
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 September 30, 2016
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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer ☐

Accelerated Filer ☐

Non-accelerated Filer ☒

Smaller Reporting Company ☐

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

As of November 3, 2016, there were 45,974,317 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 September 30,		Nine Months Ended September 30,	
	2016	2015 ⁽²⁾	2016	2015 ⁽²⁾
Revenue:				
SaaS and license revenue	\$ 44,630	\$ 36,158	\$ 126,652	\$ 102,247
Hardware and other revenue	23,216	17,849	64,660	49,720
Total revenue	67,846	54,007	191,312	151,967
Cost of revenue⁽¹⁾:				
Cost of SaaS and license revenue	7,787	6,764	21,779	19,094
Cost of hardware and other revenue	18,579	13,205	50,886	38,171
Total cost of revenue	26,366	19,969	72,665	57,265
Operating expenses:				
Sales and marketing	10,705	8,425	29,532	24,405
General and administrative	14,804	10,412	42,124	25,996
Research and development	11,477	9,836	32,224	26,667
Amortization and depreciation	1,659	1,504	4,863	4,370
Total operating expenses	38,645	30,177	108,743	81,438
Operating income	2,835	3,861	9,904	13,264
Interest expense	(49)	(44)	(137)	(128)
Other income / (expense), net	139	(7)	338	(62)
Income before income taxes	2,925	3,810	10,105	13,074
Provision for income taxes	358	867	2,927	4,581
Net income	2,567	2,943	7,178	8,493
Dividends paid to participating securities	—	—	—	(18,987)
Income allocated to participating securities	—	(45)	—	—
Net income / (loss) attributable to common stockholders	<u>\$ 2,567</u>	<u>\$ 2,898</u>	<u>\$ 7,178</u>	<u>\$ (10,494)</u>
Per share information attributable to common stockholders:				
Net income / (loss) per share:				
Basic	\$ 0.06	\$ 0.06	\$ 0.16	\$ (0.62)
Diluted	\$ 0.05	\$ 0.06	\$ 0.15	\$ (0.62)
Weighted average common shares outstanding:				
Basic	45,716,961	44,922,410	45,615,399	16,910,090
Diluted	48,319,952	46,872,695	47,741,365	16,910,090
Cash dividends declared per share	\$ —	\$ —	\$ —	\$ 0.36

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

(2) The three and nine months ended September 30, 2015 historical condensed consolidated statement of operations have been revised (Note 2).

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)

	September 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 135,050	\$ 128,358
Accounts receivable, net	28,734	21,348
Inventory	11,504	6,474
Other current assets	8,261	4,870
Total current assets	183,549	161,050
Property and equipment, net	17,645	15,446
Intangible assets, net	4,950	6,318
Goodwill	24,723	24,723
Deferred tax assets	14,255	11,915
Other assets	5,226	6,643
Total Assets	\$ 250,348	\$ 226,095
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable, accrued expenses and other current liabilities	\$ 27,541	\$ 19,276
Accrued compensation	7,550	7,514
Deferred revenue	2,122	2,289
Total current liabilities	37,213	29,079
Deferred revenue	9,997	9,701
Long-term debt	6,700	6,700
Other liabilities	12,138	10,484
Total Liabilities	66,048	55,964
Commitments and contingencies (Note 11)		
Stockholders' equity		
Preferred stock, \$0.001 par value, 10,000,000 shares authorized; 0 shares issued and outstanding as of September 30, 2016 and December 31, 2015.	—	—
Common stock, \$0.01 par value, 300,000,000 shares authorized; 45,932,589 and 45,581,662 shares issued; and 45,897,911 and 45,485,294 shares outstanding as of September 30, 2016 and December 31, 2015.	459	455
Additional paid-in capital	304,726	297,781
Treasury stock, 0 shares as of September 30, 2016 and 35,523 shares at a cost of \$1.20 per share as of December 31, 2015.	—	(42)
Accumulated other comprehensive income	—	—
Accumulated deficit	(120,885)	(128,063)
Total Stockholders' Equity	184,300	170,131
Total Liabilities and Stockholders' Equity	\$ 250,348	\$ 226,095

See accompanying notes to the condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2016	2015(2)
Cash flows from operating activities:		
Net income	\$ 7,178	\$ 8,493
Adjustments to reconcile net income to net cash from operating activities:		
Provision for doubtful accounts	415	420
Reserve for product returns	1,537	1,148
Amortization for patents and tooling	550	258
Amortization and depreciation	4,863	4,370
Amortization of debt issuance costs	79	81
Deferred income taxes	(2,340)	(2,310)
Change in fair value of contingent liability	(226)	180
Undistributed losses from equity investees	60	285
Stock-based compensation	2,880	2,678
Other, net	—	(49)
Changes in operating assets and liabilities (net of business acquisition):		
Accounts receivable	(9,337)	(6,043)
Inventory	(5,030)	(2,724)
Other assets	(3,056)	(1,904)
Accounts payable, accrued expenses and other current liabilities	9,302	10,414
Deferred revenue	130	1,095
Other liabilities	1,801	4,784
Cash flows from operating activities	<u>8,806</u>	<u>21,176</u>
Cash flows used in investing activities:		
Business acquisition, net of cash acquired	—	(5,849)
Additions to property and equipment	(6,110)	(6,520)
Investment in cost method investee	(139)	(54)
Issuances of notes receivable	(73)	(317)
Repayments of notes receivable	2,441	—
Purchases of licenses to patents	(1,600)	(1,000)
Cash flows used in investing activities	<u>(5,481)</u>	<u>(13,740)</u>
Cash flows from financing activities:		
Proceeds from issuance of common stock from initial public offering, net of underwriting discount and commission	—	97,976
Payments of debt issuance costs	(131)	—
Payments of long-term consideration for business acquisitions	(417)	—
Dividends paid to common stockholders	—	(1,013)
Dividends paid to employees for unvested shares	—	(57)
Dividends paid to redeemable convertible preferred stockholders	—	(18,930)
Payments of offering costs	—	(2,632)
Repurchases of common stock	(12)	(1)
Proceeds from early exercise of stock options	—	124
Issuances of common stock from equity-based plans	1,202	300
Tax windfall benefit from stock options	2,725	826
Cash flows from financing activities	<u>3,367</u>	<u>76,593</u>
Net increase in cash and cash equivalents	<u>6,692</u>	<u>84,029</u>
Cash and cash equivalents at beginning of the period	<u>128,358</u>	<u>42,572</u>
Cash and cash equivalents at end of the period	<u><u>\$ 135,050</u></u>	<u><u>\$ 126,601</u></u>

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

	Nine Months Ended September 30,	
	2016	2015 ⁽²⁾
Supplemental disclosure of noncash investing and financing activities:		
Conversion of redeemable convertible preferred stock to common stock	\$ —	\$ 202,456
Cash not yet paid for business acquisitions	\$ —	\$ 617
Contingent liability from business acquisition	\$ 5	\$ 880
Cash not yet paid for capital expenditures	\$ 359	\$ 232
Reclassification of deferred offering costs to additional paid-in-capital	\$ —	\$ 5,024

(2) The nine months ended September 30, 2015 historical condensed consolidated statements of cash flow has been revised (Note 2).

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	Treasury Stock	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance as of January 1, 2016	—	\$ —	45,485	\$ 455	\$ 297,781	\$ (42)	\$ (128,063)	\$ 170,131
Common stock issued in connection with equity-based plans	—	—	353	3	1,199	—	—	1,202
Vesting of common stock subject to repurchase	—	—	60	1	228	—	—	229
Stock-based compensation	—	—	—	—	2,880	—	—	2,880
Tax benefit from stock options, net	—	—	—	—	2,680	—	—	2,680
Retirement of treasury stock	—	—	—	—	(42)	42	—	—
Net income	—	—	—	—	—	—	7,178	7,178
Balance as of September 30, 2016	—	\$ —	45,898	\$ 459	\$ 304,726	\$ —	\$ (120,885)	\$ 184,300

See accompanying notes to the condensed consolidated financial statements.

ALARM.COM HOLDINGS, INC.
Notes to the Condensed Consolidated Financial Statements
September 30, 2016 and 2015
(unaudited)

Note 1. Organization

Alarm.com Holdings, Inc. (referred to herein as "Alarm.com", the "Company", or "we") is the leading platform solution for the connected home. Through our cloud-based services, we make connected home technology broadly accessible to millions of home and business owners. Our multi-tenant software-as-a-service ("SaaS") platform enables home and business owners to intelligently secure their properties and automate and control a broad array of connected devices through a single, intuitive interface. Our solutions are delivered through an established network of over 6,000 trusted service providers, who are experts at designing, selling, installing and supporting our solutions. Our four primary solutions are interactive security, intelligent automation, video monitoring and energy management, which can be used individually or integrated into a single user interface. We derive revenue from the sale of our SaaS solutions over an integrated platform, license fees, hardware, activation fees and other revenue. Our fiscal year ends on December 31st.

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 ("GAAP") for interim financial information and the applicable rules and regulations of the Securities and Exchange Commission ("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, 2015 appearing in our Annual Report on Form 10-K filed on February 29, 2016 with the SEC. The condensed consolidated balance sheet data as of December 31, 2015 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 nine months ended September 30, 2016 are not necessarily indicative of the results that can be expected for our entire fiscal year ending December 31, 2016.

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 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 our 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 liability, goodwill and intangible assets.

September 30, 2015 Revision

During the fourth quarter of 2015, we identified an immaterial error related to the amount of stock-based compensation expense that we recorded in the third quarter of 2015 and reported in our Quarterly Report on Form 10-Q for September 30, 2015 which was filed with the SEC on November 10, 2015. We disclosed the error in our Annual Report on Form 10-K for the year ended December 31, 2015, which was filed with the SEC on February 29, 2016 and have revised our previously reported financial results for the quarter ended September 30, 2015 to correct the error. We concluded that this correction had no impact on our previously issued quarterly financial statements or our 2015 audited consolidated financial statements. The financial results for the three and nine months ended September 30, 2015 included within this Quarterly Report on Form 10-Q for September 30, 2016 are the revised financial results.

Recent Accounting Pronouncements

Adopted

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

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

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

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

Not yet adopted

On August 26, 2016, the FASB issued ASU 2016-15, "*Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments*," which provides guidance on the classification of certain cash receipts and payments in the statement of cash flows with the objective of reducing existing diversity in practice. 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 2016-15 in the first quarter of 2018 and we do not anticipate that the adoption of this standard will have a material effect on our financial statements.

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. We are required to adopt ASU 2014-09 and its amendments in the first quarter of 2018, and we are currently assessing the impact of this pronouncement on our financial statements.

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. We are required to adopt ASU 2014-09 and its amendments in the first quarter of 2018, and we are currently assessing the impact of this pronouncement on our financial statements.

On August 12, 2015, the FASB issued ASU 2015-14, *"Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date,"* which defers the effective date for all entities for one year of ASU 2014-09, *"Revenue from Contracts with Customers (Topic 606)"*, issued on May 28, 2014. ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. The guidance supersedes the revenue recognition guidance in Topic 605, *"Revenue Recognition,"* and most industry-specific guidance throughout the Industry Topics of the FASB Accounting Standards Codification. The guidance also supersedes some cost guidance included in Subtopic 605-35, *"Revenue Recognition - Contract-Type and Production-Type Contracts."* ASU 2014-09, 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. We are required to adopt ASU 2014-09 and its amendments in the first quarter of 2018, and we are currently assessing the impact of this pronouncement on our financial statements.

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, with early adoption permitted. An entity that elects early adoption must adopt all of the amendments in the same period. Amendments related to the timing of when excess tax benefits are recognized, minimum statutory withholding requirements, forfeitures, and intrinsic value should be applied using a modified retrospective transition method by means of a cumulative-effect adjustment to equity as of the beginning of the period in which the guidance is adopted. Amendments related to the presentation of employee taxes paid on the statement of cash flows when an employer withholds shares to meet the minimum statutory withholding requirement should be applied retrospectively. Amendments requiring recognition of excess tax benefits and tax deficiencies in the income statement and the practical expedient for estimating expected term should be applied prospectively. An entity may elect to apply the amendments related to the presentation of excess tax benefits on the statement of cash flows using either a prospective transition method or a retrospective transition method. We are required to adopt ASU 2016-09 in the first quarter of 2017, and we are currently assessing the impact of this pronouncement on our financial statements.

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 in the first quarter of 2019, and we are currently assessing the impact of this pronouncement on our financial statements.

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

prospectively in the first quarter of 2017, and we are currently assessing the impact of this pronouncement on our financial statements.

On August 27, 2014, the FASB issued ASU 2014-15, "*Presentation of Financial Statements — Going Concern (Subtopic 205-40)*," which requires management to perform interim and annual assessments regarding conditions or events that raise substantial doubt about a company's ability to continue as a going concern and to provide related disclosures, if applicable. The amendment is effective for annual periods ending after December 15, 2016, and interim periods thereafter, with early adoption permitted. We are required to adopt ASU 2014-15 for our 2016 annual reporting period. We do not anticipate that the adoption of this standard will have a material effect on our financial statements.

Note 3. Accounts Receivable, Net

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

	September 30, 2016	December 31, 2015
Accounts receivable	\$ 32,430	\$ 24,779
Allowance for doubtful accounts	(1,301)	(1,315)
Allowance for product returns	(2,395)	(2,116)
Accounts receivable, net	<u>\$ 28,734</u>	<u>\$ 21,348</u>

We recorded a \$0.2 million and a \$0.4 million provision for doubtful accounts receivable for the three and nine months ended September 30, 2016, respectively, as compared to less than \$0.1 million and \$0.4 million for the same periods in the prior year. We recorded a \$0.5 million and a \$1.5 million reserve for product returns in our hardware and other revenue for the three and nine months ended September 30, 2016, respectively, as compared to \$0.3 million and \$1.1 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):

	September 30, 2016	December 31, 2015
Raw materials	\$ 5,364	\$ 3,026
Finished goods	6,140	3,448
Total inventory	<u>\$ 11,504</u>	<u>\$ 6,474</u>

Note 5. Acquisitions

Proposed Acquisition

During our second quarter of 2016, we entered into a definitive agreement to acquire two business units, Connect and Piper, from Icontrol Networks, Inc., or Icontrol, for a purchase price of approximately \$140.0 million, or the Acquisition. Connect develops and sells a custom, on-premise software platform that powers several service providers' solutions for interactive security and automation including ADT Pulse® which was estimated to have 1.6 million subscribers as of December 31, 2015. Piper develops and sells a Wi-Fi-enabled video and home automation hub. We expect the proposed Acquisition to contribute to revenue growth and be EPS accretive on a non-GAAP basis for the full year 2017. The proposed Acquisition is subject to customary closing conditions as well as certain events that we cannot control, including regulatory approvals and the closing of the acquisition of Icontrol's Converge business unit by Comcast Cable Communications, LLC, a subsidiary of Comcast Corporation, or Comcast.

On September 12, 2016, we and Icontrol each received a request for additional information and documentary materials, or a second request, from the U.S. Federal Trade Commission, or the FTC, in connection with the FTC's review of the proposed Acquisition. On September 22, 2016, we and Icontrol entered into a timing agreement with the FTC and agreed not to consummate the proposed Acquisition before the 45th calendar day following the date of certifying substantial compliance with the second request, unless we have received prior notice that the FTC has concluded its review. We and Icontrol are in the process of responding to the second request but ongoing review at the FTC will likely result in the proposed Acquisition not closing until the first quarter of 2017. Further, on November 2, 2016, in response to questions raised by the FTC, we and Icontrol represented to the FTC that the terms of the acquisition agreement would be modified to ensure we do not exercise any control

over the ongoing operations of the Icontrol business until such time as the waiting period under the Hart-Scott-Rodino Act expires or is terminated. We and Icontrol are also providing documents and information to the FTC to address these questions.

Effective as of August 19, 2016, or the Effective Date, our subsidiary, Alarm.com Incorporated, or Alarm.com, and ADT LLC, or ADT, amended their existing master services agreement, or the Amended MSA. The Amended MSA provides that following the closing, if any, of the proposed Acquisition, in exchange for certain incentives and service obligations provided to ADT, Alarm.com will serve as the exclusive provider of services for ADT's professionally installed residential interactive security, automation and video service offerings for a period of up to five (5) years following the Effective Date, subject to Alarm.com achieving certain performance conditions and with certain exclusions. The Amended MSA also includes certain installation, maintenance, support, indemnity and development requirements and can be terminated if such requirements are not satisfied, including without notice if certain events occur. The foregoing description of the material terms of the Amended MSA does not purport to be complete and is subject to, and is qualified in its entirety by, reference to the full terms of the Amended MSA. We have submitted a request for confidential treatment of certain portions of the Amended MSA to the Securities and Exchange Commission pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended.

SecurityTrax Acquisition

On March 13, 2015, in accordance with an asset purchase agreement, we completed our purchase of certain assets of HiValley Technology, Inc., ("SecurityTrax") that constituted a business. SecurityTrax is a provider of SaaS-based customer relationship management software tailored for security system dealers. The consideration included \$5.6 million cash paid at closing and \$0.4 million of cash not yet paid and established a contingent liability of \$0.7 million for earn-out considerations to be paid to the former owners. The agreement also contains \$2.0 million in potential payments associated with the continued employment of key employees through March 31, 2018 that will be accounted for as compensation expense over the period.

The revenue and net income from SecurityTrax's operations since its acquisition date, March 13, 2015, were included in the Alarm.com segment for the three and nine months ended September 30, 2015 (see Note 16). The following pro forma data has been prepared as if SecurityTrax was included in our historical consolidated statements of operations beginning on January 1, 2015. These pro forma results do not necessarily represent the results that may occur in the future. We have adjusted for amortization expense assuming the fair value adjustments to intangible assets had been applied beginning January 1, 2014. We did not adjust for transaction costs as the transaction costs were recorded in the period of acquisition. We also included adjustments for income taxes associated with these pro forma adjustments. 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. For the nine months ended September 30, 2015, our unaudited pro forma revenue was \$152.2 million and our unaudited pro forma net income was \$8.7 million.

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

	<u>March 13, 2015</u>
Calculation of Consideration:	
Cash paid, net of working capital adjustment	\$ 5,612
Cash not yet paid	400
Contingent consideration liability	700
Total consideration	<u>\$ 6,712</u>
Estimated Tangible and Intangible Net Assets:	
Current assets	\$ 14
Customer relationships	1,699
Developed technology	1,407
Trade name	271
Current liabilities	(7)
Goodwill	3,328
Total estimated tangible and intangible net assets	<u>\$ 6,712</u>

The \$3.3 million goodwill balance reflects the value of acquired workforce and expected synergies from pairing SecurityTrax's solutions to security service providers with our current product offerings. The goodwill will be deductible for tax

purposes. We developed our estimate of the fair value of intangible net assets using a multi-period excess earnings method for customer relationships, the relief from royalty method for the developed technology, replacement cost method for the developed technology home page and the relief from royalty method for the trade name. The purchase price allocation presented above was finalized in 2015.

Fair Value of Net Assets Acquired and Intangibles

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

Customer Relationships

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

Developed Technology

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

Contingent Consideration Liability

The amount of contingent consideration liability to be paid, up to a maximum of \$2.0 million, to the former owners of SecurityTrax will be determined based on revenue and EBITDA of the acquired business for the year ended December 31, 2017. We estimated the fair value of the contingent consideration liability by using a Monte Carlo simulation model for determining projected revenue by using an expected distribution of potential outcomes. The fair value of contingent consideration liability is calculated with thousands of projected revenue outcomes, the results of which are averaged and then discounted to estimate the present value. We used several assumptions including an 8.45% discount rate and a 7.5% revenue risk adjustment. We recorded the contingent consideration, valued at \$0.7 million, as a contingent consideration liability in other liabilities in our condensed consolidated balance sheet. At each reporting date we will remeasure the liability and record any changes in general and administrative expense, until we pay the contingent consideration, if any, in the first quarter of 2018. We adjusted the fair value of the contingent consideration liability to less than \$0.1 million as of September 30, 2016 using the same method with updated assumptions and forecast, which resulted in less than \$0.1 million and \$0.2 million of income for the three and nine months ended September 30, 2016. The fair value of the contingent consideration liability was \$0.2 million as of December 31, 2015. For the change in the fair value of the liability from acquisition date through September 30, 2015, we recorded \$0.1 million and \$0.2 million of expense in general and administrative expense during the three and nine months ended September 30, 2015.

Note 6. Goodwill and Intangible Assets, Net

The following table reflects changes in goodwill by operating segment for the nine months ended September 30, 2016 (in thousands):

	Alarm.com	Other	Total
Balance as of December 31, 2015	\$ 24,723	\$ —	\$ 24,723
Goodwill acquired	—	—	—
Balance as of September 30, 2016	<u>\$ 24,723</u>	<u>\$ —</u>	<u>\$ 24,723</u>

There were no impairments of goodwill recorded during the three and nine months ended September 30, 2016 and 2015.

The following table reflects changes in the net carrying amount of the components of intangible assets for the nine months ended September 30, 2016 (in thousands):

	Customer Relationships	Developed Technology	Trade Name	Other	Total
Balance as of December 31, 2015	\$ 4,449	\$ 1,486	\$ 273	\$ 110	\$ 6,318
Intangible assets acquired	—	—	—	—	—
Amortization	(827)	(358)	(95)	(88)	(1,368)
Balance as of September 30, 2016	<u>\$ 3,622</u>	<u>\$ 1,128</u>	<u>\$ 178</u>	<u>\$ 22</u>	<u>\$ 4,950</u>

We recorded \$0.4 million and \$1.4 million of amortization related to our intangible assets for the three and nine months ended September 30, 2016, respectively, as compared to \$0.6 million and \$1.6 million for the same periods in the prior year.

The following tables reflect the weighted average remaining life and carrying value of finite-lived intangible assets as of September 30, 2016 and December 31, 2015 (in thousands):

	September 30, 2016			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	Weighted-Average Remaining Life
Customer relationships	\$ 10,666	\$ (7,044)	\$ 3,622	4.0
Developed technology	5,390	(4,262)	1,128	4.3
Trade name	914	(736)	178	4.4
Other	234	(212)	22	0.2
Total intangible assets	<u>\$ 17,204</u>	<u>\$ (12,254)</u>	<u>\$ 4,950</u>	

	December 31, 2015			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	Weighted-Average Remaining Life
Customer relationships	\$ 10,666	\$ (6,217)	\$ 4,449	4.5
Developed technology	5,390	(3,904)	1,486	4.8
Trade name	914	(641)	273	4.7
Other	234	(124)	110	0.9
Total intangible assets	<u>\$ 17,204</u>	<u>\$ (10,886)</u>	<u>\$ 6,318</u>	

The following table reflects the future estimated amortization expense for intangible assets as of September 30, 2016 (in thousands):

Year Ending December 31,	Amortization
Remainder of 2016	\$ 358
2017	1,400
2018	1,329
2019	579
2020 and thereafter	1,284
Total future amortization expense	<u>\$ 4,950</u>

Note 7. Investments in Other Entities

Cost Method Investment in Connected Home Service Provider

We own 20,000 Series A Convertible Preferred Membership Units and 2,667 Series B Convertible Preferred Membership Units of a Brazilian connected home solutions provider, which represents an interest of 12.4% on a fully diluted basis, and was purchased for \$0.4 million. On April 15, 2015, we purchased 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 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 September 30, 2016 and December 31, 2015, the fair value of this cost method investment was not estimated as there were no events or changes in circumstances that may have had a significant adverse effect on the fair value of the investment. The investment is included in other assets in our condensed consolidated balance sheets and was \$0.6 million as of September 30, 2016 and \$0.4 million as of December 31, 2015.

Investments in and Loans to an Installation Partner

We own 48,190 common units of an installation partner which represents an interest of 48.2% on a fully diluted basis, and was purchased for \$1.0 million. The entity performs installation services for security dealers, as well as subsidiaries reported in our Other segment. Based upon the level of equity investment at risk, we determined that the installation partner was not a VIE. We accounted for this investment under the equity method because we have the ability to exercise significant influence over the operating and financial policies of the entity. Under the equity method, we recognize our share of the earnings or losses of the installation partner in other income / (expense), 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. 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 began to record 100% of its net losses, which amounted to \$0.2 million, against our \$0.3 million note receivable. The note was amended in September 2016 to extend the maturity date to September 2018. In our condensed consolidated balance sheets, the \$0.1 million note receivable balance was included in other assets as of September 30, 2016 and included in other current assets as of December 31, 2015.

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.

We recorded our share of the installation partner's loss in other income / (expense), net in our condensed consolidated statements of operations, which was less than \$0.1 million for the three and nine months ended September 30, 2016 as compared to \$0.1 million and \$0.3 million for the same periods in the prior year. Our \$1.2 million investment, net of equity losses, is included in other assets in our condensed consolidated balance sheets and was \$0.1 million as of September 30, 2016 and December 31, 2015.

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 an as-converted and fully diluted basis. 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 now 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.

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 September 30, 2016 and December 31, 2015, the fair value of this cost method investment was not estimated as there were no events or changes in circumstances that may have had a significant adverse effect on the fair value of the investment.

As of September 30, 2016 and December 31, 2015, our \$1.0 million cost method investment in a 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. We have \$4.9 million 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. The net balance as of September 30, 2016 and December 31, 2015 was \$3.4 million and \$2.2 million. Amortization expense on patent licenses was \$0.1 million and \$0.4 million for the three and nine months ended September 30, 2016, as compared to \$0.2 million and \$0.3 million for the three and nine months ended September 30, 2015. Amortization expense on patent licenses is included in cost of SaaS and license revenue in our condensed consolidated statements of operations.

Loan to a Distribution Partner

In 2013, we entered into a revolving loan agreement with a distribution partner. The distribution partner is also a service provider with whom we have a standard agreement to resell our connected home service and hardware. We had evaluated that our distribution partner had good credit quality through a credit review at the inception of the arrangement and by evaluating risk indications during the repayment period.

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

During the first quarter of 2016, our distribution partner repaid the loan and the revolving loan agreement was subsequently terminated. We received \$2.4 million of cash, representing the entire balance outstanding and the accrued interest at the termination date. There was no outstanding balance as of September 30, 2016. As of December 31, 2015, our distribution partner's outstanding balance was \$2.4 million and the note receivable was included in other assets on our condensed consolidated balance sheets.

Loan to a Distribution Partner

In September 2016, we entered into dealer and loan agreements with a new 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 loan has two advance periods which begin each year in October and end during the following January until August 31, 2019, the term date of the loan. 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 borrower has the option to extend the term of the loan for two successive terms of one year each.

