title: Vice President

**BANK OF AMERICA, N.A.,**  
as a Lender

By: /s/ Mary K. Giermek

Name: Mary K. Giermek

Title: Senior Vice President



\*\*\* Confidential information contained in this document, marked by brackets, has been omitted and filed separately with the Securities and Exchange Commission pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

**THIRD AMENDMENT TO  
THE ALARM.COM DEALER PROGRAM AGREEMENT  
BETWEEN ALARM.COM INCORPORATED  
AND MONITRONICS INTERNATIONAL, INC.**

**THIS THIRD AMENDMENT** (the “**Amendment**”) by and between Alarm.com Incorporated, a company with its principal place of business at 8150 Leesburg Pike, Suite 1400, Vienna, VA 22182 ( “**Alarm.com**”), and Monitronics International, Inc., a Delaware company with its principal place of business at 1990 Wittington Place, Dallas, TX 75234 ( “**Monitronics** ”), hereby amends the October 22, 2007 Alarm.com Agreement ( “**Agreement**”) , as amended, by and between Monitronics and Alarm.com. In the event of a conflict between any provisions of the Agreement, as amended, and this Amendment, the provisions of this Amendment shall prevail. Capitalized terms used herein without definition have the meanings assigned to them in the Agreement.

**WHEREAS**, Alarm.com and Monitronics are parties to the Agreement, as amended by way of Amendment No. 1 dated January 15, 2008 and the Second Amendment dated February 25, 2013;

**WHEREAS** , Alarm.com and Monitronics desire to amend and supplement certain provisions of the Agreement, as amended, on the terms and subject to the conditions set forth below.

**NOW, THEREFORE**, in consideration of the mutual covenants herein contained, and other good and valuable consideration, Alarm.com and Monitronics agree as follows:

**1. AMENDMENTS RELATING TO THE ALARM.COM SERVICES**

1.1 Amendment Effective Date. All price adjustments reflected in this Amendment shall be effective for new accounts created on or after the first day of the month in which this agreement has been signed by both parties ( “**Amendment Effective Date** ”). For the avoidance of doubt, for all accounts owned by Monitronics and created prior to the Amendment Effective Date, Monitronics’ existing pricing shall remain in effect, except as allowed by Section 1.5 (Upgrade Conversion Pricing). Further, the provisions in Section 1.4 shall apply to the [...\*\*\*...] of [...\*\*\*...].

1.2 High Volume Pricing Qualification . Monitronics desires to obtain the advantage of certain lower prices for Alarm.com Services that can be offered by Alarm.com. Alarm.com desires to see ongoing new account production by Monitronics and the Monitronics Dealers. Alarm.com shall offer its high volume

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pricing set forth in Schedule A to Monitronics, as well as the other incentives contained in this Section 1, for all accounts owned by Monitronics and created by Monitronics or a third party on Monitronics' behalf on or after the Amendment Effective Date ([...\*\*\*...]) so long as either (a) the cumulative percentage of Alarm.com accounts activated by Monitronics or a third party on Monitronics' behalf after the Amendment Effective Date exceeds [...\*\*\*...]% of the cumulative number of [...\*\*\*...] accounts (regardless of whether [...\*\*\*...] is the [...\*\*\*...] or a [...\*\*\*...]) activated by Monitronics or a third party on Monitronics' behalf after the Amendment Effective Date, or (b) the [...\*\*\*...] of Alarm.com accounts activated by Monitronics or a third party on Monitronics' behalf after the Amendment Effective Date exceeds [...\*\*\*...] ([...\*\*\*...]) per month (the "Account Production Threshold"). Bulk purchases of accounts are excluded from the high volume pricing qualification calculations set forth above.

1.3 Bulk Purchase Pricing. If, following the Amendment Effective Date, Monitronics purchases accounts in a bulk acquisition, the following pricing shall apply to said accounts:

(a) If the account was created on or after the Amendment Effective Date, and in the [...\*\*\*...] the [...\*\*\*...] the [...\*\*\*...] the [...\*\*\*...], then the rate charged for said account shall be the rate set forth on Schedule A.

