

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended June 30, 2017  
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)

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of August 1, 2017, there were 46,708,166 outstanding shares of the registrant's common stock, par value \$0.01 per share.

ALARM.COM HOLDINGS, INC.

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**PART I. FINANCIAL INFORMATION**

**Item 1. FINANCIAL STATEMENTS (unaudited)**

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
<b>Revenue:</b>				
SaaS and license revenue	\$ 58,928	\$ 42,010	\$ 109,154	\$ 82,022
Hardware and other revenue	27,060	22,413	51,028	41,444
Total revenue	85,988	64,423	160,182	123,466
<b>Cost of revenue<sup>(1)</sup>:</b>				
Cost of SaaS and license revenue	8,500	7,211	16,592	13,992
Cost of hardware and other revenue	21,335	17,972	39,878	32,307
Total cost of revenue	29,835	25,183	56,470	46,299
<b>Operating expenses:</b>				
Sales and marketing	11,899	9,851	22,213	18,827
General and administrative	13,450	14,191	28,825	27,320
Research and development	20,062	10,777	34,583	20,747
Amortization and depreciation	4,846	1,613	7,710	3,204
Total operating expenses	50,257	36,432	93,331	70,098
<b>Operating income</b>	5,896	2,808	10,381	7,069
Interest expense	(674)	(47)	(890)	(88)
Other income, net	137	88	374	199
<b>Income before income taxes</b>	5,359	2,849	9,865	7,180
(Benefit from) / provision for income taxes	(4,506)	976	(3,963)	2,569
<b>Net income</b>	9,865	1,873	13,828	4,611
Income allocated to participating securities	(5)	(2)	(8)	(7)
<b>Net income attributable to common stockholders</b>	\$ 9,860	\$ 1,871	\$ 13,820	\$ 4,604
<b>Per share information attributable to common stockholders:</b>				
Net income per share:				
Basic	\$ 0.21	\$ 0.04	\$ 0.30	\$ 0.10
Diluted	\$ 0.20	\$ 0.04	\$ 0.28	\$ 0.10
Weighted average common shares outstanding:				
Basic	46,442,327	45,602,061	46,334,499	45,564,059
Diluted	49,000,553	47,523,187	48,906,812	47,405,511

(1) Exclusive of amortization and depreciation shown in operating expenses below.

See accompanying notes to the condensed consolidated financial statements.

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

	<u>June 30,</u> <u>2017</u>	<u>December 31, 2016</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 68,916	\$ 140,634
Accounts receivable, net	41,986	29,810
Inventory	10,263	10,543
Other current assets	16,031	9,197
Total current assets	137,196	190,184
Property and equipment, net	22,610	20,180
Intangible assets, net	101,144	4,568
Goodwill	64,092	24,723
Deferred tax assets	23,746	16,752
Other assets	7,453	4,838
<b>Total Assets</b>	<b>\$ 356,241</b>	<b>\$ 261,245</b>
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable, accrued expenses and other current liabilities	\$ 36,465	\$ 28,300
Accrued compensation	8,873	8,814
Deferred revenue	2,885	2,585
Total current liabilities	48,223	39,699
Deferred revenue	9,816	10,040
Long-term debt	72,700	6,700
Other liabilities	14,216	13,557
<b>Total Liabilities</b>	144,955	69,996
Commitments and contingencies (Note 11)		
<b>Stockholders' equity</b>		
Preferred stock, \$0.001 par value, 10,000,000 shares authorized; 0 shares issued and outstanding as of June 30, 2017 and December 31, 2016.	—	—
Common stock, \$0.01 par value, 300,000,000 shares authorized; 46,707,046 and 46,172,318 shares issued; and 46,684,647 and 46,142,483 shares outstanding as of June 30, 2017 and December 31, 2016.	467	461
Additional paid-in capital	314,919	308,697
Accumulated deficit	(104,100)	(117,909)
<b>Total Stockholders' Equity</b>	211,286	191,249
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 356,241</b>	<b>\$ 261,245</b>

See accompanying notes to the condensed consolidated financial statements.

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

	<b>Six Months Ended June 30,</b>	
	<b>2017</b>	<b>2016</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 13,828	\$ 4,611
Adjustments to reconcile net income to net cash from operating activities:		
Provision for doubtful accounts	20	261
Reserve for product returns	1,144	1,008
Amortization for patents and tooling	574	364
Amortization and depreciation	7,710	3,204
Amortization of debt issuance costs	47	54
Deferred income taxes	(2,833)	(539)
Change in fair value of contingent liability	—	(190)
Undistributed losses from equity investee	120	45
Stock-based compensation	3,228	1,794
Changes in operating assets and liabilities (net of business acquisitions):		
Accounts receivable	(1,998)	(7,422)
Inventory	579	(2,978)
Other assets	(5,425)	(1,510)
Accounts payable, accrued expenses and other current liabilities	7,602	7,268
Deferred revenue	(495)	393
Other liabilities	635	1,577
Cash flows from operating activities	24,736	7,940
<b>Cash flows used in investing activities:</b>		
Business acquisitions, net of cash acquired	(154,289)	—
Additions to property and equipment	(5,714)	(4,564)
Investment in cost method investee	—	(139)
Issuances of notes receivable	(4,000)	(73)
Repayments of notes receivable	—	2,441
Cash flows used in investing activities	(164,003)	(2,335)
<b>Cash flows from financing activities:</b>		
Proceeds from credit facility	67,000	—
Repayments of credit facility	(1,000)	—
Payments of long-term consideration for business acquisitions	—	(217)
Repurchases of common stock	(2)	(9)
Issuances of common stock from equity-based plans	1,551	427
Cash flows from financing activities	67,549	201
<b>Net (decrease) / increase in cash and cash equivalents</b>	<b>(71,718)</b>	<b>5,806</b>
<b>Cash and cash equivalents at beginning of the period</b>	<b>140,634</b>	<b>128,358</b>
<b>Cash and cash equivalents at end of the period</b>	<b>\$ 68,916</b>	<b>\$ 134,164</b>
<b>Supplemental disclosure of noncash investing and financing activities:</b>		
Cash not yet paid for business acquisitions	\$ —	\$ 200
Assumed options from business acquisition	\$ 1,375	\$ —
Contingent liability from business acquisition	\$ —	\$ 40
Cash not yet paid for capital expenditures	\$ 611	\$ 345

See accompanying notes to the condensed consolidated financial statements.

**ALARM.COM HOLDINGS, INC.**  
**Condensed Consolidated Statement of Equity**  
(in thousands)  
(unaudited)

	Preferred Stock		Common Stock		Additional Paid-In- Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount			
<b>Balance as of January 1, 2017</b>	—	\$ —	46,142	\$ 461	\$ 308,697	\$ (117,909)	\$ 191,249
Adoption of accounting standard on employee share-based payments	—	—	—	—	31	(19)	12
Common stock issued in connection with equity-based plans	—	—	534	5	1,546	—	1,551
Vesting of common stock subject to repurchase	—	—	9	1	42	—	43
Stock-based compensation	—	—	—	—	3,228	—	3,228
Stock options assumed from acquisition	—	—	—	—	1,375	—	1,375
Net income	—	—	—	—	—	13,828	13,828
<b>Balance as of June 30, 2017</b>	—	\$ —	46,685	\$ 467	\$ 314,919	\$ (104,100)	\$ 211,286

See accompanying notes to the condensed consolidated financial statements.

**ALARM.COM HOLDINGS, INC.**  
**Notes to the Condensed Consolidated Financial Statements**  
**June 30, 2017 and 2016**  
**(unaudited)**

**Note 1. Organization**

**Organization**

Alarm.com Holdings, Inc. (referred to herein as Alarm.com, the Company, or we) is the leading platform for the intelligently connected property. We offer a comprehensive suite of cloud-based solutions for the smart home and business, including interactive security, video monitoring, intelligent automation and energy management. Millions of property owners rely on our technology to intelligently secure, monitor and manage their homes and businesses. Our solutions are delivered through an established network of over 6,000 trusted service provider partners, who are experts at selling, installing and supporting our solutions. We derive revenue from the sale of our cloud-based Software-as-a-Service, or SaaS, services, license fees, software, hardware, activation fees and other revenue. Our fiscal year ends on December 31<sup>st</sup>.

**Note 2. Basis of Presentation**

***Basis of Presentation***

The accompanying unaudited condensed consolidated financial statements include our accounts and those of our majority-owned and controlled subsidiaries after elimination of intercompany accounts and transactions.

These unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States, or GAAP, for interim financial information and the applicable rules and regulations of the Securities and Exchange Commission, or SEC. Accordingly, they do not include all the information and footnotes required by GAAP for annual financial statements. They should be read together with our audited consolidated financial statements and related notes thereto for the year ended December 31, 2016 appearing in our Annual Report on Form 10-K filed with the SEC on March 16, 2017, or the 2016 Annual Report. The condensed consolidated balance sheet as of December 31, 2016 was derived from our audited financial statements, but does not include all disclosures required by GAAP for annual financial statements.

In the opinion of management, these condensed consolidated financial statements include all normal recurring adjustments necessary for a fair statement of the results of operations, financial position and cash flows. The results of operations for the three and six months ended June 30, 2017 are not necessarily indicative of the results that can be expected for our entire fiscal year ending December 31, 2017.

***Use of Estimates***

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of our assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Our estimates, judgments and assumptions are continually evaluated based on available information and experience. Because the use of estimates is 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.

***Significant Accounting Policies***

We updated the following significant accounting policies as a result of acquiring the Connect line of business from Icontrol Networks, Inc., or Icontrol, during the first quarter of 2017: (i) internal-use software, (ii) external software, (iii) revenue recognition and deferred revenue and (iv) cost of revenue. We generate SaaS and license revenue from monthly fees charged to service providers on a per subscriber basis for access to our newly-acquired Connect software platform. The Connect software for interactive security, automation and related solutions is typically deployed and operated by the service provider in its own network operations center. Except for as disclosed herein, there have been no other material changes to our significant accounting policies during the quarter ended June 30, 2017 from those disclosed in our Annual Report on Form 10-K filed on March 16, 2017 with the SEC.

**Internal-Use Software**

We capitalize the costs directly related to the design of internal-use software for development of our Alarm.com and other SaaS platforms during the application development stage of the projects. The costs are primarily comprised of salaries, benefits

**ALARM.COM HOLDINGS, INC.**  
**Notes to the Consolidated Financial Statements—(Continued)(Unaudited)**  
**June 30, 2017 and 2016**

and stock-based compensation expense of the project 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 and do so if it adds significant functionality to our platform. Maintenance activities or minor upgrades are expensed in the period performed.

#### **External Software**

Costs incurred in researching and developing a computer software product that will be marketed and sold are charged to expense when incurred until technological feasibility is established. Technological feasibility is established upon completion of a detailed program design or, in its absence, completion of a working model (a beta version). After technological feasibility is established, the salaries, benefits and stock-based compensation expense of the project engineers and product development teams performing coding and testing are capitalized. Cost capitalization ceases when the product is available for general release. The Connect software is typically developed in an agile environment with frequent revisions to product release features and functions. Agile development results in a short duration between completion of the detailed program design and beta release. Accordingly, as of June 30, 2017, we do not have any capitalized external software due to the shorter development cycle associated with agile development.

#### **Revenue Recognition and Deferred Revenue**

We derive our revenue from three primary sources: the sale of cloud-based SaaS services on our integrated Alarm.com platform, the sale of licenses and services on the newly-acquired Connect software platform and the sale of hardware products. We sell our platform and hardware solutions to service provider partners that resell our solutions and hardware to home and business owners, who are the service provider partners' customers, and whom we refer to as our subscribers. We also sell our hardware to distributors who resell the hardware to service provider partners. We enter into contracts with our service provider partners that establish pricing for access to our 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 provider partners typically enter into contracts with our subscribers, which our service provider partners 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 provider partners may 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 provider partners 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 platform solutions and the purchase of hardware are separate transactions because at the time of sale of the hardware, the service provider partner is not obligated to and may not 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 partner, 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 partner 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 provider partners. Collectibility is evaluated based on a number of factors, including a credit review of new service provider partners, and the payment history of existing service provider partners. If collectibility is not reasonably assured, revenue is deferred until collection becomes reasonably assured, which is generally upon the receipt of payment.



**ALARM.COM HOLDINGS, INC.**  
**Notes to the Consolidated Financial Statements—(Continued)(Unaudited)**  
**June 30, 2017 and 2016**

**SaaS and License Revenue**

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

Under terms in our contractual arrangements with our service provider partners, we are entitled to payment 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 neither a minimum required initial service term nor a stated renewal term in our contractual arrangements, we recognize revenue over the period of service, which is monthly. Our service provider partners typically incur and pay the same monthly fee per subscriber account for the entire period a subscriber account is active.

We also generate SaaS and license revenue from monthly fees charged to service providers sold on a per subscriber basis for access to our newly-acquired Connect software platform. The Connect software for interactive security, automation and related solutions is typically deployed and operated by the service provider in its own network operations center. Our agreements for the Connect platform solution typically include software and services, such as post-contract customer support, or PCS. Software sales that include multiple elements are typically allocated to the various elements based on vendor-specific objective evidence of fair value, or VSOE. There have been no separate sales of PCS, as PCS is always bundled with the software license for the Connect platform solution. Therefore, the VSOE of fair value for PCS cannot be established. The entire Connect arrangement fee is recognized ratably over the period during which the services are expected to be performed or the PCS period, whichever is longer, once the software is delivered and services have commenced, if all the other basic revenue recognition criteria have been met. Under terms in our contractual arrangements with our service provider partners, we are entitled to payment of a monthly fee for Connect that is billed per subscriber for the month of service. We recognize revenue over the period of service, which is monthly. Our service provider partners 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 platform solutions including a range of solutions and a range of a la carte add-ons for additional features. The fee paid by our service provider partners 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 provider partners 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 provider partners on a per customer basis for use of our patents. In addition, in certain 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 from the sale of cellular radio modules that provide access to our cloud-based platform, from the sale of video cameras and from the sale of other devices, including image sensors and peripherals. We recognize hardware and other revenue when the hardware is received by our service provider partner 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 provider partners or distributors, and are not contingent on resale to end-users, or to service provider partners in the case of sales of hardware to distributors. Our terms for hardware sales sold directly to either service provider partners 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 provider partners under terms between the two parties. We record a reserve against revenue for hardware returns based on historical returns, which was between 2.0% to 4.5% of hardware and other revenue for the three and six months ended June 30, 2017. 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 provider partners for activation of a new subscriber account on our platform, as well as fees paid by service provider partners for our marketing services. Our service provider partners use services on our platform, such as support tools and applications, 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 provider partners and is charged to the service provider partner 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

**ALARM.COM HOLDINGS, INC.**  
**Notes to the Consolidated Financial Statements—(Continued)(Unaudited)**  
**June 30, 2017 and 2016**

appropriate, until the ten-year expected term is complete. The balance of deferred revenue for activation fees was \$10.9 million and \$11.2 million as of June 30, 2017 and December 31, 2016, which combines current and long-term balances.

**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. We record the salaries and benefits of the department dedicated to providing service exclusively to a specific service provider for the Connect platform to cost of SaaS and license revenue.

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. Our cost of revenue excludes amortization and depreciation.

**Recent Accounting Pronouncements**

*Adopted*

On March 30, 2016, the FASB issued ASU 2016-09, "*Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*" which simplifies several aspects of the accounting for employee share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The update is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years, and we adopted ASU 2016-09 during the first quarter of 2017.

The adoption of this standard had the following impact on our financial statements:

- Tax windfall benefits or deficiencies from stock-based awards are now recorded in provision for income taxes in the period incurred, whereas previous guidance required the tax windfall benefits to be recorded in accumulated paid-in-capital. This change has been applied prospectively.
- Tax windfall benefits from stock-based awards after adoption will be reported in cash flows from operating activities in the statement of cash flows. For comparability, we elected to retrospectively apply this guidance which resulted in a reclassification of \$0.5 million from tax windfall benefit from stock options (a financing activity) to deferred income taxes (an operating activity) for the six months ended June 30, 2016.
- We elected to record forfeitures as they occur in our calculation of stock-based compensation expense. In prior periods, we estimated forfeitures for the calculation of stock-based compensation expense. We adopted this change using the modified retrospective method, which resulted in an increase of less than \$0.1 million to accumulated deficit, additional paid-in capital and deferred tax assets as of January 1, 2017.
- Cash flows from tax windfall benefits from stock-based awards will no longer factor into the calculation of the number of shares for diluted earnings per share. This change was applied prospectively and did not have a material impact on diluted earnings per share for the three and six months ended June 30, 2017.

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 adopted this pronouncement prospectively in the first quarter of 2017, and the adoption of this pronouncement did not have a material effect on our financial statements.

On January 26, 2017, the FASB issued ASU 2017-04, "*Intangibles - Goodwill and Other (Topic 350) - Simplifying the Test for Goodwill Impairment*," which removes step two of the goodwill impairment test, which requires a hypothetical purchase price allocation. A goodwill impairment amount will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The amendment is effective for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019 with early adoption permitted for goodwill impairment tests performed after January 1, 2017. We adopted this guidance prospectively in the first quarter of 2017. Our goodwill impairment test is performed annually as of October 1st, therefore the adoption had no impact to our financial statements.

**ALARM.COM HOLDINGS, INC.**  
**Notes to the Consolidated Financial Statements—(Continued)(Unaudited)**  
**June 30, 2017 and 2016**

*Not Yet Adopted*

*Revenue from Contracts with Customers (Topic 606):*

We are required to adopt ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)" and its updates and amendments in the first quarter of 2018. We have developed a project plan for adoption focused first on the largest volume of contracts, our standard service provider partner agreement, in an effort to determine the impact of adoption on our revenue recognition policies, processes and systems. During the second quarter of 2017, we continued our evaluation of this standard service provider partner agreement. In addition, we continue to evaluate the non-standard service provider partner agreements with our 15 largest revenue service provider partners, including distributors of our hardware and licensees of our intellectual property. These service provider partners accounted for over 61% of our revenue for the six months ended June 30, 2017. Based on the quantitative impact of adopting this standard, we will select either a full retrospective or a modified retrospective adoption method. During the second quarter of 2017, we began evaluating the impact of Topic 606 on our commission agreements. The next stages of our adoption plan will focus on assessing the impact of adopting this standard on our subsidiaries' service provider partner agreements. The new standard requires significantly more disclosures and we anticipate putting processes in place and designing internal controls over these processes to collect the data required for these additional disclosures. A summary of these standards and requirements are as follows:

On May 9, 2016, the FASB issued ASU 2016-12, "Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients," and on April 14, 2016, the FASB issued ASU 2016-10, "Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing". ASU 2016-12 and 2016-10 both amend the guidance in ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)," which is not yet effective. ASU 2016-12 clarifies guidance on assessing collectibility, presentation of sales taxes, noncash consideration, and completed contracts and contract modification within Topic 606. ASU 2016-10 clarifies guidance related to identifying performance obligations and licensing implementation guidance. These updates are effective with the same transition requirements as ASU 2014-09, as amended.