For the three months ended September 30, 2016, there were no amounts drawn and there was no outstanding balance for this loan as of September 30, 2016. For the three months ended September 30, 2016, there was no revenue recognized under the dealer agreement. Subsequent to September 30, 2016 and prior to the filing of this Quarterly Report on Form 10-Q, our distribution partner has drawn \$2.0 million at a rate of 6% per annum.

Note 9. Fair Value Measurements

The following table presents our assets and liabilities measured at fair value on a recurring basis as of September 30, 2016 and December 31, 2015 (in thousands):

**Fair Value Measurements on a Recurring Basis as of
September 30, 2016**

	Level 1	Level 2	Level 3	Total
Fair Value Measurements in:				
Assets:				
Money market account	\$ 126,549	\$ —	\$ —	\$ 126,549
Total	<u>\$ 126,549</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 126,549</u>
Liabilities:				
Subsidiary unit awards	\$ —	\$ —	\$ 2,164	\$ 2,164
Contingent consideration liability from acquisition	—	—	5	5
Total	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 2,169</u>	<u>\$ 2,169</u>

**Fair Value Measurements on a Recurring Basis as of
December 31, 2015**

	Level 1	Level 2	Level 3	Total
Fair Value Measurements in:				
Assets:				
Money market account	\$ 122,818	\$ —	\$ —	\$ 122,818
Total	<u>\$ 122,818</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 122,818</u>
Liabilities:				
Subsidiary unit awards	\$ —	\$ —	\$ 532	\$ 532
Contingent consideration liability from acquisition	—	—	230	230
Total	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 762</u>	<u>\$ 762</u>

The following table summarizes the change in fair value of the Level 3 liability for the three months ended September 30, 2016 and 2015 (in thousands):

	Fair Value Measurements Using Significant Unobservable Inputs			
	Three Months Ended September 30, 2016		Three Months Ended September 30, 2015	
	Subsidiary unit awards	Contingent consideration liability from acquisition	Subsidiary unit awards	Contingent consideration liability from acquisition
Beginning of period balance	\$ 834	\$ 40	\$ 152	\$ 630
Total (gains) losses included in earnings	1,330	(35)	42	250
Ending of period balance	<u>\$ 2,164</u>	<u>\$ 5</u>	<u>\$ 194</u>	<u>\$ 880</u>

The following table summarizes the change in fair value of the Level 3 liability for the nine months ended September 30, 2016 and 2015 (in thousands):

	Fair Value Measurements Using Significant Unobservable Inputs			
	Nine Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
	Subsidiary unit awards	Contingent consideration liability from acquisition	Subsidiary unit awards	Contingent consideration liability from acquisition
Beginning of period balance	\$ 532	\$ 230	\$ —	\$ —
Total (gains) losses included in earnings	1,632	(225)	42	180
Purchases	—	—	—	700
Transfers into Level 3	—	—	152	—
Ending of period balance	\$ 2,164	\$ 5	\$ 194	\$ 880

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 three employees for cash awards contingent upon the subsidiary companies meeting certain financial milestones such as revenue, working capital, EBITDA and EBITDA margin. We established liabilities for the future payment of the repurchase of subsidiary units under the terms of the agreements by estimating revenue, working capital, EBITDA and EBITDA margin of the subsidiary units over the periods of the three 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 general and administrative expense. The liability balances are included in accounts payable, accrued expenses and other current liabilities or other liabilities line items 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 nine months ended September 30, 2016 and 2015. 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 nine months ended September 30, 2016 and 2015.

Note 10. Liabilities

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

	September 30, 2016	December 31, 2015
Accounts payable	\$ 20,034	\$ 12,813
Accrued expenses	3,034	4,244
Other current liabilities	4,473	2,219
Accounts payable, accrued expenses and other current liabilities	<u>\$ 27,541</u>	<u>\$ 19,276</u>

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

	September 30, 2016	December 31, 2015
Deferred rent	\$ 10,079	\$ 8,435
Other liabilities	2,059	2,049
Other liabilities	<u>\$ 12,138</u>	<u>\$ 10,484</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

In 2014, we repaid all of the outstanding principal and interest under a previous term loan, which was accounted for as an extinguishment of debt, and replaced it with a \$50.0 million revolving credit facility, or the 2014 Facility, with Silicon Valley Bank, as administrative agent, and a syndicate of lenders. We utilized \$6.7 million under the 2014 Facility to repay in full our indebtedness under the previous term loan. On August 10, 2016, the 2014 Facility was amended to (1) increase our current borrowing capacity from \$50.0 million to \$75.0 million, (2) provide for an option to further increase the borrowing capacity to \$125.0 million with the consent of the lenders, (3) increase the maximum consolidated leverage ratio from 2.50:1.00 to 3.00:1.00, and (4) extend the maturity date of the 2014 Facility and the principal outstanding from May 2017 to November 2018. This amendment to the 2014 Facility was accounted for as a debt modification. 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, or ABR, at our option. For the nine months ended September 30, 2015, we elected for the outstanding principal balance to accrue interest at LIBOR plus 2.25%, LIBOR plus 2.5%, and LIBOR plus 2.75% 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 nine months ended September 30, 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 nine months ended September 30, 2016 and 2015, the effective interest rate on the 2014 Facility was 2.73% and 2.54%.

The carrying value of the 2014 Facility was \$6.7 million as of September 30, 2016 and December 31, 2015. 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 September 30, 2016. 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. During the nine months ended September 30, 2016, we were in compliance with all financial and non-financial covenants and there were no events of default.

Commitments and Contingencies

Repurchase of Subsidiary Units

In 2012, we formed a subsidiary to develop and market home and commercial energy management devices and services. We granted an award of subsidiary stock to the founder and president. The terms of the award for the founder, who is also our employee, require a payment in cash on either the third or the fourth anniversary from the date the subsidiary first makes its products and services commercially available, which was determined to be April 1, 2014. The vesting of the award is based on the subsidiary meeting certain minimum financial targets. We recorded a liability of zero and \$0.1 million related to this commitment in other liabilities in our condensed consolidated balance sheets as of September 30, 2016 and December 31, 2015.

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 awards of subsidiary stock to two employees, a key employee and the president who is also the founder. The terms of the awards, as amended, required a payment in cash on the fourth anniversary of the date that the subsidiary's products and services first become commercially available, which was determined to be June 1, 2013. The vesting of the awards is based on the subsidiary meeting certain minimum financial targets. We recorded a liability of \$2.2 million related to these commitments in accounts payable, accrued expenses and other current liabilities in our condensed consolidated balance sheet as of September 30, 2016. We recorded \$0.5 million related to these commitments in other liabilities in our condensed consolidated balance sheet as of December 31, 2015.

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 provide for 30,662 square feet of additional office space and an additional \$1.7 million in tenant improvement allowances. We will take possession of the additional space on January 1, 2017 and we are allowed to utilize the tenant improvement allowance for design prior to moving into the space.

As of September 30, 2016, we have utilized \$6.9 million of our total \$9.7 million tenant improvement allowance. Rent expense was \$1.2 million and \$3.8 million for the three and nine months ended September 30, 2016 and \$1.2 million and \$3.6 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 September 30, 2016, we had outstanding letters of credit under our 2014 Facility to our manufacturing partners in the amount of \$0.3 million. As of December 31, 2015, we had no letters of credit outstanding under our 2014 Facility.

Legal Proceedings

On June 2, 2015, Vivint, Inc., or Vivint, filed a lawsuit against us in U.S. District Court, District of Utah, alleging that our technology directly and indirectly infringes six patents that Vivint purchased. Vivint is seeking 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 by the U.S. Patent Trial and Appeal Board of certain patents in suit. 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 violated the TCPA, but instead seeks to hold us responsible for the marketing activities of our service providers 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 March 24, 2016, we filed a motion to transfer the matter to the U.S. District Court for the Northern District of West Virginia to be consolidated with 23 other similar and related pending TCPA actions. That motion was denied on June 2, 2016. Discovery has commenced, and the matter remains pending in the U.S. District Court for the Northern District of California. Based on currently available information, we determined a loss is not probable or reasonably estimable at this time.

On February 9, 2016, we were sued along with one of our service providers in the Circuit Court for the City of Virginia Beach, Virginia by the estate of a deceased service provider customer alleging wrongful death, among other claims. The suit seeks a total of \$7 million in compensatory damages and \$350,000 in punitive damages. We 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.

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 for the three and nine months ended September 30, 2016 and 2015 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Sales and marketing	\$ 130	\$ 114	\$ 422	\$ 260
General and administrative	444	785	907	2,305
Research and development	512	390	1,551	890
Total stock-based compensation expense	<u>\$ 1,086</u>	<u>\$ 1,289</u>	<u>\$ 2,880</u>	<u>\$ 3,455</u>

The following table summarizes the components of non-cash stock-based compensation expense for the three and nine months ended September 30, 2016 and 2015 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Stock options	\$ 1,030	\$ 1,289	\$ 2,787	\$ 2,485
Restricted stock units	34	—	34	—
Employee stock purchase plan	22	—	59	—
Compensation related to the sale of common stock	—	—	—	193
Compensation related to the cash settlement of stock options	—	—	—	777
Total stock-based compensation expense	<u>\$ 1,086</u>	<u>\$ 1,289</u>	<u>\$ 2,880</u>	<u>\$ 3,455</u>
Tax benefit from equity-based plans	<u>\$ 2,221</u>	<u>\$ 618</u>	<u>\$ 2,680</u>	<u>\$ 859</u>

Stock Options

We issue stock options pursuant to our 2015 Equity Incentive Plan (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 ("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 (the "2009 Plan"). The number of shares of common stock reserved for issuance under the 2015 Plan will automatically increase on January 1 each year, for a period of not more than ten years, commencing on January 1, 2016 through January 1, 2024, by 5% of the total number of shares of common stock outstanding on December 31 of the preceding calendar year, or a lesser number of shares as may be determined by the board of directors. As a result of the adoption of the 2015 Plan, no further grants may be made under the 2009 Plan. As of September 30, 2016, 6,414,041 shares remained available for future grant under the 2015 Plan.

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 the 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 34,678 and 96,368 unvested shares of common stock outstanding subject to our right of repurchase as of September 30, 2016 and December 31, 2015. We repurchased 232 and 2,156 unvested shares of common stock related to early exercised stock options in connection with employee terminations during the three and nine months ended September 30, 2016 and we repurchased zero and 287 unvested shares of common stock during the same periods in the prior year. As of

September 30, 2016 and December 31, 2015, we recorded \$0.2 million and \$0.4 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.

Included in the stock-based compensation expense for the nine months ended September 30, 2015 was \$0.8 million related to the cash settlement of exercised stock options of a terminated employee, at the company's election. We accounted for this cash settlement as a liability modification of the stock option awards.

We account for stock-based compensation awards based on the fair value of the award as of the grant date. We recognize stock-based compensation expense using the accelerated attribution method, net of estimated forfeitures, in which compensation cost for each vesting tranche in an award is recognized ratably from the service inception date to the vesting date for that tranche.

There were 588,900 and 514,276 stock options granted during the nine months ended September 30, 2016 and 2015. We declared and paid dividends in June 2015 in anticipation of our IPO, which we closed on July 1, 2015. Subsequent to the IPO, we do not expect to declare or pay dividends on a recurring basis. As such, we assume that the dividend rate is zero.

The following table summarizes the assumptions used for estimating the fair value of stock options granted during the three and nine months ended September 30, 2016 and 2015:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Volatility	49.7%	51.0%	48.3 - 50.6%	48.5 - 51.8%
Expected term	6.3 years	6.3 years	5.6 - 6.3 years	4.5 - 6.3 years
Risk-free interest rate	1.3%	1.8%	1.3 - 1.4%	1.3 - 1.8%
Dividend rate	—%	—%	—%	—%

The following table presents stock option activity for the nine months ended September 30, 2016:

	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, 2015	3,547,913	\$ 4.17	6.6	\$ 44,411
Granted	588,900	16.76		
Exercised	(321,286)	1.86		7,576
Forfeited	(86,099)	9.35		
Expired	—	—		
Outstanding as of September 30, 2016	3,729,428	\$ 6.23	6.5	\$ 84,430
Vested and expected to vest as of September 30, 2016	3,682,475	\$ 6.14	6.4	\$ 83,650
Exercisable as of September 30, 2016	2,266,851	\$ 3.02	5.3	\$ 58,571

The weighted average grant date fair value for our stock options granted during the nine months ended September 30, 2016 and 2015 was \$8.25 and \$5.79. The total fair value of stock options vested during the nine months ended September 30, 2016 and 2015 was \$1.7 million and \$2.3 million. The aggregate intrinsic value of stock options exercised during the nine months ended September 30, 2016 and 2015 was \$7.6 million and \$3.1 million. As of September 30, 2016, the total compensation cost related to nonvested awards not yet recognized was \$4.6 million, which will be recognized over a weighted average period of 2.1 years.

Restricted Stock Units

On August 15, 2016, we granted an aggregate of 25,640 RSUs to certain of our employees. Each of these awards vest 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 estimated 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 RSUs condition for vesting is based on continued employment and a forfeiture rate is estimated for recognizing compensation expense based on historical forfeiture rates of stock-option awards. As of September 30, 2016, the total unrecognized compensation expense related to restricted stock unit awards granted amounted to \$0.7 million, which is expected to be recognized over a weighted average period of 3.25 years.

The following table summarizes RSU activity for the nine months ended September 30, 2016:

	Number of RSUs	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value (in thousands)
Outstanding as of December 31, 2015	—	\$ —	\$ —
Granted	25,640	32.93	844
Vested	—	—	—
Forfeited	—	—	—
Outstanding as of September 30, 2016	25,640	32.93	740
Vested and expected to vest after September 30, 2016	23,214	\$ 32.93	\$ 670

Employee Stock Purchase Plan

Our board of directors adopted our 2015 Employee Stock Purchase Plan ("2015 ESPP") in June 2015. As of September 30, 2016, 1,624,019 shares have been reserved for future grant under the 2015 ESPP, with provisions established to increase the number of shares available on January 1 of each subsequent year for nine years. The annual automatic increase in the number of shares available for issuance under the 2015 ESPP is the lesser of 1% of each class of common stock outstanding as of December 31 of the preceding fiscal year, 1,500,000 shares of common stock, or such lesser number as determined by the board of directors. The 2015 ESPP allows eligible employees to purchase shares of our common stock at 90% of the fair market value, rounded up to the nearest cent, based on the closing price of our common stock on the purchase date. The maximum number of shares of our common stock that a participant may purchase during any calendar year shall not exceed such number of shares having a fair market value equal to the lesser of \$15,000 or 10% of the participant's base compensation for that year.

The 2015 ESPP is considered compensatory for purposes of stock-based compensation expense due to the 10% discount on the fair market value of our common stock. For the nine months ended September 30, 2016, an aggregate of 31,797 shares were purchased by employees. We recognized less than \$0.1 million of compensation expense for the three and nine months ended September 30, 2016. No shares were purchased by employees during the three and nine months ended September 30, 2015, so no compensation expense was recognized during these periods. Compensation expense is recognized for the amount of the discount, net of forfeitures, over the purchase period, based on the monthly closing price of our common stock as an estimate of the final purchase price for the offering period. This estimate is adjusted at each reporting period until the purchase is finalized.

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 September 30, 2016 and December 31, 2015 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 nine months ended September 30, 2016 and 2015.

Sale of Common Stock Subscriptions

In 2013, we sold 238,500 shares of our common stock to one of our executive officers for \$0.7 million, or \$2.95 per share, an amount below fair value. Under the terms of the sale, we had the right to repurchase the shares for \$2.95 per share subject to certain triggering events prior to April 2, 2017. Our repurchase right expired on July 1, 2015, the date of the closing of our IPO. The excess of the fair value over the sale price was being recorded to stock-based compensation expense, on a straight-line basis, over the four-year term of the repurchase agreement. In 2015, we recognized the remaining unamortized expense upon the expiration of our repurchase right. No expense was recognized related to this sale for the three months ended September 30, 2015. We recognized \$0.2 million related to this sale in general and administrative expense in our condensed consolidated statement of operations for the nine months ended September 30, 2015. No expense was recognized related to this sale for the three and nine months ended September 30, 2016.

Note 13. Earnings Per Share

Basic and Diluted Earnings Per Share ("EPS")

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015 ⁽¹⁾	2016	2015 ⁽¹⁾
Net income	\$ 2,567	\$ 2,943	\$ 7,178	\$ 8,493
Less: dividends paid to participating securities	—	—	—	(18,987)
Less: income allocated to participating securities	\$ —	\$ (45)	\$ —	\$ —
Net income / (loss) attributable to common stockholders (A)	\$ 2,567	\$ 2,898	\$ 7,178	\$ (10,494)
Weighted average common shares outstanding — basic (B)	45,716,961	44,922,410	45,615,399	16,910,090
Dilutive effect of stock options	2,602,991	1,950,285	2,125,966	—
Weighted average common shares outstanding — diluted (C)	48,319,952	46,872,695	47,741,365	16,910,090
Net income / (loss) per share:				
Basic (A/B)	\$ 0.06	\$ 0.06	\$ 0.16	\$ (0.62)
Diluted (A/C)	\$ 0.05	\$ 0.06	\$ 0.15	\$ (0.62)

⁽¹⁾ The three and nine months ended September 30, 2015 historical condensed consolidated statements of operations have been revised (Note 2).

The following securities have been excluded from the calculation of diluted weighted average common shares outstanding because the effect is anti-dilutive for the three and nine months ended September 30, 2016 and 2015:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Stock options	112,350	32,000	132,350	537,525
RSU's	25,640	—	25,640	—
Common stock subject to repurchase	34,678	124,791	34,678	124,791

Note 14. Significant Service Providers

During the three and nine months ended September 30, 2016, our 10 largest revenue service providers accounted for 60.3% and 60.5% of our revenue, respectively, as compared to 63.7% and 63.7% for the same periods in the prior year. One of our service providers individually represented greater than 10% but not more than 15% of our revenue for the three and nine months ended September 30, 2016. One of our service providers individually represented greater than 15% but not more than 20% of our revenue for the three and nine months ended September 30, 2015.

Trade accounts receivable from two service providers totaled \$2.9 million each as of September 30, 2016. No other individual service provider represented more than 10% of accounts receivable as of September 30, 2016. Trade accounts

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

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.

Our effective income tax rates were 12.2% and 29.0% for the three and nine months ended September 30, 2016, respectively, as compared to 22.8% and 35.0% for the same periods in the prior year. Our effective tax rate differs from the statutory rate primarily due to the benefit of the research and development tax credit, partially offset by the impact of state taxes and nondeductible meal and entertainment expenses. The increased benefit of the research and development tax credit between 2015 and 2016 related primarily to the permanent extension of the research and development tax credit which we recorded during the nine months ended September 30, 2016.

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 the 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 September 30, 2016 and December 31, 2015. Accordingly, we have not recorded a valuation allowance as of September 30, 2016 and December 31, 2015.

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. For the three and nine months ended September 30, 2016, we recorded an unrecognized tax benefit of \$0.2 million related to research and development tax credits for the 2016 tax year. For the three and nine months ended September 30, 2016, we recorded interest for the period on prior year research and development tax credits we claimed. Our liability for uncertain tax positions was \$0.8 million and \$0.5 million as of September 30, 2016 and December 31, 2015.

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 connected home and related solutions. Our Alarm.com segment also includes SecurityTrax, a provider of SaaS-based, customer relationship management software tailored for security system dealers. This segment contributed 94% of our revenue for the three and nine months ended September 30, 2016 and 97% for the same periods in the prior year. 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.

Management evaluates the performance of its segments and allocates resources to them based on operating income. The reportable segment operational data is presented in the table below for the three and nine months ended September 30, 2016 and 2015 and as of September 30, 2016 and December 31, 2015 (in thousands):

	Alarm.com	Other	Intersegment Alarm.com	Intersegment Other	Total
For the Three Months Ended September 30, 2016					
Revenue	\$ 64,420	\$ 5,355	\$ (700)	\$ (1,229)	\$ 67,846
Operating income	4,930	(2,024)	(62)	(9)	2,835
For the Three Months Ended September 30, 2015					
Revenue	\$ 52,684	\$ 2,073	\$ (50)	\$ (700)	\$ 54,007
Operating income	8,385	(4,561)	4	33	3,861
For the Nine Months Ended September 30, 2016					
Revenue	\$ 182,205	\$ 13,289	\$ (2,040)	\$ (2,142)	\$ 191,312
Operating income	16,173	(6,259)	(188)	178	9,904
For the Nine Months Ended September 30, 2015					
Revenue	\$ 148,302	\$ 5,714	\$ (570)	\$ (1,479)	\$ 151,967
Operating income	26,715	(13,467)	(167)	183	13,264
As of September 30, 2016					
Assets	\$ 237,987	\$ 12,361	\$ —	\$ —	\$ 250,348
As of December 31, 2015					
Assets	\$ 215,315	\$ 10,780	\$ —	\$ —	\$ 226,095

We derived substantially all of our revenue from North America for the three and nine months ended September 30, 2016 and 2015. Substantially all of our long lived assets were located in North America as of September 30, 2016 and December 31, 2015.

Note 17. Related Party Transactions

Our installation partner in which we have a 48.2% ownership interest performs installation services for security dealers and also provides installation services for us and certain of our subsidiaries. We recorded \$0.2 million and \$0.9 million of cost of hardware and other revenue in connection with this installation partner for the three and nine months ended September 30, 2016, respectively, as compared to \$0.2 million and \$0.5 million for the same periods in the prior year. As of September 30, 2016 and December 31, 2015, the accounts payable balance was \$0.1 million and \$0.5 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 \$6,000 and \$18,000 of interest income related to this note receivable for the three and nine months ended September 30, 2016, respectively, as compared to \$6,000 and \$19,000 for the same periods in the prior year.

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, 2015 included in our Annual Report on Form 10-K filed on February 29, 2016 with the Securities and Exchange Commission (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 (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (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 solution for the connected home. Through our cloud-based services, we make connected home technology broadly accessible to millions of home and business owners. Our multi-tenant software-as-a-service, or SaaS, platform enables home and business owners to intelligently secure their properties and automate and control a broad array of connected devices through a single, intuitive user interface.

As of December 31, 2015, our connected home platform had more than 2.6 million residential and business subscribers and connects to tens of millions of devices. More than 20 billion data points were generated and processed by those subscribers and devices in 2015 alone. We believe that this scale of subscribers, devices and data makes us the leader in the smart home services market.

Our solutions are delivered through an established network of over 6,000 trusted service providers, who are experts at designing, selling, installing and supporting our solutions. Our technology platform was purpose-built for the entire connected home ecosystem, including the consumers who use it, the service providers who deliver it and the hardware partners whose devices are enabled by the platform. Our solutions are used by both home and business owners, and we refer to this market as the connected home market.

We invest in solutions that connect people in new ways with their properties and devices, making them safer, smarter and more efficient. Our scalable, flexible platform is designed to meet a wide range of user needs with its breadth of services, depth of feature capability and broad support for the growing Internet of Things devices in the home. We power four primary solutions, which can be used individually or combined, and are integrated within a single user interface accessible through the web and mobile apps: interactive security, intelligent automation, video monitoring and energy management. These solutions are delivered through our cloud-based platform enabling our connected home solutions together or provided on a standalone basis. We enable quick, intuitive access to the consumer through our mobile app as well as enabling new ways to engage with the home through wearables like Apple Watch, through the TV with Apple TV and Amazon Fire TV and by using smart home voice control through Amazon Echo.

Executive Overview and Highlights of Third 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 also derive a portion of our revenue from licensing our intellectual property to service providers on a per customer basis. SaaS and license revenue represented 66% and 67% of our revenue for the nine months ended September 30, 2016 and 2015, and 66% and 67% of our revenue in the third quarters of 2016 and 2015.

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 34% and 33% of our revenue for the nine months ended September 30, 2016 and 2015, and 34% and 33% of our revenue in the third quarters of 2016 and 2015. We typically expect hardware and other revenue to fluctuate as a percentage of total revenue.

To date, nearly all of our revenue growth has been organic. We have completed small acquisitions, but those acquisitions have been related to technology or services complementary to our core offerings and have not contributed materially to our revenue. We have focused on growing our business and plan to continue to invest in growth.

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

- Revenue increased 26% from \$152.0 million in the first nine months of 2015 to \$191.3 million in the first nine months of 2016. Revenue increased 26% from \$54.0 million in the third quarter of 2015 to \$67.8 million in the third quarter of 2016.
- SaaS and license revenue increased 24% from \$102.2 million in the first nine months of 2015 to \$126.7 million in the first nine months of 2016. SaaS and license revenue increased 23% from \$36.2 million in the third quarter of 2015 to \$44.6 million in the third quarter of 2016.
- Net income was \$7.2 million in the first nine months of 2016 and \$8.5 million in the first nine months of 2015. Net income was \$2.6 million in the third quarter of 2016 and \$2.9 million in the third quarter of 2015.
- Adjusted EBITDA, a non-GAAP measurement of operating performance, increased from \$24.6 million in the first nine months of 2015 to \$34.3 million in the first nine months of 2016. Adjusted EBITDA increased from \$9.7 million in the third quarter of 2015 to \$11.7 million in the third quarter of 2016.

Please see *Non-GAAP Measures* 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 accounting principles generally accepted in the United States, or GAAP, for the third quarter and first nine months of 2016 and 2015.

Recent Developments Regarding Our Proposed Acquisition of Two Business Units from Icontrol Networks

During our second quarter of 2016, we entered into a definitive agreement to acquire two business units, Connect and Piper, from Icontrol Networks, Inc., or Icontrol, for a purchase price of approximately \$140.0 million, or the Acquisition. Connect develops and sells a custom, on-premise software platform that powers several service providers' solutions for interactive security and automation including ADT Pulse® which was estimated to have 1.6 million subscribers as of December 31, 2015. Piper develops and sells a Wi-Fi-enabled video and home automation hub. We expect the proposed Acquisition to contribute to revenue growth and be EPS accretive on a non-GAAP basis for the full year 2017. The proposed Acquisition is subject to customary closing conditions as well as certain events that we cannot control, including regulatory approvals and the closing of the acquisition of Icontrol's Converge business unit by Comcast Cable Communications, LLC, a subsidiary of Comcast Corporation, or Comcast.