(b) For all other bulk accounts not covered by paragraph 1.3 (a) above, if Monitronics or a third party on Monitronic's behalf has created at least [...\*\*\*...] accounts per month for the [...\*\*\*...] ([...\*\*\*...]) months, the rate charged shall be the rate set forth on Schedule B.4.

(c) For all other bulk purchases not covered by paragraph 1.3(a) and 1.3(b) above, the rate on such accounts shall [...\*\*\*...] be subject to [...\*\*\*...] and shall [...\*\*\*...] at the [...\*\*\*...] to [...\*\*\*...].

Notwithstanding the foregoing, in no event shall pricing on any bulk account be [...\*\*\*...] the rate charged to the [...\*\*\*...] on the respective bulk account.

If the number of accounts acquired in a bulk transaction exceeds [...\*\*\*...] ([...\*\*\*...]), then Alarm.com shall [...\*\*\*...] on those acquired accounts [...\*\*\*...] over a period of [...\*\*\*...] from the [...\*\*\*...] of [...\*\*\*...] according to the schedule below until the [...\*\*\*...] (as set forth above in paragraphs 1.3 (a) and (b)).

[...***...] After the [...***...]						
	[...***...]	[...***...]	[...***...]	[...***...]	[...***...]	[...***...]
[...***...]	[...***...]%	[...***...]%	[...***...]%	[...***...]%	[...***...]%	[...***...]%

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\*\*\* Confidential information contained in this document, marked by brackets, has been omitted and filed separately with the Securities and Exchange Commission pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

1.4 [\*\*\*] Account Production [\*\*\*] Monitronics shall be [\*\*\*] an [\*\*\*] in the [\*\*\*] a [\*\*\*] pursuant to the [\*\*\*]. If in any given month Monitronics [\*\*\*] this [\*\*\*], then it shall receive a [\*\*\*] pursuant to the following table.

Monitronics [***] Level	
[***] Monthly Service Billing Amount ([***])	Discount % [***]
\$0 - \$[***]mm	[***]%
\$[***]mm - \$[***]mm	[***]%
\$[***]mm - \$[***]mm	[***]%
\$[***]mm - \$[***]mm	[***]%
+ Every [***] \$[***] Above \$[***]mm	+ [***]%

This [\*\*\*] will be capped at [\*\*\*]%. As of September 30, 2015, the Monitronics [\*\*\*] was \$[\*\*\*] million, [\*\*\*]. By way of example, if in July 2017 Monitronics has achieved the Account Production Threshold, and its August 1, 2017 [\*\*\*] is \$[\*\*\*] million, then Monitronics will [\*\*\*] for and receive a [\*\*\*]% [\*\*\*] of \$[\*\*\*] which will be applied as a [\*\*\*]. The [\*\*\*], however, shall be [\*\*\*] a [\*\*\*] of [\*\*\*] after the Amendment Effective Date such that [\*\*\*] of the [\*\*\*] that Monitronics [\*\*\*] pursuant to this Section 1.4 shall be [\*\*\*] to Monitronics each [\*\*\*] until the [\*\*\*] is achieved in [\*\*\*]. If for example Monitronics [\*\*\*] a [\*\*\*]% [\*\*\*], then Alarm.com shall apply a [\*\*\*]% [\*\*\*] in [\*\*\*] after the Amendment Effective Date, [\*\*\*]% in [\*\*\*], and so on until in [\*\*\*] the [\*\*\*]% [\*\*\*] is applied.