On March 17, 2016, the FASB issued ASU 2016-08, "Revenue from Contracts with Customers (Topic 606): Principal Versus Agent Considerations (Reporting Revenue Gross Versus Net)" which amends the guidance in ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)," which is not yet effective. The update clarifies the implementation guidance on principal versus agent considerations. The update is effective with the same transition requirements as ASU 2014-09, as amended.

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 2014-09, 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.

*Other accounting standards:*

On May 10, 2017, the FASB issued ASU 2017-09, "Compensation - Stock Compensation (Topic 718) - Scope of Modification Accounting," which amends the scope of modification accounting for share-based payment arrangements. The update provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting under ASC 718. Specifically, an entity would not apply modification accounting if the fair value, vesting conditions and classification of the awards are the same immediately before and after the modification. The amendment is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, with early adoption permitted. We are required to adopt ASU 2017-09 no later than the first quarter of 2018 and we do not anticipate the adoption will have a material impact on our financial statements.

On January 5, 2017, the FASB issued ASU 2017-01, "Business Combinations (Topic 805) - Clarifying the Definition of a Business," which provides guidance to assist entities in evaluating when a set of transferred assets and activities is a business. To be considered a business, an acquisition would have to include an input and a substantive process that together significantly

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contribute to the ability to create outputs. The amendment is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, with early adoption permitted. We are required to adopt ASU 2017-01 no later than the first quarter of 2018.

On February 25, 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)," which requires lessees to recognize operating and financing lease liabilities and corresponding right-of-use assets on the balance sheet. The update also requires improved disclosures to help users of financial statements better understand the amount, timing and uncertainty of cash flows arising from leases. The update is 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 no later than the first quarter of 2019, and we are currently assessing the impact of this pronouncement on our financial statements. We have begun to evaluate our existing leases which all have been classified as operating leases under Topic 840. We anticipate using some of the available practical expedients upon adoption. We have not yet determined the amount of operating and financing lease liabilities and corresponding right-of-use assets we will record on our balance sheet, however, we anticipate that our assets and liabilities will increase materially when our leases are recorded under the new standard.

**Note 3. Accounts Receivable, Net**

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

	<u>June 30,</u> <u>2017</u>	<u>December 31, 2016</u>
Accounts receivable	\$ 45,378	\$ 33,406
Allowance for doubtful accounts	(1,148)	(1,282)
Allowance for product returns	(2,244)	(2,314)
Accounts receivable, net	<u>\$ 41,986</u>	<u>\$ 29,810</u>

For the three months ended June 30, 2017, we recorded a reduction to provision for doubtful accounts of \$0.1 million. For the six months ended June 30, 2017, we recorded a provision for doubtful accounts of less than \$0.1 million. For the three and six months ended June 30, 2016, we recorded a provision for doubtful accounts of \$0.1 million and \$0.3 million.

For the three and six months ended June 30, 2017, we recorded a \$0.6 million and \$1.1 million reserve for product returns in our hardware and other revenue, as compared to \$0.5 million and \$1.0 million for the same periods in the prior year. 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):

	<u>June 30,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
Raw materials	\$ 6,522	\$ 4,313
Finished goods	3,741	6,230
Total inventory	<u>\$ 10,263</u>	<u>\$ 10,543</u>

**Note 5. Acquisitions**

**Connect and Piper Business Units from Icontrol Networks**

On March 8, 2017, in accordance with the asset purchase agreement we entered into with Icontrol Networks, Inc., or Icontrol, on June 23, 2016, we acquired certain assets and assumed certain liabilities of the Connect line of business and all of the outstanding equity interests of the two subsidiaries through which Icontrol conducted its Piper line of business, or the Acquisition. Connect provides an interactive security and home automation platform for service providers. Piper, designs, produces and sells an all-in-one video and home automation hub. We expect the addition of new technology infrastructure, talent, key relationships and hardware devices to help accelerate our development of intelligent, data-driven smart home and business services.

The cash consideration was \$148.5 million, after the estimated working capital adjustment, of which \$14.5 million was deposited in escrow in accordance with the asset purchase agreement for indemnifications obligations of Icontrol stockholders and the final determination of closing working capital. We used \$81.5 million of cash on hand and drew \$67.0 million under our

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senior line of credit with Silicon Valley Bank and a syndicate of lenders to fund the Acquisition.

The Acquisition also included non-cash consideration. In accordance with the terms of the asset purchase agreement, we were obligated to assume the Icontrol Networks, Inc. 2013 Equity Incentive Plan and Icontrol Networks, Inc. 2003 Stock Plan, or collectively the Icontrol Plans, and converted the 2,001,387 unvested employee stock options into 70,406 Alarm.com stock options using a conversion ratio stated in the agreement to convert the original exercise price and number of options. The fair value of the unvested stock options on the acquisition date was \$1.7 million calculated using a Black-Scholes model with a volatility and risk-free interest rate over the expected term of the options and the closing price of the Alarm.com common stock on the date of acquisition. We applied our graded vesting accounting policy to the fair value of these assumed options and determined \$1.4 million of the fair value was attributable to pre-combination services and was included as a component of total purchase consideration. The remaining \$0.3 million of the fair value was determined to be attributable to post-combination services and will be recognized over the remaining service periods of the stock options.

The table below sets forth the purchase consideration and the preliminary allocation to estimated fair value of the tangible and intangible net assets acquired (in thousands):

	<b>March 8, 2017</b>
<i>Calculation of Purchase Consideration:</i>	
Cash paid, net of working capital adjustment	\$ 148,500
Assumed stock options	1,375
Total consideration	\$ 149,875
<i>Estimated Tangible and Intangible Net Assets:</i>	
Cash	\$ 211
Accounts receivable	11,342
Current assets	823
Long-term assets	4,446
Customer relationships	93,260
Developed technology	4,770
Trade name	170
Current liabilities	(1,577)
Long-term liabilities	(281)
Goodwill	36,711
Total estimated tangible and intangible net assets	\$ 149,875

Goodwill of \$36.7 million reflects the value of acquired workforce and synergies we expect to achieve from integrating support for Connect's security service providers and for the Connect platform. The goodwill will be deductible for tax purposes. We allocated goodwill to reporting units based on expected benefit from our synergies, and have preliminarily allocated the goodwill to the Alarm.com segment.

The purchase price allocation including the identification of tangible and intangible assets acquired and liabilities assumed, and the determination of the fair value of those assets acquired and liabilities assumed, as well as the assignment of goodwill to reporting units was not finalized as of the filing date of this Quarterly Report.

*Fair Value of Net Assets Acquired and Intangibles*

In accordance with ASC 805, the business units acquired in the Acquisition constituted a business and the assets and liabilities were recorded at their respective fair values as of March 8, 2017. 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 and the relief-from-royalty method for the trade name.

*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 Connect 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 attrition and renewal rate, margin and discount rate. We are amortizing the first customer relationship,

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valued at \$92.5 million, on an attribution basis derived from the discounted cash flows of the model over an estimated useful life of twelve years and the second group of customer relationships, valued at \$0.8 million, on the same basis, over an estimated useful life of four years.

*Developed Technology*

Developed technology primarily consists of intellectual property of proprietary software that is marketed for sale. The Connect platform is software for interactive security, automation and related solutions that was typically deployed and operated by the service provider in its own network operations center. 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 royalty rate and discount rate. We are amortizing the Connect developed technology, valued at \$4.4 million, on an attribution method based on the discounted cash flows of the model over an estimated useful life of three years. Other developed technologies, valued at \$0.3 million, were also acquired.

*Trade Name*

We determined that there was no fair value for the Connect trade name as the largest customer for Connect had re-branded the interactive security and automation platform and marketed it under the customer's own name. We valued the other trade names acquired using a relief-from-royalty method. We used several assumptions in the income approach, including royalty and discount rates. We are amortizing the other trade names, valued at \$0.2 million, on an attribution basis derived from the discounted cash flows of the model over an estimated useful life of three years.

*Deferred Tax Asset*

The equity interests in the subsidiaries we acquired provided for a carryover tax basis in goodwill and intangible assets that arose from a previous acquisition. We have recorded a deferred tax asset of \$4.1 million that represents the excess of the carryover tax basis in those previously acquired goodwill and intangible assets over the fair value of goodwill and intangible assets we recorded on the Acquisition date.

**ObjectVideo**

On January 1, 2017, in accordance with an asset purchase agreement, we acquired certain assets of ObjectVideo, Inc., or ObjectVideo, that constituted a business now called ObjectVideo Labs, LLC, or ObjectVideo Labs, including products, technology portfolio and engineering team. ObjectVideo is a pioneer in the fields of video analytics and computer vision with technology that extracts meaning and intelligence from video streams in real-time to enable object tracking, pattern recognition and activity identification. We anticipate that the ObjectVideo Labs engineering team's capabilities and expertise will accelerate our research and development of video services and video analytic applications. In addition, ObjectVideo Labs will continue to perform advanced research and engineering services for the federal government. The consideration included \$6.0 million of cash paid at closing.

The table below sets forth the purchase consideration and the preliminary allocation to estimated fair value of the tangible and intangible net assets acquired (in thousands):

	<b>January 1, 2017</b>
<i>Calculation of Purchase Consideration:</i>	
Cash paid, net of working capital adjustment	\$ 6,000
 <i>Estimated Tangible and Intangible Net Assets:</i>	
Developed technology	\$ 3,400
Current liabilities	(58)
Goodwill	2,658
Total estimated tangible and intangible net assets	\$ 6,000

Goodwill of \$2.7 million reflects the value of acquired workforce and expected synergies from pairing ObjectVideo Labs' video analytics capabilities with our offerings. The goodwill will be deductible for tax purposes.

The purchase price allocation including the identification of tangible and intangible assets acquired and liabilities assumed, and the determination of the fair value of those assets acquired and liabilities assumed, as well as the assignment of goodwill to reporting units was not finalized as of the filing date of this Quarterly Report.

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*Fair Value of Net Assets Acquired and Intangibles*

In accordance with ASC 805, the assets and liabilities of ObjectVideo Labs we acquired were recorded at their respective fair values as of January 1, 2017, the date of the acquisition. We developed our estimate of the fair value of intangible assets using the replacement cost method for the developed technology.

*Developed Technology*

Developed technology recorded separately from goodwill consists of intellectual property such as proprietary software used internally for revenue producing activities. ObjectVideo Labs proprietary software consists of source code and video analytics testing programs used internally to provide video analytics consulting services and research and development to customers and for the SaaS Alarm.com platform. We valued the developed technology by applying the replacement cost method. We used several assumptions in this cost approach, which included analyzing costs that a company would expect to incur to recreate an asset of equivalent utility. We are amortizing the developed technology, valued at \$3.4 million, on a straight-line basis over an estimated useful life of two years which coincides with the rapidly developing technology of video analytics.

**Unaudited Pro Forma Information**

The following unaudited pro forma data is presented as if the Acquisition and ObjectVideo Labs were included in our historical consolidated statements of operations beginning January 1, 2016. These pro forma results do not necessarily represent what would have occurred if all the business combinations had taken place on January 1, 2016, 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: (i) we adjusted the pro form amounts for income taxes, (ii) we applied interest expense as if the additional borrowing for the acquisitions were as of January 1, 2016, (iii) we adjusted for amortization expense assuming the fair value adjustments to intangible assets had been applied beginning January 1, 2016 and (iv) we adjusted for transaction fees incurred and reclassified them to January 1, 2016.

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 Six Months Ended June 30,</b>	
	<b>2017</b>	<b>2016</b>
	(unaudited)	
Revenue	\$ 171,252	\$ 152,787
Net income / (loss)	21,445	(7,243)
Net income / (loss) per diluted share	\$ 0.44	\$ (0.15)

**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 six months ended June 30, 2017 (in thousands):

	<b>Six Months Ended June 30, 2017</b>	
Revenue	\$	12,252
Net loss		(3,522)

For the Acquisition, we included the results of Connect's operations since its acquisition date in the Alarm.com segment and the results of Piper's operations since its acquisition date in the Other segment. We included the results of ObjectVideo Labs operations since its acquisition date in the Alarm.com segment.

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**Note 6. Goodwill and Intangible Assets, Net**

The changes in goodwill by reportable segment are outlined below (in thousands):

	Alarm.com	Other	Total
Balance as of January 1, 2017	\$ 24,723	\$ —	\$ 24,723
Goodwill acquired	39,369	—	39,369
Balance as of June 30, 2017	<u>\$ 64,092</u>	<u>\$ —</u>	<u>\$ 64,092</u>

On January 1, 2017, we acquired ObjectVideo Labs and preliminarily recorded \$2.7 million of goodwill in the Alarm.com segment. On March 8, 2017, in connection with the Acquisition, we preliminarily recorded \$36.7 million of goodwill in the Alarm.com segment. There were no impairments of goodwill during the three and six months ended June 30, 2017 and 2016.

The following table reflects changes in the net carrying amount of the components of intangible assets (in thousands):

	Customer Relationships	Developed Technology	Trade Name	Total
Balance as of January 1, 2017	\$ 3,363	\$ 1,048	\$ 157	\$ 4,568
Intangible assets acquired	93,260	8,169	170	101,599
Amortization	(3,251)	(1,729)	(43)	(5,023)
Balance as of June 30, 2017	<u>\$ 93,372</u>	<u>\$ 7,488</u>	<u>\$ 284</u>	<u>\$ 101,144</u>

We recorded \$3.5 million and \$5.0 million of amortization related to our intangible assets for the three and six months ended June 30, 2017, respectively, as compared to \$0.4 million and \$0.9 million for the same periods in the prior year. There were no impairments of long-lived assets during the three and six months ended June 30, 2017 and 2016.

The following tables reflect the weighted average remaining life and carrying value of finite-lived intangible assets (in thousands):

	June 30, 2017			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	Weighted-Average Remaining Life
Customer relationships	\$ 103,926	\$ (10,554)	\$ 93,372	11.3
Developed technology	13,559	(6,071)	7,488	2.5
Trade name	1,084	(800)	284	3.7
Other	234	(234)	—	0.0
Total intangible assets	<u>\$ 118,803</u>	<u>\$ (17,659)</u>	<u>\$ 101,144</u>	

  

	December 31, 2016			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	Weighted-Average Remaining Life
Customer relationships	\$ 10,666	\$ (7,303)	\$ 3,363	3.8
Developed technology	5,390	(4,342)	1,048	4.1
Trade name	914	(757)	157	4.3
Other	234	(234)	—	0.0
Total intangible assets	<u>\$ 17,204</u>	<u>\$ (12,636)</u>	<u>\$ 4,568</u>	



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

Year Ending December 31,	Amortization
Remainder of 2017	\$ 7,059
2018	15,019
2019	13,644
2020	12,217
2021 and thereafter	53,205
Total future amortization expense	<u>\$ 101,144</u>

**Note 7. Investments in Other Entities**

***Cost Method Investment in Connected Home Service Provider Partner***

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 2,333 Series B-1 Convertible Preferred Membership Units at \$23.31 per unit, for a purchase price of \$0.1 million, which increased our aggregate equity interest to 12.6% on a fully diluted basis. On April 20, 2016, we purchased an additional 6,904 Series B-1 Convertible Preferred Membership Units at \$20.19 per unit, for a purchase price of \$0.1 million, which increased our aggregate equity interest to 14.3% 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 risk, the connected home service provider partner 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 June 30, 2017 and December 31, 2016, 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 investment is included in other assets in our condensed consolidated balance sheets and was \$0.6 million as of June 30, 2017 and December 31, 2016.

***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 at the time of investment 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 income, net in our condensed consolidated statements of operations in the periods they are reported by the installation partner.

In September 2014, we loaned \$0.3 million to our installation partner under a secured promissory note that accrues interest at 8.0% per annum. Interest is payable monthly with the entire principal balance plus any accrued but unpaid interest due on the note's maturity date. The note was amended in September 2016 to extend its maturity date to September 2018. This event did not cause us to reconsider our conclusion that the installation partner has sufficient equity investment at risk and therefore was not a VIE. We have continued to account for the investment under the equity method. In the fourth quarter of 2015, accumulated operating losses of our installation partner exceeded its equity contributions, and we recorded 100% of its net losses, or \$0.2 million, against our note receivable. In the second quarter of 2017, accumulated operating losses of our installation partner exceeded its equity contributions again, and we recorded 100% of its net losses, or \$0.1 million, against the balance of the note receivable of \$0.1 million. As of June 30, 2017 and December 31, 2016, the note receivable balance was zero and \$0.1 million and was included in other assets.

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 conclusion 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 the terms of the investment, the investment partner received additional equity contributions, and we returned to recording our share of its earnings or losses against our investment.

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We recorded our share of the installation partner's earnings and losses in other income, net in our condensed consolidated statements of operations. We recorded losses of \$0.1 million for the three and six months ended June 30, 2017, as compared to losses of less than \$0.1 million for the same periods in the prior year. Our \$1.2 million investment, net of equity losses, was included in other assets in our condensed consolidated balance sheets and was zero as of June 30, 2017 and less than \$0.1 million as of December 31, 2016.

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

We have invested in the form of loans and equity investment 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, 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, or the 2013 Option. The investment in Series A convertible preferred shares was recorded at its initial fair value of \$3.5 million and was accounted for as a cost method investment. We also loaned the same platform partner \$2.0 million in the form of a secured convertible note, or 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 partner in a qualified financing, or 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 a 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 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. 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 income, net.

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 \$0.1 million realized gain on the 2013 Note, our 2013 Option and Automatic Conversion Feature expired and we recognized \$0.3 million of impairment losses in other 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 June 30, 2017 and December 31, 2016, 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 June 30, 2017 and December 31, 2016, our \$1.0 million cost method investment in the platform partner was recorded in other assets in our condensed consolidated balance sheets.

**Note 8. Other Assets**

***Patent Licenses***

From time to time, we enter into agreements to license patents. The carrying value, net of amortization, was \$2.8 million and \$3.2 million as of June 30, 2017 and December 31, 2016 and was included in other assets. We have \$4.9 million of historical cost in patent licenses related to such agreements. We are amortizing the patent licenses over the estimated useful lives of the patents, which range from three to eleven years. Amortization expense on patent licenses was \$0.2 million and \$0.4 million for the three and six months ended June 30, 2017, respectively, as compared to \$0.1 million and \$0.3 million for the same periods in the prior year and was included in cost of SaaS and license revenue in our condensed consolidated statements of operations.