On September 12, 2016, we and Icontrol each received a request for additional information and documentary materials, or a second request, from the U.S. Federal Trade Commission, or the FTC, in connection with the FTC's review of the proposed Acquisition. On September 22, 2016, we and Icontrol entered into a timing agreement with the FTC and agreed not to consummate the proposed Acquisition before the 45th calendar day following the date of certifying substantial compliance with the second request, unless we have received prior notice that the FTC has concluded its review. We and Icontrol are in the process of responding to the second request but ongoing review at the FTC will likely result in the proposed Acquisition not closing until the first quarter of 2017. Further, on November 2, 2016, in response to questions raised by the FTC, we and Icontrol represented to the FTC that the terms of the acquisition agreement would be modified to ensure we do not exercise any control over the ongoing operations of the Icontrol business until such time as the waiting period under the Hart-Scott-Rodino Act expires or is terminated. We and Icontrol are also providing documents and information to the FTC to address these questions. For additional information regarding other factors which may affect the conditions or approvals required to complete the Acquisition, please see "Risk Factors - Risks Related to our Acquisition of Connect and Piper Business Units from Icontrol Networks, Inc."

Effective as of August 19, 2016, or the Effective Date, our subsidiary, Alarm.com Incorporated, or Alarm.com, and ADT LLC, or ADT, amended their existing master services agreement, or the Amended MSA. The Amended MSA provides that following the closing, if any, of the proposed Acquisition, in exchange for certain incentives and service obligations provided to ADT, Alarm.com will serve as the exclusive provider of services for ADT's professionally installed residential interactive security, automation and video service offerings for a period of up to five (5) years following the Effective Date, subject to Alarm.com achieving certain performance conditions and with certain exclusions. The Amended MSA also includes certain installation, maintenance, support, indemnity and development requirements and can be terminated if such requirements are not satisfied, including without notice if certain events occur. The foregoing description of the material terms of the Amended MSA does not purport to be complete and is subject to, and is qualified in its entirety by, reference to the full terms of the Amended MSA. We have submitted a request for confidential treatment of certain portions of the Amended MSA to the Securities and Exchange Commission pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended.

Key Metrics

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
SaaS and license revenue	\$ 44,630	\$ 36,158	\$ 126,652	\$ 102,247
Adjusted EBITDA	11,658	9,654	34,274	24,602
	Twelve Months Ended September 30,			
	2016	2015		
SaaS and license revenue renewal rate			94%	93%

SaaS and License Revenue

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

Adjusted EBITDA

Adjusted EBITDA represents our net income before interest expense and other income / (expense), net, provision for income taxes, 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. Please see *Non-GAAP Measures* below 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 third quarter and first nine months of 2016 and 2015.

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

Components of Operating Results

Please note that because we are constrained in the information we can provide regarding the projected post-Acquisition financial performance of the combined companies until the proposed Acquisition closes, while the discussion below considers acquisition-related expenses and interest expense, it does not include discussion of the impact of the closing of the proposed Acquisition.

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

Revenue

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

SaaS and License Revenue

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

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

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

We also generate SaaS and license revenue from the fees paid to us when we license our intellectual property to service providers on a per customer basis for use of our patents. In November 2013, we entered into a license agreement with Vivint Inc., or Vivint, who represented at least 10% but not more than 15% of our revenue in 2013 and 2014, pursuant to which we granted Vivint a license to use the intellectual property associated with our connected home solutions. Vivint began generating customers and paying us license revenue in the second quarter of 2014. Pursuant to this arrangement, Vivint has transitioned from selling our SaaS solutions directly to its customers to selling its own home automation product to its new customers. We receive less revenue from Vivint related to license fees as compared to revenue for SaaS solutions for its subscribers that continue to utilize our SaaS platform. We continue to receive revenue from Vivint for both our SaaS solutions and from licensing our intellectual property. Vivint represented less than 10% of our revenue in 2015 and for the first nine months of 2016. Additionally, in some markets, our EnergyHub subsidiary sells its demand response software with an annual service fee, with pricing based on the number of subscribers or amount of aggregate electricity demand made available for a utility's or market's control.

Hardware and Other Revenue

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

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

Cost of Revenue

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

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

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 400 employees as of January 1, 2015 to 579 employees as of September 30, 2016, and we expect to continue to hire new employees to support future growth of our business.

Sales and Marketing Expense. Sales and marketing expense includes 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 support, advertising, promotion of our products and services and marketing.

The number of employees in sales and marketing functions grew from 159 as of January 1, 2015 to 211 as of September 30, 2016. 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. We intend to increase the size of our sales force and our service provider support team to provide additional support to our existing service provider base to drive their productivity in selling and supporting our solutions as well as to enroll new service providers in North America and in international markets. We also intend to increase our marketing investments in the form of marketing programs to support our service providers' efforts to enroll new subscribers and expand the adoption of our solutions.

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

The number of employees in general and administrative functions grew from 54 as of January 1, 2015 to 64 as of September 30, 2016. We expect our general and administrative expense in 2016 to increase on an absolute dollar basis primarily from the inclusion of incremental intellectual property litigation expenses and acquisition-related expenses. Acquisition-related expenses are external incremental costs directly related to completing the proposed Acquisition and any resulting integration of Connect and Piper business units. We anticipate that we will incur additional costs for personnel and professional services as we continue to operate as a public company. These costs include increases in our accounting, finance and legal personnel, additional external legal and audit fees and expenses associated with compliance with the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, and other regulations governing public companies. We also expect to continue to incur increased costs relating to higher premiums for directors' and officers' liability insurance as a public company.

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 187 as of January 1, 2015 to 304 as of September 30, 2016. Our research and development efforts are focused on innovating new features and enhancing the functionality of our platform and the solutions we offer to our service providers and subscribers. We will also continue to invest in efforts to extend our platform to adjacent markets and internationally. We expect research and development expenses to continue to increase on an absolute dollar basis and as a percentage of revenue in the short term to maintain our leadership position in the development of smart home and enterprise technology, and continued enhancement of our Enterprise Tools platform for our service provider partners.

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

Interest Expense

Interest expense consists of interest expense associated with our revolving credit facility, or the 2014 Facility, with Silicon Valley Bank, as administrative agent, and a syndicate of lenders (see Note 11). The 2014 Facility is available to us to refinance existing debt and for general corporate and working capital purposes, including financing the proposed Acquisition and other acquisitions as permitted under the terms of the 2014 Facility. We expect interest expense to increase in the event we utilize the 2014 Facility for the proposed Acquisition.

Other income / (expense), net

Other income / (expense), 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 differs from the statutory rate primarily due to the tax impact of state taxes, non-deductible meals and entertainment and the impact of research and development tax credits.

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 September 30,				Nine Months Ended September 30,			
	2016		2015 ⁽²⁾		2016		2015 ⁽²⁾	
Revenue:								
SaaS and license revenue	\$ 44,630	66 %	\$ 36,158	67 %	\$ 126,652	66 %	\$ 102,247	67 %
Hardware and other revenue	23,216	34	17,849	33	64,660	34	49,720	33
Total revenue	67,846	100	54,007	100	191,312	100	151,967	100
Cost of revenue ⁽¹⁾ :								
Cost of SaaS and license revenue	7,787	11	6,764	13	21,779	11	19,094	13
Cost of hardware and other revenue	18,579	27	13,205	24	50,886	27	38,171	25
Total cost of revenue	26,366	39	19,969	37	72,665	38	57,265	38
Operating expenses:								
Sales and marketing ⁽³⁾	10,705	16	8,425	16	29,532	15	24,405	16
General and administrative ⁽³⁾	14,804	22	10,412	19	42,124	22	25,996	17
Research and development ⁽³⁾	11,477	17	9,836	18	32,224	17	26,667	18
Amortization and depreciation	1,659	2	1,504	3	4,863	3	4,370	3
Total operating expenses	38,645	57	30,177	56	108,743	57	81,438	54
Operating income	2,835	4	3,861	7	9,904	5	13,264	9
Interest expense	(49)	—	(44)	—	(137)	—	(128)	—
Other income / (expense), net	139	—	(7)	—	338	—	(62)	—
Income before income taxes	2,925	4	3,810	7	10,105	5	13,074	9
Provision for income taxes	358	1	867	2	2,927	2	4,581	3
Net income	\$ 2,567	4 %	\$ 2,943	5 %	\$ 7,178	4 %	\$ 8,493	6 %

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

(2) The three and nine months ended September 30, 2015 historical condensed consolidated statement of operations have been revised (See Note 2 of the condensed consolidated financial statements).

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Stock-based compensation expense data:				
Sales and marketing	\$ 130	\$ 114	\$ 422	\$ 260
General and administrative	444	785	907	2,305
Research and development	512	390	1,551	890
Total stock-based compensation expense	\$ 1,086	\$ 1,289	\$ 2,880	\$ 3,455

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Components of cost of revenue as a percentage of revenue:				
Cost of SaaS and license revenue as a percentage of SaaS and license revenue	17%	19%	17%	19%
Cost of hardware and other revenue as a percentage of hardware and other revenue	80%	74%	79%	77%
Total cost of revenue as a percentage of total revenue	39%	37%	38%	38%

Comparison of Three and Nine Months Ended September 30, 2016 to September 30, 2015

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 September 30,			Nine Months Ended September 30,		
	2016	2015	% Change	2016	2015	% Change
Revenue:						
SaaS and license revenue	\$ 44,630	\$ 36,158	23%	\$ 126,652	\$ 102,247	24%
Hardware and other revenue	23,216	17,849	30%	64,660	49,720	30%
Total revenue	\$ 67,846	\$ 54,007	26%	\$ 191,312	\$ 151,967	26%

The \$13.8 million increase in total revenue for the third quarter of 2016 compared to the third quarter of 2015 was the result of a \$8.5 million, or 23%, increase in our SaaS and license revenue and a \$5.4 million, or 30%, increase in our hardware and other revenue. The \$39.3 million increase in total revenue for the first nine months of 2016 compared to the first nine months of 2015 was the result of a \$24.4 million, or 24%, increase in our SaaS and license revenue and a \$14.9 million, or 30%, increase in our hardware and other revenue. The increase in our SaaS and license revenue for the third quarter and first nine months of 2016 was primarily due to growth in our subscriber base, including the revenue impact from subscribers we added in 2015. To a lesser extent, SaaS and license revenue increased for the third quarter and first nine months of 2016 from an increase in fees paid to us for licenses to use our intellectual property. Hardware and other revenue for the third quarter of 2016 compared to the third quarter of 2015 increased \$2.1 million from an increase in the volume of video cameras sold, \$1.5 million from an increase in the volume of cellular radio modules sold and \$0.2 million in peripherals sold. Hardware and other revenue for the first nine months of 2016 increased \$7.1 million from an increase in the volume of video cameras sold, \$1.7 million from an increase in peripherals sold and \$1.1 million from an increase in the volume of cellular radio modules sold. Our Other segment contributed 3% of the increase in SaaS and license revenue and \$1.6 million, or 9%, of the increase in hardware and other revenue for the third quarter of 2016 compared to the third quarter of 2015. Our Other segment contributed 2% of the increase in SaaS and license revenue and \$5.0 million, or 10%, of the increase in hardware and other revenue for the first nine months of 2016 compared to the first nine months of 2015. The increases in SaaS and license revenue for our Other segment were from our remote access management solution and our energy management and demand response solution. The increases in hardware revenue for our Other segment were primarily from our remote access management solution.

Cost of Revenue

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	% Change	2016	2015	% Change
Cost of revenue ⁽¹⁾ :						
Cost of SaaS and license revenue	\$ 7,787	\$ 6,764	15%	\$ 21,779	\$ 19,094	14%
Cost of hardware and other revenue	18,579	13,205	41%	50,886	38,171	33%
Total cost of revenue	\$ 26,366	\$ 19,969	32%	\$ 72,665	\$ 57,265	27%
% of total revenue	39%	37%		38%	38%	

(1) Excludes amortization and depreciation.

The \$6.4 million increase in cost of revenue for the third quarter of 2016 compared to the third quarter of 2015 was the result of a \$1.0 million, or 15%, increase in cost of SaaS and license revenue and a \$5.4 million, or 41%, increase in cost of hardware and other revenue. The \$15.4 million increase in cost of revenue for the first nine months of 2016 compared to the first nine months of 2015 was the result of a \$2.7 million, or 14%, increase in cost of SaaS and license revenue and a \$12.7 million, or 33%, increase in cost of hardware and other revenue. The increase in cost of 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 providers and subscribers. Cost of SaaS and license revenue as a percentage of SaaS and license revenue was 17% and 19% for the third quarter of 2016 and 2015 and 17% and 19% for the first nine months of 2016 and 2015. This 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. The increase in cost of hardware and other revenue related primarily to our increase in hardware and other revenue. Cost of hardware and other revenue as a percentage of hardware and other revenue remained consistent in the third quarter and first nine months of 2016 compared to the same periods in 2015.

Sales and Marketing Expense

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	% Change	2016	2015	% Change
Sales and marketing	\$ 10,705	\$ 8,425	27%	\$ 29,532	\$ 24,405	21%
% of total revenue	16%	16%		15%	16%	

The increase in sales and marketing expense of \$2.3 million for the third quarter of 2016 compared to the same period in 2015 was due to marketing initiatives and an increase in headcount in 2016. In the third quarter of 2016, costs for marketing increased by \$1.6 million to feature our solutions and highlight support services we offer to our service providers. Our headcount for our sales force, service provider support team, marketing team and use of consultants also increased in the third quarter of 2016 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 \$0.9 million and expense for external consultants increased by \$0.1 million for the third quarter of 2016. The increase in sales and marketing expense of \$5.1 million for the first nine months of 2016 compared to the same period in 2015 was primarily due to increases in headcount for our sales force, service provider support team, marketing team and 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 and expense for external consultants increased by \$0.7 million for the first nine months of 2016. In the first nine months of 2016, costs for advertising and trade show participation increased by \$2.6 million to feature our solutions and highlight support services we offer to our service providers. Sales and marketing expense from our Other segment decreased \$0.1 million and \$0.5 million for the third quarter and first nine months of 2016 due to a decrease in employee headcount resulting in lower personnel and related costs and also lower costs from consultants and marketing. The overall number of employees in our sales and marketing teams increased from 186 as of September 30, 2015 to 211 as of September 30, 2016. Sales and marketing expense as a percent of total revenue remained the same for the third quarters of 2016 and 2015 and decreased 1% for the first nine months of 2016 compared to the same period in 2015.

General and Administrative Expense

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015 ⁽¹⁾	% Change	2016	2015 ⁽¹⁾	% Change
General and administrative	\$ 14,804	\$ 10,412	42%	\$ 42,124	\$ 25,996	62%
% of total revenue	22%	19%		22%	17%	

(1) The three and nine months ended September 30, 2015 historical general and administrative expense in the condensed consolidated statement of operations has been revised (Note 2).

The \$4.4 million increase in general and administrative expense for the third quarter of 2016 compared to the third quarter of 2015 was primarily due to \$3.2 million in acquisition-related expenses. An additional \$0.8 million increase in legal expenses resulted from professional services to support our operational growth and from maintaining and enforcing our intellectual property portfolio and license agreements. Our personnel and related costs for our Alarm.com segment, including salary, benefits and travel expenses, increased by \$0.5 million for the third quarter of 2016 due to an increase in employee headcount as well as professional services to support our operational growth as a public company. The \$16.1 million increase in general and administrative expense for the first nine months of 2016 compared to the first nine months of 2015 was due to an increase of \$7.3 million in legal expenses related to ongoing intellectual property litigation and \$5.8 million in acquisition-related expenses related to the proposed Acquisition. An additional \$1.6 million increase in legal expenses resulted from professional services to support our operational growth and from maintaining and enforcing our intellectual property portfolio and license agreements. Our personnel and related costs for our Alarm.com segment, including salary, benefits and travel expenses, increased by \$0.6 million for the first nine months of 2016 due to an increase in employee headcount and by \$0.9 million for additional professional services to support our operational growth as a public company. General and administrative expense from our Other segment increased by \$0.6 million for the third quarter and by \$0.2 million for the first nine months of 2016 compared to the same periods in 2015, primarily due to an increase in compensation related to the fair value of an agreement to repurchase subsidiary units from the founder and employee of our subsidiary that provides our remote access management solution. This increase was partially offset by a decrease in personnel costs related to a decrease in employee headcount of our Other segment. The overall number of employees in general and administrative functions increased from 58 as of September 30, 2015 to 64 as of September 30, 2016.

Research and Development Expense

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	% Change	2016	2015	% Change
Research and development	\$ 11,477	\$ 9,836	17%	\$ 32,224	\$ 26,667	21%
% of total revenue	17%	18%		17%	18%	

The \$1.6 million increase in research and development expense for the third quarter of 2016 compared to the third quarter of 2015 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 providers 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 \$2.5 million for the third quarter of 2016. In addition, expense for external consultants and information technology to support our research and development personnel increased by \$0.8 million in the third quarter of 2016. Research and development expense from our Other segment decreased by \$1.2 million for the third quarter of 2016 compared to the third quarter of 2015, primarily due to a reduction in personnel and related expense and expense for external consultants. During the first quarter of 2016, we diverted our resources from a subsidiary in our Other segment that focused on the retail do-it-yourself market. As a result, certain employees previously in research and development functions in our Other segment transitioned into similar positions for our Alarm.com segment. The \$5.6 million increase in research and development expense for the first nine months of 2016 compared to the first nine months of 2015 was primarily due to an increase in headcount of employees in research and development functions. Our personnel and related costs for our Alarm.com segment, including salary, benefits, stock-based compensation and travel expenses, increased by \$7.8 million for the first nine months of 2016 compared to the first nine months of 2015. In addition, expense for external consultants and information technology to support our research and development personnel increased \$1.0 million in the first nine months of 2016. Research and development expense from our Other segment decreased by \$3.3 million for the first nine months of 2016 compared to the first nine months of 2015, due to a reduction in personnel and related expense and expense for external consultants. The overall number of employees in research and development functions increased from 247 as of September 30, 2015 to 304 as of September 30, 2016.

Amortization and Depreciation

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	% Change	2016	2015	% Change
Amortization and depreciation	\$ 1,659	\$ 1,504	10%	\$ 4,863	\$ 4,370	11%
% of total revenue	2%	3%		3%	3%	

The \$0.2 million and \$0.5 million increase in amortization and depreciation for the third quarter and first nine months of 2016 compared to the same periods of 2015 were primarily due to increased purchases of computer and network equipment to accommodate our growth in headcount, for our new corporate headquarters in Tysons, Virginia and for the expansion of our network operations centers.

Interest Expense

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	% Change	2016	2015	% Change
Interest expense	\$ (49)	\$ (44)	11%	\$ (137)	\$ (128)	7%
% of total revenue	— %	— %		— %	— %	

Interest expense was consistent for the third quarter and first nine months of 2016 when compared to the same periods of 2015 as the outstanding principal balance of our debt from our 2014 Facility has remained unchanged.

Other income / (expense), net

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	% Change	2016	2015	% Change
Other income / (expense), net	\$ 139	\$ (7)	not meaningful	\$ 338	\$ (62)	not meaningful
% of total revenue	— %	— %		— %	— %	

Included in other income / (expense), net was interest income earned on our cash balance and interest income earned on notes receivable offset by losses of an equity method investment that is in the start-up phase of its operations.

Provision for Income Taxes

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	% Change	2016	2015	% Change
Provision for income taxes	\$ 358	\$ 867	(59)%	\$ 2,927	\$ 4,581	(36)%
% of total revenue	1%	2%		2%	3%	

Our effective tax rate was 12.2% and 29.0% for the third quarter and first nine months of 2016 compared to 22.8% and 35.0% for the third quarter and first nine months of 2015. The decrease in the effective tax rate was primarily related to the permanent extension of the research and development tax credit which we claimed in the first nine months of 2016. The effective tax rates in the third quarters of 2016 and 2015 were also affected by adjustments of our previous estimates to the actual research and development tax credits that we filed on our income tax returns during the third quarter of both years.

Segment Information

We have two reportable segments: Alarm.com and Other. Our Alarm.com segment represents our cloud-based platform for the connected home and related connected home solutions. Our Alarm.com segment also includes SecurityTrax, a provider of SaaS-based customer relationship management software tailored for security system dealers. This segment contributed 94% of our revenue for the three and nine months ended September 30, 2016 and 97% for the same periods in the prior year. Our Other segment is focused on researching and developing home and commercial automation and energy management products and services in adjacent markets. The consolidated subsidiaries that make up our Other segment are in the investment stage and have incurred significant operating expenses relative to their revenue. Our Alarm.com segment had 530 employees and our Other segment had 49 employees as of September 30, 2016. Inter-segment revenue includes sales of hardware between our segments.

The following table presents our revenue, inter-segment revenue and operating expenses by segment for the three and nine months ended September 30, 2016 and 2015 (in thousands):

	Alarm.com	Other	Inter-segment Alarm.com	Inter-segment Other	Total
For the Three Months Ended September 30, 2016					
Revenue	\$ 64,420	\$ 5,355	\$ (700)	\$ (1,229)	\$ 67,846
Operating expenses	34,557	4,088	—	—	38,645
For the Three Months Ended September 30, 2015					
Revenue	\$ 52,684	\$ 2,073	\$ (50)	\$ (700)	\$ 54,007
Operating expenses	25,348	4,829	—	—	30,177
For the Nine Months Ended September 30, 2016					
Revenue	\$ 182,205	\$ 13,289	\$ (2,040)	\$ (2,142)	\$ 191,312
Operating expenses	98,173	10,570	—	—	108,743
For the Nine Months Ended September 30, 2015					
Revenue	\$ 148,302	\$ 5,714	\$ (570)	\$ (1,479)	\$ 151,967
Operating expenses	67,301	14,137	—	—	81,438

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 condensed 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. During the nine months ended September 30, 2016, there were no material changes to our critical accounting policies and use of estimates from those disclosed in our Annual Report on Form 10-K filed on February 29, 2016 with the SEC.

Recently Issued Accounting Standards

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

Liquidity and Capital Resources

Working Capital, Excluding Deferred Revenue

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

	September 30, 2016	December 31, 2015
Cash and cash equivalents	\$ 135,050	\$ 128,358
Accounts receivable, net	28,734	21,348
Working capital, excluding deferred revenue	148,458	134,260

Our cash and cash equivalents as of September 30, 2016 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 September 30, 2016, we had \$135.1 million in cash and cash equivalents. We consider all highly liquid instruments purchased with an original maturity from the date of purchase of three months or less to be cash equivalents.

We believe our existing cash and cash equivalents and our future cash flows from operating activities will be sufficient to meet our anticipated operating cash needs for at least the next 12 months. Over the final three months of fiscal year 2016, we expect our capital expenditure requirements to be approximately \$3.3 million, including approximately \$3.1 million anticipated to be incurred for leasehold improvements related to the expansion of our corporate headquarters, of which \$2.8 million will be funded by tenant improvement allowances. Our landlord has provided for a total of \$9.7 million of tenant improvement allowances in the terms of the leases for our corporate headquarters. As of September 30, 2016, we have used \$6.9 million of these allowances. Our future working capital and capital expenditure requirements will depend on many factors, including the rate of our revenue growth, the amount and timing of our investments in human resources and capital equipment, future acquisitions and investments, and the timing and extent of our introduction of new solutions and platform and solution enhancements. To the extent our cash and cash equivalents and cash flows from operating activities are insufficient to fund our future activities, we may need to borrow additional funds through our bank credit arrangements or raise funds from public or private equity or debt financings. If we raise additional funds through the incurrence of indebtedness, such indebtedness would likely have rights that are senior to holders of our equity securities and could contain covenants that restrict our operations. Any additional equity financing would be dilutive to our stockholders.

In the second quarter of 2016, we entered into a definitive agreement for the proposed Acquisition of 2 business units, Connect and Piper, from Icontrol for a purchase price of approximately \$140.0 million. We expect to fund the transaction at closing with a combination of cash on hand and debt available under the 2014 Facility.

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 \$122.6 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.

In May 2014, we entered into the 2014 Facility, a \$50.0 million 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. As of September 30, 2016, \$6.7 million was outstanding, letters of credit in the amount of \$0.3 million were utilized and \$43.0 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 September 30, 2016, we were in compliance with all covenants under the 2014 Facility.

On August 10, 2016, with the approval of our board of directors and the consent of the lenders, we increased our current borrowing capacity under the 2014 Facility from \$50.0 million to \$75.0 million. In addition, we amended the terms of the 2014 Facility to increase the borrowing capacity under the 2014 Facility to increase the maximum consolidated leverage ratio, amend the definition of consolidated adjusted EBITDA and extend the maturity date. The 2014 Facility is available to us to refinance existing debt and for general corporate and working capital purposes, including financing the proposed Acquisition of two business units from Icontrol and other acquisitions as permitted under the terms of the 2014 Facility. We expect to draw an

additional \$55.0 to \$65.0 million from the 2014 Facility to fund the proposed Acquisition. The 2014 Facility is discussed in more detail below under “Debt Obligations.”

Historical Cash Flows

The following table sets forth our cash flows for the nine months ended September 30, 2016 and 2015 (in thousands):

	Nine Months Ended September 30,	
	2016	2015
Cash flows from operating activities	\$ 8,806	\$ 21,176
Cash flows used in investing activities	(5,481)	(13,740)
Cash flows from financing activities	3,367	76,593

Operating Activities

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

For the first nine months of 2016, cash flows from operating activities were \$8.8 million, a decrease of \$12.4 million from the first nine months of 2015, as the result of a \$11.8 million decrease in cash from operating assets and liabilities and a \$1.3 million decrease in net income partially offset by a \$0.8 million increase in adjustment for non-cash items.

The \$11.8 million decrease in cash from operating assets and liabilities was due to the following:

- Our accounts receivable balances, net of reserves, increased by \$7.4 million and \$4.5 million during the first nine months of 2016 and 2015 from our increase in revenue and timing of customer payments resulting in a year-over-year decrease in cash flows of \$3.3 million.
- Our inventory balances increased by \$5.0 million and \$2.8 million during the first nine months of 2016 and 2015 from our increase in inventory in support of the increase in our hardware sales including new products like the doorbell camera and timing of in-transit inventory, resulting in a year-over-year decrease in cash flows of \$2.3 million.
- Cash flows decreased \$1.2 million year-over-year primarily related to a change in other assets from the timing of tax payments.
- Our accounts payable, accrued expenses and other current liabilities including accrued compensation and deferred rent balances increased by \$8.3 million and \$10.1 million during the first nine months of 2016 and 2015 from the growth of our business and employee base which is offset by the timing of payments resulting in a year-over-year decrease in cash flows of \$1.1 million.
- Cash flows from the change in deferred revenue balances decreased by \$1.0 million year-over-year primarily from the timing of revenue for activations and also due to recognizing \$0.4 million of revenue from an upfront payment received prior to 2016.
- Our other liabilities balance increased \$1.7 million and \$5.8 million in the first nine months of 2016 and 2015 due to an increase in deferred rent for our new corporate headquarters, including tenant improvement allowances in 2015. In 2016, we continue to add and develop office space in our new corporate headquarters, although on a much smaller scale than in 2015. These activities and the timing of rent payments drove the \$3.0 million decrease in cash flows year-over-year.