1.5 2g Upgrade Conversion Pricing. Alarm.com recognizes that Monitronics owns Subscriber accounts whose equipment utilizes the 2g GSM network and that those accounts may need to be upgraded to newer generation technology in the coming years. For any non-Alarm.com 2g account owned by Monitronics, Alarm.com shall [\*\*\*] in this replacement initiative by [\*\*\*] the [\*\*\*] to Monitronics on that account if it is converted to the Alarm.com Services [\*\*\*] a [\*\*\*] to \$[\*\*\*] per month. The \$[\*\*\*] per month charge shall be the monthly fee for each such converted account [\*\*\*], and shall last for a period of [\*\*\*] ([\*\*\*] billing cycles, at which point the rate charged by Alarm.com for that account shall be the rate set forth on Schedule A or Schedule B, whichever

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is in effect at such time. Monitronics shall provide to Alarm.com a list of accounts each month which are upgrades of non-Alarm.com 2G accounts which were immediately previously serviced by Monitronics on a third party 2G offering, and inclusive of the Alarm.com Customer ID for such accounts. Such list shall be officially approved by either the CFO or the Senior Vice President of Operations at Monitronics and provided to Alarm.com by the 15<sup>th</sup> business day of each month (for the previous month's conversion activity) and Alarm.com shall enroll these customers in the [...] effective the billing cycle after notification. By way of example, if Monitronics upgraded a non-Alarm.com 2g account to the Alarm.com Services [...] a [...] on February 6<sup>th</sup>, 2016, and Monitronics notified Alarm.com on March 10<sup>th</sup>, 2016 of such conversion, then Alarm.com would bill Monitronics \$[...] per month on their next [...] invoices (or for so long as the account remained active) for that account beginning April 1<sup>st</sup>, 2016, and on [...] the rate charged for the account would be [...] according to [...] rates with Alarm.com as of [...] for any features the account is subscribed to.

Furthermore, upon the upgrade of any Alarm.com subscriber account from a 2g to 3g or LTE Alarm.com module, the monthly fee for such subscriber account will be changed to the [...] rate [...] at the time of upgrade (i.e., [...] as a [...], and shall [...] in [...]). For the avoidance of doubt, the conversion of an AT&T 2g account to [...] shall not be eligible for new pricing and the existing rate for such account shall continue to apply.

1.6 Pricing Changes. If during any month following the Amendment Effective Date, the Account Production Threshold outlined in section 1.2, is not satisfied the following price increases shall take effect:

- For each account created in the month immediately after the month in which the Account Production Threshold is not met, the pricing for such accounts shall be increased to the rate set forth in Schedule B (based on the [...] of Alarm.com accounts activated by Monitronics or a third party on Monitronics' behalf after the Amendment Effective Date. At such time as the Account Production Threshold is again achieved, the rate on newly generated accounts shall be as set forth in Schedule A, however all accounts created during the months in which the Account Production Threshold was not met shall continue to be charged at the rate at which they were created pursuant to Schedule B.
- Further, in any month that the Account Threshold is not met and in which Monitronics creates less than [...] new accounts, (based

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on the [...] of Alarm.com accounts activated by Monitronics or a third party on Monitronics' behalf after the Amendment Effective Date) the [...], if any, to which Monitronics is entitled pursuant to Section 1.4 shall be [...] for the respective month as follows:

- If Monitronics creates [...] than [...] accounts (based on the [...] of Alarm.com accounts activated by Monitronics or a third party on Monitronics' behalf after the Amendment Effective Date) but [...], (based on the [...] of Alarm.com accounts activated by Monitronics or a third party on Monitronics' behalf after the Amendment Effective Date) Monitronics shall receive [...]% of the [...];
- If Monitronics creates [...] or [...] accounts (based on the [...] of Alarm.com accounts activated by Monitronics or a third party on Monitronics' behalf after the Amendment Effective Date) but [...], (based on the [...] of Alarm.com accounts activated by Monitronics or a third party on Monitronics' behalf after the Amendment Effective Date) Monitronics shall receive [...]% of the [...];
- If Monitronics creates [...] or [...] accounts, (based on the [...] of Alarm.com accounts activated by Monitronics or a third party on Monitronics' behalf after the Amendment Effective Date) Monitronics shall receive [...]% of the [...].