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**Loan to a Distribution Partner**

In September 2016, we entered into dealer and loan agreements with a distribution partner. The dealer agreement enables the distribution partner to resell our SaaS services and hardware to their subscribers. Under the loan agreements, we agreed to loan the distribution partner up to \$4.0 million, collateralized by all assets owned by the distribution partner. The advance period for the loan begins each year in October and ends during the following January. Interest on the outstanding principal accrues at a rate per annum equal to the greater of 6% or the LIBOR rate plus 4%, as determined on the first date of each annual advance period. The repayment of principal and accrued interest is due in three installments beginning in July and ending in August following the advance period. The term date of the loan is August 31, 2019, however, the borrower has the option to extend the term of the loan for two successive terms of one year each.

The loan receivable balance, which is recorded in other current assets, was \$3.0 million as of December 31, 2016 and increased to \$4.0 million as of June 30, 2017 as the borrower drew an additional \$1.0 million during the first quarter of 2017. Interest accrues on the loan receivable at 6% per annum as calculated at the beginning of the advance period.

Subsequent to June 30, 2017, our distribution partner repaid \$2.8 million of principal and interest related to this loan receivable in accordance with the provisions of the loan.

In April 2017, we entered into a subordinated credit agreement with an affiliated entity of the distribution partner and loaned the affiliated entity \$3.0 million, with a maturity date of November 21, 2022. Interest on the outstanding principal balance accrues at a rate of 8.5% per annum and requires monthly interest payments. The \$3.0 million loan receivable balance was included in other assets as of June 30, 2017.

**Note 9. Fair Value Measurements**

The following table presents our assets and liabilities measured at fair value on a recurring basis (in thousands):

**Fair Value Measurements on a Recurring Basis as of  
June 30, 2017**

Fair Value Measurements in:	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Money market account	\$ 49,642	\$ —	\$ —	\$ 49,642
Total	\$ 49,642	\$ —	\$ —	\$ 49,642
<b>Liabilities:</b>				
Subsidiary unit awards	\$ —	\$ —	\$ 2,912	\$ 2,912
Contingent consideration liability from acquisition	—	—	—	—
Total	\$ —	\$ —	\$ 2,912	\$ 2,912

**Fair Value Measurements on a Recurring Basis as of  
December 31, 2016**

Fair value measurements in:	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Money market account	\$ 135,204	\$ —	\$ —	\$ 135,204
Total	\$ 135,204	\$ —	\$ —	\$ 135,204
<b>Liabilities:</b>				
Subsidiary unit awards	\$ —	\$ —	\$ 2,768	\$ 2,768
Contingent consideration liability from acquisition	—	—	—	—
Total	\$ —	\$ —	\$ 2,768	\$ 2,768

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

	<b>Fair Value Measurements Using Significant Unobservable Inputs</b>			
	<b>Three Months Ended June 30, 2017</b>		<b>Three Months Ended June 30, 2016</b>	
	<b>Subsidiary unit awards</b>	<b>Contingent consideration liability from acquisition</b>	<b>Subsidiary unit awards</b>	<b>Contingent consideration liability from acquisition</b>
Beginning of period balance	\$ 2,978	\$ —	\$ 550	\$ 170
Total (gains) losses included in earnings	(66)	—	175	(130)
Ending of period balance	<u>\$ 2,912</u>	<u>\$ —</u>	<u>\$ 725</u>	<u>\$ 40</u>

	<b>Fair Value Measurements Using Significant Unobservable Inputs</b>			
	<b>Six Months Ended June 30, 2017</b>		<b>Six Months Ended June 30, 2016</b>	
	<b>Subsidiary unit awards</b>	<b>Contingent consideration liability from acquisition</b>	<b>Subsidiary unit awards</b>	<b>Contingent consideration liability from acquisition</b>
Beginning of period balance	\$ 2,768	\$ —	\$ 532	\$ 230
Total (gains) losses included in earnings	144	—	193	(190)
Ending of period balance	<u>\$ 2,912</u>	<u>\$ —</u>	<u>\$ 725</u>	<u>\$ 40</u>

The money market account is included in our cash and cash equivalents in our condensed consolidated balance sheets. Our money market assets are valued using quoted prices in active markets.

The liability for the subsidiary unit awards relates to agreements established with two employees of our subsidiaries for cash awards contingent upon the subsidiary companies meeting certain financial milestones such as revenue, working capital, EBITDA and EBITDA margin. We account for these subsidiary awards using fair value and establish 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 over the periods of the two awards through the anticipated repurchase dates. 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, an unobservable input, and we will record any changes in the employee's compensation expense. One of the awards is subject to the employee's continued employment and therefore recorded on a straight-line basis over the remaining service period. The liability balances are included in either accounts payable, accrued expenses and other current liabilities or other liabilities in our condensed consolidated balance sheets (see Note 11).

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 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 condensed consolidated balance sheets (see Note 5).

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 three and six months ended June 30, 2017 and 2016. 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 three and six months ended June 30, 2017 and 2016.

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**Note 10. Liabilities**

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

	June 30, 2017	December 31, 2016
Accounts payable	\$ 23,643	\$ 18,289
Accrued expenses	5,498	5,298
Subsidiary unit awards	2,596	2,506
Other current liabilities	4,728	2,207
Accounts payable, accrued expenses and other current liabilities	<u>\$ 36,465</u>	<u>\$ 28,300</u>

The components of other liabilities are as follows (in thousands):

	June 30, 2017	December 31, 2016
Deferred rent	\$ 12,577	\$ 11,056
Other liabilities	1,639	2,501
Other liabilities	<u>\$ 14,216</u>	<u>\$ 13,557</u>

**Note 11. Debt, Commitments and Contingencies**

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

**Debt**

We have a \$75.0 million revolving credit facility with Silicon Valley Bank, as administrative agent, and a syndicate of lenders that matures in November 2018, or the 2014 Facility. We have the option to increase the borrowing capacity of the 2014 Facility to \$125.0 million with the consent of the lenders. The 2014 Facility is secured by substantially all of our assets, including our intellectual property.

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, at our option. For the six months ended June 30, 2017 and 2016, we elected for the outstanding principal balance to accrue interest at LIBOR plus 2.00%, LIBOR plus 2.25%, and LIBOR plus 2.50% when our consolidated leverage ratio was 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. For the six months ended June 30, 2017 and 2016, the effective interest rate on the 2014 Facility was 3.34% and 2.64%.

On March 7, 2017, we drew \$67.0 million under the 2014 Facility to partially fund the Acquisition. On June 28, 2017, we repaid \$1.0 million of the outstanding balance of the 2014 Facility. The carrying value of the 2014 Facility was \$72.7 million and \$6.7 million as of June 30, 2017 and December 31, 2016. Our outstanding amounts under the 2014 Facility are due at maturity in November 2018.

The 2014 Facility includes a variable interest rate that approximates market rates and, as such, we determined that the carrying amount of the 2014 Facility approximates its fair value as of June 30, 2017. The 2014 Facility carries an unused line commitment fee of 0.20% to 0.25% depending on our consolidated leverage ratio. The 2014 Facility contains various financial and other covenants that require us to maintain a maximum consolidated leverage ratio not to exceed 3.00:1.00 and a consolidated fixed charge coverage ratio of at least 1.25:1.00. As of June 30, 2017, we were in compliance with all financial and non-financial covenants and there were no events of default.

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**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 did not record a liability in our condensed consolidated balance sheets as of June 30, 2017 and December 31, 2016, as the fair value of this commitment was zero.

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. Since its formation, we granted an award of subsidiary stock to the founder and president. The vesting of the award is based upon the subsidiary meeting certain minimum financial targets from the date of commercial availability, which was determined to be June 1, 2013, until the fourth anniversary. In 2016, we amended the term of the award, extending the valuation date for the payment in cash to December 31, 2017, amending the financial targets and allowing for payments in cash from 2018 through 2020 based on collection of financed customer receivables that existed as of the valuation date. We recorded a liability of \$2.6 million in accounts payable, accrued expenses and other current liabilities and \$0.3 million in other liabilities related to this commitment in our condensed consolidated balance sheet as of June 30, 2017. We recorded a liability of \$2.5 million in accounts payable, accrued expenses and other current liabilities and a liability of \$0.3 million in other liabilities related to this commitment in our condensed consolidated balance sheet as of December 31, 2016.

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 (see Note 9).

*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 in Tysons, Virginia, where we relocated our headquarters in February 2016. This lease term ends in 2026 and includes a five-year renewal option, an \$8.0 million tenant improvement allowance and scheduled rent increases. During 2016, we entered into amendments to this lease, which provided for 30,662 square feet of additional office space and an additional \$1.7 million tenant improvement allowance. We took possession of the additional space in February 2017 and we were allowed to utilize the tenant improvement allowance for design prior to moving into the space.

As of June 30, 2017, we have utilized the entire \$9.7 million tenant improvement allowances. Rent expense was \$1.6 million and \$2.9 million for the three and six months ended June 30, 2017, as compared to \$1.2 million and \$2.5 million for the same periods in the prior year.

*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.

*Letters of Credit*

As of June 30, 2017 and December 31, 2016, we had no outstanding letters of credit under our 2014 Facility.

*Legal Proceedings*

On April 25, 2017, Alarm.com Incorporated and its wholly owned subsidiary ICN Acquisition, LLC, filed a patent infringement complaint against Protect America, Inc., or Protect America, and SecureNet Technologies, LLC, or SecureNet, in the United States District Court for the Eastern District of Virginia. The complaint seeks injunctive relief to stop the further sale of the infringing Protect America and SecureNet products and systems, and damages for the infringement of Alarm.com's patents. The complaint asserts that the technology in the Protect America and SecureNet Alarm Systems products infringe one or more claims of Alarm.com's patents: United States Patent Numbers 7,113,090; 7,633,385; 8,395,494; 8,493,202; 8,612,591; 8,860,804; and 9,141,276. If the litigation is successful, Alarm.com will be entitled to receive monetary damages, injunctive relief, and any other relief, including attorney's fees, from Protect America and SecureNet. In June 2017, Alarm.com filed an amended complaint against Protect America only and voluntarily dismissed SecureNet from the suit, reserving the right to refile. Protect America

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responded to the amended complaint by filing a motion to dismiss or transfer the case to the Western District of Texas. Alarm.com opposed this motion. The Court has not yet issued a scheduling order. Protect America has not yet answered the complaint or asserted counterclaims and defenses.

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 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. On August 19, 2016, the U.S. District Court, District of Utah stayed the litigation pending inter partes review (IPR) by the U.S. Patent Trial and Appeal Board (PTAB) of five of the patents in suit. In March of 2017, the PTAB issued final written decisions relating to two patents finding all challenged claims unpatentable. In May of 2017, the PTAB issued final written decisions relating to the remaining patents that found certain claims unpatentable, while certain other claims were not found to be unpatentable. Vivint has appealed the decisions to the U.S. Court of Appeals for the Federal Circuit, and we have cross-appealed. The U.S. District Court, District of Utah lifted the stay on the litigation on June 26, 2017, and Vivint is proceeding with its case on four of the six patents in its complaint. A trial date has not yet been scheduled.

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 December 30, 2015, a putative class action lawsuit was filed against us in the U.S. District Court for the Northern District of California, alleging violations of the Telephone Consumer Protection Act, or TCPA. The complaint does not allege that Alarm.com itself violated the TCPA, but instead seeks to hold us responsible for the marketing activities of our service provider partners under principles of agency and vicarious liability. The complaint seeks monetary damages under the TCPA, injunctive relief, and other relief, including attorney's fees. We answered the complaint on February 26, 2016. On May 5, 2017, the court granted plaintiffs' motion for class certification. Discovery is underway, and the matter remains pending in the U.S. District Court for the Northern District of California. Based on the current schedule, we anticipate a trial will take place at the end of 2018. 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 provider partners in the Circuit Court for the City of Virginia Beach, Virginia by the estate of a deceased service provider partner 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 filed our answer on March 22, 2016. Discovery has commenced, and the matter remains pending. Based on currently available information, we determined a loss is not probable or reasonably estimable at this time.

On February 22, 2017, Honeywell International Inc., or Honeywell, filed an action in the U.S. District Court for the District of New Jersey against us and Icontrol Networks, Inc., or Icontrol, seeking to enjoin the completion of our acquisition of two business units from Icontrol. On March 3, 2017, we settled the litigation effective upon the closing of the acquisition of the business units from Icontrol, which occurred on March 8, 2017.

On March 21, 2017, Taraneh Vessal filed a complaint against us and Monitronics International, Inc. in the United States District Court for the Northern District of Illinois, alleging violation of the TCPA and the Illinois Consumer Fraud and Deceptive Business Practices Act, or ICFDBA. We filed a motion to dismiss the complaint on May 12, 2017. Plaintiff filed her First Amended Complaint on June 2, 2017, alleging similar violations of the TCPA and ICFDBA. We filed a motion to dismiss the First Amended Complaint on June 16, 2017, and Plaintiff filed her response on July 31, 2017. Our reply is due August 21, 2017. Discovery has commenced, and the matter remains pending. Based on currently available information, we determined a loss is not probable or reasonably estimable at this time.

In September 2014, Icontrol Networks, Inc., or Icontrol, filed a Complaint in the United States District Court, District of Delaware, asserting that Zonoff Inc., or Zonoff, infringes certain U.S. Patents owned by Icontrol, all of which are now owned by Alarm.com through a subsidiary. In November, 2015, Icontrol filed a second lawsuit, also in the United States District Court, District of Delaware, alleging that Zonoff infringes additional U.S. Patents owned by Icontrol, now owned by Alarm.com through a subsidiary. The Court held a claim construction hearing in the first case on March 14, 2016 and consolidated the cases on August 1, 2016. Zonoff has not filed any proceedings at the United States Patent Office, or asserted any counterclaims. Because Zonoff has ceased business operations, Court has declined to enter a schedule for the remainder of the case.

In September 2014, Icontrol filed a Complaint in the United States District Court, District of Delaware, asserting that SecureNet Technologies LLC, or SecureNet, infringes certain U.S. Patents owned by Icontrol, patents now owned by Alarm.com through a subsidiary. In March, 2015, Icontrol voluntarily agreed to dismiss the case, reserving the right to refile. In September, 2015, Icontrol refiled the case against SecureNet in the same district court alleging infringement of some of the same

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patents. SecureNet filed petitions for inter partes review of the patents-in-suit before the PTAB. Proceedings as to one of the patents in suit has been instituted. The PTAB has rejected the remaining applications for inter partes review, and SecureNet has appealed the rejection as to one of the patents in suit. The Court has scheduled a claim construction hearing for March 20, 2018 and commencement of trial on February 4, 2019.

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 12. Stock-Based Compensation**

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Sales and marketing	\$ 65	\$ 151	\$ 178	\$ 292
General and administrative	755	236	1,324	463
Research and development	1,095	555	1,726	1,039
Total stock-based compensation expense	<u>\$ 1,915</u>	<u>\$ 942</u>	<u>\$ 3,228</u>	<u>\$ 1,794</u>

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Stock options and assumed options	\$ 1,083	\$ 923	\$ 2,066	\$ 1,757
Restricted stock units	805	—	1,093	—
Restricted stock awards	—	—	19	—
Employee stock purchase plan	27	19	50	37
Total stock-based compensation expense	<u>\$ 1,915</u>	<u>\$ 942</u>	<u>\$ 3,228</u>	<u>\$ 1,794</u>
Tax benefit from stock-based awards	<u>\$ 4,369</u>	<u>\$ 165</u>	<u>\$ 5,586</u>	<u>\$ 459</u>

**2015 Equity Incentive Plan**

We issue stock options pursuant to our 2015 Equity Incentive Plan, or the 2015 Plan. The 2015 Plan allows 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, or RSUs, performance-based stock awards, and other forms of equity compensation to our employees, directors and non-employee directors and consultants.

In June 2015, our board of directors adopted and our stockholders approved our 2015 Plan pursuant to which we initially reserved a total of 4,700,000 shares of common stock for issuance under the 2015 Plan, which included shares of our common stock previously reserved for issuance under our Amended and Restated 2009 Stock Incentive Plan, or the 2009 Plan. The number of shares of common stock reserved for issuance under the 2015 Plan will automatically increase on January 1<sup>st</sup> 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 31<sup>st</sup> of the preceding calendar year, or a lesser number of shares as may be determined by our board of directors. As a result of the adoption of the 2015 Plan, no further grants may be made under the 2009 Plan. As of June 30, 2017, 8,141,878 shares remained available for future grant under the 2015 Plan.



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**Stock Options**

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 2009 Plan were granted at exercise prices as determined by our board of directors to be the fair market value of our common stock. Our stock options generally vest over a five-year period and each option, if not exercised or forfeited, expires on the tenth anniversary of the grant date.

Certain stock options granted under the 2015 Plan and previously granted under the 2009 Plan 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. There were 21,317 and 29,835 unvested shares of common stock outstanding subject to our right of repurchase as of June 30, 2017 and December 31, 2016. We repurchased 575 unvested shares of common stock related to early exercised stock options in connection with employee terminations during the three and six months ended June 30, 2017, as compared to 1,924 unvested shares repurchased during the three and six months ended June 30, 2016. As of June 30, 2017 and December 31, 2016, we recorded \$0.1 million and \$0.2 million in accounts payable, accrued expenses and other current liabilities on our condensed consolidated balance sheets for the proceeds from the early exercise of the unvested stock options.

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 actual 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.

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.

There were 237,550 and 576,300 stock options granted during the six months ended June 30, 2017 and 2016. We declared and paid dividends in June 2015 in anticipation of our IPO, which we closed on July 1, 2015. 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 assumptions used for estimating the fair value of stock options granted :

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Volatility	44.5 - 46.3%	48.3 - 50.6%	44.5 - 47.2%	48.3 - 50.6%
Expected term	6.3 years	5.6 - 6.3 years	6.3 years	5.6 - 6.3 years
Risk-free interest rate	2.0 - 2.1%	1.3 - 1.4%	2.0 - 2.2%	1.3 - 1.4%
Dividend rate	—%	—%	—%	—%

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The following table summarizes stock option activity for the six months ended June 30, 2017:

	Number of Options	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding as of December 31, 2016	3,547,528	\$ 6.91	6.4	\$ 74,267
Granted	237,550	31.06		
Exercised	(518,421)	2.29		15,547
Forfeited	(74,593)	12.14		
Expired	(862)	11.23		
Outstanding as of June 30, 2017	<u>3,191,202</u>	<u>\$ 9.34</u>	<u>6.5</u>	<u>\$ 90,278</u>
Vested and expected to vest as of June 30, 2017	<u>3,212,169</u>	<u>\$ 9.31</u>	<u>6.5</u>	<u>\$ 90,959</u>
Exercisable as of June 30, 2017	<u>1,978,792</u>	<u>\$ 4.84</u>	<u>5.5</u>	<u>\$ 64,883</u>

The weighted average grant date fair value for our stock options granted during the six months ended June 30, 2017 and 2016 was \$14.54 and \$8.08. The total fair value of stock options vested during the six months ended June 30, 2017 and 2016 was \$1.9 million and \$1.2 million. The aggregate intrinsic value of stock options exercised during the six months ended June 30, 2017 and 2016 was \$15.5 million and \$1.5 million. As of June 30, 2017, the total compensation cost related to nonvested awards not yet recognized was \$5.9 million, which will be recognized over a weighted average period of 2.3 years.