The \$0.8 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 contingent liabilities. Other adjustments for non-cash items in the first nine months of 2016 included \$4.9 million for amortization and depreciation, \$2.9 million for stock-based compensation and \$1.5 million for reserve for product returns. Adjustments for non-cash items in the first nine months of 2015 included \$4.4 million for amortization and depreciation, \$2.7 million for stock-based compensation, and \$1.1 million for reserve for product returns.

Investing Activities

Our investing activities include acquisitions, capital expenditures, purchases of licenses to patents, 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, purchases of computer equipment used internally, and expansion of our network operations centers.

During the first nine months of 2016, our cash flows used in investing activities was \$5.5 million as compared to \$13.7 million for the first nine months of 2015. In 2016, we received \$2.4 million in proceeds from the repayment and termination of a note receivable held by a company with offerings complementary to ours. Cash used for capital expenditures decreased slightly by \$0.4 million year-over-year primarily related to expenditures for leasehold improvements and furniture for our new corporate headquarters incurred during the first nine months of 2016 as compared to expenditures for furniture for our additional facilities and network equipment for our network operations centers incurred in the same period of 2015. Partially offsetting these increases to cash year-over-year, we purchased a license to a patent portfolio for \$1.6 million in the third quarter of 2016. In the first nine months of 2015, we purchased certain assets of SecurityTrax for \$5.6 million and purchased the license to a patent for \$1.0 million.

Financing Activities

Cash generated by financing activities includes proceeds from the sale of common stock related to our IPO in 2015, proceeds from the issuance of common stock from employee stock option exercises and from our 2015 Employee Stock Purchase Plan, or 2015 ESPP, and the resulting tax windfall benefit from stock options. Cash used in financing activities includes dividends paid on our preferred and common stock prior to the completion of our IPO and payments of offering costs in connection with our IPO.

During the first nine months of 2016, cash flows from financing activities was \$3.4 million compared to \$76.6 million during the first nine months of 2015. We received \$1.2 million in the first nine months of 2016 from the issuance of common stock as a result of employee stock option exercises and through our 2015 ESPP. We also recorded a \$2.7 million tax windfall benefit from stock-based awards. In 2016, we paid \$0.4 million for long-term consideration related to two acquisitions we completed in the fourth quarter of 2014 and one acquisition we completed in the first quarter of 2015. We received net proceeds of \$98.0 million from the sale of our common stock during our IPO in 2015. In June 2015, we paid a dividend of \$20.0 million. In connection with our preparation for our IPO, we incurred and paid \$2.6 million of deferred offering costs in 2015, primarily for legal and accounting fees.

Contractual Obligations

The following table discloses aggregate information about our material contractual obligations and periods in which payments were due as of September 30, 2016. Future events could cause actual payments to differ from these estimates. As of September 30, 2016, 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	\$ —	\$ 6,700	\$ —	\$ —	\$ 6,700
Interest payments	190	210	—	—	400
Unused line fee payments	137	151	—	—	288
Operating lease commitments	3,946	9,536	9,465	22,973	45,920
Other long-term liabilities	101	1,688	—	270	2,059
Other current liabilities ⁽¹⁾	2,164	—	—	—	2,164
Total contractual obligations	\$ 6,538	\$ 18,285	\$ 9,465	\$ 23,243	\$ 57,531

(1) Represents 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.

As of September 30, 2016, we had outstanding letters of credit under our 2014 Facility to our manufacturing partners in the amount of \$0.3 million.

Off-Balance Sheet Arrangements

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

Debt Obligations

In 2014, we repaid all of the outstanding principal and interest under a previous term loan, which was accounted for as an extinguishment of debt, and replaced it with a \$50.0 million revolving credit facility, or the 2014 Facility, with Silicon Valley Bank, as administrative agent, and a syndicate of lenders. We utilized \$6.7 million under the 2014 Facility to repay in full our indebtedness under the previous term loan. On August 10, 2016, the 2014 Facility was amended to (1) increase our current borrowing capacity from \$50.0 million to \$75.0 million, (2) provide for an option to further increase the borrowing capacity to \$125.0 million with the consent of the lenders, (3) increase the maximum consolidated leverage ratio from 2.50:1.00 to 3.00:1.00, and (4) extend the maturity date of the 2014 Facility and the principal outstanding from May 2017 to November 2018. This amendment to the 2014 Facility was accounted for as a debt modification. The 2014 Facility is available to us to refinance existing debt and for general corporate and working capital purposes, including financing the proposed Acquisition of two business units from Icontrol and other acquisitions as permitted under the terms of the 2014 Facility. 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, or ABR, at our option. For the nine months ended September 30, 2015, we elected for the outstanding principal balance to accrue interest at LIBOR plus 2.25%, LIBOR plus 2.5%, and LIBOR plus 2.75% 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 nine months ended September 30, 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 nine months ended September 30, 2016 and 2015, the effective interest rate on the 2014 Facility was 2.73% and 2.54%.

The carrying value of the 2014 Facility was \$6.7 million as of September 30, 2016 and December 31, 2015. 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 September 30, 2016.

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. During the nine months ended September 30, 2016, 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 / (expense), net, provision for income taxes, 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 related to stock options. Included in stock-based compensation in the second quarter of 2015, is a \$0.8 million repurchase of stock-based share awards. 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 following table for a reconciliation of Adjusted EBITDA to net income, the most directly comparable financial measure calculated and presented in accordance with GAAP.

We have included Adjusted EBITDA in this report because it is a key measure that our management uses to understand and evaluate our core operating performance and trends, to generate future operating plans, to make strategic decisions regarding the allocation of capital and to make investments in initiatives that are focused on cultivating new markets for our solutions. 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 historical legal expenses and acquisition-related expense, 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 September 30,		Nine Months Ended September 30,	
	2016	2015 ⁽¹⁾	2016	2015 ⁽¹⁾
Adjusted EBITDA:				
Net income	\$ 2,567	\$ 2,943	\$ 7,178	\$ 8,493
Adjustments:				
Interest expense and other income / (expense), net	(90)	51	(201)	190
Provision for income taxes	358	867	2,927	4,581
Amortization and depreciation	1,659	1,504	4,863	4,370
Stock-based compensation expense	1,086	1,289	2,880	3,455
Acquisition-related expense	3,187	—	5,797	—
Litigation expense	2,891	3,000	10,830	3,513
Total adjustments	9,091	6,711	27,096	16,109
Adjusted EBITDA	\$ 11,658	\$ 9,654	\$ 34,274	\$ 24,602

(1) The three and nine months ended September 30, 2015 historical condensed consolidated statement of operations have been revised (Note 2).

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 the 2014 Facility. 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 September 30, 2016, an increase or decrease in the interest rate on the 2014 Facility by 100 basis points would increase or decrease our interest expense by \$67,000, respectively. As of December 31, 2015, an increase or decrease in the interest rate on the 2014 Facility by 100 basis points would either increase or decrease our interest expense by \$67,000.

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 cost becomes 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 Exchange Act, that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Our management, with the participation of our Chief Executive Officer who is our Principal Executive Officer and Principal Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2016. Based on the evaluation of our disclosure controls and procedures as of September 30, 2016, our Chief Executive Officer who is our Principal Executive Officer and Principal 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 was no change in our internal control over financial reporting during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

Our management, including our Chief Executive Officer who is our Principal Executive Officer and Principal 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 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 by the U.S. Patent Trial and Appeal Board of certain patents in suit. 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 violated the TCPA, but instead seeks to hold us responsible for the marketing activities of our service providers 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 March 24, 2016, we filed a motion to transfer the matter to the U.S. District Court for the Northern District of West Virginia to be consolidated with 23 other similar and related pending TCPA actions. That motion was denied on June 2, 2016. Discovery has commenced, and the matter remains pending in the U.S. District Court for the Northern District of California.

On February 9, 2016, we were sued along with one of our service providers in the Circuit Court for the City of Virginia Beach, Virginia by the estate of a deceased service provider customer alleging wrongful death, among other claims. The suit seeks a total of \$7 million in compensatory damages and \$350,000 in punitive damages. We filed our answer on March 22, 2016. Discovery has commenced, and the matter remains pending.

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, cash flows, results of operations and prospects and cause the trading price of our common stock to decline.

Risks Related to our Acquisition of Connect and Piper Business Units from Icontrol Networks, Inc.

Our proposed acquisition of Icontrol's Connect and Piper business units may not be completed within the expected timeframe, or at all, and the failure to complete such acquisition could adversely affect our stock price and our future business and financial results.

Our proposed acquisition of 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, is contingent upon a number of conditions beyond our control and there is no guarantee that these conditions will be satisfied in a timely manner or at all. These conditions include confirmation by Comcast Cable Communications, LLC, a subsidiary of Comcast Corporation, or Comcast, and Icontrol that the merger of Icontrol into a wholly-owned subsidiary of Comcast will close immediately after the closing of the Acquisition and termination or expiration of any applicable waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, or Hart-Scott-Rodino Act. We are, therefore, unable to accurately predict when or if the Acquisition will close. If we are unable to close the Acquisition for any reason, we will not realize the potential benefits of the Acquisition. In addition, the market price of our common stock may reflect various market assumptions as to whether and when the proposed Acquisition will occur. Consequently, the failure to complete the Acquisition within the expected timeframe, or at all, could result in a significant change in the market price of our common stock and could adversely affect our future business, financial condition, cash flows and results of operations.

We may be unable to satisfy the conditions or obtain the approvals required to complete the Acquisition or such approvals may contain material restrictions or conditions.

Completion of the Acquisition is conditioned upon satisfaction of a number of conditions including the expiration or termination of the applicable waiting period relating to the Acquisition under the Hart-Scott-Rodino Act and upon there being no legal proceeding by a governmental agency pending which seeks to enjoin the Acquisition. While we have and will continue to expend time and resources and incur expenses related to the proposed Acquisition, we cannot provide any assurances that the Acquisition will be consummated on the terms or timeline currently contemplated, or at all. On September 12, 2016, we and Icontrol each received a request for additional information and documentary materials, or a second request, from the U.S. Federal Trade Commission, or the FTC, in connection with the FTC's review of the proposed Acquisition. The second request was issued under notification requirements of the Hart-Scott-Rodino Act. On September 22, 2016, we and Icontrol entered into a timing agreement with the FTC and agreed not to consummate the proposed Acquisition before the 45th calendar day following the date of certifying substantial compliance with the second request, unless we have received prior notice that the FTC has concluded its review. In addition, even if any applicable waiting period expires, the FTC or other governmental or regulatory agencies could seek to block or challenge the proposed Acquisition in court. If that were to occur, the resulting litigation would likely extend beyond the deadline under the asset purchase agreement to obtain required regulatory approvals.

before either party is permitted to terminate the asset purchase agreement. We and Icontrol are in the process of responding to the second request. However, we cannot assure you that the FTC will approve the Acquisition and not challenge or seek to block the proposed Acquisition in court or impose conditions on the approval of the Acquisition or otherwise require changes to the terms of the transaction. Any such government challenge, conditions or changes could have the effect of delaying completion of the Acquisition, imposing costs on or limiting our revenues following the Acquisition or otherwise reducing the anticipated benefits of the Acquisition. Any government challenge, condition or change might also cause the parties to restructure the Acquisition or terminate the asset purchase agreement and the transactions contemplated by the agreement.

The proposed Acquisition is conditioned on the closing of Comcast's acquisition of Icontrol which may hinder our ability to complete our business combination and give rise to increased costs and risks that could negatively affect our operations and profitability.

Our proposed Acquisition is conditioned upon the closing of Comcast's acquisition of Icontrol, an event over which we have no control. This may have the effect of preventing or delaying the closing or otherwise make it more difficult for us to consummate the Acquisition. Even if we close the proposed Acquisition, the concurrent transaction structure may result in additional risks during the post-closing assimilation of the operations acquired 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.

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

Historically, ADT LLC, or ADT, has accounted for substantially all of the revenues of the Connect business unit. We have amended our existing master service agreement with ADT to cover services we expect to provide with respect to the Connect platform following the closing of the Acquisition. However, we cannot assure you we will be able to meet the conditions set forth in the amended agreement. 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 post-Acquisition 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 expect to use cash on hand and to draw amounts available 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 price and to pay related fees and expenses. We have recently amended the 2014 Facility to increase the maximum amount we are allowed to borrow from \$50.0 million to \$75.0 million. As of September 30, 2016, we had an outstanding balance of \$6.7 million under our 2014 Facility and we expect to draw an additional \$55.0 to \$65.0 million to fund the proposed Acquisition.

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 security interests.

In addition, our 2014 Facility restricts our ability to make dividend payments and requires us to maintain a certain leverage ratio, which may restrict our ability to invest in future growth. Any of the foregoing could have a material adverse effect on our business, financial condition, cash flows or results of operations.

The Acquisition will subject us to significant additional liabilities for which we will not be indemnified.

In connection with the Acquisition, we will assume 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 will assume any liabilities that may arise from certain pending intellectual property litigation. In addition to the known liabilities we are assuming, 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 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 announcement and pendency of the proposed Acquisition may cause disruptions in our business or in the Connect and Piper business units, which could have an adverse effect on our business, financial condition or results of operations following completion of the Acquisition.

The announcement and pendency of the proposed Acquisition could cause disruptions in our business or in the Connect and Piper business units in the following ways, among others:

- Customers, service providers and other third-party business partners may delay or defer purchase decisions with regard to our current products and services or those of Connect and Piper or may seek to terminate or renegotiate their relationships with us or Icontrol as a result of the transaction, whether pursuant to the terms of their existing agreements or otherwise; and
- Current and prospective employees may experience uncertainty about their future roles following the Acquisition, which might adversely affect our ability and the ability of Icontrol to retain, recruit and motivate key personnel.

Should they occur, any of these developments could have an adverse effect on the business, cash flows, financial condition or results of operations of the Connect and Piper business units prior to the completion of the Acquisition and on us prior to or following the completion of the Acquisition. These disruptions could be exacerbated by a delay in the completion of the Acquisition.

If we are unable to consummate the Acquisition, our financial condition may materially suffer.

If the Acquisition is not completed for any reason, our financial condition could materially suffer, including as a result of the following:

- the incurrence of significant costs related to the Acquisition without the associated benefits of completing the Acquisition, such as legal, accounting, filing, financial advisory, loan financing and integration planning costs that have already been incurred or will continue to accrue up to the closing of the Acquisition. The total amount of such operating expenses and fees we would incur in connection with the Acquisition will be based on a variety of factors but may be material; and
- potential disruption to our business and distraction of our workforce and management team.

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

We have incurred and expect to continue to incur significant non-recurring expenses in connection with the proposed Acquisition, including legal, accounting, financial advisory and other expenses. Many of these expenses are payable by us whether or not the Acquisition is completed. We also may incur significant expenses in connection with the integration of the Connect and Piper business units following the closing of the Acquisition, 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 proposed Acquisition.

The success of the Acquisition will depend, in part, on our ability to manage the Connect and Piper businesses, including the relationship with Connect's key customer, 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 plan to acquire differ, we may not be able to manage these businesses 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, delays or regulatory conditions associated with the proposed transactions.

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 proposed Acquisition. As a result, our business and results of operations could be adversely affected.

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

Until the proposed Acquisition closes we are constrained in the information we can provide regarding the projected post-Acquisition financial performance of the combined companies. Any guidance we do provide regarding our projected post-Acquisition financial performance and the impact of the Acquisition consists of 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 the Acquisition 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 than the 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 whether and when the proposed Acquisition will occur, 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 revenue and results of operations may fluctuate as a result of a variety of factors, including revenue related to the product mix that we sell, including the relative sales related to our platform and solutions and other factors which are outside of our control. If our quarterly revenue or results of operations fall below the expectations of investors or securities analysts, the price of our common stock could decline substantially. Fluctuations in our results of operations may be due to a number of factors, including:

- the portion of our revenue attributable to software as a service, or SaaS, and license versus hardware and other sales;
- our ability to successfully close the proposed Acquisition and manage the Connect and Piper businesses 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 providers that market, sell, install and support our platform and solutions;

- the ability of our hardware vendors to continue to manufacture high-quality products and to supply sufficient products to meet our demands;
- the timing and success of introductions of new solutions, products or upgrades by us or our competitors and the entrance of new competitors;
- changes in our business and pricing policies or those of our competitors;
- the ability to accurately forecast revenue as we generally rely upon our service provider network to generate new revenue;
- our ability to control costs, including our operating expenses and the costs of the hardware we purchase;
- competition, including entry into the industry by new competitors and new offerings by existing competitors;
- 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 three and nine months ended September 30, 2016 and 2015.

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

We have experienced significant growth in a short period of time. Our revenue increased from \$37.2 million in 2010 to \$208.9 million in 2015 and increased from \$152.0 million for the nine months ended September 30, 2015 to \$191.3 million for the nine months ended September 30, 2016. We do not expect to achieve similar growth rates in future periods. You should not rely on our operating results for any prior quarterly or annual periods as an indication of our future operating performance. If we are unable to maintain expected revenue growth in both absolute dollars and as a percentage of prior period revenue, our financial results could suffer and our stock price could decline.

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

- maintain our relationships with existing service providers and add new service providers;
- increase our subscribers and help our service providers maintain and improve their revenue retention rates, while also expanding their cross-sell effectiveness;
- add sales and marketing personnel;
- expand our international operations; and

- continue to implement and improve our administrative, financial and operational systems, procedures and controls.

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

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

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

We increased our number of full-time employees from 253 to 400 to 507 as of December 31, 2013, 2014 and 2015, respectively. Our revenue increased from \$130.2 million in 2013 to \$167.3 million in 2014 and to \$208.9 million in 2015. Our revenue increased from \$152.0 million for the nine months ended September 30, 2015 to \$191.3 million for the nine months ended September 30, 2016. Our growth has placed, and may continue to place, a significant strain on our managerial, administrative, operational, financial and other resources. We intend to further expand our overall business, service provider network, subscriber base, headcount and operations, 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 and we may not be able to do so effectively. As such, we may be unable to manage our expenses effectively in the future, which may negatively impact our gross profit or operating expenses in any particular quarter. If we fail to manage our anticipated growth and change in a manner that preserves the key aspects of our corporate culture, the quality of our solutions may suffer, which could negatively affect our brand and reputation and harm our ability to retain and attract service providers and consumers.

The markets in which we participate are highly competitive and many companies, including large technology companies, broadband and security service providers and other managed service providers, are actively targeting the home automation, security monitoring, video monitoring and energy management markets. If we are unable to compete effectively with these companies, our sales and profitability could be adversely affected.

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

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

- our platform and solutions' functionality, performance, ease of use, reliability, availability and cost effectiveness relative to that of our competitors' products;
- our success in utilizing new and proprietary technologies to offer solutions and features previously not available in the marketplace;
- our success in identifying new markets, applications and technologies;
- our ability to attract and retain service providers;
- our name recognition and reputation;
- our ability to recruit software engineers and sales and marketing personnel; and
- our ability to protect our intellectual property.

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

Our current primary competitors include providers of other technology platforms for the connected home, including Honeywell International Inc. and Telguard, that sell to service providers, cable operators and other home automation providers.

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

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

Aggressive business tactics by our competitors may reduce our revenue.

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

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

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

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

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

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

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

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

Our platform and solutions may contain undetected defects in the software, infrastructure, third-party components or processes. If our platform or solutions suffer from defects, we could experience harm to our branded reputation, claims by our subscribers or service providers or lost revenue during the period required to address the cause of the defects. We may find defects in new, 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 providers, if they do not install or maintain such solutions correctly, our platform and solutions may not function properly. If the improper installation or maintenance of our platform and solutions leads to service failures after introduction of, or an upgrade to, our platform or a solution, we could experience harm to our branded reputation, claims by our subscribers or service providers or lost revenue during the period required to address the cause of the problem. Further, we rely on our service providers to provide the primary source of support and ongoing service to our subscribers and, if our service providers fail to provide an adequate level of support and services to our subscribers, it could have a material adverse effect on our reputation, business, financial condition, 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 providers limit our liability to our service providers for these defects, disruptions or errors, we nonetheless could be subject to litigation for actual or alleged losses to our service providers or our subscribers, which may require us to spend significant time and money in litigation or arbitration, or to pay significant settlements or damages. Defending a lawsuit, regardless of its merit, could be costly, divert management's attention and affect our ability to obtain or maintain liability insurance on acceptable terms and could harm our business. Although we currently maintain some warranty reserves, we cannot assure you that these warranty reserves will be sufficient to cover future liabilities.

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

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

In order for us to maintain our current revenue sources and grow our revenues, we must effectively manage and grow relationships with our service providers. Recruiting and retaining qualified service providers and training them in our technology and solutions requires significant time and resources. If we fail to maintain existing service providers or develop relationships with new service providers, our revenue and operating results would be adversely affected. In addition, to execute on our strategy to expand our sales internationally, we must develop relationships with service providers that sell into these markets.

Any of our service providers may choose to offer a product from one of our competitors instead of our platform and solutions, elect to develop their own competing solutions or simply discontinue their operations with us. For example, we entered into a license agreement in November 2013 with Vivint Inc., or Vivint, pursuant to which we granted a license to use the intellectual property associated with our connected home solutions. Under the terms of this arrangement, Vivint has transitioned from selling our solutions directly to its customers to selling its own home automation product to its new customers. We now generate revenue from a monthly fee charged to Vivint on a per customer basis from sales of this service provider's product; however, these monthly fees are less on a per customer basis than fees from our SaaS solutions. Therefore, we receive less revenue on a per customer basis from Vivint compared to our SaaS subscriber base, which may result in a lower revenue growth rate. We must also work to expand our network of service providers to ensure that we have sufficient geographic coverage and technical expertise to address new markets and technologies. While it is difficult to estimate the total number of available service providers in our markets, there are a finite number of service providers that are able to perform the types of technical installations required for our platform and solutions. In the event that we saturate the available service provider pool, or if market or other forces cause the available pool of service providers to decline, it may be increasingly difficult to grow our business. If we are unable to expand our network of service providers, our business could be harmed.

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

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

Our success is highly dependent upon establishing and maintaining successful relationships with a variety of service providers. We market and sell our platform and solutions through an all-channel assisted sales model and we derive substantially all of our revenue from these service providers. We generally enter into agreements with our service providers outlining the terms of our relationship, including service provider pricing commitments, installation, maintenance and support requirements, and our sales registration process for registering potential sales to subscribers. These contracts, including our contract with Monitronics International, Inc., typically have an initial term of one year, with subsequent renewal terms of one year, and are terminable at the end of the initial term or renewal terms without cause upon written notice to the other party. In some cases, these contracts provide the service provider with the right to terminate prior to the expiration of the term without cause upon 30 days written notice, or, in the case of certain termination events, the right to terminate the contract immediately. While we have developed a network of over 6,000 service providers to sell, install and support our platform and solutions, we receive a substantial portion of our revenue from a limited number of channel partners. During the years ended December 31, 2015, 2014 and 2013, our 10 largest revenue service providers accounted for 63.4%, 64.7% and 65.7% of our revenue. Vivint represented greater than 10% but not more than 15% of our revenue in 2014 and 2013. Monitronics International, Inc. represented greater than 15% but not more than 20% of our revenue in 2015, 2014 and 2013. United Technologies Corporation represented greater than 10% but not more than 15% of our revenue in 2014.

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

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

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

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

Many vendors have emerged, and may continue to emerge, to provide point products with advanced functionality for use in the home, such as a thermostat that can be controlled by an application on a smartphone. We expect more and more consumer electronic and consumer appliance products to be network-aware and connected — each very likely to have its own smart device (phone or tablet) application. Consumers may be attracted to the relatively low costs of these point products and the ability to expand their home control solution over time with minimal upfront costs, despite some of the disadvantages of this approach, may reduce demand for our connected home solutions. If so, our service providers may switch and offer the point products and services of competing companies, which would adversely affect our sales and profitability. If a significant number of consumers in our target market choose to adopt point products rather than our connected home solutions, then our business, financial condition, 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 home solutions, and the lack of continued market acceptance of our connected home solutions would result in lower revenue.

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

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

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

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

We generally bill our service providers based on the number of subscribers they have on our platform and the features being utilized by subscribers on a monthly basis in advance. Subscribers could elect to terminate our services in any given month. If our efforts and our service providers' efforts to satisfy our existing subscribers are not successful, we may not be able to retain them or sell additional functionality to them and, as a result, our revenue and ability to grow could be adversely affected. We track our SaaS and license revenue renewal rate on an annualized basis, as reflected in the section of this 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 providers, who resell our services to our subscribers, have indicated that they typically have three to five year service contracts with our subscribers. Our SaaS and license revenue renewal rate is calculated across our entire subscriber base, including subscribers whose contract with their service provider reached the end of its contractual term during the measurement period, as well as subscribers whose contract with their service provider has not reached the end of its contractual term during the measurement period, and is not intended to estimate the rate at which our subscribers renew their contracts with our service providers. As a result, we may not be able to accurately predict future trends in renewals and the resulting churn. Subscribers may choose not to renew their contracts for many reasons, including the belief that our service is not required for their needs or is otherwise not cost-effective, a desire to reduce discretionary spending, or a belief that our competitors' services provide better value. Additionally, our subscribers may not renew for reasons entirely out of our control, such as moving a residence or the dissolution of their business, which is particularly common for small to mid-sized businesses. A significant increase in our churn would have an adverse effect on our business, financial condition, 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 providers and subscribers and may adversely affect our reputation. In addition, the inability to maintain our existing contracts with our wireless carriers or enter into new contracts with such wireless carriers could have a material adverse effect on our business, financial condition, 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 solutions is characterized by rapid technological change, frequent introductions of new products and evolving industry standards. Our ability to attract new subscribers and increase revenue from existing subscribers will depend in significant part on our ability to anticipate changes in industry standards, to continue to enhance our existing solutions or introduce new solutions on a timely basis to keep pace with technological developments, and to maintain compatibility with a wide range of connected devices in the home and business. We may change aspects of our operating system and may utilize open source technology in the future, which may cause difficulties including compatibility, stability and time to market. The success of this or any enhanced or new product or solution will depend on several factors, including the timely completion and market acceptance of the enhanced or new product or solution. Similarly, if any of our competitors implement new technologies before we are able to implement them, those competitors may be able to provide more effective products than ours, possibly at lower prices. Any delay or failure in the introduction of new or enhanced solutions could harm our business, 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. We may be required to implement new technologies or adapt existing technologies in response to changing market conditions, consumer preferences or industry standards, which could require significant capital expenditures. For example, AT&T announced it intends to shut down its 2G network on December 31, 2016 and many of our service providers are currently working to upgrade our solutions that were installed using AT&T 2G wireless technology. As of November 1, 2016, we had approximately 89,000 end user accounts reliant on the AT&T 2G network. If our service providers are not able to upgrade their customers prior to December 31, 2016 those systems may lose communication 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 37% of our hardware and other revenue in 2015. If these suppliers are unable to continue to provide a timely and reliable supply, we could experience interruptions in delivery of our platform and solutions to service providers, which could have a material adverse effect on our business, financial condition, 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 critical to our overall success in achieving widespread acceptance of our existing and future solutions and is an important element in attracting new service providers and subscribers. An important part of our business strategy is to increase service provider and consumer awareness of our brand and to provide marketing leadership, services and support to our service provider network. This will depend largely on our ability to continue to provide high-quality solutions, and we may not be able to do so effectively. While we may choose to engage in a broader marketing campaign to further promote our brand, this effort may not be successful. Our efforts in developing our brand may be hindered by the marketing efforts of our competitors and our reliance on our service providers and strategic partners to promote our brand. If we are unable to cost-effectively maintain and increase awareness of our brand, our business, financial condition, cash flows and results of operations could be harmed.