## 2. GENERAL TERMS

2.1 Confidentiality. For the avoidance of doubt, this Amendment forms part of the Agreement and therefore the provision of Section 8.6 of the Agreement shall apply to any disclosure of the existence or terms of this Amendment, including the pricing contemplated hereby.

2.2 Press Release. The parties agree to issue a press release as mutually agreed by the parties.

2.3 Effect of this Amendment. Except as expressly set forth herein, this Amendment shall not by implication or otherwise limit, impair, constitute a waiver of or otherwise affect the rights and remedies of Alarm.com and Monitronics and shall not alter, modify, amend or in any way affect any of the terms, conditions, obligations, covenants or agreements contained in the Agreement, as amended, all

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\*\*\* Confidential information contained in this document, marked by brackets, has been omitted and filed separately with the Securities and Exchange Commission pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

of which are ratified or affirmed in all respects and shall continue in full force and effect. Nothing herein shall be deemed to entitle either Alarm.com or Monitronics to consent to, or constitute a waiver, amendment, modification or other change of, any of the terms, conditions, obligations, covenants or agreements contained in the Agreement, as amended, in similar or different circumstances. After the Amendment Effective Date, any reference to the Agreement shall mean the Agreement as amended hereby.

2.4 Entire Agreement. This Amendment, together with the Agreement, as amended, contains the entire agreement and understanding between the parties concerning its subject matter. This Amendment supersedes all prior proposals, representations, agreements, and understandings, written or oral, concerning its subject matter. No amendment to this Amendment shall be effective unless it is in writing and signed by the parties.

2.5 [...\*\*\*...]. Except as otherwise set forth in Section 4.1 (a) (i.e., third party telecommunication charges) of the original Agreement dated October 22, 2007, or in the event of verifiable government or regulatory surcharges or taxes, [...\*\*\*...] may [...\*\*\*...] the [...\*\*\*...] in this Amendment without the express written consent of [...\*\*\*...].

2.6 Assent to this Amendment. Monitronics signifies its assent to this Amendment by signing the Amendment in the indicated signature block and faxing or otherwise providing it to Alarm.com. Alarm.com signifies its assent to this Amendment by signing this Amendment and returning it to Monitronics. Alarm.com, at its option, may sign a counterpart of this Agreement other than the counterpart assented to by Monitronics. The parties intend that facsimile signatures shall have the same binding effect as originals. The individual signing on behalf of Monitronics represents and warrants that he or she is a representative of Monitronics duly authorized by to signify assent to this Agreement.

2.7 [...\*\*\*...]. [...\*\*\*...]. At the request of Monitronics, the CFO or CEO of Alarm.com shall certify in writing that Alarm.com is in compliance with its obligations hereunder. As of the date of this Amendment, Alarm.com acknowledges and agrees it is in compliance with this covenant.

2.7 Additional Changes. Except as set forth in the Agreement, as amended, and this Amendment, Alarm.com shall not change the rates for any services to Monitronics without the mutual written consent of Monitronics.

\* \* \* \*

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**IN WITNESS WHEREOF** , this Third Amendment to the Alarm.com Dealer Program Agreement, as amended, has been executed and delivered by the duly authorized officers of the parties hereto on the date first above written.

**ALARM.COM INCORPORATED**

**Monitronics International, inc.**

By: /s/ Stephen Trundle

By: /s/ Bruce Mungiguerra

Name: Stephen Trundle

Name: Bruce Mungiguerra

Title: CEO

Title: Senior Vice President Operations

Date: 12/31/2015

Date: 12/31/2015

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\*\*\* Confidential information contained in this document, marked by brackets, has been omitted and filed separately with the Securities and Exchange Commission pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