**Stock Options Assumed from Acquisition**

On March 8, 2017, we completed the Acquisition and assumed the Icontrol Networks, Inc. 2013 Equity Incentive Plan and the Icontrol Networks, Inc. 2003 Stock Plan, or collectively, the Icontrol Plans. The assumed unvested stock options are exercisable for 70,406 shares of Alarm.com common stock.

In accordance with the terms of the asset purchase agreement, we were obligated to assume the Icontrol Plans, and converted the 2,001,387 unvested employee stock options into 70,406 Alarm.com stock options using a stated conversion ratio to convert the original exercise price and number of options. The fair value of the unvested stock options on the acquisition date was \$1.7 million calculated using a Black-Scholes model with a volatility and risk-free interest rate over the expected term of the options and the closing price of Alarm.com common stock on the date of acquisition. We applied our graded vesting accounting policy to the fair value of these assumed options and determined that \$1.4 million of the fair value was attributed to pre-combination services that is included as a component of total purchase consideration. The remaining \$0.3 million of the fair value was determined to be attributable to post-combination services and will be recognized over the remaining service periods of the stock options. We subsequently filed a Registration Statement on Form S-8 to cover the assumed unvested stock options under the Icontrol Plans, which are exercisable for an aggregate of 70,406 shares of Alarm.com common stock.

The following table summarizes the assumptions used for estimating the fair value of stock options assumed from the Connect business unit of Icontrol:

	<b>Six Months Ended June 30, 2017</b>
Volatility	42.7 - 44.4%
Expected term	2.5 - 5.0 years
Risk-free interest rate	1.4 - 2.0%
Dividend rate	—%

**ALARM.COM HOLDINGS, INC.**  
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The following table summarizes assumed stock option activity for the six months ended June 30, 2017:

	Number of Options	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding as of December 31, 2016	—	\$ —	0.0	\$ —
Options assumed from Connect	70,406	5.48		1,688
Exercised	(1,676)	4.55		
Forfeited	(7,275)	\$ 5.00		
Outstanding as of June 30, 2017	61,455	\$ 5.57	7.7	\$ 1,970
Vested and expected to vest as of June 30, 2017	61,455	\$ 5.57	7.7	\$ 1,970
Exercisable as of June 30, 2017	11,658	\$ 5.61	7.4	\$ 373

The weighted average grant date fair value for the assumed stock options during the six months ended June 30, 2017 was \$4.78. The total fair value of assumed stock options vested during the six months ended June 30, 2017 was \$0.1 million. The aggregate intrinsic value of the assumed stock options exercised during the six months ended June 30, 2017 was \$0.1 million. As of June 30, 2017, the total compensation cost related to nonvested awards not yet recognized was \$0.2 million, which will be recognized over a weighted average period of 1.3 years.

**Restricted Stock Units**

There was an aggregate of 327,200 and zero restricted stock units, or RSUs, granted to certain of our employees during the six months ended June 30, 2017 and 2016. Each of the RSUs vests over a five-year period from the vesting commencement date, which is generally the grant date. We account for RSUs 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 actual forfeitures, in which compensation cost for each vesting tranche in an award is recognized ratably from the grant date to the vesting date for that tranche. The condition for vesting of the RSUs is based on continued employment. As of June 30, 2017, the total unrecognized compensation expense related to RSU awards granted amounted to \$10.6 million, which is expected to be recognized over a weighted average period of 3.2 years.

The following table summarizes activity for the RSUs for the six months ended June 30, 2017:

	Number of RSUs	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value (in thousands)
Outstanding as of December 31, 2016	61,482	\$ 30.00	\$ 1,711
Granted	327,200	30.87	10,101
Vested	—	—	
Forfeited	(3,060)	29.26	
Outstanding as of June 30, 2017	385,622	30.75	14,511
Vested and expected to vest after June 30, 2017	385,622	\$ 30.75	\$ 14,511

**Restricted Stock Awards**

In March 2017, we assumed 1,622 stock options from Connect upon completion of the Acquisition which had been early exercised according to the provisions of the Incentive Plans for which the employees had not yet provided service for the vesting period. We canceled those stock options and issued restricted stock awards, or RSAs, with no exercise price at the fair value of Alarm.com common stock upon the closing of the Acquisition and recorded less than \$0.1 million of compensation expense in the three and six months ended June 30, 2017. We expect these RSAs to vest over two years and we will recognize compensation expense for the fair value of the awards in stock-based compensation.

**Employee Stock Purchase Plan**

Our board of directors adopted our 2015 ESPP in June 2015. As of June 30, 2017, 1,616,342 shares have been reserved for future grant under the 2015 ESPP, with provisions established to increase the number of shares available on January 1<sup>st</sup> of each subsequent year for nine years. The annual automatic increase in the number of shares available for issuance under the

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2015 ESPP is the lesser of 1% of each class of common stock outstanding as of December 31<sup>st</sup> 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 stock-based compensation expense due to the 10% discount on the fair market value of our common stock. For the six months ended June 30, 2017 and 2016, an aggregate of 13,584 shares and 18,705 shares were purchased by our employees. We recognized less than \$0.1 million of compensation expense for the three and six months ended June 30, 2017 and 2016. Compensation expense is recognized for the amount of the discount, net of actual forfeitures and voluntary withdrawals, over the six-month purchase period.

***Repurchase of Subsidiary Units***

We have an agreement, as subsequently amended, with an employee, who is the founder and president of our subsidiary formed to offer professional residential property management and vacation rental management companies technology solutions for remote monitoring and control of properties, for the repurchase of subsidiary stock for cash. The vesting of the award is based upon the subsidiary meeting certain minimum financial targets from the date of commercial availability, which was determined to be June 1, 2013, until the fourth anniversary. In 2016, we amended the term of the award, extending the valuation date for the payment in cash to December 31, 2017, amending the financial targets and allowing for payments in cash from 2018 through 2020 based on collection of financed customer receivables that existed as of the valuation date. We established a liability for the future payment for the repurchase of subsidiary units under the terms of the agreement based on estimating revenue, working capital, EBITDA and EBITDA margin of the subsidiary units over the period of the award through the repurchase date. We estimated the fair value of the 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 the 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 remeasure this liability, using the same valuation approach and record any changes in the employee's compensation expense in general and administrative expense.

We recorded a liability of \$2.6 million and \$2.5 million in accounts payable, accrued expenses and other current liabilities, and \$0.3 million and \$0.3 million in other liabilities related to this commitment in our condensed consolidated balance sheet as of June 30, 2017 and December 31, 2016, respectively. For the three months ended June 30, 2017, we recorded a reduction of compensation expense of \$0.1 million. For the three months ended June 30, 2016, we recorded \$0.2 million of compensation expense related to this award. For the six months ended June 30, 2017 and 2016, we recorded \$0.1 million and \$0.3 million of compensation expense related to this award in general and administrative expense. As this award is payable in cash, the expense was not recorded in stock-based compensation for any of the periods.

***Warrants***

On March 30, 2015, we issued performance-based warrants to two employees, which 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 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 we have 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 or 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 as of April 1, 2015. These warrants were not exercisable as of June 30, 2017 and December 31, 2016 because the performance requirements had not been met. We recorded less than \$0.1 million of expense associated with the performance-based warrants during the three and six months ended June 30, 2017 and 2016.

**ALARM.COM HOLDINGS, INC.**  
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**Note 13. Earnings Per Share**

**Basic and Diluted Earnings Per Share**

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	\$ 9,865	\$ 1,873	\$ 13,828	\$ 4,611
Less: income allocated to participating securities	\$ (5)	\$ (2)	\$ (8)	\$ (7)
Net income attributable to common stockholders (A)	<u>\$ 9,860</u>	<u>\$ 1,871</u>	<u>\$ 13,820</u>	<u>\$ 4,604</u>
Weighted average common shares outstanding — basic (B)	46,442,327	45,602,061	46,334,499	45,564,059
Dilutive effect of stock options, RSUs and RSAs	2,558,226	1,921,126	2,572,313	1,841,452
Weighted average common shares outstanding — diluted (C)	<u>49,000,553</u>	<u>47,523,187</u>	<u>48,906,812</u>	<u>47,405,511</u>
Net income per share:				
Basic (A/B)	\$ 0.21	\$ 0.04	\$ 0.30	\$ 0.10
Diluted (A/C)	\$ 0.20	\$ 0.04	\$ 0.28	\$ 0.10

The following securities have been excluded from the calculation of diluted weighted average common shares outstanding because the effect is anti-dilutive:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Stock options	313,650	119,750	313,650	617,072
RSAs	1,082	—	1,082	—
RSUs	—	—	148,100	—
Common stock subject to repurchase	21,317	53,869	21,317	53,869

Participating securities is composed of certain stock options granted under the 2015 Plan, and previously granted under the 2009 Plan, that may be exercised before the options have vested. Unvested shares have a non-forfeitable right to dividends.

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 common stock subject to repurchase is no longer classified as participating securities when shares revert to common stock outstanding as the awards vest and our repurchase right lapses.

**Note 14. Significant Service Provider Partners**

During the three and six months ended June 30, 2017, our 10 largest revenue service provider partners accounted for 61% of our revenue, as compared to 60% and 61% for the same periods in the prior year. One of our service provider partners individually represented greater than 10% but not more than 15% of our revenue for the three months ended June 30, 2017. One of our service provider partners individually represented greater than 15% but not more than 20% of our revenue for the three months ended June 30, 2017. Two of our service provider partners individually represented greater than 10% but not more than 15% of our revenue for the six months ended June 30, 2017. One of our service provider partners individually represented greater than 10% but not more than 15% of our revenue for the three and six months ended June 30, 2016.

One individual service provider partner represented more than 10% of accounts receivable as of June 30, 2017. No individual service provider partner represented more than 10% of accounts receivable as of December 31, 2016.

**Note 15. Income Taxes**

For purposes of interim reporting, our annual effective income tax rate is estimated in accordance with ASC 740-270, "Interim Reporting." This rate is applied to the pre-tax book income of the entities expected to be benefited during the year. Discrete items that impact the tax provision were recorded in the period incurred.

**ALARM.COM HOLDINGS, INC.**  
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Our effective income tax rate was (84.1)% and (40.2)% for the three and six months ended June 30, 2017, as compared to 34.3% and 35.8% for the same periods in the prior year. Our effective tax rate was below the statutory rate primarily due to recognizing the tax windfall benefits from employee stock-based payment transactions through the income statement provision for income taxes in the period incurred, as well as the research and development tax credits claimed, partially offset by the impact of state taxes and non-deductible meal and entertainment expenses. We adopted the accounting provision that simplified the tax for employee-stock based exercises in the first quarter of 2017. Prior to adoption of the new accounting provision, tax windfall benefits were required to be recorded in accumulated paid-in capital.

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 as of June 30, 2017 and December 31, 2016. Accordingly, we have not recorded a valuation allowance as of June 30, 2017 and December 31, 2016.

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 \$0.2 million for research and development tax credits claimed during the three and six months ended June 30, 2017. For the three and six ended June 30, 2017, we recorded interest for the period on prior year research and development tax credits we claimed. As of June 30, 2017 and December 31, 2016, we had accrued less than \$0.1 million of total interest expense 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. Our cumulative liability for uncertain tax positions was \$0.9 million and \$0.7 million as of June 30, 2017 and December 31, 2016, respectively, and if recognized, would reduce our income tax expense and the effective tax rate.

**Note 16. Segment Information**

We have two reportable segments:

- Alarm.com segment
- Other segment

Our chief operating decision maker is our chief executive officer. Management determined 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 intelligently connected property and related solutions that contributed over 94% of our revenue for the three and six months ended June 30, 2017 and 2016. Our Other segment is focused on researching and developing home and commercial automation, and energy management products and services in adjacent markets. Inter-segment revenue includes sales of hardware between our segments.

**ALARM.COM HOLDINGS, INC.**  
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Management evaluates the performance of its segments and allocates resources to them based on operating income as compared to prior periods and current performance levels. The reportable segment operational data is presented in the table below (in thousands):

Three Months Ended June 30, 2017					
	Alarm.com	Other	Intersegment Alarm.com	Intersegment Other	Total
Revenue	\$ 81,338	\$ 5,435	\$ (497)	\$ (288)	\$ 85,988
Operating income	8,819	(2,994)	(39)	110	5,896
Three Months Ended June 30, 2016					
	Alarm.com	Other	Intersegment Alarm.com	Intersegment Other	Total
Revenue	\$ 61,775	\$ 4,088	\$ (754)	\$ (686)	\$ 64,423
Operating income	4,376	(1,552)	(79)	63	2,808
Six Months Ended June 30, 2017					
	Alarm.com	Other	Intersegment Alarm.com	Intersegment Other	Total
Revenue	\$ 151,850	\$ 9,887	\$ (1,145)	\$ (410)	\$ 160,182
Operating income	15,403	(5,207)	(60)	245	10,381
Six Months Ended June 30, 2016					
	Alarm.com	Other	Intersegment Alarm.com	Intersegment Other	Total
Revenue	\$ 117,785	\$ 7,935	\$ (1,340)	\$ (914)	\$ 123,466
Operating income	11,243	(4,235)	(126)	187	7,069
	Alarm.com	Other	Intersegment Alarm.com	Intersegment Other	Total
Assets as of June 30, 2017	\$ 337,159	\$ 19,082	\$ —	\$ —	\$ 356,241
Assets as of December 31, 2016	246,798	14,447	—	—	261,245

We derived substantially all revenue from North America for the three and six months ended June 30, 2017 and 2016. Substantially all of our long-lived assets were located in North America as of June 30, 2017 and December 31, 2016.

**Note 17. Related Party Transactions**

**Installation Partner**

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 7). We recorded \$0.2 million and \$0.5 million of cost of hardware and other revenue in connection with this installation partner for the three and six months ended June 30, 2017, respectively, as compared to \$0.3 million and \$0.7 million for the same periods in the prior year. As of June 30, 2017 and December 31, 2016, the accounts payable balance to our installation partner was less than \$0.1 million and \$0.1 million. In September 2014, we loaned \$0.3 million 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 2018. We recorded less than \$0.1 million of interest income related to this note receivable for the three and six months ended June 30, 2017 and 2016.

## ITEM 2. 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 (1) our condensed consolidated financial statements and the related notes and other financial information included elsewhere in this Quarterly Report on Form 10-Q and (2) the audited consolidated financial statements and the related notes and management's discussion and analysis of financial condition and results of operations for the fiscal year ended December 31, 2016 included in our Annual Report on Form 10-K filed on March 16, 2017 with the Securities and Exchange Commission, or the SEC. This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. These statements are often identified by the use of words such as "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "may," "plan," "project," "will," "would" or the negative or plural of these words or similar expressions or variations. Such forward-looking statements are subject to a number of risks, uncertainties, assumptions and other factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified in this Quarterly Report on Form 10-Q and those discussed in the section titled "Risk Factors", set forth in Part II, Item 1A of this Quarterly Report on Form 10-Q and in our other SEC filings. You should not rely upon forward-looking statements as predictions of future events. Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.*

### Overview

Alarm.com is the leading platform for the intelligently connected property. We offer a comprehensive suite of cloud-based solutions for the smart home and business, including interactive security, video monitoring, intelligent automation and energy management. Millions of property owners rely on our technology to intelligently secure, monitor and manage their homes and businesses. In the last year alone, our platform processed more than 30 billion data points generated by over 35 million connected devices. We believe that this scale of subscribers, connected devices and data operations makes us the leader in the connected property market.

Our solutions are delivered through an established network of over 6,000 trusted service providers, who are experts at selling, installing and supporting our solutions. We primarily generate Software-as-a-Service, or SaaS, and license revenue through our service provider partners, who resell these services and pay us monthly fees. Our service provider partners 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 robust SaaS platform and over a decade of operating experience, contribute to a compelling business model. We also generate hardware and other revenue, primarily from our service provider partners and distributors. Our hardware sales include gateway modules and other connected devices that enable our services, such as video cameras and smart thermostats.

Our technology platform is designed to make connected properties safer, smarter and more efficient. Our solutions are used in both smart homes and businesses, which we refer to as the connected property market and we have designed our technology platform for all market participants. This includes not only the home and business owners who subscribe to our services, but also the hardware partners who manufacture devices that integrate with our platform and the service provider partners who install and maintain our solutions.

Alarm.com service provider partners can deploy our interactive security, video monitoring, intelligent automation and energy management solutions as standalone offerings or as combined solutions to address the needs of a broad range of customers. Our technology enables subscribers to seamlessly connect to their property through our family of mobile apps, websites, and new engagement platforms like voice control through Amazon Echo, wearable devices like the Apple Watch, and TV platforms such as Apple TV and Amazon Fire TV.

### Highlights of Second Quarter Results

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 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 call subscribers. We derive a portion of our revenue from licensing our intellectual property to service providers on a per customer basis. We also generate SaaS and license revenue from monthly fees charged to service providers on a per subscriber basis for access to our newly-acquired Connect platform. The Connect software for interactive security, automation and related solutions is typically deployed and operated by the service provider in its own network operations center. SaaS and license revenue represented 69% and 65% of our revenue in the second quarter of 2017 and 2016 and 68% and 66% of our revenue for the first half of 2017 and 2016.

We also generate revenue from the sale of hardware that enables our solutions, including cellular radio modules, video cameras, image sensors, thermostats and other peripherals. We have a rich history of innovation in cellular technology that enables our robust SaaS offering. Hardware and other revenue represented 31% and 35% of our revenue in the second quarter



of 2017 and 2016 and 32% and 34% of our revenue in the first half of 2017 and 2016. We typically expect hardware and other revenue to fluctuate as a percentage of total revenue.

We believe there is significant opportunity to expand our international business, as approximately 1% percent of our total revenues in the first half of 2017 originated from customers located outside of North America. Our products are currently localized and available in 31 countries outside of the United States and Canada.