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

The market for solutions that bring objects and systems not typically connected to the Internet, such as home automation, security monitoring, video monitoring and energy management solutions, into an Internet-like structure is in an early stage of development, and it is uncertain whether, how rapidly or how consistently this market will develop, and even if it does develop, whether our platform and solutions will be accepted into the markets in which we operate. Some consumers may be reluctant or unwilling to use our platform and solutions for a number of reasons, including satisfaction with traditional solutions, concerns about additional costs and lack of awareness of the benefits of our platform and solutions. Our ability to expand the sales of our platform and solutions into new markets depends on several factors, including the awareness of our platform and solutions, the timely completion, introduction and market acceptance of our platform and solutions, the ability to attract, retain and effectively train sales and marketing personnel, the ability to develop relationships with service providers, the effectiveness of our marketing programs, the costs of our platform and solutions and the success of our competitors. If we are unsuccessful in developing and marketing our platform and solutions into new markets, or if consumers do not perceive or value the benefits of our platform and solutions, the market for our platform and solutions might not continue to develop or might develop more slowly than we expect, either of which would harm our revenue and growth prospects.

Risks of liability from our operations are significant.

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

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

We are dependent on information technology networks and systems, including the Internet, to process, transmit and store electronic information and, in the normal course of our business, we collect and retain certain information pertaining to our service providers, subscribers and employees, including credit card information for many of our service providers and certain of our subscribers. If security breaches in connection with the delivery of our solutions allow unauthorized third parties to access

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

We recently agreed to acquire Icontrol's Connect and Piper business units and have acquired businesses in the past. For example, we acquired EnergyHub, Inc. in 2013 and we acquired the assets of Horizon Analog, Inc. and Secure-i, Inc., respectively, in December 2014, and of HiValley Technology Inc. in March 2015. We believe part of our growth will be driven by acquisitions of other companies or their technologies, assets and businesses. The proposed Acquisition, if closed, and any other acquisitions we may complete will give rise to risks, including:

- incurring higher than anticipated capital expenditures and operating expenses;
- failing to assimilate the operations and personnel or failing to retain the key personnel of the acquired company or business;
- failing to integrate the acquired technologies, or incurring significant expense to integrate acquired technologies into our platform and solutions;
- disrupting our ongoing business;
- diverting our management's attention and other company resources;
- failing to maintain uniform standards, controls and policies;
- incurring significant accounting charges;
- impairing relationships with employees, service providers or subscribers;
- finding that the acquired technology, asset or business does not further our business strategy, that we overpaid for the technology, asset or business or that we may be required to write off acquired assets or investments partially or entirely;
- failing to realize the expected synergies of the transaction;
- being exposed to unforeseen liabilities and contingencies that were not identified prior to acquiring the company; and
- being unable to generate sufficient revenue and profits from acquisitions to offset the associated acquisition costs.

Fully integrating an acquired technology, asset or business into our operations may take a significant amount of time. We may not be successful in overcoming these risks or any other problems encountered with acquisitions, including those we may encounter with the proposed 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. For example, in 2013, we entered the energy management market through our acquisition of EnergyHub, Inc. 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 providers, our subscribers and third-party providers. We cannot assure you that the data we require for our proprietary data sets will be available from these sources in the future or that the cost of such data will not increase. The United States federal government and various state governments have adopted or proposed limitations on the collection, distribution, storage and use of personal information. Several foreign jurisdictions, including the European Union and the United Kingdom, have adopted legislation (including directives or regulations) that is more rigorous governing data collection and storage than in the United States.

On October 6, 2015, the European Court of Justice issued a ruling that calls into question the continued availability of all provisions of the United States-European Union Safe Harbor Framework, a privacy protection mechanism that facilitated the transfer of personal data to the United States in compliance with the European Commission's Directive on Data Protection. 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 providers, and our failure to meet them could cause us to issue credits for future services or pay penalties, which could harm our results of operations.

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

We may not be able to secure additional financing on favorable terms, or at all, to meet our future capital needs.

In the future, we may require additional capital to respond to business opportunities, challenges, acquisitions or unforeseen circumstances and may determine to engage in equity or debt financings or enter into credit facilities for other reasons. In the future, we may not be able to timely secure debt or equity financing on favorable terms or at all. Any debt financing obtained by us in the future could involve restrictive covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. If we raise additional funds through further issuances of equity, convertible debt securities or other securities convertible into equity, our existing stockholders could suffer significant dilution in their percentage ownership of our company, and any new equity securities we issue could have rights, preferences and privileges senior to those of holders of our common stock, including shares of common stock sold in our initial public offering, or IPO. 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 September 30, 2016, we had \$29.7 million of goodwill and identifiable intangible assets, and we expect that the proposed Acquisition, if consummated, will increase the goodwill and identifiable intangible assets on our consolidated balance sheet. 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 providers or subscribers that impacts sales during the second or third quarter of each year could have a greater impact on our annual results. All of the aforementioned risks may be augmented if the disaster recovery plans for us, our service providers and our suppliers prove to be inadequate. To the extent that any of the above results in delays or cancellations of orders, or delays in the manufacture, deployment or shipment of our platform and solutions, our business, financial condition, 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 providers will file for bankruptcy protection, which may harm our reputation, revenue, profitability and results of operations. In addition, we may determine that the cost of pursuing any claim may outweigh the recovery potential of such claim. Likewise, consumer bankruptcies can detrimentally affect the business stability of our service providers. Prolonged economic slowdowns and reductions in new home construction and renovation projects may result in diminished sales of our platform and solutions. Further worsening, broadening or protracted extension of the economic downturn could have a negative impact on our business, revenue, results of operations and cash flows.

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

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

We are subject to the U.S. domestic bribery statute contained in 18 U.S.C. § 201, the U.S. Foreign Corrupt Practices Act of 1977, as amended, the U.S. Travel Act, and possibly other anti-bribery laws, including those that comply with the 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.

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

Our global operations require us to import from and export to several countries, which geographically stretches our compliance obligations. Our platform and solutions are subject to export control and import laws and regulations, including the U.S. Export Administration Regulations, U.S. Customs regulations, and various economic and trade sanctions regulations administered by the U.S. Treasury Department's Office of Foreign Assets Controls. Exports of our platform and solutions must be made in compliance with these laws and regulations. If we fail to comply with these laws and regulations, we and certain of our employees could be subject to substantial civil or criminal penalties, including the possible loss of export or import privileges; fines, which may be imposed on us and responsible employees or managers; and, in extreme cases, the incarceration of responsible employees or managers. In addition, if our service providers fail to obtain appropriate import, export or re-export licenses or authorizations, we may also be adversely affected through reputational harm and penalties. Obtaining the necessary authorizations, including any required license, for a particular sale may be time-consuming, is not guaranteed and may result in the delay or loss of sales opportunities. In addition, changes in our platform or solutions or changes in applicable export or import laws and regulations may create delays in the introduction and sale of our platform and solutions in international markets, prevent our service providers with international operations from deploying our platform and solutions or, in some cases, prevent the export or import of our platform and solutions to certain countries, governments or persons altogether. Any change in export or import laws and regulations, shift in the enforcement or scope of existing laws and regulations, or change in the countries, governments, persons or technologies targeted by such laws and regulations, could also result in decreased use of our platform and solutions, or in our decreased ability to export or sell our platform and solutions to existing or potential service providers with international operations. Any decreased use of our platform and solutions or limitation on our ability to export or sell our platform and solutions would likely adversely affect our business, financial condition, 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 providers, 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 owned by Vivint. See the section of this Quarterly Report titled "Legal Proceedings" for additional information on this matter. In addition, should the proposed Acquisition be consummated, we would assume certain currently pending patent related litigation matters brought by Icontrol. Companies in our industry have been subject to claims related to patent infringement and product liability, as well as contract and employment-related claims. We may not be able to accurately assess the risks related to these suits, and we may be unable to accurately assess our level of exposure. As a result of these proceedings, we have, and may be required to seek in the future, licenses under patents or intellectual property rights owned by third parties, including open-source software and other commercially available software, which can be costly. For example, we have initiated and been involved with intellectual property

litigation as a result of which we have entered into cross-license agreements relating to our and third-party intellectual property, and in one such case we initiated in 2013 and settled in January 2014, we incurred \$11.2 million of legal expense in 2013.

Our business operates in a regulated industry.

Our business, operations and service providers are subject to various U.S. federal, state and local consumer protection laws, licensing regulation and other laws and regulations, and, to a lesser extent, similar Canadian laws and regulations. Our advertising and sales practices and that of our service provider network are subject to regulation by the FTC, in addition to state consumer protection laws. The FTC and the Federal Communications Commission have issued regulations that place restrictions on, among other things, unsolicited automated telephone calls to residential and wireless telephone subscribers by means of automatic telephone dialing systems and the use of prerecorded or artificial voice messages. If our service providers were to take actions in violation of these regulations, such as telemarketing to individuals on the "Do Not Call" registry, we could be subject to fines, penalties, private actions or enforcement actions by government regulators. Although we have taken steps to insulate ourselves from any such wrongful conduct by our service providers, and to require our service providers to comply with these laws and regulations, no assurance can be given that we will not be exposed to liability as result of our service providers' conduct. Further, to the extent that any changes in law or regulation further restrict the lead generation activity of our service providers, these restrictions could result in a material reduction in subscriber acquisition opportunities, reducing the growth prospects of our business and adversely affecting our financial condition and future cash flows. In addition, most states in which we operate have licensing laws directed specifically toward the monitored security services industry. Our business relies heavily upon cellular telephone service to communicate signals. Cellular telephone companies are currently regulated by both federal and state governments. Changes in laws or regulations could require us to change the way we operate, which could increase costs or otherwise disrupt operations. In addition, failure to comply with any such applicable laws or regulations could result in substantial fines or revocation of our operating permits and licenses, including in geographic areas where our services have substantial penetration, which could adversely affect our business, 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. While our platform and solutions are designed for ease of localization, revenue in countries outside of the United States and Canada accounted for less than 1% of our revenue for the year ended December 31, 2015. We also do not have substantial experience in selling our platform and solutions in international markets outside of the United States and Canada or in conforming to the local cultures, standards, or policies necessary to successfully compete in those markets, and we may be required to invest significant resources in order to do so. We may not succeed in these efforts or achieve our consumer acquisition, service provider expansion or other goals. In some international markets, consumer preferences and buying behaviors may be different, and we may use business or pricing models that are different from our traditional model to provide our platform and solutions to consumers in those markets or we may be unsuccessful in implementing the appropriate business model. Our revenue from new foreign markets may not exceed the costs of establishing, marketing, and maintaining our international offerings. In addition, the current instability in the eurozone could have many adverse consequences on our international expansion, including sovereign default, liquidity and capital pressures on eurozone financial institutions, reducing the availability of credit and increasing the risk of financial sector failures and the risk of one or more eurozone member states leaving the euro, resulting in the possibility of capital and exchange controls and uncertainty about the impact of contracts and currency exchange rates.

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

- localization of our solutions, including the addition of foreign languages and adaptation to new local practices and regulatory requirements;
- lack of experience in other geographic markets;

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

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

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

Risks Related to Our Intellectual Property

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

We believe that our proprietary technology is essential to establishing and maintaining our leadership position. We seek to protect our intellectual property through trade secrets, copyrights, confidentiality, non-compete and nondisclosure agreements, patents, trademarks, domain names and other measures, some of which afford only limited protection. We also rely on patent, trademark, trade secret and copyright laws to protect our intellectual property. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our technology or to obtain and use information that we regard as proprietary. Our means of protecting our proprietary rights may not be adequate or our competitors may independently develop similar or superior technology, or design around our intellectual property. In addition, the laws of some foreign countries do not protect our proprietary rights to as great an extent as the laws of the United States. Intellectual property protections may also be unavailable, limited or difficult to enforce in some countries, which could make it easier for competitors to capture market share. Our failure or inability to adequately protect our intellectual property and proprietary rights could harm our business, financial condition, 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. 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. 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 by the U.S. Patent Trial and Appeal Board of certain patents in suit. Should Vivint prevail on its claims that one or more elements of our solution infringe one or more of its patents, we could be required to pay damages of Vivint's lost profits and/or a reasonable royalty for sales of our solution, enjoined from making, using, and selling our solution if a license or other right to continue selling such elements is not made available to us or we are unable to design around such patents, and required to pay ongoing royalties and comply with unfavorable terms if such a license is made available to us. While we believe we have valid defenses to Vivint's claims, any of these outcomes could result in a material adverse effect on our business. Even if we were to prevail, this litigation could be costly and time-consuming, divert the attention of our management and key personnel from our business operations and dissuade potential customers from purchasing our solution, which would also materially harm our business. During the course of litigation, we anticipate announcements of the results of hearings and motions, and other interim developments related to the litigation. If securities analysts or investors regard these announcements as negative, the market price of our common stock may decline.

We might not prevail in any intellectual property infringement litigation given the complex technical issues and inherent uncertainties in such litigation and our service provider contracts may require us to indemnify them against certain liabilities they may incur as a result of our infringement of any third party intellectual property. Defending such claims, regardless of their merit, could be time-consuming and distracting to management, result in costly litigation or settlement, cause development delays or require us to enter into royalty or licensing agreements. 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 providers for certain expenses and liabilities resulting from intellectual property infringement claims regarding our platform and solutions, which could force us to incur substantial costs.

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

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

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

The terms of many open source licenses to which we are subject have not been interpreted by U.S. or foreign courts, and accordingly there is a risk that those licenses could be construed in a manner that imposes unanticipated conditions or restrictions on our ability to commercialize our platform and solutions. In that event, we could be required to seek licenses from third parties in order to continue offering our platform and solutions, to re-develop our platform and solutions, to discontinue sales of our platform and solutions or to release our proprietary software code under the terms of an open source license, any of which could harm our business. Further, given the nature of open source software, it may be more likely that third parties might assert copyright and other intellectual property infringement claims against us based on our use of these open source software programs. Litigation could be costly for us to defend, have a negative effect on our 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 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 \$33.13 through September 30, 2016. 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, including the recently announced proposed Acquisition, and market assumptions regarding whether and when the potential Acquisition will occur and the impact of the proposed 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.

Recently, the stock markets have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. These fluctuations have often been unrelated or disproportionate to the operating performance of those companies. Broad market and industry fluctuations, as well as general economic, political, regulatory and market conditions, may negatively impact the market price of our common stock. In the past,

companies that have experienced volatility in the market price of their securities have been subject to securities class action litigation. We may be the target of this type of litigation in the future, which could result in substantial costs and divert our management's attention.

Sales of our common stock in the public market following the filing of this Quarterly Report could cause our share price to decline.

Sales of a substantial number of shares of our common stock in the public market could occur at any time, including in the period following the filing of this Quarterly Report on Form 10-Q. As of September 30, 2016, 45,932,589 shares of our common stock were issued and 45,897,911 shares of our common stock were outstanding. The majority of these shares were acquired prior to our IPO and were subject to lock-up agreements prohibiting holders of these shares from selling any of their shares for a period of 180 days following our IPO. These lock-up agreements have expired and, as a result, a substantial number of our shares are now generally freely tradable, subject, in the case of sales by our affiliates, to the volume limitations and other provisions of Rule 144 under the Securities Act. If these or other holders of our shares sell, or indicate an intent to sell, substantial amounts of our common stock in the public market, the trading price of our common stock could decline significantly. Furthermore, shares of our common stock subject to outstanding awards under our Amended and Restated 2009 Equity Incentive Plan, as well as the shares of our common stock reserved for future issuance under our 2015 Equity Incentive Plan, under our 2015 Employee Stock Purchase Plan and upon exercise of outstanding warrants, will become eligible for sale in the public market in the future, subject to certain legal and contractual limitations. If these additional shares are sold, or if it is perceived that they will be sold, in the public market, the trading price of our common stock could decline substantially.

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, 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" for up to five years or such earlier time that we no longer qualify as an emerging growth company. We will remain an emerging growth company until the earliest to occur of: the last day of the fiscal year in which we have more than \$1.0 billion in annual revenue; the date we qualify as a "large accelerated filer," with at least \$700 million of equity securities held by non-affiliates; the issuance, in any three-year period, by us of more than \$1.0 billion in non-convertible debt securities; or the last day of the fiscal year ending after the fifth anniversary of our IPO.

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

We are required, pursuant to Section 404 of the Sarbanes-Oxley Act, to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting in the 2016 annual report we file with the SEC. This assessment will need to include disclosure of any material weaknesses identified by our management in our internal control over financial reporting. However, our auditors are not required to report on the effectiveness of our internal control over financial reporting pursuant to Section 404 until we no longer qualify as an "emerging growth company" as defined in the JOBS Act.

We are in the very early stages of the costly and challenging process of compiling the system and process documentation necessary to perform the evaluation needed to comply with Section 404. In this regard, we will need to continue to dedicate internal resources, engage outside consultants and adopt a detailed work plan to assess and document the adequacy of internal control over financial reporting, continue steps to improve control processes as appropriate, validate through testing that controls are functioning as documented and implement a continuous reporting and improvement process for internal control over financial reporting. As we continue to transition to the requirements of reporting as a public company, we may need to add additional finance staff. We may not be able to remediate any future material weaknesses, or to complete our evaluation, testing and any required remediation in a timely fashion. During the evaluation and testing process, if we identify one or more material

weaknesses in our internal control over financial reporting, we will be unable to assert that our internal controls are effective. If we are unable to assert that our internal control over financial reporting is effective, or if our auditors are unable to express an opinion on the effectiveness of our internal controls when they are required to issue such opinion, investors could lose confidence in the accuracy and completeness of our financial reports, which could harm our stock price.

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

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

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

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

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

We do not intend to pay any cash dividends in the foreseeable future. We anticipate that we will retain all of our future earnings for use in the development of our business and for general corporate purposes. Any determination to pay dividends in the future will be at the discretion of our board of directors 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 November 14, 2016, our current 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

On July 1, 2015, we closed our IPO, in which we issued and sold 7,000,000 shares of common stock at a public offering price of \$14.00 per share, resulting in gross proceeds of \$98.0 million. On July 8, 2015, pursuant to the underwriters’ exercise of their over-allotment option to purchase up to an additional 525,000 shares from us and up to an additional 525,000 shares from the selling stockholders, we issued and sold an additional 525,000 additional shares of our common stock and certain selling stockholders affiliated with ABS Capital Partners sold 525,000 shares of our common stock, resulting in additional gross proceeds to us of \$7.4 million. We did not receive any proceeds from the sale of shares by the selling stockholders. All of the shares issued and sold in our IPO were registered under the Securities Act pursuant to a registration statement on Form S-1 (File No. 333-204428), which was declared effective by the SEC on June 25, 2015. Goldman, Sachs & Co., Credit Suisse Securities (USA) LLC, and BofA Merrill Lynch acted as joint book-running managers of our IPO, which has now terminated, and Stifel, Raymond James & Associates, Inc., William Blair & Company, LLC and Imperial Capital, LLC acted as co-managers. The net proceeds to us, after deducting underwriting discounts and commission of approximately \$7.4 million and offering expenses of \$5.0 million, were \$93.0 million. No offering expenses were paid directly or indirectly to any of our directors or officers (or their associates) or persons owning ten percent or more of any class of our equity securities or to any other affiliates. We have invested a portion of the net offering proceeds into money market securities. There has been no material change in the planned use of proceeds from our IPO from those disclosed in the final prospectus for our IPO dated June 25, 2015 and filed with the SEC pursuant to Rule 424(b)(4) of the Securities Act on June 26, 2015. As of September 30, 2015, all expenses incurred in connection with our IPO had been paid.

(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 September 30, 2016:

Period	Total Number of Shares Purchased ⁽¹⁾	Average Price Paid per Share
July 1 to July 31, 2016	232	\$ 6.52
August 1 to August 31, 2016	—	—
September 1 to September 30, 2016	—	—
Total	232	\$ 6.52

⁽¹⁾ 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.

Exhibit Number	Description
3.1 ⁽¹⁾	Amended and Restated Certificate of Incorporation of Alarm.com Holdings, Inc.
3.2 ⁽²⁾	Amended and Restated Bylaws of Alarm.com Holdings, Inc.
10.1 ⁽³⁾	Third Amendment to Credit Agreement by and among Alarm.com Holdings, Inc., Alarm.com Incorporated, Silicon Valley Bank and the several lenders from time to time parties thereto, dated August 10, 2016.
10.2#†	Reformed Master Services Agreement by and between Alarm.com Incorporated and ADT LLC, effective as of August 19, 2016.
10.3#	Fourth Amendment to Deed of Office Lease Agreement by and between Alarm.com Incorporated and Marshall Property LLC, dated September 15, 2016.
31.1#	Certification of Principal Executive Officer and 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

⁽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.

⁽³⁾ Previously filed as Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q (File No. 001-37461), filed with the Securities and Exchange Commission on August 15, 2016, and incorporated herein by reference.

Filed herewith.

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

* 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: November 14, 2016

By: /s/ Stephen Trundle

Stephen Trundle

President and Chief Executive Officer

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

Exhibit Index

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*****] = CERTAIN CONFIDENTIAL INFORMATION CONTAINED IN THIS DOCUMENT, MARKED BY BRACKETS, HAS BEEN OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO RULE 24B-2 OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED.**

REFORMED MASTER SERVICES AGREEMENT

This Master Services Agreement (“Agreement”) is entered into by and between Alarm.com Incorporated (“Alarm.com”), a Delaware corporation with its principal place of business at 8281 Greensboro Drive, Suite 100, McLean, Virginia 22102, and ADT LLC, a Delaware limited liability company with a principal place of business at 1501 Yamato Road, Boca Raton, FL 33431 (collectively with its Affiliates, “ADT”), effective as of August 19, 2016 (“Effective Date”), and supersedes (1) the Master Services Agreement between the parties dated December 1, 2014, as amended, and (2) the Master Services Agreement between ADT and iControl Networks, Inc. dated December 17, 2008, as amended (“iControl MSA”), which will be transferred to Alarm.com upon closing of the transactions set forth in the Asset Purchase Agreement between iControl and certain affiliates of Alarm.com dated June 23, 2016 (“APA”).

INTRODUCTION

ADT sells residential and/or commercial security, monitoring, automation, or structured wiring products. ADT, for itself and for ADT Dealers, wishes to sell Alarm.com Services (as defined in Section 2.1) to ADT’s existing or prospective end-user customers. Alarm.com wishes to authorize ADT and ADT Dealers to sell Alarm.com Services to ADT’s customers for use with products that enable such use (“**Alarm.com-ready Products**”). Accordingly, for good and valuable consideration, the receipt and sufficiency of which each party acknowledges, the parties acknowledge and agree as follows:

1. DEFINITIONS

Unless otherwise specifically provided, and in addition to the other defined terms set forth herein, the following terms will have the meanings set forth below:

“ADT Canopy” shall mean ADT’s providing of central station monitoring as a service to customers through a third party device, current known as “Canopy,” “ADT Canopy” and/or “Secured by ADT.” Canopy shall also include the hardware and software provided for self-contained camera and automation systems to be offered by LG Products, Ltd., currently known as “LG Smart Security.”

“ADT Customer Data” is all information regarding any of ADT’s current or prospective customers (individually or in the aggregate), including all information regarding such customer’s use of the Alarm.com Services, as may be generated during the operation thereof. For greater certainty, Personal Information and Personal Sensitive Information (each as defined in Exhibit B to Schedule 3) about such customers is included in the definition of ADT Customer Data.

“ADT Data” means all Confidential Information, including ADT Customer Data, entered into, stored in, and/or processed by any Information Processing Systems of Alarm.com that is: (i) data supporting or derived from the provision of the Alarm.com Services to Subscribers, or (ii) relating to ADT, ADT’s Affiliates, ADT’s Subscribers, or ADT Dealers, and information derived from such information, including as stored in or processed through the Alarm.com’s equipment, software or network environment.

“ADT Dealer” means independent contractors who (1) have been authorized by ADT pursuant to a sublicense to offer and/or install, to offer and/or install Alarm.com Services and to use and access the Alarm.com Services for the purposes of selling, installing, and/or supporting such Alarm.com Services to ADT’s existing and prospective end-user customers within the Territory; (2) have entered into a contract with Alarm.com to provide the Alarm.com Services in accordance with the terms and conditions of this Agreement, and (3) have entered into an ADT authorized dealer agreement, or other similar agreement, with ADT.

***] = CONFIDENTIAL TREATMENT REQUESTED

“Affiliate” means any Person that, directly or indirectly, owns or controls, is owned or controlled by, or is under common ownership or control with, a party. For clarity, ADT’s Affiliates include, but are not limited to, the commonly-owned Protection One, ASG and Vintage Security businesses.

“Alarm.com Interface” means the Alarm.com customer website (“Customer Website”) and any other Alarm.com Interface, including applications for mobile devices, which Alarm.com may use to provide the Alarm.com Services. The Customer Website, currently at www.alarm.com, is designed for access by Subscribers.