**Schedule A**

[ ...\*\*\*... ] **ALARM SIGNALING AND ENHANCED SERVICES PLAN PRICING**

Service	Price
Wireless Signal Forwarding <sup>1</sup>	\$( ...***... )
Home Center <sup>2</sup>	\$( ...***... )
Silver Interactive <sup>3</sup>	\$( ...***... )
Silver Interactive + Automation <sup>4</sup>	\$( ...***... )
Interactive Gold <sup>5</sup>	\$( ...***... )
2-Way Voice	\$( ...***... )
Pro Video <sup>6</sup>	\$( ...***... )
Video Expansion Packs <sup>7</sup>	\$( ...***... )
Video 24x7 <sup>8</sup>	\$( ...***... )

<sup>1</sup> Wireless Signal Forwarding (WSF) includes Daily Supervision, Usage Reporting, and Level 1 Smash and Crash and all enterprise management capabilities associated with AirFX as well as the Business Intelligence module.

<sup>2</sup> Home Center includes all of the features of Wireless Signal Forwarding, as well as Level 2 Smash and Crash, remote arming, alerts for alarm and other system events, and cellular 2-Way Voice, and 5 day weather as well as severe weather alerts.

<sup>3</sup> Silver Interactive includes all of the features of Wireless Signal Forwarding, as well as Level 2 Smash and Crash, remote arming, alerts with up to 30 sensors for alarm events, system events, and non-alarm sensor events, and cellular 2-Way Voice, and 5 day weather and severe weather alerts.

<sup>4</sup> Silver Interactive + Automation includes all of the features of Silver Interactive as well as automation of thermostats, lights, locks, and garage doors.

<sup>5</sup> Interactive Gold includes all of the features of Silver Interactive + Automation as well as Image Sensor photo notifications and Identity Theft Protection.

<sup>6</sup> Pro Video includes support for up to 4 cameras, with 1,000 clips of cloud storage and 1,000 clip uploads per month.

<sup>7</sup> Video Expansion Packs require a Pro Video subscription and allow support for up to an additional 4 cameras, as well as 5,000 clips of cloud storage and 5,000 clip uploads per month.

<sup>8</sup> Video 24x7 provides continuous recording service, and requires a Pro Video subscription and a Streaming Video Recorder.

In addition to the above capabilities, the following business tools will be included at [ ...\*\*\*... ] to Monitronics: [ ...\*\*\*... ], and [ ...\*\*\*... ].

Alarm.com will charge an [ ...\*\*\*... ] of up to \$( ...\*\*\*... ) per [ ...\*\*\*... ] for each of [ ...\*\*\*... ], and [ ...\*\*\*... ] accounts when used in [ ...\*\*\*... ].



**Schedule B**

**Pricing for Accounts when Account Production Threshold Not Met**

- 1. Pricing for [ ..... ] accounts if [ ..... ] creation rate is between [ ..... ] and [ ..... ]** (based on the [.....] of Alarm.com accounts activated by Monitronics or a third party on Monitronics' behalf after the Amendment Effective Date)

Wireless Signal Forwarding \$ [ ..... ]  
Home Center \$ [ ..... ]  
Silver Interactive \$ [ ..... ]  
Silver Interactive + Automation \$ [ ..... ]  
Interactive Gold \$ [ ..... ]  
2-Way Voice \$ [ ..... ]  
Pro Video\* \$ [ ..... ]  
Video Expansion Packs \$ [ ..... ]  
Video 24x7 \$ [ ..... ]

- 2. Pricing for [ ..... ] accounts if [ ..... ] creation rate is between [ ..... ] and [ ..... ] accounts** (based on the [.....] of Alarm.com accounts activated by Monitronics or a third party on Monitronics' behalf after the Amendment Effective Date)

Wireless Signal Forwarding \$ [ ..... ]  
Home Center \$ [ ..... ]  
Silver Interactive \$ [ ..... ]  
Silver Interactive + Automation \$ [ ..... ]  
Interactive Gold \$ [ ..... ]  
2-Way Voice \$ [ ..... ]  
Pro Video\* \$ [ ..... ]  
Video Expansion Packs \$ [ ..... ]  
Video 24x7 \$ [ ..... ]