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

- Revenue increased 33% from \$64.4 million in the second quarter of 2016 to \$86.0 million in the second quarter of 2017. Revenue increased 30% from \$123.5 million in the first half of 2016 to \$160.2 million in the first half of 2017.
- SaaS and license revenue increased 40% from \$42.0 million in the second quarter of 2016 to \$58.9 million in the second quarter of 2017. SaaS and license revenue increased 33% from \$82.0 million in the first half of 2016 to \$109.2 million in the first half of 2017.
- Net income increased from \$1.9 million in the second quarter of 2016 to \$9.9 million in the second quarter of 2017. Net income increased from \$4.6 million in the first half of 2016 to \$13.8 million in the first half of 2017.
- Adjusted EBITDA, a non-GAAP measurement of operating performance, increased from \$12.1 million in the second quarter of 2016 to \$15.9 million in the second quarter of 2017. Adjusted EBITDA increased from \$22.9 million in the first half of 2016 to \$30.0 million in the first half of 2017.

Please see *Non-GAAP Measures* below in this section of this Quarterly Report for a discussion of the limitations of Adjusted EBITDA (a non-GAAP measure) and a reconciliation of Adjusted EBITDA to net income, the most comparable measurement in accordance with generally accepted accounting principles in the United States, or GAAP, for the second quarter and the first half of 2017 and 2016.

### Other Business Metrics

We regularly monitor a number of financial and operating metrics in order to measure our current performance and estimate our future performance. Our other business metrics may be calculated in a manner different than similar other business metrics used by other companies and include the following (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
SaaS and license revenue	\$ 58,928	\$ 42,010	\$ 109,154	\$ 82,022
Adjusted EBITDA	15,881	12,079	29,984	22,902
			Twelve Months Ended June 30,	
			2017	2016
SaaS and license revenue renewal rate			93%	93%

### SaaS and License Revenue

We believe that SaaS and license revenue is an indicator of the productivity of our existing service provider partners and their ability to activate and maintain subscribers using our intelligently connected property solutions, our ability to add new service provider partners reselling our solutions, the demand for our intelligently connected property solutions, and the pace at which the market for these solutions is growing.

### Adjusted EBITDA

Adjusted EBITDA represents our net income before interest expense, other income, net, amortization and depreciation expense, stock-based compensation expense, acquisition-related expense and legal costs incurred in connection with non-ordinary course litigation, particularly costs involved in ongoing 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. We do not adjust for ordinary course legal expenses resulting from maintaining and enforcing our intellectual property portfolio and license agreements.

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 and should not be considered in isolation from, or as a substitute for, financial information prepared in accordance with U.S. 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 the second quarter and first half of 2017 and 2016.

### **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 on one of our platforms 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 provider partners, 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 provider partners. 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**

Our fiscal year ends on December 31<sup>st</sup>. The key elements of our operating results include:

#### **Revenue**

We generate revenue primarily through the sale of our SaaS solutions over our cloud-based intelligently connected property platform through our service provider partner channel. We also generate revenue from the sale of hardware products that enable our solutions. We generate revenue from the sale of licenses and services to service providers for access to our newly-acquired Connect software platform.

*SaaS and License Revenue.* We generate the majority of our SaaS and license revenue primarily from monthly recurring fees charged to our service provider partners sold on a per subscriber basis for access to our cloud-based intelligently connected property platform and related solutions. Our fees per subscriber vary based upon the service plan and features utilized. We enter into contracts with our service provider partners 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 provider partners typically enter into contracts with their end-user customers, which we refer to as our subscribers, for their engagement with our solutions. Our service provider partners have indicated that those contracts generally range from three to five years in length.

We also generate SaaS and license revenue from monthly fees charged to service providers on a per subscriber basis for access to our newly-acquired Connect platform. The Connect software for interactive security, automation and related solutions is typically deployed and operated by the service provider in its own network operations center. Our agreements for the Connect platform solution typically include software and services, such as post-contract customer support, or PCS. Under terms in our contractual arrangements with our service provider partners, we are entitled to payment of a monthly fee that is billed per subscriber for the month of service and we recognize revenue over the period of combined service. Our service provider partners 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 integrated solutions and a range of a la carte add-ons for additional features. The price paid by our service provider partners 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 under which our service provider partners 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 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 provider partners to whom we license our intellectual property as they do not utilize one of our platforms.

We also generate SaaS and license revenue from the fees paid to us when we license our intellectual property to service provider partners 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 2014, pursuant to which we granted

Vivint a license to use the intellectual property associated with our intelligently connected property 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 revenue received from its subscribers that continue to utilize our SaaS platform. Additionally, in certain 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 from the sale of cellular radio modules that provide access to our cloud-based platform, from the sale of video cameras and from the sale of other devices, including image sensors and peripherals. We sell hardware to our service provider partners 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 provider partners or distributors, net of a reserve for estimated returns. Our terms for hardware sales typically allow service provider partners to return hardware up to one year past the date of original sale.

Hardware and other revenue also includes activation fees charged to service provider partners 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 provider partners 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. We record the salaries and benefits of the department dedicated to providing service exclusively to a specific service provider for the Connect platform to cost of SaaS and license revenue. 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 partner, 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 anticipated 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 507 employees as of January 1, 2016 to 788 employees as of June 30, 2017, 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 partner support, advertising, promotion of our products and services and marketing.

The number of employees in sales and marketing functions grew from 188 as of January 1, 2016 to 249 as of June 30, 2017. 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 remain relatively flat as a percentage of our total revenue in the short term. We intend to increase the size of our sales force and our service provider partner support team to provide additional support to our existing service provider partner base to drive their productivity in selling our solutions as well as to enroll new service provider partners in North America and in international markets. We also intend to increase our marketing investments in the form of marketing programs, trade shows and training to support our service provider partners' 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, including those that are incurred to defend and license our intellectual property, as well as 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 acquisition-related expenses, which consist primarily of legal, accounting and professional service fees directly related to acquisitions, valuation gains or losses on acquisition-related contingent liabilities.

The number of employees in general and administrative functions grew from 58 as of January 1, 2016 to 82 as of June 30, 2017. Excluding intellectual property litigation and acquisition related costs, we expect general and administrative costs to increase prospectively as our business grows. This includes cost increases related to accounting, finance, and legal personnel, additional external legal, audit fees and other expenses associated with compliance with the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, and other regulations governing public companies. Under the JOBS Act, our auditors are not required to report on the effectiveness of our internal control over financial reporting pursuant to Section 404 until the end of the fiscal year ending December 31, 2017, at which time we will no longer qualify as an "emerging growth company" as defined in the JOBS Act because we will qualify as a "large accelerated filer," with at least \$700 million of equity securities held by non-affiliates. Compliance with 404 of the Sarbanes-Oxley Act will result in additional external audit fees and consulting fees. While somewhat unpredictable, we also expect to continue to incur costs related to litigation involving intellectual property, as well as acquisition related costs associated with the Acquisition and the integration of the Connect and Piper business units.

*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 261 as of January 1, 2016 to 457 as of June 30, 2017. 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 provider partners 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 intelligently connected property 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 revolving credit facility, or the 2014 Facility, with Silicon Valley Bank, as administrative agent, and a syndicate of lenders. The 2014 Facility is available to us to refinance existing debt and for general corporate and working capital purposes, including financing the Acquisition and other acquisitions as permitted under the terms of the 2014 Facility. Interest expense is expected to increase in upcoming periods as we have utilized the 2014 Facility for the Acquisition.

#### ***Other Income, net***

Other income, net consists of our portion of the income or loss from our minority investments in other businesses accounted for under the equity method and interest income earned on our cash and cash equivalents and our notes receivable.

#### ***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 was below the statutory rate primarily due to recognizing the tax windfall benefits from employee stock-based payment transactions through the income statement provision for income taxes in the period incurred, as well as the research and development tax credits claimed, partially offset by the impact of state taxes and non-deductible meal and entertainment expenses. We recognize excess tax windfall benefits on a discrete basis in the quarter in which it occurs and we anticipate that our effective tax rate will vary from quarter to quarter depending on our stock price and exercises of stock options under our equity incentive plans each period.

## Results of Operations

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2017		2016		2017		2016	
Revenue:								
SaaS and license revenue	\$ 58,928	69 %	\$ 42,010	65 %	\$ 109,154	68 %	\$ 82,022	66 %
Hardware and other revenue	27,060	31	22,413	35	51,028	32	41,444	34
Total revenue	85,988	100	64,423	100	160,182	100	123,466	100
Cost of revenue <sup>(1)</sup> :								
Cost of SaaS and license revenue	8,500	10	7,211	11	16,592	10	13,992	11
Cost of hardware and other revenue	21,335	25	17,972	28	39,878	25	32,307	26
Total cost of revenue	29,835	35	25,183	39	56,470	35	46,299	37
Operating expenses <sup>(2)</sup> :								
Sales and marketing	11,899	14	9,851	15	22,213	14	18,827	15
General and administrative	13,450	16	14,191	22	28,825	18	27,320	22
Research and development	20,062	23	10,777	17	34,583	22	20,747	17
Amortization and depreciation	4,846	6	1,613	3	7,710	5	3,204	3
Total operating expenses	50,257	58	36,432	57	93,331	58	70,098	57
Operating income	5,896	7	2,808	4	10,381	6	7,069	6
Interest expense	(674)	(1)	(47)	—	(890)	(1)	(88)	—
Other income, net	137	—	88	—	374	—	199	—
Income before income taxes	5,359	6	2,849	4	9,865	6	7,180	6
(Benefit from) / provision for income taxes	(4,506)	(5)	976	2	(3,963)	(2)	2,569	2
Net income	\$ 9,865	11 %	\$ 1,873	3 %	\$ 13,828	9 %	\$ 4,611	4 %

(1) Exclusive of amortization and depreciation shown in operating expenses below.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
<b>Stock-based compensation expense data:</b>				
Sales and marketing	\$ 65	\$ 151	\$ 178	\$ 292
General and administrative	755	236	1,324	463
Research and development	1,095	555	1,726	1,039
Total stock-based compensation expense	\$ 1,915	\$ 942	\$ 3,228	\$ 1,794

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
<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	14%	17%	15%	17%
Cost of hardware and other revenue as a percentage of hardware and other revenue	79%	80%	78%	78%
Total cost of revenue as a percentage of total revenue	35%	39%	35%	37%

**Comparison of Three and Six Months Ended June 30, 2017 to June 30, 2016**

The following tables in this section set forth our selected condensed consolidated statements of operations (in thousands), data for the percentage change and data as a percentage of revenue for the periods presented:

**Revenue**

	Three Months Ended June 30,			Six Months Ended June 30,		
	2017	2016	% Change	2017	2016	% Change
Revenue:						
SaaS and license revenue	\$ 58,928	\$ 42,010	40%	\$ 109,154	\$ 82,022	33%
Hardware and other revenue	27,060	22,413	21%	51,028	41,444	23%
Total revenue	\$ 85,988	\$ 64,423	33%	\$ 160,182	\$ 123,466	30%

The \$21.6 million increase in total revenue for the second quarter of 2017 compared to the second quarter of 2016 was the result of a \$16.9 million, or 40%, increase in our SaaS and license revenue and a \$4.6 million, or 21%, increase in our hardware and other revenue. The increase in our Alarm.com segment SaaS and license revenue for the second quarter of 2017 was due to growth in our subscriber base, including the revenue impact from subscribers we added in 2016 and due to service providers and their subscribers on our newly-acquired Connect software platform. To a lesser extent, SaaS and license revenue increased in the second quarter of 2017 due to an increase in license fees. The increase in hardware and other revenue for the second quarter of 2017 compared to the second quarter of 2016 was primarily due to an increase in the volume of video cameras sold including several new product offering releases, and due to increases in volume of other peripherals sold during the period including the system enhancement module. Our Other segment contributed 6% of the increase in SaaS and license revenue and 16% of the increase in hardware and other revenue for the second quarter of 2017 compared to 2016. The increase in SaaS and license revenue for our Other segment was from our energy management and demand response solutions and our remote access management solution. The increase in hardware and other revenue for our Other segment for the second quarter of 2017 was primarily due to an increase in video cameras sold and hardware sold to support our remote access management solution.

The \$36.7 million increase in total revenue for the first half of 2017 compared to the first half of 2016 was the result of a \$27.1 million, or 33%, increase in our SaaS and license revenue and a \$9.6 million, or 23%, increase in our hardware and other revenue. The increase in our Alarm.com segment SaaS and license revenue for the first half of 2017 was primarily due to growth in our subscriber base, including the revenue impact from subscribers we added in 2016. To a lesser extent, SaaS and license revenue increased due to service providers and their subscribers on our newly-acquired Connect software platform and due to an increase in license fees. The increase in hardware and other revenue for the first half of 2017 compared to the first half of 2016 was due to an increase in the volume of video cameras sold including several new product offering releases, and due to increases in volume of other peripherals sold including the system enhancement module. Our Other segment contributed 6% of the increase in SaaS and license revenue and 7% of the increase in hardware and other revenue for the first half of 2017 compared to 2016. The increase in SaaS and license revenue for our Other segment for the first half of 2017 was from our energy management and demand response solutions and our remote access management solution. The increase in hardware and other revenue for our Other segment was primarily due to an increase in video cameras sold and hardware sold to support our remote access management solution.

## Cost of Revenue

	Three Months Ended June 30,		%	Six Months Ended June 30,		%
	2017	2016		2017	2016	
Cost of revenue <sup>(1)</sup> :						
Cost of SaaS and license revenue	\$ 8,500	\$ 7,211	18%	\$ 16,592	\$ 13,992	19%
Cost of hardware and other revenue	21,335	17,972	19%	39,878	32,307	23%
Total cost of revenue	\$ 29,835	\$ 25,183	18%	\$ 56,470	\$ 46,299	22%
% of total revenue	35%	39%		35%	37%	

(1) Excludes amortization and depreciation.

The \$4.7 million increase in cost of revenue for the second quarter of 2017 compared to the second quarter of 2016 was the result of a \$1.3 million, or 18%, increase in cost of SaaS and license revenue and a \$3.4 million, or 19%, increase in cost of hardware and other revenue. The \$10.2 million increase in cost of revenue for the first half of 2017 compared to the first half of 2016 was the result of a \$2.6 million or 19%, increase in cost of SaaS and license revenue and a \$7.6 million, or 23%, increase in cost of hardware and other revenue. The increase in cost of Alarm.com segment SaaS and license revenue related primarily to the growth in our subscriber base, which drove a corresponding increase in the costs to make our SaaS platform available to our service provider partners and subscribers. Cost of SaaS and license revenue as a percentage of SaaS and license revenue was 14% and 17% for the second quarter of 2017 and 2016 and 15% and 17% for the first half of 2017 and 2016. The decrease in cost of sales relative to our revenue growth was due to the achievement of economies of scale related to the growth in our subscriber base including the addition of the subscribers of our newly-acquired Connect software platform, which has a higher gross margin profile but lower revenue per subscriber. The increase in cost of hardware and other revenue related primarily to our increase in hardware and other revenue. The decrease in cost of hardware as a percentage of hardware and other revenue is a reflection of the mix of product sales during the periods. Cost of hardware and other revenue as a percentage of hardware and other revenue was 79% and 80% for the second quarter of 2017 and 2016 and 78% and 78% for the first half of 2017 and 2016.

## Sales and Marketing Expense

	Three Months Ended June 30,		%	Six Months Ended June 30,		%
	2017	2016		2017	2016	
Sales and marketing	\$ 11,899	\$ 9,851	21%	\$ 22,213	\$ 18,827	18%
% of total revenue	14%	15%		14%	15%	

The increase in sales and marketing expense of \$2.0 million for the second quarter of 2017 compared to the second quarter of 2016 was due to an increase in employee headcount in 2017. We increased the headcount for our sales force, service provider partner support team and marketing team to support our growth and for international expansion. As a result, our personnel and related costs for our Alarm.com segment, including salary, benefits, stock-based compensation and travel expenses, increased by \$1.3 million for the second quarter of 2017. This increase is partially offset by a \$0.1 million decrease in consulting expense. Sales and marketing expense from our Other segment increased by \$0.4 million in the second quarter of 2017 due to an increase in employee headcount, including the associated personnel and related costs and expenses related to use of consultants to support our growth. In addition, our Other segment marketing costs increased by \$0.4 million compared to the second quarter of 2016. Sales and marketing expense as a percent of total revenue was 14% and 15% for the second quarters of 2017 and 2016, a decrease of 1%.

The increase in sales and marketing expense of \$3.4 million for the first half of 2017 compared to the same period in 2016 was primarily due to increases in headcount for our sales force, service provider partner support team and marketing team, as well as expenses related to use of consultants to support our growth and for international expansion and marketing initiatives. As a result, our personnel and related costs for our Alarm.com segment, including salary, benefits, stock-based compensation and travel expenses, increased by \$2.5 million for the first half of 2017. Sales and marketing expense from our Other segment increased by \$0.9 million in the second quarter of 2017 due to an increase in employee headcount and associated personnel and related costs and expenses related to the use of consultants to support our growth. Sales and marketing expense as a percent of total revenue was 14% and 15% for the first half of 2017 and 2016, a decrease of 1%. The overall number of employees in our sales and marketing teams increased from 209 as of June 30, 2016 to 249 as of June 30, 2017.

### General and Administrative Expense

	Three Months Ended June 30,		%	Six Months Ended June 30,		%
	2017	2016		2017	2016 <sup>(1)</sup>	
General and administrative	\$ 13,450	\$ 14,191	(5)%	\$ 28,825	\$ 27,320	6%
<i>% of total revenue</i>	16%	22%		18%	22%	

The \$0.7 million decrease in general and administrative expense for the second quarter of 2017 compared to the second quarter of 2016 was primarily due to a \$3.4 million decrease in legal expenses related to ongoing intellectual property litigation, offset by an increase in employee headcount and expenses related to our All Company corporate meeting. In the second quarter of 2017, our personnel and related costs for our Alarm.com segment, including salary and benefits, increased by \$1.5 million due to an increase in employee headcount to support our operational growth and from the addition of the employees from the Connect and ObjectVideo Labs teams. Meeting and travel expenses increased by \$1.5 million due to the change in the timing of our All Company corporate meeting which took place in the second quarter of 2017 as compared to the first quarter of 2016. These increases were partially offset by a \$0.5 million decrease in general legal and accounting fees. General and administrative expense from our Other segment increased by \$0.2 million for the second quarter of 2017 compared to the second quarter of 2016 due to a \$0.1 million increase in rent and a \$0.1 million increase in legal expenses.