“Alarm.com Terms” shall have the meaning set forth in Section 3.5.

“Applicable Law” shall have the meaning set forth in Section 3.4.

“Asserting ADT Party” shall have the meaning set forth in Section 1.8 of Schedule 4.

“Bulk Account Acquisition” shall mean ADT’s acquisition of a group of accounts for Alarm.com Services from any entity that is an Alarm.com Dealer (either directly or through acquisition of such entity itself), which accounts become Subscribers under this Agreement and subject to the pricing terms set forth in Schedule 2.

“Canopy Covenant Against Enforcement” shall have the meaning set forth in Section 3.7 of this Agreement.

“***” means ***.

“***]Customers” means any and all direct or indirect, and past, current or future purchasers or licensees of any ***] Product(s), including distributors, dealers, resellers, end-users, retailers, service providers, maintenance and support services providers or other purchasers of any ***] Product(s).

“***] Made Product(s)” means any and all products, or parts or components thereof, made, used, sold, offered for sale or imported by ***] or any of its Affiliates, or having been made for ***] or any of its Affiliates, worldwide, including any and all services related to those products, or parts or components thereof.

“***] Parties” means ***] and any of its Affiliates, licensees and/or indemnities, including any Customers.

“***] Product(s)” means ***] Made Products and ***] System Products.

“***] System Products” means any and all products, or parts or components thereof, worldwide, used in a system that is managed by, incorporates, or otherwise utilizes (directly or indirectly) any ***] Made Product, including any and all services related to those products, or parts or components thereof.

“Connect Platform” means the iControl Products as originally defined and provided under the iControl MSA, as acquired by Alarm.com pursuant to the APA, and as now provided to ADT under this Agreement.

“Divested Patents” means (a) United States Patent Nos. [***], [***], [***], [***], [***], [***], [***], [***], [***], [***], [***], [***], [***], [***], [***], [***], [***], and [***]; (b) United States Patent Application Nos. [***] and [***]; and (c) European Patent Application No. [***].

[***] = CONFIDENTIAL TREATMENT REQUESTED

“Documentation” means the specifications and functional requirements published by Alarm.com for the Alarm.com Services and provided to ADT in either electronic, online help files or hard copy format. Marketing materials shall not be considered Documentation hereunder.

“Field” means the field of home/business security or automation.

“Governmental Authority” means any transnational, domestic or foreign federal, state or local, governmental authority, department, court, agency or official, including any political subdivision thereof.

“Person” means any natural or legal person or association of natural or legal persons, whether or not having a separate legal identity, including any individual, corporation, limited liability company, or partnership.

“Personnel” means the employees, contractors and other personnel of a party who perform the obligations of such party under this Agreement.

“Post-Termination Covenant Against Enforcement” shall have the meaning set forth in Section 1.7 of Schedule 4.

“Proceeding” means any action, claim, lawsuit, litigation, proceeding, inquiry, or arbitration (in each case, whether civil, criminal or administrative) by or before any Governmental Authority.

“Provider” means any third party with access to ADT Data by, through or under Alarm.com including sub-contractors and sub-subcontractors of whatever tier.

“Products” means the Alarm.com-ready Products, the Third Party Products, and the ADT Custom Products.

“Subscriber” means an end-user customer (a) who has one or more properly-installed Alarm.com-ready Products, (b) who has entered into a Subscription Agreement with an ADT Dealer, ADT, or an ADT Affiliate that includes the Alarm.com Terms, and (c) whose account has been activated using the ADT Website (as defined in Section 4.2).

“Subscription Agreement” means an enforceable, written agreement between ADT or an ADT Dealer and a Subscriber pursuant to which such Subscriber has agreed to subscribe to one or more of the Alarm.com Services sold by ADT, or an ADT Dealer.

“Supporting Canopy Partner means any third party from whom ADT purchases, licenses, or otherwise integrates technology and/or services specifically for the operation and use of ADT Canopy.

“Territory” means the United States, United States territories (i.e., American Samoa, Guam, Northern Mariana Islands, Puerto Rico and U.S. Virgin Islands) and Canada.

“Third Party Product” means any product manufactured or created by a third party (e.g., door lock) that is integrated with the Alarm.com Services or an Alarm.com-ready Product pursuant to this Agreement.

2. DESCRIPTION OF SERVICES

2.1 “**Alarm.com Services**” means the services that Alarm.com provides to Subscribers, during the Term, pursuant to the terms and conditions of this Agreement as further set forth in Schedule 2 (Pricing) attached hereto. As used in this Agreement, the Alarm.com Services also includes the Connect Platform and any other platform offered by Alarm.com, except as otherwise set forth in this Agreement. Such services include, but are not limited to, the following service offerings: (a) the enabling of wireless, wired, or dual-path transmission of data from a security system at a Subscriber’s premises to the Alarm.com Network Operations Center (“NOC”), (b) hosting of such data in the NOC, (c) remote access to such data via an Alarm.com Interface, (d) remote control of the security system and any associated home automation services via an Alarm.com Interface, (e) personalized event-driven text and e-mail notifications managed by Subscribers via an Alarm.com Interface, and (f) forwarding of alarm notifications to a supported central station. Notwithstanding anything to the contrary in this Agreement, Alarm.com shall have the right to add, delete, change, or terminate service offerings that are part of the Alarm.com Services at any time, provided, however, that any such change that could reasonably be expected to (i) materially and adversely impact the quality or scope of the Alarm.com Services or (ii) materially and adversely affect Subscribers using the Alarm.com Services, shall be subject to the prior consent of ADT (in the manner set forth in Schedule 6).

2.2 Alarm.com may, at its option, combine service offerings into packages, including packages described as “Wireless Signal Forwarding,” designed to communicate alarm signals from a Subscriber’s premises to a supported central station, “Basic Interactive,” an interactive service designed to allow the Subscriber to monitor the Subscriber’s premises using an Alarm.com Interface, and “Advanced Interactive,” which includes normal activity monitoring on specific system sensors. Subject to Alarm.com’s advance written approval, ADT will also be permitted to request customized packages based on the features described in Schedule 2.

3. ADT’s RIGHTS AND RESPONSIBILITIES

3.1 Subject to the terms and conditions of this Agreement and compliance therewith, Alarm.com grants ADT and its Affiliates a limited, non-exclusive, non-transferable right, during the Term and as needed during the period of Transition Services, to market, sell, install, support, and service Alarm.com Services and Alarm.com-ready Products to ADT’s existing and prospective Subscribers within the Territory. ADT shall have the right to use any portion of the Documentation as necessary to (i) provide support to Subscribers with respect to the Alarm.com Services and Alarm.com-ready Products, (ii) incorporate such Documentation into written end-user training or marketing materials prepared by ADT (or by a third-party for ADT), and (iii) to prepare, use, reproduce, and distribute Documentation.

3.2 Subject to the terms and conditions of this Agreement and compliance therewith, ADT shall have the right to provide to each ADT Dealer a limited, non-exclusive, non-transferable right, during the Term, to market, sell, install, support, and service Alarm.com Services to ADT’s existing and prospective end-user customers within the Territory. ADT shall have no liability for any actions by ADT Dealers, in particular any breach by such ADT Dealers of their direct agreement with Alarm.com, which shall contain terms and conditions subject to, and not inconsistent with, the terms of this Agreement. To the extent that there is any conflict between the terms of such direct agreement between Alarm.com and an ADT Dealer and this Agreement, the terms of this Agreement shall prevail.

3.3 Each party represents and warrants that it has and will maintain throughout the Term all necessary experience, skills, facilities, Personnel, permission, permits, and licenses, including whatever permission, permits, or licenses may be necessary from any local, state, or federal government agency or other public or private authority, to perform any activity required or permitted by this Agreement, including the sale of any Alarm.com Services and the sale or installation of any Alarm.com-ready Product. Activities required by this Agreement shall include the following:

(a) For any Alarm.com-ready Product sold or installed by ADT or an ADT Dealer, ADT or such ADT Dealer shall be solely responsible for providing the Alarm.com-ready Product to Subscribers and for all sales, installation, and associated activities, including billing and collecting from Subscribers, and shall bear all costs and expenses thereof.

[***] = CONFIDENTIAL TREATMENT REQUESTED

(b) For any Alarm.com Services sold by ADT or an ADT Dealer, ADT or such ADT Dealer shall be solely responsible for all sales and associated activities, including billing and collecting from Subscribers, and ADT shall bear all costs and expenses thereof.

(c) The parties shall cooperate in good faith in the performance of quality assurance and testing procedures for the Alarm.com Services and any Alarm.com-ready Product. Each party shall bear its own costs and expenses in connection with such cooperation.

3.4 In all activities required or permitted by this Agreement, each party shall comply with all applicable federal, state, and local laws, rules, regulations, and orders, including both statutory and common law (all the foregoing, cumulatively, "Applicable Law"). Neither party shall, by act or omission, misrepresent Alarm.com Services or any Alarm.com-ready Product or mislead any Person concerning any of the foregoing. Nor shall either party make any claims, representations, or warranties in connection with the other's products or services, or any other claims, representations, or warranties purportedly on behalf of the other party, except if and to the extent expressly authorized in advance in writing by that party.

3.5 Notwithstanding anything to the contrary in this Agreement, ADT shall not activate any Alarm.com Services or any Alarm.com-ready Product unless (a) ADT has determined from printed or interactive written information provided by Alarm.com that the location or locations at which such Alarm.com Services will be used and at which such Alarm.com-ready Product will be located are within an area of wireless telemetry coverage in which Alarm.com Services are available (if wireless is used as the primary data communication path as recommended), and (b) ADT or the applicable ADT Dealer has entered into a Subscription Agreement with the end user customer for all Alarm.com Services and Alarm.com-ready Products being sold to or installed for such customer, which such Subscription Agreement contains all the terms and conditions in Schedule 1 (the "Alarm.com Terms") and no terms or conditions that are inconsistent with the Alarm.com Terms or otherwise inconsistent with this Agreement. The Alarm.com Terms included with this Agreement shall appear in the Subscription Agreement as stated. ADT acknowledges and agrees that Alarm.com is an intended third party beneficiary of the Subscription Agreement and that Alarm.com is entitled in its own right to require due performance of the Alarm.com Terms by Subscribers and accordingly has independent rights of enforcement in regard thereto. ADT shall cooperate with Alarm.com in any enforcement of such Alarm.com Terms by Alarm.com.

3.6 Subject to and conditioned upon Alarm.com achieving Parity (as defined in Section 3.11 of Schedule 6) by the end of the third year of the Initial Term and for so long as Alarm.com maintains Parity thereafter, ADT shall exclusively use the Alarm.com Services for all of ADT's professionally installed residential interactive security, automation and video service offerings (for existing and new customers with those services) for the Initial Term; provided that this exclusivity shall not extend to (i) ADT Canopy; and (ii) ADT's acquisition of any customer account already using a platform other than the Alarm.com Services.

3.7 [***] to Section [***] of Schedule [***], Alarm.com shall not, either during the Term or after termination of this Agreement, enforce any patent that is presently or hereafter owned by, controlled by, or exclusively licensed to Alarm.com, against ADT, its Affiliates, ADT Dealers, and/or its Subscribers for making or having made, using, selling or importing any technology and/or service used with ADT Canopy, or against any Supporting Canopy Partner to the extent such technology and/or service is used by ADT to provide ADT Canopy ("Canopy Covenant Against Enforcement"); provided however that the Canopy Covenant Against Enforcement shall terminate if Alarm.com terminates this Agreement under Section 1.3 of Schedule 4. For clarity, the Canopy Covenant Against Enforcement shall not preclude Alarm.com from pursuing a claim of infringement against any third party other than claims directly related to ADT Canopy pursuant to the immediately preceding sentence.

4. ALARM.COM RIGHTS AND RESPONSIBILITIES

4.1 Subject to the terms and conditions of this Agreement and the parties' compliance therewith, when ADT or an ADT Dealer sells Alarm.com Services to a customer, and such customer executes a Subscription Agreement and becomes a Subscriber, Alarm.com shall be responsible, as between the parties to this Agreement, for using commercially reasonable efforts to provide the Alarm.com Services to such Subscriber during the Term as provided in this Agreement.

4.2 Alarm.com shall, during the Term, permit ADT and the ADT Dealers to access a website for ADT and the ADT Dealers to activate and support Subscribers in connection with the Subscribers' use of the Alarm.com Services ("ADT Website"), subject to availability and in accordance with Alarm.com's terms of use and this Agreement.

4.3 Alarm.com shall, at all times, have control over the design, development, management, operation, and maintenance of Alarm.com Services as set forth in this Agreement.

4.4 Alarm.com's privacy policies and procedures are viewable, during the Term, at Alarm.com's Customer Website, currently at www.alarm.com, and are subject to change in accordance with their terms.

4.5 The availability of Alarm.com Services is limited to areas of available wireless telemetry coverage. Alarm.com Services are also subject to transmission limitations caused by atmospheric or topographical conditions or other causes.

4.6 When this Agreement becomes effective, the parties shall mutually agree on any press release or other public statement regarding the relationship between the parties and this Agreement. Neither party may issue any press release related to this Agreement without the prior written consent of the other. Except as required by Applicable Law, neither party shall, without the written consent of the other party, in any manner disclose the fact that Alarm.com has furnished or contracted to furnish to ADT the Alarm.com Services and Alarm.com-ready Products, and neither party shall use the name, trade name or trademarks of the other party or its Affiliates in any manner in any of its advertising or marketing literature, customer lists, web sites, press releases or any other document or communication (in electronic or paper form) without the express prior written authorization of the other party's marketing department.

5. CUSTOMER SERVICE AND TECHNICAL SUPPORT

5.1 Alarm.com or one or more of its Providers shall provide Dealer Technical Support (as defined below) to ADT during the Term, at no additional cost to ADT, for Alarm.com Services that are provided to Subscribers, between the hours of 9:00 A.M. to 9:00 P.M. EST/EDT, Monday through Friday, 10:00 A.M. to 7:00 P.M. EST/EDT on Saturdays (excluding holidays recognized by Alarm.com), subject to scheduled or unscheduled interruptions because of outages in Alarm.com's support systems or otherwise. "Dealer Technical Support" means Alarm.com's commercially reasonable efforts, in accordance with Alarm.com's then-current technical support policies, to provide ADT a status resolution recommendation for reported technical problems within four (4) business hours following the initial report, provided that this definition of Dealer Technical Support and Alarm.com's associated policies are subject to change by Alarm.com.

5.2 ADT shall provide all front line customer service and technical support for the Alarm.com Services and Alarm.com-ready Products to its Subscribers. Depending on then-current Alarm.com service offerings and procedures, and subject to availability, ADT employees designated in writing by ADT for access to the ADT Website will receive secure logins and will be able to create and view accounts for Subscribers who are entitled to use Alarm.com Services and access troubleshooting information made available by Alarm.com relating to end-user customer issues, provided that Alarm.com shall have the right to suspend or terminate access to the ADT Website by an ADT employee in the event of a violation by such ADT employee of Alarm.com's terms of use or this Agreement. ADT may designate a reasonable number of ADT employees who will have such access, subject to Alarm.com's consent which shall not be unreasonably withheld.

5.3 The parties further agree to the terms contained in Schedule 3 (Support, Security & Access) attached hereto.

6. FEES, BILLING, PAYMENT, AND TAXES

6.1 ADT shall pay Alarm.com the fees set forth in Schedule 2 for Alarm.com Services, the Alarm.com-ready Products and any other amounts payable to Alarm.com pursuant to this Agreement ("Fees"). ADT shall determine, in its sole discretion, the prices at which it sells Alarm.com Services to Subscribers. For the avoidance of doubt, ADT shall pay Alarm.com all Fees for Alarm.com Services and any other amounts due Alarm.com without regard to whether ADT collects fees for such Alarm.com Services or other amounts from Subscribers. All Fees and payments provided for in this Agreement shall be in U.S. Dollars. Except as expressly set forth in this Agreement or an applicable SOW, all costs and expenses are included in the Fees and, and no additional amounts shall be charged to or reimbursed by ADT.

6.2 ADT shall pay Alarm.com the monthly service charge set forth in Schedule 2 (or as set forth in Schedule 7 for the Connect Platform) for each Subscriber using or having access to Alarm.com Services, beginning on the date on which such Subscriber's account for Alarm.com Services is activated. If, in any quarter, ADT creates more than *** gross new Subscribers for Alarm.com Services, and the total number of Subscribers exceeds ***, then ADT will be entitled to a *** for Alarm.com Services during the subsequent quarter. If, in any quarter, ADT creates more than *** gross new Subscribers for Alarm.com Services, and the total number of Subscribers exceeds ***, then ADT will be entitled to a *** for Alarm.com Services in the subsequent quarter. If, in any quarter, ADT creates more than *** gross new Subscribers for the Alarm.com Services, and the total number of Subscribers exceeds ***, then ADT will be entitled to a *** for Alarm.com Services in the subsequent quarter. If, in any quarter, ADT creates more than *** gross new Subscribers for the Alarm.com Services, and the total number of Subscribers for Alarm.com Services exceeds ***, then ADT will be entitled to a *** for Alarm.com Services in the subsequent quarter.

6.3 If the date on which the Subscriber's account is activated is not the first day of a calendar month, the monthly service charge for the first partial month in which Alarm.com Services are provided will be pro-rated and billed, and shall be paid, in the first billing cycle after the Subscriber's account has been activated. The final month in which Alarm.com Services are provided shall be paid in full by ADT, and no refunds will be issued should the account be terminated mid-month. Service plan changes that result in a higher monthly service charge will be billed, and shall be paid, in arrears during the next billing cycle. Service plan changes that result in a lower monthly service charge will become effective in the subsequent month and will not be pro-rated during the month in which the change is made.

6.4 At or after the end of each calendar month, Alarm.com will send an invoice to ADT reflecting Subscriber accounts for Alarm.com Services as of the last day of such month, along with a statement of the Fees and other amounts due Alarm.com. Such invoice will display the Subscriber account, the service plan name, the service plan cost, and prorated charges for new accounts.

6.5 ADT shall remit payment to Alarm.com for the total amount of any undisputed Fees set forth in the invoice, in full, within thirty (30) days after the date of the invoice. Payment shall be deemed overdue if any undisputed amount remains unpaid thereafter. Any undisputed amount payable by ADT hereunder which remains unpaid after the due date shall be subject to a late charge equal to *** percent (***)% per month or the highest legally-allowable rate, whichever is lower, from the due date until Alarm.com receives full payment. ADT shall have the right to withhold payment of any amount due to Alarm.com that ADT disputes in good faith, which shall not constitute a material breach of ADT's payment obligations under this Agreement. With respect to any undisputed amount that should be reimbursed to ADT or is otherwise payable to ADT pursuant to this Agreement, ADT may deduct the entire amount owed to it against the Fees or against the expenses owed by ADT to Alarm.com under subsequent invoices issued by Alarm.com in connection with this Agreement. The parties shall attempt in good faith to resolve such payment disputes in accordance with Section 11.2 below or Alarm.com will have the option to allow ADT to audit Alarm.com's records relevant to such payment dispute. Any such audit shall be conducted during Alarm.com's regular business hours and shall not unreasonably interfere with Alarm.com's business activities. Any unused credits against future payments owed to ADT pursuant to Exhibit A of Schedule 3 shall be paid to ADT within thirty (30) days after the termination or expiration of this Agreement. If the resolution of such a dispute under Section 11.2 determines that ADT is owed any unused credits against future payments, ADT can apply such amounts against subsequent invoices issued by Alarm.com. The making of any payment or payments by, on the behalf of, ADT shall not imply ADT's acceptance of such items or the waiver of any warranties or requirements of, or rights to make any claims under this Agreement.

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6.6 Alarm.com shall have the right to increase these Fees only [***] during the Initial Term (and thereafter [***] per each Renewal Term), by the [***] of (a) [***] percent ([***]%) over the immediately preceding Term's Fees, or (b) the percentage change in the Consumer Price Index (All Urban Consumers) during the immediately preceding year; provided, however, that the Fees are subject to change at any time by Alarm.com upon sixty (60) days advance written notice to reflect verifiable, extra-ordinary third party cost increases in providing the Alarm.com Services and/or Alarm.com-ready Products directly incurred by Alarm.com in the production or fulfillment of orders for the Alarm.com-ready Products or in providing the Alarm.com Services that are outside of the control Alarm.com (e.g., increases in wireless carrier charges cumulatively during the Term in excess of [***]%, taxes and government or regulatory surcharges specifically relating to the Alarm.com Services, shortages of raw materials, significant changes in Applicable Laws, material changes in transport, import/export costs, and the like) provided the Alarm.com provides ADT with commercially reasonable evidence thereof.

6.7 [***].

6.8 ADT shall be solely responsible for collection and payment of all sales, use, and other taxes or fees associated with the sale by ADT or use by Subscribers of Alarm.com Services or any Alarm.com-ready Product. ADT acknowledges that Alarm.com is a wholesaler of goods and services and does not collect sales or use tax on behalf of ADT. Alarm.com shall be solely responsible for the payment of all other taxes relating to Alarm.com's net income or gross revenues, including without limitation sales or use tax, value added tax, tariff, duty or any other similar tax imposed on Alarm.com with respect to any labor, equipment, materials, goods or services acquired, used or consumed by Alarm.com in providing the Alarm.com Services and Alarm.com-ready Products to ADT under this Agreement. ADT shall not be obligated to pay any penalties, interest, or late charges to the extent that they are imposed as a result of Alarm.com's failure to remit such taxes to the taxing authority on a timely basis.

7. TERM AND TERMINATION

7.1 The term of this Agreement ("Term") shall begin on the Effective Date and end on the date of expiration or termination of the Agreement, whichever occurs first. Unless terminated in accordance with Schedule 2 (Pricing) or Schedule 4 (Termination & Transition Services), this Agreement shall remain in effect for an initial term of five (5) years ("Initial Term") and for subsequent renewal terms of one (1) year each (each a "Renewal Term"), unless either party provides written notice of non-renewal at least one hundred eighty (180) days before a Renewal Term would otherwise begin. If a party gives timely written notice of non-renewal, the Agreement shall expire at the end of the then-current Initial Term or Renewal Term.

7.2 Subject to Alarm.com continuing to perform all of its material obligations under this Agreement (including but not limited to provide its Support Services and complying with its pricing obligations), ADT agrees that if the Agreement is not renewed at the end of the Initial Term by either party, then for the first [***] ([***]) years from the end of the Initial Term, ADT will not transition (and cease paying for) or voluntarily terminate Subscribers in each year at a rate that is [***]; provided that under no circumstances shall ADT be obligated to pay any fees for any Subscriber who terminates their account, or whose account is otherwise involuntarily terminated (including but not limited to through settlement, court action, or under Applicable Law). For purposes of illustration, if the Agreement expires after the Initial Term on June 30, 2021 [***].

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7.3 Expiration or termination of this Agreement shall not relieve ADT's obligation to pay all Fees that are owed by ADT as of the date of expiration or termination, nor shall such expiration or termination prevent Alarm.com from pursuing other remedies available to it at law or in equity, including injunctive relief. The following provisions shall survive expiration or termination: Sections 6.1, 6.5, 6.8, 7.2, 7.3, 8, 9.2, 9.3, 9.4, 9.5, 9.6, 10 and 11.

7.4 The parties agree to the additional terms contained in Schedule 2 (Pricing), Schedule 4 (Termination & Transition Services), and Schedule 7 (Connect Platform Terms) attached hereto. For clarity, ADT's failure to meet its payment obligations as outlined in Section 6 shall be considered a material breach subject to the cure provisions outlined in Schedule 4.

8. INDEMNITY

8.1 Subject to Section 9.4 below (and, in regard to any Claims by Subscribers, further subject to inclusion by ADT of the language set forth in Schedule 1 in the Subscription Agreement approved for use by ADT and ADT Dealers), Alarm.com shall defend, indemnify, and hold harmless ADT and its Affiliates, and their directors, officers, employees and shareholders, and all of their respective successors and permitted assigns (collectively, the "ADT Indemnified Parties"), from and against any and all third party allegations, suits, claims, actions, liabilities, losses, damages, costs and expenses (including, but not limited to, interest, penalties, reasonable attorneys' fees and other expenses of litigation) and causes of action of whatsoever kind (collectively referred to as "Claims") which may be incurred by, asserted against, or recoverable from any ADT Indemnified Party for the following:

(a) any and all Claims made by a third party based upon infringement or misappropriation of any Intellectual Property Right (as defined in Schedule 6 attached hereto) by the Alarm.com Services and Alarm.com-ready Products manufactured by (or for) Alarm.com and provided by Alarm.com under this Agreement;

(b) damage to, destruction of, or loss of property (including ADT Customer Data) or the injury to or death of any person arising out of or in connection with Alarm.com's negligent performance of its obligations hereunder, except for that portion of such damage or loss that is caused by the negligence of the ADT Indemnified Party;

(c) the negligent or wrongful acts or omissions of Alarm.com or its Personnel;

(d) any defect or deficiency in the design, material, or workmanship of any Alarm.com Services and Alarm.com-ready Products manufactured by (or for) Alarm.com and provided by Alarm.com under this Agreement ("Indemnified Products") that results in their failure to perform in all material respects with the Documentation or which otherwise materially impairs the performance thereof; and, in regard to any Third Party Products provided by Alarm.com under this Agreement, Alarm.com shall so indemnify ADT to the extent of indemnification obtained by Alarm.com from any applicable third party for such Third Party Product;

(e) Alarm.com's breach of any representation, warranty or covenant hereunder; and

(f) Any material violation of any Applicable Law in the Territory by Alarm.com.

8.2 Notwithstanding Section 8.1, Alarm.com shall not be obligated to indemnify any ADT Indemnified Parties to the extent of any infringement liability for Claims arising from:

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(a) any portion of an ADT Custom Product (as defined in Schedule 6) that is not also part of a product otherwise distributed by Alarm.com to, or used by Alarm.com with, any third party, where but for its incorporation into the ADT Custom Product, such Claims against an ADT Indemnified Party would not have arisen;

(b) any ADT Custom Product, to the extent that such Claim is based on or caused directly by the written specifications, designs and instructions provided by ADT (or by ADT Dealers, ADT's Affiliates, or agents at the direction of ADT) to Alarm.com; provided, however, Alarm.com shall notify ADT if Alarm.com has reason to believe or otherwise has knowledge that any such specification, design, or instruction may result in a Claim;

(c) use of the Indemnified Products outside of their ordinary or intended purposes contemplated by their Documentation or in a manner not otherwise authorized by Alarm.com;

(d) use of an Indemnified Product in combination with anything not sold, licensed, or otherwise provided by Alarm.com, unless (1) such use is an ordinary or intended use contemplated by the Documentation (or was otherwise authorized by Alarm.com in writing), or (2) but for the incorporation of the Indemnified Product any resulting infringement would not occur;

(e) any alteration or modifications of an Indemnified Product made other than by Alarm.com or its subcontractors other than as contemplated by the Documentation (or was otherwise authorized by Alarm.com in writing);

(f) failure by ADT to use the latest updated version of, or substitute for, any Indemnified Product provided by Alarm.com free of charge;

(g) use of an Indemnified Product in combination with other products where (1) the infringement or misappropriation Claim is based on such combination, (2) there would be no infringement or misappropriation but for such combination; and (3) there is a commercially reasonable non-infringing use for the Indemnified Product without modification.