- 3. Pricing for [ ..... ] accounts if [ ..... ] creation rate is between [ ..... ] and [ ..... ] accounts** (based on the [.....] of Alarm.com accounts activated by Monitronics or a third party on Monitronics' behalf after the Amendment Effective Date)

Wireless Signal Forwarding \$ [ ..... ]  
Home Center \$ [ ..... ]  
Silver Interactive \$ [ ..... ]  
Silver Interactive + Automation \$ [ ..... ]  
Interactive Gold \$ [ ..... ]  
2-Way Voice \$ [ ..... ]  
Pro Video\* \$ [ ..... ]  
Video Expansion Packs \$ [ ..... ]  
Video 24x7 \$ [ ..... ]

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**4. Pricing for [ \*\*\*\* ] accounts if [ \*\*\*\* ] creation rate is [ \*\*\*\* ] accounts** (based on the [ \*\*\*\* ] of Alarm.com accounts activated by Monitronics or a third party on Monitronics' behalf after the Amendment Effective Date)

- Wireless Signal Forwarding \$ [ \*\*\*\* ]
- Home Center \$ [ \*\*\*\* ]
- Silver Interactive \$ [ \*\*\*\* ]
- Silver Interactive + Automation \$ [ \*\*\*\* ]
- Interactive Gold \$ [ \*\*\*\* ]
- 2-Way Voice \$ [ \*\*\*\* ]
- Pro Video\* \$ [ \*\*\*\* ]
- Video Expansion Packs \$ [ \*\*\*\* ]
- Video 24x7 \$ [ \*\*\*\* ]

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CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-205245) of Alarm.com Holdings, Inc. of our report dated February 29, 2016 relating to the financial statements and financial statement schedule, which appears in this Form 10-K.

/s/PriceWaterhouseCoopers LLP  
McLean, VA  
February 29, 2016

**Certification of Chief Executive Officer  
Pursuant to Rule 13a-14(a) under the  
Securities Exchange Act of 1934, as Adopted Pursuant to  
Section 302 of the Sarbanes-Oxley Act of 2002**

I, Stephen Trundle, certify that:

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

Date: February 29, 2016

/s/ Stephen Trundle  
Stephen Trundle  
President, Chief Executive Officer and Director  
(Principal Executive Officer)

**Certification of Chief Financial Officer  
Pursuant to Rule 13a-14(a) under the  
Securities Exchange Act of 1934, as Adopted Pursuant to  
Section 302 of the Sarbanes-Oxley Act of 2002**

I, Jennifer Moyer, certify that:

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

Date: February 29, 2016

/s/ Jennifer Moyer  
Jennifer Moyer  
Chief Financial Officer  
*(Principal Financial Officer and Principal Accounting Officer)*

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

Pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350), Stephen Trundle, Chief Executive Officer of Alarm.com Holdings, Inc. (the "Company"), and Jennifer Moyer, Chief Financial Officer of the Company, each hereby certifies that, to the best of his or her knowledge:

1. The Company's Annual Report on Form 10-K for the period ended December 31, 2015 (the "Annual Report"), to which this Certification is attached as Exhibit 32.1, fully complies with the requirements of Section 13(a) or Section 15(d) of the Exchange Act, and
2. The information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

**In Witness Whereof** , the undersigned have set their hands hereto as of the 29th day of February, 2016.

Date: February 29, 2016

/s/ Stephen Trundle  
Stephen Trundle  
President, Chief Executive Officer and Director  
*(Principal Executive Officer)*

Date: February 29, 2016

/s/ Jennifer Moyer  
Jennifer Moyer  
Chief Financial Officer  
*(Principal Financial Officer and Principal Accounting Officer)*

This certification accompanies the Form 10-K to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-K), irrespective of any general incorporation language contained in such filing.