The \$1.5 million increase in general and administrative expense for the first half of 2017 compared to the first half of 2016 was due in part to a \$3.0 million increase in acquisition-related expenses related to the acquisition of the Connect and Piper business units from Icontrol which closed on March 8, 2017. In the first half of 2017, our personnel and related costs for our Alarm.com segment, including salary and benefits, increased by \$3.1 million due to an increase in employee headcount to support our operational growth and from the addition of the Connect and ObjectVideo Labs teams. Meeting and travel expenses increased by \$0.7 million due to expenses related to our All Company corporate meeting. These increases were partially offset by a \$5.2 million decrease in legal expenses related to ongoing intellectual property litigation. General and administrative expenses from our Other segment increased by \$0.1 million for the first half of 2017 compared to the first half of 2016 due to an increase in employee headcount, including the addition of the employees from the Piper team.

The overall number of employees in general and administrative functions increased from 59 as of June 30, 2016 to 82 as of June 30, 2017.

### Research and Development Expense

	Three Months Ended June 30,		%	Six Months Ended June 30,		%
	2017	2016		2017	2016	
Research and development	\$ 20,062	\$ 10,777	86%	\$ 34,583	\$ 20,747	67%
<i>% of total revenue</i>	23%	17%		22%	17%	

The \$9.3 million increase in research and development expense for the second quarter of 2017 compared to the second quarter of 2016 was primarily due to an increase in headcount of employees in research and development functions to continue to innovate and enhance our platform capabilities for both our residential and commercial subscribers. In addition, we continue to develop our suite of enterprise tools geared toward enabling our service provider partners to grow their business. Our personnel and related costs for our Alarm.com segment, including salary, benefits, stock-based compensation and travel expenses, increased by \$5.6 million for the second quarter of 2017 which was due in part to the addition of employees from the Connect and ObjectVideo Labs teams. In addition, expense for external consultants and information technology to support our research and development personnel increased by \$2.3 million in the second quarter of 2017. Research and development expense from our Other segment increased by \$1.4 million for the second quarter of 2017 compared to the second quarter of 2016, primarily due to a \$0.7 million increase in personnel and related expense and a \$0.7 million increase in expense for external consultants primarily due to the addition of employees from the Piper team in the first quarter of 2017.

The \$13.8 million increase in research and development expense for the first half of 2017 compared to the first half of 2016 was primarily due to an increase in headcount of employees and the addition of employees as a result of our recent acquisitions 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 \$9.2 million for the first half of 2017 compared to the first half of 2016. In addition, expense for external consultants and information technology to support our research and development personnel increased \$3.3 million in the first half of 2017. Research and development expense from our Other segment increased by \$1.3 million for the first half of 2017 compared to the first half of 2016, due to a \$0.5 million increase in personnel and related expense and a \$0.8 million increase in expense for external consultants. The overall number of employees in research and development functions increased from 290 as of June 30, 2016 to 457 as of June 30, 2017.



### Amortization and Depreciation

	Three Months Ended June 30,			Six Months Ended June 30,		
	2017	2016	% Change	2017	2016	% Change
Amortization and depreciation	\$ 4,846	\$ 1,613	200%	\$ 7,710	\$ 3,204	141%
<i>% of total revenue</i>	6%	3%		5%	3%	

The \$3.2 million and \$4.5 million increase in amortization and depreciation for the second quarter and first half of 2017 compared to the same periods of 2016 was primarily due to the customer relationships, developed technology and trade name intangibles acquired from the Acquisition and the ObjectVideo Labs acquisition in the first quarter of 2017. The increase was also due to increased purchases of computer and network equipment to accommodate this growth in employee headcount and for the expansion of our network operations centers.

### Interest Expense

	Three Months Ended June 30,			Six Months Ended June 30,		
	2017	2016	% Change	2017	2016	% Change
Interest expense	\$ (674)	\$ (47)	1,334%	\$ (890)	\$ (88)	911%
<i>% of total revenue</i>	(1)%	—%		(1)%	—%	

Interest expense increased \$0.6 million and \$0.8 million from the second quarter and first half of 2017 to the same periods of 2016 due to interest incurred on the additional \$67.0 million drawn under the 2014 Facility during the first quarter of 2017 to fund the Acquisition.

### Other Income, Net

	Three Months Ended June 30,			Six Months Ended June 30,		
	2017	2016	% Change	2017	2016	% Change
Other income, net	\$ 137	\$ 88	56%	\$ 374	\$ 199	88%
<i>% of total revenue</i>	—%	—%		—%	—%	

Included in other income, net for the second quarter and first half of 2017 was interest income earned on our cash balance and interest income earned on notes receivable partially offset from a loss from an equity method investment that is in the start-up phase of its operations.

### Provision for Income Taxes

	Three Months Ended June 30,			Six Months Ended June 30,		
	2017	2016	% Change	2017	2016	% Change
(Benefit from) / provision for income taxes	\$ (4,506)	\$ 976	(562)%	\$ (3,963)	\$ 2,569	(254)%
<i>% of total revenue</i>	(5)%	2%		(2)%	2%	

Our effective tax rate was (84.1)% and (40.2)% for the second quarter and first half of 2017 compared to 34.3% and 35.8% for the same periods in the prior year. The decrease in the effective tax rate was primarily related to recognizing the tax windfall benefits from the exercise of employee stock options through the income statement provision for income taxes in the period incurred. We adopted the accounting provision that simplified the tax for employee stock-based payment transactions in the first quarter of 2017. Accordingly, previous tax windfall benefits were required to be recorded in accumulated paid-in-capital.

Additionally, our benefit from income taxes increased due to our 2016 research and development tax credit study that was finalized during the second quarter of 2017, resulting in a higher 2016 and 2017 tax credit benefit than we had been previously recording.

## Segment Information

We have two reportable segments: Alarm.com and Other. Our Alarm.com segment represents our cloud-based platform for the intelligently connected property solutions that contributed over 94% of our revenue for the second quarter of 2017 and 2016. Our Other segment is focused on researching and developing home and commercial automation and energy management products and services for sale 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.

On March 8, 2017, we completed the Acquisition. Connect provides an interactive security and home automation software platform for service providers. Piper designs, produces and sells an all-in-one video and home automation hub. Piper currently operates both a retail do-it-yourself product business and a channel oriented business. On January 1, 2017, we completed the acquisition of ObjectVideo Labs from ObjectVideo. ObjectVideo was a pioneer in the fields of video analytics and computer vision with technology that extracted meaning and intelligence from video streams in real-time to enable object tracking, pattern recognition and activity identification. We anticipate that the ObjectVideo Labs engineering team's capabilities and expertise will accelerate our research and development of video services and video analytic applications. Connect's and ObjectVideo Labs' financial results from the closing of the respective acquisitions through June 30, 2017 are included in the Alarm.com segment. Piper's financial results from the closing of the acquisition through June 30, 2017 are included in the Other segment.

Our Alarm.com segment grew from 424 employees as of January 1, 2016 to 708 employees as of June 30, 2017. Our Other segment decreased from 83 employees as of January 1, 2016 to 80 employees as of June 30, 2017. Inter-segment revenue includes sales of hardware between our segments. Inter-segment revenue includes sales of hardware between our segments.

The following table presents our revenue, inter-segment revenue and operating expenses by segment (in thousands):

	Three Months Ended June 30,			
	2017		2016	
	Revenue	Operating expenses	Revenue	Operating expenses
Alarm.com	\$ 81,338	\$ 45,097	\$ 61,775	\$ 33,759
Other	5,435	5,160	4,088	2,673
Intersegment Alarm.com	(497)	—	(754)	—
Intersegment Other	(288)	—	(686)	—
Total	\$ 85,988	\$ 50,257	\$ 64,423	\$ 36,432

	Six Months Ended June 30,			
	2017		2016	
	Revenue	Operating expenses	Revenue	Operating expenses
Alarm.com	\$ 151,850	\$ 84,337	\$ 117,785	\$ 63,616
Other	\$ 9,887	\$ 8,994	\$ 7,935	\$ 6,482
Intersegment Alarm.com	\$ (1,145)	—	\$ (1,340)	—
Intersegment Other	\$ (410)	—	\$ (914)	—
Total	\$ 160,182	\$ 93,331	\$ 123,466	\$ 70,098

## 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 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. As a result of acquiring the Connect line of business from Icontrol during the first quarter of 2017, we updated the Revenue Recognition and Deferred Revenue critical accounting policy. See Note 2 to our condensed consolidated financial

statements for more information. Except as disclosed in Note 2, there were no other material changes to our use of estimates or other critical accounting policies from those disclosed in our Annual Report on Form 10-K filed on March 16, 2017 with the SEC.

### Recently Issued Accounting Standards

See Note 2 of our condensed consolidated financial statements for information related to recently issued accounting standards.

### Working Capital

The following table summarizes our cash and cash equivalents, accounts receivable, net and working capital, which is current assets minus current liabilities, for the periods indicated (in thousands):

	June 30, 2017	December 31, 2016
Cash and cash equivalents	\$ 68,916	\$ 140,634
Accounts receivable, net	41,986	29,810
Working capital	88,973	150,485

Our cash and cash equivalents as of June 30, 2017 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.

### Liquidity and Capital Resources

As of June 30, 2017, we had \$68.9 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.

On March 8, 2017, we completed the Acquisition and the cash consideration was \$148.5 million, after the estimated working capital adjustment. We used \$81.5 million of cash on hand and drew \$67.0 million under the 2014 Facility to fund the Acquisition.

We believe our existing cash and cash equivalents and our future cash flows from operating activities will be sufficient to meet our anticipated operating cash needs for at least the next 12 months. Over the final six months of fiscal year 2017, we expect our capital expenditure requirements to be approximately \$6.7 million, including approximately \$3.4 million anticipated to be incurred for leasehold improvements related to the continued expansion of our corporate headquarters. Our landlord has provided for a total of \$9.7 million of tenant improvement allowances, all of which we have used as of June 30, 2017. 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 current 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 \$124.6 million in net cash, primarily from our initial public offering, or IPO, 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.

Our 2014 Facility is a revolving credit 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. The 2014 Facility is available to us to refinance existing debt and for general corporate and working capital purposes including acquisitions, and has a current borrowing capacity of \$75.0 million. We have the option to increase the borrowing capacity of the 2014 Facility to \$125.0 million with the consent of the lenders. We used \$67.0 million of borrowing capacity to finance the Acquisition.

As of June 30, 2017, \$72.7 million was outstanding under the 2014 Facility, no letters of credit were utilized and \$2.3 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 leverage 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 June 30, 2017, we were in compliance with all covenants under the 2014 Facility. Our outstanding amounts under the 2014 Facility are due at maturity in November 2018. The 2014 Facility is discussed in more detail below under "Debt Obligations."

## Historical Cash Flows

The following table sets forth our cash flows (in thousands):

	Six Months Ended June 30,	
	2017	2016
Cash flows from operating activities	\$ 24,736	\$ 7,940
Cash flows used in investing activities	(164,003)	(2,335)
Cash flows from financing activities	67,549	201

### 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 inventory, adjusted for non-cash expense items such as amortization and depreciation, deferred income taxes and stock-based compensation.

For the first six months of 2017, cash flows from operating activities were \$24.7 million, an increase of \$16.8 million from the first six months of 2016, as the result of a \$3.6 million increase in cash from operating assets and liabilities, a \$9.2 million increase in net income and a \$4.0 million increase in non-cash items.

The \$3.6 million increase in cash from operating assets and liabilities was due to the following:

- Our accounts receivable balance, net of reserves, increased by \$0.8 million, net of \$11.3 million in acquired accounts receivable, during the first six months of 2017 and increased \$6.2 million during the first six months of 2016 resulting in a year-over-year increase in cash flows of \$5.4 million. The increase in cash flows was primarily due to the timing of service provider payments.
- Our inventory balance decreased by \$0.6 million, net of \$0.3 million of acquired inventory, during the first six months of 2017 from timing of in-transit inventory and from generally lower inventory on-hand. This decrease resulted in an increase in cash flows of \$3.6 million year-over-year as the increase in the inventory balance in the first six months of 2016 was a use of cash of \$3.0 million.
- Cash flows from other assets decreased \$3.9 million year-over-year. The balance of other current and long-term assets increased and was a use of cash of \$5.4 million from December 31, 2016 to June 30, 2017, primarily from an increase in tax receivables. Included in the other assets balance, as of June 30, 2017, was \$4.0 million cash to a distribution partner and affiliate under a loan agreement and \$0.6 million of other assets acquired, both investing activities. Cash flows from other assets was a use of cash of \$1.5 million for the six months ended June 30, 2016.
- Our accounts payable, accrued expenses and other current liabilities including accrued compensation balances increased by \$6.9 million, net of \$1.3 million of acquired accrued expenses, during the first six months of 2017 compared to an increase of \$6.6 million, net of non-cash accrued expenses, during the first six months of 2016 from the growth of our business and employee base. This increase was offset by the timing of payments, resulting in a year-over-year increase in cash flows of \$0.3 million.
- Cash flows from the change in deferred revenue balances, net of \$0.6 million of acquired deferred revenue, decreased by \$0.9 million year-over-year primarily from a decrease in activations.
- Our other liabilities balance increased by \$0.7 million in the first six months of 2017 primarily due to \$1.5 million increase in our deferred rent balance as we continue to add and develop additional office space in our corporate headquarters in 2017, although on a much smaller scale than in 2016. This was partially offset by a \$1.2 million liability that became due in less than one year in the period. These activities and the timing of rent payments contributed to the \$0.9 million decrease in cash flows year-over-year.

The \$4.0 million increase in adjustments for non-cash items was primarily due to an increase in amortization and depreciation for fixed assets, intangibles, tooling and patents partially offset by a decrease in cash from deferred income taxes. In the first quarter of 2017, we adopted the accounting guidance for simplification of employee stock-based payments and retrospectively presented the cash flows related to tax windfall benefits as operating activities. We recorded a \$5.6 million tax windfall benefit in the first six months of 2017 which reduced the provision for income taxes. The tax windfall benefit under previous guidance was recorded in additional paid-in capital. Other adjustments for non-cash items in the first six months of 2017 included \$7.7 million for amortization and depreciation and \$3.2 million for stock-based compensation. Adjustments for non-cash items in the first six months of 2016 included \$3.2 million for amortization and depreciation and \$1.8 million for stock-based compensation.

### Investing Activities

Our investing activities include acquisitions, capital expenditures, notes receivable issued to companies with offerings complementary to ours and proceeds from the repayment of those notes receivable. 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.

For the first six months of 2017, our cash flows used in investing activities was \$164.0 million as compared to \$2.3 million for the first six months of 2016. Our acquisitions in the first quarter of 2017 used cash of \$154.3 million, net of cash acquired. In the first six months of 2017 and 2016, capital expenditures were \$5.7 million and \$4.6 million as a result of our growth and primarily related to the expansion of facilities to support our increase in personnel and the expansion of our network operations center. In the first six months of 2017, we issued \$4.0 million in loans to a distribution partner and its affiliate. In the first six months of 2016, we received \$2.4 million in proceeds from the repayment of a note receivable from a company with offerings complementary to ours.

### Financing Activities

Cash generated by financing activities includes borrowings under our credit facility, and proceeds from the issuance of common stock from employee stock option exercises and from our employee stock purchase plan.

For the first six months of 2017, cash flows from financing activities was \$67.5 million compared to \$0.2 million for the first six months of 2016. We borrowed \$67.0 million under the 2017 Facility for the Acquisition in March 2017 and have subsequently repaid \$1.0 million of the outstanding balance of the 2014 Facility. We received \$1.6 million in the first six months of 2017 from the issuance of shares of common stock as a result of employee stock option exercises and through sales of our common stock pursuant to our employee stock purchase plan.

### Contractual Obligations

The following table presents aggregate information about our material contractual obligations and the periods in which those future payments were due as of June 30, 2017. Future events could cause actual payments to differ from these estimates. As of June 30, 2017, the following table summarizes our contractual obligations and the effect such obligations are expected to have on our liquidity and cash flow in future periods (in thousands):

Contractual Obligations	Less Than 1 Year	1 to 3 Years	3 to 5 Years	More Than 5 Years	Total
Debt:					
Principal payments	\$ —	\$ 72,700	\$ —	\$ —	\$ 72,700
Interest payments	2,613	938	—	—	3,551
Unused line fee payments	5	2	—	—	7
Operating lease commitments	6,120	11,392	9,685	19,258	46,455
Other current liabilities <sup>1</sup>	2,596	—	—	—	2,596
Other long-term liabilities	—	915	421	303	1,639
Total contractual obligations	<u>\$ 11,334</u>	<u>\$ 85,947</u>	<u>\$ 10,106</u>	<u>\$ 19,561</u>	<u>\$ 126,948</u>

(1) Represents the current portion of our liability to repurchase subsidiary unit awards for our professional residential property management and vacation rental management subsidiary.

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.

#### Letters of Credit

As of June 30, 2017, we had 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

We have a \$75.0 million revolving credit facility with Silicon Valley Bank, as administrative agent, and a syndicate of lenders that matures in November 2018, or the 2014 Facility. We have the option to increase the borrowing capacity of the 2014 Facility to \$125.0 million with the consent of the lenders. The 2014 Facility is secured by substantially all of our assets, including our intellectual property.

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, at our option. For the six months ended June 30, 2017 and 2016, we elected for the outstanding principal balance to accrue interest at LIBOR plus 2.00%, LIBOR plus 2.25%, and LIBOR plus 2.50% when our consolidated leverage ratio was 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. For the six months ended June 30, 2017 and 2016, the effective interest rate on the 2014 Facility was 3.34% and 2.64%.

On March 7, 2017, we drew \$67.0 million under the 2014 Facility to partially fund the Acquisition. On June 28, 2017, we repaid \$1.0 million of the outstanding balance of the 2014 Facility. The carrying value of the 2014 Facility was \$72.7 million and \$6.7 million as of June 30, 2017 and December 31, 2016. Our outstanding amounts under the 2014 Facility are due at maturity in November 2018.

The 2014 Facility includes a variable interest rate that approximates market rates and, as such, we determined that the carrying amount of the 2014 Facility approximates its fair value as of June 30, 2017. The 2014 Facility carries an unused line commitment fee of 0.20% to 0.25% depending on our consolidated leverage ratio. The 2014 Facility contains various financial and other covenants that require us to maintain a maximum consolidated leverage ratio not to exceed 3.00:1.00 and a consolidated fixed charge coverage ratio of at least 1.25:1.00. As of June 30, 2017, we were in compliance with all financial and non-financial covenants and there were no events of default.