(h) any Claim to the extent of which ADT has an obligation to indemnify an Alarm.com Indemnified Party under Section 8.4 hereof.

(i) [***]; provided that under no circumstances shall this exception apply with respect to the Alarm.com Services and Alarm.com-ready Products manufactured by (or on behalf of) Alarm.com and provided by Alarm.com under this Agreement.

8.3 In addition to Alarm.com's defense and indemnification obligations under Section 8.1, if Alarm.com believes that a Claim is likely to result in a Claim for infringement or misappropriation hereunder or a court of competent jurisdiction enjoining an ADT Indemnified Party from offering, marketing, using, selling, reselling or otherwise distributing any Indemnified Product, Alarm.com shall in its discretion:

(a) modify the Indemnified Product so that it is no longer infringing, provided the modified Indemnified Product shall have the same material functionality of the original Indemnified Product; or

(b) obtain for the ADT Indemnified Parties the right or license to continue to use and license the Indemnified Product.

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SECTIONS 8.1(a) AND 8.3 STATE ADT'S EXCLUSIVE REMEDY FROM ALARM.COM FOR ANY THIRD PARTY CLAIM OF INFRINGEMENT OR MISAPPROPRIATION OF ANY INTELLECTUAL PROPERTY RIGHT.

8.4 Subject to Section 9.4 below, ADT shall defend, indemnify, and hold harmless Alarm.com and its Affiliates, and their directors, officers, employees and shareholders, and all of their respective successors and permitted assigns (collectively, the "Alarm.com Indemnified Parties"), from and against any Claims that may be incurred by, asserted against, or recoverable from any Alarm.com Indemnified Party for the following:

(a) any and all Claims made by a third party based upon infringement or misappropriation of any Intellectual Property Right by (i) a Third Party Product requested to be integrated with an Indemnified Product to the extent of any indemnification obtained by ADT from any applicable third party for such product, and (ii) an ADT Custom Product to the extent that such Claim is directly caused by the written specifications, designs and instructions for such ADT Custom Product provided by ADT (or by, ADT Dealers, ADT's Affiliates, or agents at the direction of ADT);

(b) damage to, destruction of, or loss of property or the injury to or death of any person arising out of or in connection with ADT's negligent performance of its obligations hereunder, except to the extent that such damage or loss is caused by the negligence of any Alarm.com Indemnified Party;

(c) the negligent or wrongful acts or omissions of ADT or its Personnel;

(d) ADT's breach of any representation, warranty or covenant hereunder; or

(e) any material violation of any Applicable Law by ADT in the Territory.

Notwithstanding the foregoing, ADT shall not be responsible for indemnifying the Alarm.com Indemnified Parties for the acts or omissions of ADT Dealers who have entered into a direct agreement with Alarm.com.

8.5 SECTION 8.4(a) STATES ALARM.COM'S EXCLUSIVE REMEDY FROM ADT FOR ANY THIRD PARTY CLAIM OF INFRINGEMENT OR MISAPPROPRIATION OF ANY INTELLECTUAL PROPERTY RIGHT.

8.6 The obligations of a party (the "Indemnifying Party") to defend and to indemnify the other party (the "Indemnified Party") are subject to the Indemnified Party providing the Indemnifying Party with: (i) prompt written notice of the Claim for which it is entitled to indemnification, provided, however, that the failure to provide such notice shall only release the Indemnifying Party from its obligations solely to the extent the Indemnifying Party shall have been materially prejudiced as a result of such failure, (ii) exclusive control over the defense and settlement of such Claim, and (iii) at the Indemnifying Party's sole expense, reasonable information and assistance to settle or defend any such Claim. Notwithstanding anything to the contrary contained herein, in the event that an Indemnifying Party is unwilling or unable to sufficiently defend a Claim, an Indemnified Party shall be entitled to assume the defense of any Claim with respect to the Indemnified Party, upon written notice to the Indemnifying Party pursuant to this Section 8.6, in which case the Indemnifying Party shall not be relieved of its obligations under Section 8.1 or 8.4, as applicable. The Indemnifying Party will not enter into a settlement of a Claim that involves a remedy other than the payment of money by the Indemnifying Party without the consent of the Indemnified Party, which consent will not be unreasonably withheld or delayed. Notwithstanding the foregoing, the Indemnified Party shall have the right at its discretion and sole cost to be represented by its own counsel and to participate in (but not control) the defense of any action in which it or any of its Indemnified Parties is named as a party defendant, and the Indemnified Party's prior written approval will be required for any settlement that reasonably can be expected to require a material affirmative obligation of or result in any ongoing material liability to it or any of its Indemnified Parties.

8.7 Prior to commencement of this Agreement, Alarm.com shall procure, and for the Term of this Agreement shall maintain, at its sole cost and expense, insurance of the following kinds and amounts, or in the amounts required by Applicable Law, whichever is greater:

(a) Workers' Compensation insurance prescribed by Applicable Law;

(b) Comprehensive automobile liability covering all vehicles that Alarm.com owns, hires or leases in an amount not less than \$2,000,000 (combined single limit for bodily injury and property damage);

(c) Comprehensive General Liability ("CGL") insurance including Contractual Liability Coverage covering the contractual obligations accepted under this section, with limits not less than \$2,000,000 for each occurrence of bodily injury, including death, and \$2,000,000 for each occurrence of property damage;

(d) Employers Liability insurance with limits of at least \$1,000,000 for each accident, and

(e) Professional Liability Insurance (errors and omissions) with limits of \$2,000,000 for each occurrence.

The insurance policies set forth in this Section 8.7 will (i) name ADT as an additional insured, including without limitation, with respect to third-party claims or actions brought directly against Alarm.com or against ADT and Alarm.com as co-defendants and arising out of this Agreement, (ii) include a waiver of subrogation in favor of ADT, and (iii) be written as a primary policy not contributing with any other coverage which ADT may carry. Alarm.com shall provide ADT with certificates of insurance evidencing the required coverage, concurrently with the execution of this Agreement and upon each renewal of such policies thereafter, including a section that obligates the insurer to give ADT at least thirty (30) days prior written notice of any material change or cancellation of such policies. If said CGL policy is written on a "claims made" basis instead of a "per occurrence" basis, Alarm.com shall arrange for adequate time for reporting losses. Failure to provide contractual liability endorsement coverage or adequate reporting time shall be at Alarm.com's sole risk. The insurance coverages and limits specified herein will not be construed in any way as limits of liability or as constituting acceptance by ADT of responsibility for Claims in excess of insurance coverages or limits. No acceptance and or approval of any insurance by ADT shall be construed as relieving or excusing Alarm.com from any liability or obligation imposed by the provisions of this Agreement.

9. WARRANTY, DISCLAIMERS, LIMITATIONS, EXCLUSIONS, AND INDEPENDENCE OF THE PARTIES

9.1 The parties agree to the terms contained in Schedule 5 (Product Sourcing & Warranty Terms) attached hereto in regard to the Alarm.com Products; and that Alarm.com shall provide the Alarm.com Services in a professional and workmanlike manner with due care and diligence, to those standards of quality as are customary in Alarm.com's industry, and in compliance with all applicable Documentation.

9.2 EXCEPT FOR THE WARRANTIES EXPRESSLY GIVEN BY ALARM.COM IN THIS AGREEMENT AND THE DOCUMENTATION, ALARM.COM MAKES NO OTHER REPRESENTATIONS, WARRANTIES, OR CONDITIONS, EXPRESS, IMPLIED, STATUTORY OR OTHERWISE. ALARM.COM HEREBY SPECIFICALLY DISCLAIMS ALL OTHER REPRESENTATIONS, WARRANTIES AND CONDITIONS, EXPRESS, IMPLIED, STATUTORY OR OTHERWISE, INCLUDING BUT NOT LIMITED TO THE IMPLIED WARRANTIES AND CONDITIONS OF MERCHANTABILITY, TITLE, NON-INFRINGEMENT AND FITNESS FOR A PARTICULAR PURPOSE.

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9.3 IN NO EVENT SHALL EITHER PARTY OR ANY OF ITS AFFILIATES OR PROVIDERS OR ADT DEALERS BE LIABLE UNDER THIS AGREEMENT FOR ANY LOSS OF USE, LOSS OF PROFITS, INTERRUPTION OF BUSINESS, OR INDIRECT, SPECIAL, INCIDENTAL, CONSEQUENTIAL, EXEMPLARY, OR PUNITIVE DAMAGES OF ANY KIND, REGARDLESS OF THE FORM OF ACTION, WHETHER IN CONTRACT, TORT, STRICT LIABILITY OR NEGLIGENCE, OR OTHERWISE, EVEN IF A PARTY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES AND EVEN IF A LIMITED REMEDY FAILS OF ITS ESSENTIAL PURPOSE OR IS DEEMED UNCONSCIONABLE. THE EXCLUSION OF DAMAGES IN THIS SECTION 9.3 IS INDEPENDENT OF ANY AGREED REMEDY.

9.4 NEITHER PARTY'S TOTAL LIABILITY TO THE OTHER FOR ANY AND ALL CLAIMS UNDER THIS AGREEMENT SHALL EXCEED ***]. THE FOREGOING EXCLUSIONS OF AND LIMITATIONS ON LIABILITY SHALL NOT APPLY TO (A) AMOUNTS PAYABLE IN RESPECT OF INDEMNIFICATION FOR INFRINGEMENT CLAIMS UNDER ARTICLE 8, (B) DAMAGES ARISING FROM OR RELATING TO (I) BREACHES OF THE CONFIDENTIALITY OR THE SECURITY REQUIREMENTS SECTIONS OF THIS AGREEMENT, OR (II) MISAPPROPRIATION OF OR NEGLIGENCE WITH RESPECT TO ADT CUSTOMER DATA, OR (III) A PARTY'S WILLFUL MISCONDUCT OR GROSS NEGLIGENCE.

9.5 EACH PARTY EXPRESSLY UNDERSTANDS AND AGREES THAT IT HAS NO CONTRACTUAL RELATIONSHIP WHATSOEVER WITH A WIRELESS SERVICE PROVIDER OR ITS AFFILIATES OR CONTRACTORS BY VIRTUE OF THIS AGREEMENT AND THAT IT IS NOT A THIRD PARTY BENEFICIARY OF ANY AGREEMENT BETWEEN THE OTHER PARTY AND THE UNDERLYING CARRIER.

9.6 The parties are independent contractors and neither party shall represent itself as an employee or agent of the other. All costs, charges, and expenses incurred by ADT in connection with marketing, sales, sales promotion, advertising, publicity, travel expenses, postal fees, sales commissions, salaries, and expenses of representatives and employees will be at the sole cost and expense of ADT.

10. INTELLECTUAL PROPERTY AND CONFIDENTIALITY

10.1 Alarm.com hereby grants ADT a limited, non-exclusive, non-transferable, royalty-free license during the Term to use Alarm.com trademarks and service marks (collectively "Marks") specified in writing by Alarm.com solely for the purpose of marketing and selling Alarm.com Services in accordance with this Agreement. All right, title, and interest in and to all Marks, and all goodwill associated with the use of such Marks, is and shall remain solely owned by Alarm.com. ADT shall use the Marks in the form provided and in conformance with any trademark usage policies of Alarm.com, as provided from time to time.

10.2 ADT hereby grants Alarm.com a limited, non-exclusive, non-transferable, royalty-free license during the Term to use the ADT's trademarks and service marks solely for the purposes of and delivering Alarm.com Services to ADT's Subscribers. All right, title, and interest in and to all ADT trademarks and service marks, and all goodwill associated with the use of such marks, is and shall remain solely owned by ADT. Alarm.com shall use ADT trademarks and service marks, if at all, in the form provided and in conformance with any trademark usage policies of ADT, as provided from time to time.

10.3 ADT acknowledges and agrees that Alarm.com-ready Products do or may contain proprietary software and/or firmware of Alarm.com ("Embedded Software"), which is embedded under a license from Alarm.com, and that all right, title, and interest, including all Intellectual Property Rights, in and to the Embedded Software, the ADT Website, the Customer Website, any other Alarm.com Interface, any Documentation, and all other Alarm.com materials (cumulatively, all the foregoing, "Alarm.com Materials"), and in or to Alarm.com Services, is and shall remain solely owned by Alarm.com, and no such right, title, or interest therein shall pass to ADT, any Subscriber, or any other Person under this Agreement. ADT shall not use the Alarm.com Materials or Alarm.com Services in any manner or for any purpose other than in accordance with this Agreement.

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10.4 The primary brand of the Alarm.com Services and Alarm.com-ready Products offered by ADT and ADT Dealers in connection with this Agreement will be ADT or Pulse. The subordinate brand for the consumer-facing offering shall be Alarm.com or “powered by Alarm.com.” The Alarm.com offering shall not be labeled or branded or offered as a “basic”, “affordable”, or other type of sub-premium offering relative to other ADT solutions.

10.5 ADT shall not cause, perform, or permit the copying, decompilation, disassembly, or other reverse engineering of any Alarm.com Materials or Alarm.com Services or the transferring (except for Embedded Software, as embedded in an Alarm.com-ready Product, to a Subscriber to whom such Alarm.com-ready Product is sold) of all or any part of any of the foregoing to any other Person. ADT shall not use any Alarm.com Materials or Alarm.com Services or its access to any of the foregoing to design, build, market, or sell any similar or substitute product or service other than in accordance with this Agreement.

10.6 ADT shall not remove, deliver, or otherwise provide any Alarm.com Services or Alarm.com Materials to any location outside the Territory and shall fully comply with all relevant export laws and regulations of the United States to ensure that neither the Alarm.com Materials or Alarm.com Services, nor any direct product thereof, is exported, directly or indirectly, in violation of Applicable Law.

10.7 Each party shall hold all Confidential Information (as defined below) of the other in confidence. Without limiting the foregoing, each party shall safeguard all Confidential Information of the other at least to the extent it safeguards its own confidential information and in any event with the utmost care, and shall not use or permit the use of any such Confidential Information for any purpose other than the performance of its obligations under this Agreement. Each party shall not disclose or permit the disclosure of any Confidential Information of the other to any Person other than its employees who have a need to know the information for performance of its obligations under this Agreement and who is contractually bound by confidentiality obligations to at least as protective of the Confidential Information as those set forth herein. Notwithstanding the foregoing, a party may disclose Confidential Information of the other party if and to the extent required by Applicable Law, but only if it has given written notice of the impending disclosure to the other party as far in advance of the disclosure as possible or, if advance disclosure is not possible, at the time of disclosure. “Confidential Information” means any information or materials disclosed by a party or otherwise learned from the other party, including any information or materials relating to a party’s customers, plans, pricing, strategy, or technology, that are marked confidential, or that by their nature should be reasonably understood to be confidential, except if and to the extent such information or materials (a) are or become part of the public domain through no act or omission of the party receiving it, (b) were in that party’s lawful possession before being disclosed to or otherwise learned by it from the other party and had not been obtained by that party either directly or indirectly from the other party, (c) are lawfully disclosed to that party by a third party without restriction on disclosure, or (d) are independently developed by that party. For clarity, ADT Confidential Information includes ADT Customer Data.

10.8 The parties agree to the additional terms contained in Schedule 6 (Product Development & Intellectual Property) attached hereto.

11. GENERAL TERMS

11.1 THE LAWS OF THE STATE OF NEW YORK, EXCLUDING ITS CONFLICT-OF-LAW RULES, SHALL GOVERN THIS AGREEMENT AND ALL CONTROVERSIES OR CLAIMS ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE BREACH THEREOF. THE UNITED NATIONS CONVENTION FOR THE INTERNATIONAL SALE OF GOODS SHALL NOT APPLY TO THIS AGREEMENT IN WHOLE OR IN PART.

11.2 Any controversy or dispute between the parties arising out of or relating to this Agreement, or the breach thereof, shall be resolved as set forth in this Section. The parties shall attempt in good faith to resolve such disputes. If any dispute remains unresolved for a period of thirty (30) days from the date a party was first provided notice thereof, the parties shall escalate resolution of the issues to each party's executive management level. If the dispute remains unresolved for an additional ten (10) business days because the executive management level contacts are unable to resolve such dispute, then the parties may proceed with all remedies available at law or in equity; provided however that all disputes regarding payments or credits shall be settled by arbitration administered by the American Arbitration Association under its Commercial Arbitration Rules, subject to the provisions of this Agreement, including this Section 11.2 and Section 11.3, and judgment on the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof. The costs of arbitration, including the fees and expenses of the arbitrator(s), shall be shared equally by the parties. Each party shall bear its own costs and attorneys' fees for preparing and presenting its case. The parties agree that this Section 11.2 and the arbitrator's authority to grant relief shall be subject to the United States Arbitration Act, 9 U.S.C. 1-16 et seq. ("USAA"), the provisions of this Agreement, and the ABA-AAA code of Ethics for Arbitrators in Commercial Disputes. In no event shall the arbitrator(s) have the authority to make any award that provides for punitive or exemplary damages. The decision of the tribunal shall follow the plain meaning of the relevant documents. Notwithstanding the foregoing resolution process, each party shall have the right to seek immediate injunctive relief in any court of competent jurisdiction with respect to any breach by the other party of its obligations under this Agreement, including any breach affecting Confidential Information, Intellectual Property Rights or any other proprietary rights, or business reputation. In no event shall a party bring any class action lawsuit against the other or any other beneficiary of the indemnification set forth in Section 8 or be a representative plaintiff or plaintiff class member in any such lawsuit.

11.3 This Agreement, along with the Alarm.com Terms, contains the entire agreement and understanding between the parties concerning its subject matter. This Agreement supersedes all prior proposals, representations, agreements, and understandings, written or oral, concerning its subject matter and the terms in any ADT purchase order or other ADT ordering document. No amendment to this Agreement shall be effective unless it is in writing and signed by the parties. No other act, document, usage, or custom shall be deemed to vary or amend this Agreement. Neither party shall be deemed to have waived a provision of this Agreement except in a signed writing. If any provision of this Agreement or the application of any such provision to any person or circumstance shall be held invalid, illegal, or unenforceable in any respect, such invalidity, illegality, or unenforceability shall not affect any other provision of this Agreement. Alarm.com and ADT intend that all disclaimers of warranties, limitations of liability, and exclusions of damages in this Agreement shall be upheld and applied to the maximum extent permitted by Applicable Law.

11.4 All language used herein shall be deemed to be the language jointly chosen by the parties, and no rule of strict construction shall be applied against a party based on its role in drafting any portion of this Agreement. Captions are for convenience only and do not affect the meaning of any provision. Each reference in this Agreement to a Section or a Schedule refers to a Section or a Schedule of this Agreement.

11.5 All notices required or permitted under this Agreement will be in writing and will be deemed received when (i) delivered personally; (ii) when sent by confirmed fax; (iii) three days after having been sent by registered or certified mail; or (iv) one day after deposit with a recognized commercial express courier specifying next day delivery at the addresses set forth herein, or at such other address as a Party may have identified by notifying the other Party in accordance with this Section 11.5.

11.6 Neither party nor any of its Affiliates or Providers shall have any liability for any nonperformance or deficiency of performance resulting from the negligence or willful act of the other party, Subscriber, or any other Person, any act of God, fire, war, terrorism, riots, government authorities, default of supplier, or any other cause beyond the control of such party or its Affiliates or Providers.

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11.7 Except as otherwise provided for in this Agreement, neither party may assign this Agreement or any of its rights or delegate any of its duties under this Agreement without the prior written consent of the other party, which consent shall not be unreasonably withheld or delayed. Notwithstanding the foregoing, either party may assign all its rights, duties and obligations under this Agreement to an acquirer of all of its assets, business or stock or to a successor by merger or consolidation, provided that the assignee agrees in writing with the non-assigning party to be bound by the terms of this Agreement, or to an Affiliate or Affiliates of the party. In the case of an assignment to an Affiliate, the assigning party shall be liable for the obligations of the Affiliate hereunder. Subject to the foregoing, this Agreement will be binding upon, enforceable by, and inure to the benefit of the parties and their respective permitted successors and assigns. Any attempted assignment in violation of this Section will be void.

11.8 The official text of this Agreement shall be in the English language as used in the United States, and any interpretation or construction of this Agreement shall be based on the English language text. If and insofar as there is a discrepancy between the English language of this Agreement and a translated version of thereof, the English language shall prevail.

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

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed by their duly authorized representatives.

ALARM.COM INCORPORATED

ADT LLC

Signature: _____

Signature: _____

Name: _____

Name: _____

Title: _____

Title: _____

Date: _____

Date: _____

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The Schedules attached to this Agreement are hereby incorporated by reference herein and made a part hereof; and include the following:

- Schedule 1 - Subscriber Agreement Terms
- Schedule 2 - Pricing
- Schedule 3 - Support, Security & Access
- Schedule 4 - Termination & Transition Services
- Schedule 5 - Product Sourcing & Warranty
- Schedule 6 - Product Development & Intellectual Property
- Schedule 7 - Connect Platform Terms

Schedule 1 - Subscriber Agreement Terms

Each Subscription Agreement must contain the following terms (or terms with substantially similar effect):

“ADT or the ADT Dealer, as applicable may use one or more subcontractors, vendors or licensors to provide installation, repair, monitoring, communications, signal transmission services (including cellular transmission, Internet and/or VoIP services) or other services. To the extent permitted by law, the limitations of liability set forth in this Agreement shall apply to the work, products or services that ADT or the ADT Dealer’s subcontractors, vendors and licensors provide, and shall apply to them and protect such subcontractors, vendors and licensors in the same manner as it applies to and protects ADT or the ADT Dealer.”

Schedule 2 - Pricing

1. Background Considerations. The parties recognize that the prices Alarm.com sets when an account is created are intended to be the price of the account for the life of the communication gateway servicing that account. At times, Alarm.com's costs are directly a function of the gateway's messaging efficiency. Alarm.com may also subsidize the hardware costs at time of sale in anticipation of a certain ongoing recurring revenue stream. Alarm.com may commission its sales representative based on the expected lifetime value of the recurring service revenue, or Alarm.com may have offered the account originating dealer a special rebate or SPIFF in anticipation of a certain revenue stream. Alarm.com may have provided banks and investors with financial forecasts which anticipate already negotiated rate structures to remain intact, and lastly, Alarm.com's economic terms with the cellular carrier used when the communications gateway is deployed may be fixed and different than the economics required to deploy services to a home or business today. For these and other reasons, Alarm.com does not retroactively change the prices for units that have already been placed in service.

Likewise, when ADT creates a new Subscriber, ADT establishes a certain monthly rate with the Subscriber, and commits to certain account creation capital costs which anticipate a prescribed value of a recurring revenue stream from the newly created account. It would be difficult for ADT to manage its business if Alarm.com increased the Alarm.com costs for accounts that ADT has already placed into service. For these and other reasons and except as otherwise permitted by the Agreement, Alarm.com agrees that it will not increase the prices for accounts that have already been placed into service unless it has incurred verifiable third party cost increases (taxes, communication costs, etc.).

With these considerations in mind, the parties have established the pricing terms set forth in this Schedule 2 for the Alarm.com Services other than in relation to the Connect Platform, the pricing terms for which are set forth in Schedule 7 (Connect Platform Terms).

2. Basic Fee Structure. Alarm.com's total charge to ADT for the Alarm.com Services ("**Fees**") are based on the combined gross number of Subscribers whose account is activated in a calendar month under this Agreement (the "**Monthly Account Creation Rate**"). For clarity, any Bulk Account Acquisition of Subscribers activated prior to the Effective Date of this Agreement or of accounts activated by any entity acquired by ADT that was already an Alarm.com Dealer as of May 1, 2014 shall be excluded from this Monthly Account Creation Rate. The Fees will apply regardless of whether the installation uses a single communication path (either a managed cellular network or an unmanaged broadband service path), or a dual communication path (either a managed cellular path and an unmanaged consumer broadband service path), and are inclusive of all costs, including cellular costs (where applicable) related to managing a managed and supervised wireless connection and apply irrespective of wireless carrier.

3. Fees for New Accounts. From December 1, 2014 through December 31st, 2015 (the "**Ramp Up Period**"), Alarm.com shall charge ADT a monthly Fee that is no more than the applicable amount shown in column C of the chart below for each Subscriber whose account is activated under this Agreement - unless ADT's Monthly Account Creation Rate qualifies for the Fees in columns D, E, or F, in which case Alarm.com shall charge ADT a monthly Fee for each such Subscriber that is no more than the amount shown in the column applicable to the Monthly Account Creation Rate during the month in which that Subscriber is activated. Upon the expiration of the Ramp Up Period, Alarm.com shall calculate an average Monthly Account Creation Rate for the preceding three months and reset the Fees in accordance with the chart below for Subscriber accounts activated thereafter (i.e., all previously activated Subscribers remaining at their already established Fee). Upon each one year anniversary thereafter, Alarm.com shall reset the Fees in the same manner for Subscribers activated thereafter, but using an average Monthly Account Creation Rate over the preceding twelve months. As of the Pricing Effective Date (as defined below in Section 9(b) of this Schedule 2), the following pricing shall apply for both the US and Canada:

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Alarm.com Services	ADT Monthly Fee Per Subscriber Based on Average Monthly Account Creation Rate					
	-	***-***	***-***	***-***	***-***	***+
	A	B	C	D	E	F
WSF	\$***	\$***	\$***	\$***	\$***	\$***
Interactive w/ 2- way voice	\$***	\$***	\$***	\$***	\$***	\$***
Interactive + Automation	\$***	\$***	\$***	\$***	\$***	\$***
Interactive Gold	\$***	\$***	\$***	\$***	\$***	\$***
Commercial Interactive Gold	\$***	\$***	\$***	\$***	\$***	\$***
Pro Video	\$***	\$***	\$***	\$***	\$***	\$***
Video 24x7	\$***	\$***	\$***	\$***	\$***	\$***
Video Expansion Packs	\$***	\$***	\$***	\$***	\$***	\$***
One Time Connection Fee	\$***	\$***	\$***	\$***	\$***	\$***

- Wireless Signal Forwarding (WSF) includes *** and all enterprise management capabilities associated with AirFX as well as the Business Intelligence module.
- Interactive includes all of the features of Wireless Signal Forwarding, as well as Level 2 Smash and Crash, remote arming, push notices with up to 30 sensors and geo-fences, and cellular 2-Way Voice. Interactive + Automation includes all of the features of Interactive as well as enhanced automation of thermostats, lights, and locks, and garage doors, as well as five day weather and severe weather alerts as free add-ons.
- Interactive Gold includes all of the features of Interactive + Automation as well as Image Sensor photo notifications and Identity Theft Protection.
- Commercial Interactive Gold includes all features of Interactive Gold as well as Arming Supervision, Arming/Disarming reports, multi-site management, and enterprise business intelligence reports.
- Pro Video includes support for up to 4 cameras, with 1,000 clips of cloud storage and 1,000 clip uploads per month.
- Video 24x7 provides continuous recording service and requires a Pro Video subscription and a Streaming Video Recorder.
- Video Expansion Packs require a Pro Video subscription and allow support for up to an additional 4 cameras, as well as 5,000 clips of cloud storage and 5,000 clip uploads per month.
- In addition to the above capabilities, the following business tools will be included at *** to ADT: ***, ***, and ***.