## Non-GAAP Measures

We define Adjusted EBITDA as our net income before interest expense and other income, net, provision for income taxes, amortization and depreciation, stock-based compensation expense, acquisition-related expense and legal costs incurred in connection with non-ordinary course litigation, particularly costs involved in ongoing 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, stock-based compensation expense related to stock options and the sale of common stock. We do not adjust for ordinary course legal expenses resulting from maintaining and enforcing our intellectual property portfolio and license agreements. Adjusted EBITDA is not a measure calculated in accordance with GAAP. See the table below 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. We also use certain non-GAAP financial measures, including Adjusted EBITDA, as performance measures under our executive bonus plan. Further, we believe 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 expense and certain 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):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Adjusted EBITDA:				
Net income	\$ 9,865	\$ 1,873	\$ 13,828	\$ 4,611
Adjustments:				
Less: Interest expense and other income, net	537	(41)	516	(111)
(Benefit from) / provision for income taxes	(4,506)	976	(3,963)	2,569
Amortization and depreciation	4,846	1,613	7,710	3,204
Stock-based compensation expense	1,915	942	3,228	1,794
Acquisition-related expense	1,973	2,040	5,621	2,610
Litigation expense	1,251	4,676	3,044	8,225
Total adjustments	6,016	10,206	16,156	18,291
Adjusted EBITDA	\$ 15,881	\$ 12,079	\$ 29,984	\$ 22,902

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. Our market risk exposure is primarily 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 June 30, 2017, 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 \$0.7 million, respectively. As of December 31, 2016, 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 \$0.1 million, 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.

### ITEM 4. 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, and that such information is accumulated and communicated to the company’s management, including its chief executive officer and chief 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 June 30, 2017. Based on the evaluation of our disclosure controls

and procedures as of June 30, 2017, 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.

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

There were no changes in our internal control over financial reporting during the period covered by this Quarterly Report on Form 10-Q that have materially affected, or are 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.

## **PART II. OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

On April 25, 2017, Alarm.com Incorporated and its wholly owned subsidiary ICN Acquisition, LLC, filed a patent infringement complaint against Protect America, Inc., or Protect America, and SecureNet Technologies, LLC, or SecureNet, in the United States District Court for the Eastern District of Virginia. The complaint seeks injunctive relief to stop the further sale of the infringing Protect America and SecureNet products and systems, and damages for the infringement of Alarm.com's patents. The complaint asserts that the technology in the Protect America and SecureNet Alarm Systems products infringe one or more claims of Alarm.com's patents: United States Patent Numbers 7,113,090; 7,633,385; 8,395,494; 8,493,202; 8,612,591; 8,860,804; and 9,141,276. If the litigation is successful, Alarm.com will be entitled to receive monetary damages, injunctive relief, and any other relief, including attorney's fees, from Protect America and SecureNet. In June 2017, Alarm.com filed an amended complaint against Protect America only and voluntarily dismissed SecureNet from the suit, reserving the right to refile. Protect America responded to the amended complaint by filing a motion to dismiss or transfer the case to the Western District of Texas. Alarm.com opposed this motion. The Court has not yet issued a scheduling order. Protect America has not yet answered the complaint or asserted counterclaims and defenses.

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 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. On August 19, 2016, the U.S. District Court, District of Utah stayed the litigation pending inter partes review (IPR) by the U.S. Patent Trial and Appeal Board (PTAB) of five of the patents in suit. In March of 2017, the PTAB issued final written decisions relating to two patents finding all challenged claims unpatentable. In May of 2017, the PTAB issued final written decisions relating to the remaining patents that found certain claims unpatentable, while certain other claims were not found to be unpatentable. Vivint has appealed the decisions to the U.S. Court of Appeals for the Federal Circuit, and we have cross-appealed. The U.S. District Court, District of Utah lifted the stay on the litigation on June 26, 2017, and Vivint is proceeding with its case on four of the six patents in its complaint. A trial date has not yet been scheduled.

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 December 30, 2015, a putative class action lawsuit was filed against us in the U.S. District Court for the Northern District of California, alleging violations of the Telephone Consumer Protection Act, or TCPA. The complaint does not allege that Alarm.com itself violated the TCPA, but instead seeks to hold us responsible for the marketing activities of our service provider partners under principles of agency and vicarious liability. The complaint seeks monetary damages under the TCPA, injunctive relief, and other relief, including attorney's fees. We answered the complaint on February 26, 2016. On May 5, 2017, the court granted plaintiffs' motion for class certification. Discovery is underway, and the matter remains pending in the U.S. District Court for the Northern District of California. Based on the current schedule, we anticipate a trial will take place at the end of 2018.

On February 9, 2016, we were sued along with one of our service provider partners in the Circuit Court for the City of Virginia Beach, Virginia by the estate of a deceased service provider partner 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 filed our answer on March 22, 2016. Discovery has commenced, and the matter remains pending.

On February 22, 2017, Honeywell International Inc., or Honeywell, filed an action in the U.S. District Court for the District of New Jersey against us and Icontrol Networks, Inc., or Icontrol, seeking to enjoin the completion of our acquisition of two business units from Icontrol. On March 3, 2017, we settled the litigation effective upon the closing of the acquisition of the business units from Icontrol, which occurred on March 8, 2017.

On March 21, 2017, Taraneh Vessal filed a complaint against us and Monitronics International, Inc. in the United States District Court for the Northern District of Illinois, alleging violation of the TCPA and the Illinois Consumer Fraud and Deceptive Business Practices Act, or ICFDBA. We filed a motion to dismiss the complaint on May 12, 2017. Plaintiff filed her First Amended Complaint on June 2, 2017, alleging similar violations of the TCPA and ICFDBA. We filed a motion to dismiss the First Amended Complaint on June 16, 2017, and Plaintiff filed her response on July 31, 2017. Our reply is due August 21, 2017. Discovery has commenced, and the matter remains pending.

In September 2014, Icontrol Networks, Inc., or Icontrol, filed a Complaint in the United States District Court, District of Delaware, asserting that Zonoff Inc., or Zonoff, infringes certain U.S. Patents owned by Icontrol, all of which are now owned by Alarm.com through a subsidiary. In November, 2015, Icontrol filed a second lawsuit, also in the United States District Court, District of Delaware, alleging that Zonoff infringes additional U.S. Patents owned by Icontrol, now owned by Alarm.com through a subsidiary. The Court held a claim construction hearing in the first case on March 14, 2016 and consolidated the cases on August 1, 2016. Zonoff has not filed any proceedings at the United States Patent Office, or asserted any counterclaims. Because Zonoff has ceased business operations, Court has declined to enter a schedule for the remainder of the case.

In September 2014, Icontrol filed a Complaint in the United States District Court, District of Delaware, asserting that SecureNet Technologies LLC, or SecureNet, infringes certain U.S. Patents owned by Icontrol, patents now owned by Alarm.com through a subsidiary. In March, 2015, Icontrol voluntarily agreed to dismiss the case, reserving the right to refile. In September, 2015, Icontrol refiled the case against SecureNet in the same district court alleging infringement of some of the same patents. SecureNet filed petitions for inter partes review of the patents-in-suit before the PTAB. Proceedings as to one of the patents in suit has been instituted. The PTAB has rejected the remaining applications for inter partes review, and SecureNet has appealed the rejection as to one of the patents in suit. The Court has scheduled a claim construction hearing for March 20, 2018 and commencement of trial on February 4, 2019.

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 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 Quarterly Report on Form 10-Q as well as our other public filings with the Securities and Exchange Commission, or SEC. 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 Recent Acquisition of the Connect and Piper Business Units from Icontrol Networks, Inc.**

### ***Substantially all of the Connect platform revenues are from a single customer and the loss of this customer could harm our operating results.***

In March 2017, we acquired certain assets related to the Connect business unit of Icontrol Networks, Inc., or Icontrol, and all of the outstanding equity interests of the two subsidiaries through which Icontrol conducts its Piper business, which we refer to as the Acquisition. Historically, ADT LLC, or ADT, has accounted for substantially all of the revenues of the Connect business unit. While we amended our master service agreement with ADT to cover services provided with respect to the Connect platform, we cannot assure you that we will be able to meet the conditions set forth in the amended agreement or that ADT will use the Connect platform for its new customers or keep its existing customers on the Connect platform. In addition, even if ADT continues to use the Connect platform, we cannot assure you that the revenues from ADT or new accounts added by ADT will reach or exceed historical levels in any future period. We may not be able to offset any unanticipated decline in revenues from ADT with revenues from new customers or other existing customers. Because the Connect platform relies on ADT for substantially all of its revenue, any negative developments in ADT's business, or any decrease in revenues from or loss of ADT as a customer could harm our business, financial condition, cash flows and results of operations.

### ***The incurrence of debt to fund the Acquisition may impact our financial position and subject us to additional financial and operating restrictions.***

We used \$81.5 million of cash on hand and drew \$67.0 million under our senior line of credit with Silicon Valley Bank, or SVB, and a syndicate of lenders, or the 2014 Facility, to fund the payment of the Acquisition consideration and to pay related fees and expenses. As of June 30, 2017, we had an outstanding balance of \$72.7 million under our 2014 Facility.

Our overall leverage 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 to satisfy our obligations, including under the terms of the 2014 Facility;
- limiting our ability to refinance our debt on terms acceptable to us or at all;
- limiting our flexibility to plan for and adjust to changing business and market conditions and increasing our vulnerability to general adverse economic and industry conditions;
- limiting our ability to use our available cash flow to fund future acquisitions, working capital, business activities, and other general corporate requirements; and
- limiting our ability to obtain additional financing for working capital, to fund growth or for general corporate purposes, even when necessary to maintain adequate liquidity.

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

In addition, our 2014 Facility restricts our ability to make dividend payments and requires us to maintain certain leverage ratios, 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, cash flows or results of operations.

### ***The Acquisition subjects us to significant additional liabilities for which we will not be indemnified.***

In connection with the Acquisition, we assumed certain historic liabilities of the Connect and Piper business units, including pre-closing liabilities relating to current and former employees of the Connect and Piper business units, pre-closing compliance by the Connect and Piper business units with applicable laws and pre-closing performance by the Connect and Piper business units of the assumed contracts. In addition, we assumed any liabilities that may arise from certain pending intellectual property litigation. In addition to the known liabilities we assumed, there could be unasserted claims or assessments that we failed or were unable to discover or identify in the course of performing due diligence investigations and there may be liabilities that are neither probable nor estimable at this time which may become probable and estimable in the future. Further, while the terms of the Acquisition transaction documents provide for us to be indemnified for breaches of certain representations and warranties made about the Connect and Piper business units, the liabilities that arise may not entitle us to contractual indemnification or our contractual indemnification may not be effective. Any such liabilities, individually or in the aggregate, could have a material adverse effect on our business and our prospects.

### ***The Acquisition may cause disruptions in our business, which could have an adverse effect on our business, financial condition or results of operations.***

The Acquisition and the ongoing integration of the Connect and Piper business units could cause disruptions in our business in the following ways, among others:

- Customers, service providers and other third-party business partners may delay or defer purchase decisions or may seek to terminate or renegotiate their relationships with us as a result of the Acquisition, whether pursuant to the terms of their existing agreements or otherwise; and

- Current and prospective employees may experience uncertainty about their future roles, which might adversely affect our ability to retain, recruit and motivate key personnel.

Should they occur, any of these developments could have an adverse effect on our business, cash flows, financial condition or results of operations.

***We have incurred and expect to continue to incur substantial transaction fees and costs in connection with the Acquisition.***

We have incurred approximately \$16.8 million to date and expect to continue to incur significant non-recurring expenses in connection with the Acquisition, including legal, accounting, financial advisory and other expenses. We also may incur significant expenses in connection with the integration of the Connect and Piper business units, including integrating technology, personnel, information technology systems and accounting systems and implementing consistent standards, policies, and procedures. We cannot be certain that the elimination of duplicative costs or the realization of other efficiencies related to the integration of the businesses, if any, will offset the transaction and integration costs in the near term, or at all.

***We may experience difficulties in realizing the expected benefits of the Acquisition.***

The success of the Acquisition will depend, in part, on our ability to manage the Connect and Piper business units, including managing Connect's relationship with ADT, realizing potential cost savings, and executing our integration and growth strategy in an efficient and effective manner. Because our business and the Connect and Piper business units we acquired differ, we may not be able to manage these business units smoothly or successfully and the process of achieving any potential cost savings may take longer than expected.

Potential difficulties that may be encountered in the integration process include the following:

- lost sales and customers as a result of customers deciding not to do business with the combined company;
- the loss of key employees;
- integrating Connect and Piper personnel while maintaining focus on providing consistent, high-quality products and service to customers;
- complexities associated with managing the larger, more complex business; and
- potential unknown liabilities and unforeseen expenses.

If we are unable to successfully manage the operations of Connect and Piper, we may be unable to realize the anticipated benefits we expect to achieve as a result of the Acquisition. As a result, our business and results of operations could be adversely affected.

***Concurrently with the Acquisition, Comcast acquired Icontrol which may give rise to increased costs and risks that could negatively affect our operations and profitability.***

Concurrently with the Acquisition, Comcast Cable Communications, LLC, a subsidiary of Comcast Corporation, or Comcast, acquired Icontrol. The concurrent transaction structure may result in additional risks during the integration process as some of the transition services we will receive and be providing will be received from or delivered to Comcast, which will also be in the process of integrating its acquisition of Icontrol. If we are unable to adequately address these risks, it could negatively impact our business, financial condition, cash flows and results of operations.

***Our actual post-Acquisition operating results may differ significantly from any guidance provided.***

Our guidance regarding our projected post-Acquisition financial performance and the impact of the Acquisition, including forward-looking statements, is prepared by management and is qualified by, and subject to, a number of assumptions and estimates that, while presented with numerical specificity, are inherently subject to significant business, economic and competitive uncertainties and contingencies. Many of these uncertainties and contingencies are beyond our control and are based upon specific assumptions with respect to future business decisions, some of which will change. We generally state possible outcomes as high and low ranges which are intended to provide a sensitivity analysis as variables are changed but are not intended to represent that actual results could not fall outside of the suggested ranges.

Guidance is necessarily speculative in nature, and it can be expected that some or all of the assumptions of the guidance furnished by us will not materialize or will vary significantly from actual results. In particular, guidance relating to the anticipated results of operations of an acquired business is inherently more speculative in nature than other guidance as management will, necessarily, be less familiar with the business, procedures and operations of the acquired business. Accordingly, any guidance with respect to our projected post-Acquisition financial performance is necessarily only an estimate of what management believes is realizable as of the date the guidance is given. Actual results will vary from the guidance and the variations may be

material. Investors should also recognize that the reliability of any forecasted financial data will diminish the farther in the future that the data is forecasted.

Actual operating results may be different from our guidance, and such differences may be adverse and material. In light of the foregoing, investors are urged to put the guidance in context and not to place undue reliance on it. In addition, the market price of our common stock may reflect various market assumptions as to the accretive value of the Acquisition and the accuracy of our guidance. If our actual results of operations fall below the expectations of investors or securities analysts, the price of our common stock could decline substantially.

### **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 operating results, including the levels of our revenue, gross margin, cash flow and deferred revenue, may fluctuate as a result of a variety of factors, including revenue related to the product mix that we sell, 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;
- our ability to manage the Connect and Piper business units and any future acquisitions of businesses;
- 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 provider partners 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 partner 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;
- 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, including through acquisitions, 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 such as earthquakes, fire, power outages, floods and other catastrophic events or man made problems such as terrorism or global or regional economic, political and social conditions.

Due to the foregoing factors and the other risks discussed in this Quarterly Report on Form 10-Q, 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. See the *Non-GAAP Measures* section of Item 2. "Management's Discussion and Analysis of Financial Condition and Results of

Operations," for a discussion of the limitations of Adjusted EBITDA and a reconciliation of Adjusted EBITDA to net income, the most comparable GAAP measurement, for the six months ended June 30, 2017 and 2016.

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

We have experienced significant growth and substantially expanded our operations in a short period of time. Our revenue increased from \$65.1 million in 2011 to \$261.1 million in 2016 and increased from \$123.5 million for the six months ended June 30, 2016 to \$160.2 million for the six months ended June 30, 2017. 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 successfully manage our growth and obligations as a public company, we believe we must effectively, among other things:

- maintain our relationships with existing service provider partners and add new service provider partners;
- increase our subscribers and help our service provider partners maintain and improve their revenue retention rates, while also expanding their cross-sell effectiveness;
- add, train and integrate 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 continue to invest 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 partner 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 as of January 1, 2014 to 788 as of June 30, 2017. 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 partner network, subscriber base, headcount and operations, including by acquiring other businesses. 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 to ensure timely and accurate reporting of our operational and financial results 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 provider partners 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 security, video, automation 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 provider partners;
- 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 property with interactive security, including Honeywell International Inc., Telular Corporation, SecureNet Technologies, LLC and United Technologies Corporation, which sell solutions to service providers, cable operators, technology retailers and other home and business automation providers. We also compete with interactive, monitored security solutions sold directly to subscribers by firms like Scout and SimpliSafe. In addition, our service provider partners compete with managed service providers, such as cable television, telephone and broadband companies like Comcast, AT&T Inc. and Time Warner Cable Inc., and providers of point products, including Google Inc.'s Nest Labs, Inc. which offers a smart thermostat, a smart smoke detector and video cameras. Samsung's SmartThings offers a home automation and awareness hub. Apple Inc. offers a feature that allows some manufacturers' connected devices and accessories to be controlled through its HomeKit service available in Apple's iOS operating system. Additionally, Lowe's, Canary and other companies offer all in one video monitoring and awareness devices. 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.

Many 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 automation 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 provider partners 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 provider partners 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 provider partners 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 hosted 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 one of our service provider partners 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 provider partners or lost revenue during the period required to address the cause of the defects. We may find defects in new, acquired or upgraded solutions, resulting in loss of, or delay in, market acceptance of our platform and solutions, which could harm our business, financial condition, cash flows or results of operations.

Since solutions that enable our platform are installed by our service provider partners, 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 provider partners or lost revenue during the period required to address the cause of the problem. Further, we rely on our service provider partners to provide the primary source of support and ongoing service to our subscribers and, if our service provider partners 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, cash flows 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 provider partners limit our liability to our service provider partners for these defects, disruptions or errors, we nonetheless could be subject to litigation for actual or alleged losses to our service provider partners 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 partner network to acquire additional subscribers, and the inability of our service provider partners 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 provider partners, who incorporate our solutions in certain of the products and packages they sell to their customers, and our service provider partners 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 provider partners 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 provider partners to sell our platform and solutions into new markets in the intelligent and connected property space. If our service provider partners 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 provider partners. Recruiting and retaining qualified service provider partners and training them in our technology and solutions requires significant time and resources. If we fail to maintain existing service provider partners or develop relationships with new service provider partners, 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 provider partners that sell into these markets.

Any of our service provider partners 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 partner's product; however, these monthly fees are less on a per customer basis than fees we receive 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 provider partners 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 provider partners in our markets, there are a finite number of service provider partners 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 provider partners, our business could be harmed.

As the consumers' product and service options grow, it is important that we enhance our service provider partner footprint by broadening the expertise of our service provider partners, working with larger and more sophisticated service provider partners and expanding the mainstream solutions our service provider partners offer. If we do not succeed in this effort, our current and potential future service provider partners may be unable or unwilling to broaden their offerings to include our connected property solutions, resulting in harm to our business.

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

Our success is highly dependent upon establishing and maintaining successful relationships with a variety of service provider partners. 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 provider partners. We generally enter into agreements with our service provider partners 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 for example, the contract we entered into with Monitronics International, Inc., one of our service provider partners, 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 partner 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 6,000 service provider partners to sell, install and support our platform and solutions, we receive a substantial portion of our revenue from a limited number of channel partners and significant customers. During the years ended December 31, 2016, 2015 and 2014, our 10 largest revenue service provider partners accounted for 59.9%, 63.4% and 64.7% of our revenue. Vivint represented greater than 10% but not more than 15% of our revenue in 2014. Monitronics International, Inc. represented greater than 10% but not more than 15% of our revenue in 2016 and greater than 15% but not more than 20% of our revenue in 2015 and 2014. 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 provider partners for a significant portion of our revenue for the foreseeable future and, in some cases, a portion of our revenue attributable to individual service provider partners may increase in the future. The loss of one or more key service provider partners, a reduction in sales through any major service provider partners or the inability or unwillingness of any of our major service provider partners 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 provider partners. These service provider partners work with consumers to design, install, update and maintain their connected home and business installations and manage the relationship with our subscribers. While we are able to track orders from service provider partners 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 provider partners 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 property 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 provider partners 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 and business solutions, then our business, financial condition, cash flows 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, financial condition, cash flows and results of operations.

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

Our connected property 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 property solutions;
- the failure of our connected property 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 property solutions;
- technological innovations or new communications standards that our connected property solutions do not address; and
- our inability to release enhanced versions of our connected property 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 and business solutions grows more slowly than anticipated or if demand for connected home and business solutions does not grow as quickly as anticipated, whether as a result of competition, product obsolescence, technological change, unfavorable economic conditions, uncertain geopolitical environments, 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, cash flows and results of operations.***

We generally bill our service provider partners 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 provider partners' 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 Quarterly Report titled "Management's Discussion and Analysis of Financial Condition and Results of

Operations — Key Metrics — SaaS and License Revenue Renewal Rate.” However, our service provider partners, 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 provider partners. 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, cash flows or results of operations.

***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 party solutions. 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, cash flows, results of operations 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, cash flows 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, cash flows 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 provider partners 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, cash flows 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 and business 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 platform 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, financial condition, cash flows and results of operations.

***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 and we depend upon cellular, broadband and other telecommunications providers to provide communication paths to our subscribers in a timely and efficient manner. 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. The discontinuation of cellular communication technology or other services by telecommunications service providers can affect our services and require our subscribers to upgrade to alternative and potentially more expensive, technologies. For example, AT&T shut down its 2G network on December 31, 2016. Many of our service provider partners are continuing to upgrade our solutions that were installed using AT&T 2G wireless technology. To maintain our subscriber base which relied on the now obsolete AT&T 2G network we subsidized the upgrade of the subscribers' outdated systems. If our service provider partners are not able to upgrade their customers then those accounts may be terminated with Alarm.com.

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, cash flows 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 25.7% of our hardware and other revenue in the first six months of 2017. 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 provider partners, which could have a material adverse effect on our business, financial condition, cash flows 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, cash flows 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 important to our overall success in achieving widespread acceptance of our existing and future solutions and is an important element in attracting new service provider partners 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 partner 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 provider partners and strategic partners to promote our brand. If we are unable to cost-effectively maintain and increase awareness of our brand, our business, financial condition, cash flows and results of operations could be harmed.

***We operate in the emerging and evolving connected property market, which may develop more slowly or differently than we expect. If the connected property 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 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 partner agreements contain provisions limiting our liability to service provider partners 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 provider partners, 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 provider partners, subscribers and employees, including credit card information for many of our service provider partners 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, financial condition, cash flows and results of operations 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 partner, 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 partner 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, cash flows or results of operations 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.***

On March 8, 2017, we acquired Icontrol's Connect and Piper business units and we have acquired other businesses in the past. For example, we acquired EnergyHub, Inc. in 2013, we acquired the assets of Horizon Analog, Inc. and Secure-i, Inc., respectively, in December 2014, we acquired the assets of HiValley Technology Inc. in March 2015 and we acquired certain assets of ObjectVideo, Inc. in January 2017. We believe part of our growth will continue to be driven by acquisitions of other companies or their technologies, assets and businesses. These acquisitions and any other acquisitions we may complete in the future will give rise to certain 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 provider partners 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, including those we may encounter with the Acquisition. To the extent we do not successfully avoid or overcome the risks or problems related to any such acquisitions, our business, financial condition, cash flows and results of operations 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. 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, cash flows or results of operations.

***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 provider partners, 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. The

US and EU have implemented a new cooperative program for transferring personal data, referred to as the Privacy Shield, that went into effect on August 1, 2016. We self-certified our compliance with the Privacy Shield framework in September 2016. However, the validity of other transfer mechanisms, including Model Contracts, is currently being challenged in the European Court of Justice and it is possible that the validity of the Privacy Shield will be challenged as well. The European Union has issued a new General Data Protection Regulation, or GDPR, that will go into effect in 2018. As a result of these ongoing challenges there will continue to be significant regulatory uncertainty surrounding the validity 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 business, financial condition, cash flows and results of operations 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 and disclosure of Protected Health Information, or PHI, 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 PHI is accessed, created, maintained or transmitted. 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 provider partners, 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 partner 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 provider partners or suffer extended periods of service unavailability, we are or may be contractually obligated to provide these service provider partners 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 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. 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 June 30, 2017, we had \$165.2 million of goodwill and identifiable intangible assets which includes preliminary estimates for acquisitions in 2017. 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, financial condition, cash flows and results of operations. 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 provider partners 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 provider partners 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, cash flows 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 provider partners 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 provider partners. 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, antitrust 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 Organization for Economic Cooperation and Development, or 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.

In addition, our recent Acquisition was subject to review under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, or HSR Act. The waiting period under the HSR Act for the Acquisition, as extended by the previously disclosed timing agreement between us, Icontrol and the U.S. Federal Trade Commission, or the FTC, expired at 12:01 a.m. on February 22, 2017. The expiration of the HSR Act waiting period allowed the parties to proceed to close the Acquisition. The FTC subsequently concluded its review of pre-closing activities, and the FTC's review is now completely closed.

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 provider partners 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 provider partners 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 provider partners 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, cash flows 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 provider partners, which would likely adversely affect our business, financial condition, cash flows and results of operations.

Changes in laws that apply to us could result in increased regulatory requirements and compliance costs which could harm our business, financial condition, cash flows 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, financial condition, cash flows and results of operations 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, financial condition, cash flows and results of operations.

***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 purchased by Vivint. On December 30, 2015, a class action lawsuit was filed against us, alleging violations of the Telephone Consumer Protection Act, or TCPA. Upon the closing of the Acquisition, we assumed two currently pending patent related litigation matters brought by Icontrol. In addition, on April 25, 2017, we filed a patent infringement lawsuit against Protect America, Inc. and SecureNet Technologies, LLC. See the section of this Quarterly Report titled "Legal Proceedings" for additional information on each of these matters. 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.

***Our business operates in a regulated industry.***

Our business, operations and service provider partners 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 partner 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 provider partners 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 provider partners, and to require our service provider partners 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 provider partners' conduct. Further, to the extent that any changes in law or regulation further restrict the lead generation activity of our service provider partners, 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, financial condition, cash flows and results of operations. 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, cash flows 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, cash flows and results of operations.***

We anticipate that our efforts to expand internationally will entail the marketing and advertising of our platform, solutions and brand. Revenue in countries outside of North America accounted for 1% and less than 1% of our revenue for the second quarter of 2017 and 2016. We also do not have substantial experience in selling our platform and solutions in international markets outside of North America 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.

***Our financial results may be adversely affected by changes in accounting principles applicable to us.***

Our accounting policies are critical to the manner in which we present our results of operations and financial condition. Many of these policies are highly complex and involve many assumptions, estimates and judgments. A change in accounting standards or practices, in particular with respect to revenue recognition, could harm our operating results and may even affect

our reporting of transactions completed before the change is effective. GAAP rules are subject to interpretation by the Financial Accounting Standards Board, or FASB, the SEC and other various bodies formed to promulgate and interpret appropriate accounting principles. For example, we are currently assessing the impact of Accounting Standards Update No. 2014-09 (Topic 606), "Revenue from Contracts with Customers," as amended, which supersedes nearly all existing revenue recognition guidance under GAAP. We will be required to implement this guidance in the first quarter of 2018. Under Topic 606, more judgment and estimates will be required within the revenue recognition process than are required under existing GAAP. We have not yet determined the effect of the standard on our ongoing financial reporting. Refer to Note 1, "Recent Accounting Pronouncements," in the Notes to the Condensed Consolidated Financial Statements for additional information about this and other new accounting pronouncements. Implementation of this new standard could have a significant effect on our financial results, and any difficulties in implementing these pronouncements could cause us to fail to meet our financial reporting obligations, which could result in regulatory discipline and harm investors' confidence in us.

***Our accounting is becoming more complex, and relies upon estimates or judgments relating to our critical accounting policies. If our accounting is erroneous or based on assumptions that change or prove to be incorrect, our operating results could fall below the expectations of securities analysts and investors, resulting in a decline in our stock price.***

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes, and also to comply with many complex requirements and standards. We devote substantial resources to compliance with accounting requirements and we base our estimates on our best judgment, historical experience, information derived from third parties, and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets, liabilities, equity, revenue and expenses that are not readily apparent from other sources. However, various factors are causing our accounting to become complex. For example, as a result of our acquisition of the Connect business unit of Icontrol, we now recognize revenue relating to the delivery of software relating to the Connect platform under different revenue recognition standards than those that apply to delivery of our services under the Alarm.com platform. Ongoing evolution of our business, and any future acquisitions, will compound these complexities. Our operating results may be adversely affected if we make accounting errors or our judgments prove to be wrong, assumptions change or actual circumstances differ from those in our assumptions, which could cause our operating results to fall below the expectations of securities analysts and investors or guidance we may have provided, resulting in a decline in our stock price and potential legal claims. Significant judgments, assumptions and estimates used in preparing our consolidated financial statements include those related to revenue recognition, stock-based compensation, business combinations, and income taxes.

### **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, cash flows 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. For example, on April 25, 2017, we filed a lawsuit against Protect America, Inc. and SecureNet Technologies, LLC alleging that the technology used in products and systems sold by Protect America and SecureNet directly and indirectly infringes on patents owned by Alarm.com. We are seeking monetary damages, injunctive relief, and other relief, including attorneys' fees. See the section of this Quarterly Report titled "Legal Proceedings" for additional information on this matter. 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 permanent injunctions, enhanced damages and attorney's fees. See the section of this Quarterly Report titled "Legal Proceedings" for additional information on this matter. 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 continue to 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 partner 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. 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, cash flows and results of operations. If we were compelled to withdraw any of our platform and solutions from the market, our business, financial condition, cash flows and results of operations could be harmed.

***We have indemnity obligations to certain of our service provider partners 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 provider partners for intellectual property infringement claims regarding our platform and solutions. As a result, in the case of infringement claims against these service provider partners, 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 provider partners may seek indemnification from us in connection with infringement claims brought against them. In addition, we may elect to indemnify service provider partners 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 partner 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 to us 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 business, financial condition, cash flows and results of operations 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, financial condition, cash flows and results of operations.

#### **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 initial public offering, or IPO, 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 IPO 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 \$38.53 through June 30, 2017. 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;
- announcements by us or our competitors of significant business developments, acquisitions or new solutions and market assumptions regarding the impact of the Acquisition on our operating results;
- 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;
- 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.

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.

##### ***Sales of a substantial number of shares of our common stock in the public market could cause our market price to decline.***

Sales of a substantial number of shares of our common stock in the public market, or the perception that these sales might occur, could depress the market price of our common stock and could impair our ability to raise capital through the sale of additional equity securities. We are unable to predict the effect that sales, particularly sales by our directors, executive officers,

and significant stockholders, may have on the prevailing market price of our common stock. Additionally, the shares of common stock subject to outstanding options under our equity incentive plans and the shares reserved for future issuance under our equity incentive plans, as well as shares issuable upon vesting of restricted stock awards, will become eligible for sale in the public market in the future, subject to certain legal and contractual limitations. Moreover, some holders of shares of our common stock have rights, subject to certain conditions, to require us to file registration statements covering their shares or to include their shares in registration statements that we may file for ourselves or our stockholders. We have also registered shares of common stock that we may issue under our employee equity incentive plans. Accordingly, these shares may be able to be sold freely in the public market upon issuance as permitted by any applicable vesting requirements.

***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 of 2012, or the 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, 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 until the end of our fiscal year ending December 31, 2017 because we will then qualify as a “large accelerated filer,” with at least \$700 million of equity securities held by non-affiliates.

***We are obligated to develop and maintain a system of effective internal controls over financial reporting. These internal controls may be determined to be not effective, which may adversely affect investor confidence in our company and, as a result, the value of our common stock.***

We have been and 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 on an annual basis. This assessment includes disclosure of any material weaknesses identified by our management in our internal control over financial reporting. 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 and would be required to disclose any material weaknesses identified in Management’s Report on Internal Control over Financial Reporting. While we have established certain procedures and control over our financial reporting processes, we cannot assure you that these efforts will prevent restatements of our financial statements in the future.

Section 404 of the Sarbanes-Oxley Act also generally requires an attestation from an independent registered public accounting firm on the effectiveness of 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 the end of the fiscal year ending December 31, 2017, at which time we will no longer qualify as an “emerging growth company” as defined in the JOBS Act because we will qualify as a “large accelerated filer,” with at least \$700 million of equity securities held by non-affiliates. At such time, our independent registered public accounting firm may issue a report that is adverse in the event it is not satisfied with the level at which our controls are documented, designed or operating. 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.

If we are unable to conclude that our internal control over financial reporting is effective, or if our auditors are unable to express an opinion that our internal controls over financial reporting are effective 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, and we could be subject to sanctions or investigations by regulatory authorities, including the SEC and NASDAQ. Failure to remediate any material weakness in our internal control over financial reporting, or to implement or maintain other effective control systems required of public companies, could also restrict our future access to the capital markets.

***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 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 and subject to the restrictions on paying dividends in our 2014 Facility and any future indebtedness. 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.

***Concentration of ownership among our current directors, executive officers and their affiliates may limit an investor's ability to influence significant corporate decisions.***

As of June 30, 2017, our directors and executive officers, together with their affiliates, beneficially own a significant percentage of our outstanding capital stock. As a result, these stockholders, acting together, will have substantial influence over the outcome of matters submitted to our stockholders for approval, including the election of directors and approval of significant corporate transactions, such as a merger or other sale of our company or its assets. This concentration of ownership could delay, defer or prevent a change in control of the company, merger, consolidation, takeover or other business combination, which in turn could 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.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

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

None.

**(b) Use of Proceeds**

None.

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

The following table contains information relating to the repurchases of our common stock made by us in the quarter ended June 30, 2017:

<u>Period</u>	<u>Total Number of Shares Purchased<sup>(1)</sup></u>	<u>Average Price Paid per Share</u>
April 1 to April 30, 2017	575	\$ 4.00
May 1 to May 31, 2017	—	—
June 1 to June 30, 2017	—	—
Total	575	\$ 4.00

<sup>(1)</sup> Represents shares of unvested common stock that were repurchased by us from certain former employees upon termination of employment in accordance with the terms of the employee's stock option agreement. We repurchased the shares from the former employee at the original exercise price.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5. OTHER INFORMATION**

None.



## ITEM 6. EXHIBITS

The following is a list of exhibits filed as part of this Quarterly Report on Form 10-Q. Where so indicated by footnote, exhibits that were previously filed are incorporated by reference. For exhibits incorporated by reference, the location of the exhibit in the previous filing is indicated.

<b>Exhibit Number</b>	<b>Description</b>
3.1 <sup>(1)</sup>	Amended and Restated Certificate of Incorporation of Alarm.com Holdings, Inc.
3.2 <sup>(2)</sup>	Amended and Restated Bylaws of Alarm.com Holdings, Inc.
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

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(1) Previously filed as Exhibit 3.1 to the registrant's Current Report on Form 8-K (File No. 001-37461), filed with the Securities and Exchange Commission on July 2, 2015, and incorporated herein by reference.

(2) Previously filed as Exhibit 3.2 to the registrant's Current Report on Form 8-K (File No. 001-37461), filed with the Securities and Exchange Commission on July 2, 2015, and incorporated herein by reference.

\* Filed herewith.

\*\* This certification is being furnished solely to accompany this Quarterly Report on Form 10-Q pursuant to 18 U.S.C. Section 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing of the registrant under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

**SIGNATURE**

Pursuant to the requirements 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: August 8, 2017

By: /s/ Steve Valenzuela

Steve Valenzuela

Chief Financial Officer

*(On behalf of the registrant and in his capacity as Principal Financial Officer and  
Principal Accounting Officer)*

## Exhibit Index

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**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Stephen Trundle, certify that:

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

Date: August 8, 2017

/s/ Stephen Trundle

Stephen Trundle

President and Chief Executive Officer

*(Principal Executive Officer)*

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Steve Valenzuela, certify that:

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

Date: August 8, 2017

/s/ Steve Valenzuela

Steve Valenzuela

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, President and Chief Executive Officer of Alarm.com Holdings, Inc. (the "Company") and Steve Valenzuela, Chief Financial Officer of the Company, each hereby certifies that, to the best of his knowledge:

- (1) The Company's Quarterly Report on Form 10-Q for the period ended June 30, 2017, to which this Certification is attached as Exhibit 32.1 (the "Quarterly Report") fully complies with the requirements of Section 13(a) or Section 15(d) of the Exchange Act; and
- (2) The information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 8, 2017

**In Witness Whereof**, the undersigned have set their hands hereto as of the 8<sup>th</sup> day of August, 2017.

/s/ Stephen Trundle

Stephen Trundle  
President and Chief Executive Officer  
*(Principal Executive Officer)*

/s/ Steve Valenzuela

Steve Valenzuela  
Chief Financial Officer  
*(Principal Financial Officer and Principal Accounting Officer)*

This certification accompanies the Form 10-Q 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 Alarm.com Holdings, Inc. 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-Q), irrespective of any general incorporation language contained in such filing.