If *** does not meet the volume commitment contained in Section 9(a) of this Schedule 2 of the Agreement, then Alarm.com may charge for all ADT accounts in *** an *** of up to \$*** per *** for each of ***, ***, ***, and *** account when used in ***.

4. Fees for Existing Subscribers. Except as set forth herein, the current fee structure for all Subscribers whose accounts are active as of the Effective Date of this Agreement shall not be changed unless mutually agreed by the parties. Notwithstanding the foregoing, with respect to the Alarm.com accounts held by Reliance Protectron as of December 1, 2014, upon the occurrence of a Trigger Event, all such Alarm.com accounts held by Reliance Protectron as of the December 1, 2014 shall be *** such that every *** (***) *** from the *** of the *** the *** for such *** shall be *** to *** (***) of the *** the prices *** to *** and the *** for *** as of the *** of the ***. A “**Trigger Event**” shall be deemed to have occurred when both of the following conditions have been met: (i) ADT notifies Alarm.com that all ADT Dealers in Canada are permitted to activate Alarm.com accounts and such accounts will be funded by ADT (or its Affiliates); and (ii) on the date ADT notifies Alarm.com of the condition set forth in (i), the gross number of Alarm.com accounts activated by Reliance Protectron in the immediately preceding *** is at least ***% of the gross Alarm.com activations by Reliance Protectron in the corresponding *** period the year prior. For the avoidance of doubt, all new accounts created by Reliance Protectron after December 1, 2014 shall be at the ADT rates set forth in this Agreement (including the Canadian fees as applicable).

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5. Fees for Bulk Account Acquisitions. If the closing date of any Bulk Account Acquisition occurs during a month that ADT qualifies for the Fees in columns D, E, or F in the chart in Section 3 above and the total number of Alarm.com accounts so acquired is fewer than *** ("Qualifying Transaction"), the Fees charged by Alarm.com to ADT after the closing date thereof shall be ***. Such *** of Fees shall be implemented as a *** of the monthly Fee paid by ADT for each such Subscriber after the closing date of the Bulk Account Acquisition as follows:

	*** After the *** of a Qualifying Transaction									
	***	***	***	***	***	***	***	***	***	***
***:	***%	***%	***%	***%	***%	***%	***%	***%	***%	***%

Note: The *** per *** is cumulative such that the *** between the *** and the *** fee is *** by ***% as of *** after the *** of the Qualifying Transaction. For example, if the *** for an acquired account is \$*** as of the closing date of the Qualifying Transaction and the *** fee is \$*** as of that same date, then starting in *** following the *** the fee for that account will be *** by \$*** to \$*** and in *** by another \$*** to \$***, etc. until as of *** the fee be \$***.

If ADT incurs the cost to physically replace the existing Alarm.com gateway for any Subscriber acquired as part of a Qualifying Transaction with a new Alarm.com-approved gateway, the Fee for such Subscriber will be then prevailing rate that ADT is charged for new accounts at the time of the change (i.e., the Subscriber will be treated as a new activation under Section 3 above).

For clarity, the *** of Fees set forth in this Section 5 shall not apply if the total number of Alarm.com accounts acquired as part of a Bulk Account Acquisition is greater than ***.

6. Equipment Pricing. The following equipment shall be available for ADT to purchase from Alarm.com directly, with ground shipping included:

Part Description	Price
Image Sensor (for any supported panel)	\$***
Image Sensor w/ Daughterboard *	\$***
Indoor Wireless Fixed IP Camera	\$***
Indoor Wireless Fixed IP Camera w/ Night Vision	\$***
Indoor Wireless Pan/Tilt Camera	\$***
Indoor PoE Dome Camera	\$***
Outdoor PoE IP Camera w/ Night Vision	\$***
Outdoor Wireless IP Camera w/ Night Vision	\$***
Single Channel Analog to IP Video Server	\$***
4-Channel Analog to IP Video Server	\$***
Streaming Video Recorder w/ 1TB Storage	\$***
Streaming Video Recorder w/ 2TB Storage	\$***

*The Image Sensor with Daughterboard configuration sold by Alarm.com is only required for *** panels.

7. **Equipment Upgrades.** Alarm.com recognizes that ADT owns Subscriber accounts whose equipment utilizes the 2g GSM network and that those accounts may need to be upgraded to newer generation technology in the coming years. Alarm.com will invest in this replacement initiative by offering to sell directly to ADT CDMA3g and LTE radios for use with the [***] and [***] panels for \$[***] and \$[***], respectively. Furthermore, Alarm.com will offer ADT a \$[***] credit per Subscriber account that is upgraded from a non-Alarm.com 2g radio to an Alarm.com CDMA 3g or LTE radio, and will design a replacement process to be used by ADT for this initiative that will facilitate the exchange of information required to qualify for and process these credits. The radios that Alarm.com will provide to ADT for this upgrade will enable interactive services inclusive of z-wave services. If ADT intends to leave the account on a basic alarm service, the radio upgrade will enable ADT to offer a Pulse/Alarm.com service in the future to these Subscribers, or as an inducement in the present to drive upgrade activity. Upon the upgrade of a Subscriber account from a 2g to 3g/LTE Alarm.com module, the monthly Fee for such Subscriber account will be changed to the then prevailing rate ADT is charged for new accounts at the time of upgrade (i.e., the Subscriber will be treated as a new activation under Section 3 above).

8. **Currency Exchange Rate Provisions.** The Alarm.com Fees due from ADT for all Subscribers in Canada shall be paid in US Dollars, provided the exchange rate between the U.S. Dollar and the Canadian Dollar is within plus or minus [***]% of equal par value (i.e., \$1.00 USD = \$1.00 CD). In the event the exchange rate is greater than [***]% equal par value as of the date of invoice from Alarm.com, the Fees due from ADT to Alarm.com shall be adjusted by [***] of the percentage difference beyond the [***]% threshold. This adjustment will be performed on a monthly basis, as of the date of the invoice and based upon the Canada/US exchange rate published by the Bank of Canada. By way of example, if as of the date of invoice one U.S. Dollar can be exchanged for [***] Canadian Dollars, then no adjustment shall be made to the amount due from ADT to Alarm.com in U.S. Dollars. By way of another example, if as of the date of invoice one U.S. Dollar can be exchanged for [***] Canadian Dollars, then the amount due from ADT to Alarm.com in U.S. Dollars shall be reduced by [***]% (calculated as [***] of [***]% beyond the [***]% threshold). Beginning January 1, 2016, Alarm.com shall bill ADT for its accounts located in Canada in Canadian Dollars as follows: (a) for customers that were created prior to the Pricing Effective Date, Alarm.com shall convert the US Dollar price per account in effect on January 1, 2016 into Canadian Dollars using the exchange rate provision in this Section 8 of Schedule 2 of the Agreement and that shall be ADT's price in Canadian Dollars for each month thereafter. By way of example, if on January 1, 2016 Alarm.com is billing ADT \$5.00 USD for an account located in Canada that was created on October 31, 2015, and the exchange rate published by the Bank of Canada on January 1, 2016 is 1.35, then on January 1, 2016 Alarm.com shall convert the \$5.00 USD into \$6.13 CAD and bill ADT at that rate for that account for each billing cycle thereafter; and (b) for customers created on or after the Pricing Effective Date, Alarm.com shall bill ADT in Canadian Dollars at the applicable rates above pursuant to the performance objectives outlined in this Schedule 2 of the Agreement. For the avoidance of doubt, Alarm.com shall bill ADT, and ADT shall pay, for its customers located in the US in US Dollars at the applicable rates above pursuant to the performance objectives outlined in this Schedule 2 of the Agreement.

9. **Canada-Specific Pricing Provisions.**

(a) **ADT Canada Volume Commitment.** ADT agrees that the collective ADT and Protection One Affiliates operating in Canada ("ADT Canada") will create at least [***] ([***]) accounts using the Alarm.com Services during each calendar year during the Term on the Telus network. All pricing and billing terms contained in Section 3 of this Schedule 2 of the Agreement as applied to ADT Canada are contingent upon ADT Canada satisfying this commitment. Failure of ADT Canada to meet this commitment shall not be a breach of this Agreement.

(b) **Pricing Effective Date.** All price adjustments contained in Section 3 of this Schedule 2 of the Agreement shall be effective for customers created on or after November 1, 2015 (the "Pricing Effective Date").

[***] = CONFIDENTIAL TREATMENT REQUESTED

(c) Fees For Existing Accounts. On the Pricing Effective Date, Alarm.com will [***] the Fees charged to ADT Canada for all Subscriber accounts created on or before the Pricing Effective Date by [***]. [***].

Schedule 3 -Support, Security & Access

1. SUPPORT SERVICES & DISASTER RECOVERY

1.1 Support Services

(a) Alarm.com shall be responsible for providing support services in accordance with this Schedule 3 and as further specified in Exhibit A hereto (“Support Services”). Alarm.com shall at all times provide Support Services for all versions of the Alarm.com Services and Alarm.com-ready Products in use by Subscribers (including but not limited to the Connect Platform). In the event that Alarm.com decides to cease providing Support Services to any version or release of the Alarm.com Services, then Alarm.com shall provide ADT with notice at least [***] ([***)] months prior to the effective date of Alarm.com’s cessation of Support Services to any of its Subscribers for such version or release if more than [***]% of the Subscribers will potentially be impacted. If more than [***]% of the Subscribers, but less than [***]% of Subscribers will be impacted, then Alarm.com shall provide ADT with notice of at least [***] ([***)] months. If fewer than [***]% of Subscribers will be impacted, then Alarm.com shall provide ADT with notice of at least [***] ([***)] months.

(b) Alarm.com will be responsible for resolving all support issues and coordinating support with third party vendors. Alarm.com will provide Tier 2 Support to ADT and ADT Dealers, as well as support for system-wide problems with Alarm.com Services, all as further described in Exhibit A. The parties intend that ADT will provide Tier 1 Support to Subscribers.

(c) Each party shall designate technical support contacts and provide telephone hotline and cell phone numbers as a part of the Support Services detailed in Exhibit A.

(d) For clarity, Alarm.com’s failure to perform any of its obligations under the Support Services shall be a default in a material obligation under Section 1.3 of Schedule 4.

1.2 Business Continuity and Disaster Recovery. “Business Continuity” means the process of developing plans and capabilities, and performing activities designed to prevent, mitigate, respond to and recover from circumstances that substantially degrade or inhibit Alarm.com’s ability to provide the Alarm.com Services to ADT. “Disaster Recovery” means the subset of Business Continuity that focuses on responding to and recovering from circumstances that substantially degrade or inhibit Alarm.com’s ability to provide the Alarm.com Services to ADT.

(a) Business Continuity and Disaster Recovery Management Program. In order to ensure Services and service levels described in the Agreement and the Business Continuity and Disaster Recovery requirements for business operations included in Exhibit B, Alarm.com will:

(i) Develop and maintain a process for Business Continuity throughout the organization that addresses Alarm.com and its Providers’ Business Continuity so that the provision of the Alarm.com Services provided under the Agreement to ADT is substantially uninterrupted.

(ii) Identify events that can cause material interruptions to business processes, along with the probability and impact of such interruptions and their consequences for information security.

(iii) Develop and implement plans to maintain or restore operations and ensure availability of information at the required level and in the required time scales following interruption to, or failure of, critical business processes. Alarm.com further agrees not to make any material changes to its Business Continuity Plan that will result in a reduction of Alarm.com’s level of support for its Disaster Recovery services provided hereunder.

[**]= CONFIDENTIAL TREATMENT REQUESTED

(iv) Test and update its Business Continuity Plan and Disaster Recovery Plan every [**] ([**]) months to ensure that they are up-to-date and effective. Alarm.com represents that the Business Continuity and Disaster Recovery Plans described in Exhibit C are complete and accurate descriptions of Alarm.com's Business Continuity Plan and Disaster Recovery Plan for business operations as of the Effective Date of the Agreement.

1.3 Bug Lists. Using the ADT Website, ADT may provide Alarm.com with a list of any suspected failure of the Alarm.com Services and/or Alarm.com-ready Products to operate in material conformance with the Documentation ("Error") and Alarm.com shall maintain and timely update a complete listing of all such Errors. Alarm.com shall also maintain a list of any known material Error that is adversely affecting the provision of the Alarm.com Services (irrespective of how Alarm.com learned of the Error), which Alarm.com shall also maintain on the ADT Website or other location reasonably accessible by ADT. For each such Error, such listing shall include a description of the problem, indication of the priority assigned to the problem, the current status of the problem, and the manner in which the Error was resolved as applicable. Upon request, Alarm.com shall provide ADT with the list. Alarm.com will use commercially reasonable efforts to address such Errors as part of the Support Services and nevertheless in accordance with applicable industry standards and best practices.

2. HOSTED ENVIRONMENT; ACCESS TO ADT-SPECIFIC ENVIRONMENT

2.1 Hosting Location. Except for the Connect Platform and software supporting it (which shall remain hosted by ADT unless and until otherwise mutually agreed), the Alarm.com Services provided to ADT hereunder and all ADT Data (as defined in Exhibit B to Schedule 3), will be exclusively hosted from the servers located at Alarm.com's NOC's located at [**] and [**]. Alarm.com shall not cause nor allow the Alarm.com Services provided to ADT hereunder or the ADT Data to be moved to, operated from, or hosted from any other facility without obtaining ADT's prior written consent, such consent not to be unreasonably withheld or delayed. If Alarm.com desires to make such a change, Alarm.com shall notify ADT at least ninety (90) days in advance and in writing and allow the applicable ADT Personnel to perform a security review (which may, at a minimum, include the items described in the Security Requirements Schedule set forth in Exhibit B hereto) of the proposed replacement facility. ADT shall have the right to reject any change to the hosting facility or its location based on a good faith determination by ADT that the new facility does not provide security at least equal to the security provided by the current facility, it being understood that ADT shall not unreasonably withhold or delay consent to an Alarm.com's proposed change of hosting facility provided that such proposed change of hosting facility will have no negative impact on the agreed upon Service Level Agreement (described in Exhibit A) and any such change will be at no additional cost to ADT.

2.2 ADT-Specific Environment. At ADT's direction, Alarm.com will create a dedicated ADT Network Operations Center ("ADT NOC"), so long as ADT has in service at least [**] Subscribers using the Alarm.com Services (the "NOC Threshold"). The ADT NOC is intended to ensure business continuity for ADT in the event that Alarm.com is unwilling or unable to provide continued service to ADT or in the event that Alarm.com is purchased by an ADT Competitor (as defined in Schedule 4). Alarm.com, again at ADT's request and assuming the same Subscriber thresholds for the ADT NOC, will create a second dedicated ADT Network Operations Center ("ADT Failover NOC") that will mirror the ADT NOC for additional redundancy. ADT will initiate the ADT NOC deployment by sending a written request to Alarm.com (the "NOC Standup Request") when it has satisfied the number of Subscribers and is prepared to capitalize the development of an additional dedicated ADT NOC or NOCs depending upon the redundancy requirements. Alarm.com will complete the NOC standup activity within [**] ([**]) days of receiving the ADT NOC Standup Request. Once the ADT NOC's are in operation, Alarm.com will take all commercially reasonable steps to ensure (and in any event will not interfere with) ADT's virtual and physical access to, and operation of, the ADT NOC or ADT Failover NOC at any time during the Term and the period of the Transition Services. In the event ADT elects to operate the ADT NOC or ADT Failover NOC, Alarm.com shall be relieved from a support obligation under this Schedule 3 to perform a specific function in regard thereto to the extent that ADT has agreed to accept the responsibility for performing such function (for example, if ADT has agreed to be responsible for operating the NOC networking infrastructure, then Alarm.com would not be obligated to manage such operation). Alarm.com shall nevertheless remain responsible for its obligations under the Agreement for the ADT NOC and ADT Failover NOC not under such control of ADT.

2.3 Requirements for ADT NOC's. The ADT NOC's shall be logically separate from the remainder of Alarm.com's NOC's using channels dedicated to ADT, which may include without limitation dedicated telephone numbers, IP address ranges and/or domains (if DNS aware), and/or APN; a separate signal processing level (whether separate from or embedded with an application); and separate application servers, database, and messaging architecture ("Dedicated Channel"). The parties shall mutually agree as to any additional physical infrastructure that may be used for the ADT NOC (e.g., servers, separate cage, storage, receivers, and signal processors); provided however that the physical infrastructure for the ADT NOC's must remain scalable, in accordance with applicable industry standards and best practices, such that the performance and Availability of the Alarm.com Services is not impacted thereby. With the exception of the Alarm.com IP (which is addressed elsewhere in the Agreement), all hardware and software for the ADT Dedicated Channels shall be owned by, or licensed directly to, ADT and shall be freely transferable by ADT at any time.

2.4 Cost of the ADT NOC's. The costs associated in building the ADT NOC and ADT Failover NOC will be borne by ADT. This would include costs for acquiring equipment, software licenses, and all other components required to clone the Alarm.com system at the time of replication and costs for running the instance including any incremental additional facilities, network, power and other operational costs due to the ADT NOC's. Alarm.com will license its software to the ADT NOC and ADT Failover NOC free of any additional charges with such license fees covered in the monthly Fees per Subscriber that Alarm.com charges ADT pursuant to Schedule 2. Alarm.com will incur additional labor costs for initially building and then operating and maintaining the ADT NOC and potentially the ADT Failover NOC. Exact costs may vary through time and as the configuration evolves and some software license costs may be shared with the ADT Failover NOC if this is also erected. Alarm.com will charge ADT an initial fee equal to the incremental additional labor costs Alarm.com incurs due to setting up and running the ADT NOC's.

2.5 Data Backup. Independent of the ADT NOC, Alarm.com will create and automate to the extent possible a process for extracting ADT Customer Data from the Alarm.com backend system. This process will be executed on a quarterly basis with the ADT Customer Data backup being delivered to ADT upon completion. In addition, upon request Alarm.com will run the data extraction routine and provide the data as soon as the process has completed.

3. AUDIT

3.1 Reporting. As provided in the Agreement, Alarm.com shall provide a written report every month to ADT detailing Alarm.com's performance relative to the service levels and Support Services defined in Schedule 3. Each report described in this Section 2.1 shall be considered an "Authorized Report." If the parties are not in agreement with respect to the accuracy or completeness of any Authorized Report, the parties shall attempt in good faith to resolve any bona fide issues or discrepancies revealed by any audit. If any bona fide issues remain unresolved for a reasonable time after such good faith attempts at resolution, the parties shall escalate resolution of the issues to each party's executive management level. If the issues remain unresolved for an additional ten (10) business days and the executive management level contacts are unable to resolve any bona fide issues with respect to the Authorized Report, then the party disputing the Authorized Report (the "Disputing Party") shall have the right at the Disputing Party's cost to audit records of the party issuing the Authorized Report (the "Non-Disputing Party"), upon at least thirty (30) days advance written notice to the Non-Disputing Party. Any such audit shall be conducted during the Non-Disputing Party's regular business hours and shall not unreasonably interfere with such party's business activities. ADT will provide a template for such reports to Alarm.com for Alarm.com's review and approval if ADT requires a particular format for the reports required by this Section.

3.2 Access to Facilities. If any auditor requires access to the Non-Disputing Party's physical premises, the Disputing Party and such auditor shall, prior to entering the Non-Disputing Party's premises, sign a non-disclosure agreement and agree not to use the audited information for any purpose not associated with the audit. Further, auditors shall conduct themselves in a businesslike manner.

3.3 SOC 2, Type II Audit. Alarm.com will provide to ADT on a timely basis, (i) prior to January 10 of each year, in respect of the period from October 1 to September 30 of the prior year, its NOC Provider's SOC 2, Type II audit report, and (ii) as and when reasonably requested by ADT, letters attesting that the controls existing as of the most recent SOC 2 audit report remain in effect as of December 31 of that same year; and (iii) in the event that the SOC2 Audit Report identifies a material weakness that ADT cannot reasonably mitigate with a compensating control, Alarm.com shall provide ADT's auditors with reasonable access to the books, records, and Personnel of Alarm.com so that they may confirm and certify ADT's compliance with the Sarbanes-Oxley Act of 2002 ("SOX"). Alarm.com will comply with the controls documented in the SOC2 audit report at all times.

4. ESCROW

4.1 Deposit. Alarm.com shall establish a source code escrow account ("Escrow Account") with a mutually agreeable third-party ("Escrow Agent"), in accordance with a mutually agreed upon source code escrow agreement (the "Escrow Agreement") among the parties and the Escrow Agent. ADT agrees to pay the Escrow Agent its fees to establish and maintain the Escrow Account. Subject to agreement on the Escrow Agreement which shall provide for terms substantially similar to those in this Section 4 (ESCROW) with respect to Release Conditions and Source Code Audit, within thirty (30) days following the effective date of the Escrow Agreement, Alarm.com shall deposit and maintain in the Escrow Account in accordance with the terms of the Escrow Agreement:

(a) a current copy of the source code of the then-current and all future standard releases on a monthly basis of the software utilized by or in connection with the Alarm.com Services and Alarm.com-ready Products manufactured by (or for) Alarm.com, and all ADT Custom Products, including without limitation the following: all software source code, all software build procedures that would be required to recreate executable code from source modules, current copies of all software object and executable code, all software technical design and server configuration specifications, all firmware source code, all firmware libraries and build procedures, all applicable specifications, and all architectural design documents.

(b) all existing Alarm.com Documentation and specifications and materials, including any manuals, lists of any compilation and execution procedures, necessary hardware, compilers and third-party software relating to the installation and support of the Alarm.com Services applicable for the Agreement.

Each of (a) and (b) will be written in language (and contain relevant comments) reasonably sufficient for a trained computer programmer of general proficiency to maintain, support, and create derivative works of the items listed above without further assistance from Alarm.com or its Personnel (collectively, the “**Deposit**”).

4.2 Release Event. The Escrow Agreement will provide that the Escrow Agent shall release the Deposit to ADT, in accordance with the terms and procedures set forth in the Escrow Agreement, under the following conditions (each a “Release Event”):

(a) if any one of the following events occurs: (i) Alarm.com files a voluntary petition in bankruptcy, or an involuntary petition is filed against it that is not dismissed within one hundred twenty (120) days; (ii) Alarm.com is adjudged bankrupt; (iii) a court assumes jurisdiction of Alarm.com’s assets under a federal reorganization act, or other statute; (iv) a trustee or receiver is appointed by a court for all or a substantial portion of Alarm.com’s assets; (v) Alarm.com suspends business or ceases to conduct its business or otherwise ceases providing the Alarm.com Services in the ordinary course; (vi) Alarm.com ceases to pay its debts in the ordinary course of business or cannot pay its debts as they become due; or (vii) Alarm.com makes an assignment of its assets for the benefit of its creditors;

(b) Alarm.com or its successor fails to perform commercially reasonable bug fixing, or correction of Errors as part of the Support Services for the Alarm.com Services (provided that such release shall not constitute a waiver by ADT of any of its rights and remedies under the Agreement); or

(c) Alarm.com, in its sole discretion, expressly and in writing authorizes release of the Deposit.

4.3 License to Deposit. Upon the occurrence of a Release Event and the release of the Deposit in accordance with the Escrow Agreement, and subject to and conditional upon payment by ADT to Alarm.com of the Source Code License Fee in accordance with the terms hereof, Alarm.com hereby grants to ADT a perpetual world-wide, non-exclusive, non-transferable and royalty-bearing (as provided in Section 4.4 below) license, under Alarm.com’s Intellectual Property Rights in and to the Products Software and the Deposit as of the Source Code Delivery Date (as defined below): (i) to use, modify, copy, and prepare derivative works of, the Deposit on behalf of itself and its Affiliates, on a confidential basis, to make, have made, update, provide improvements of, upgrade, prepare derivative works of, reproduce, modify and maintain the Alarm.com Services and Alarm.com-ready Products, (ii) to distribute and sell (and to continue to sublicense to ADT Dealers the right to distribute and sell under this Agreement) Alarm.com Services and Alarm.com-ready Products, in object code form only, for use by new and existing Subscribers, (provided that, for purposes of clarification, the Alarm.com server software may not be distributed to any third party other than to a subcontractor providing hosting services to ADT), and (iii) to have a third-party solely for ADT’s benefit, use, modify, maintain and update the Deposit as necessary or appropriate solely to operate the Alarm.com Services and Alarm.com-ready Products in accordance with the Agreement, to prepare derivative works of the Alarm.com Services on a confidential basis, and to use the Deposit to interface the Alarm.com Services and Alarm.com-ready Products with other software, in each case solely for use in connection with the Subscribers. The source code provided as part of the Deposit will be subject to ADT’s security and confidentiality standards, which shall be no less than the standards used for ADT’s own proprietary source code. ADT will also have the right to add and delete Subscribers as ADT may require to continue to expand its business.

4.4 Source Code License Fee.

(a) The license fee (the “**Source Code License Fee**”) payable by ADT for the license to use the Deposit in accordance with the license granted in Section 4.3 above shall be a royalty fee as follows, where Fees refers to the Fees per Subscriber on Schedule 2:

Year One	Year Two	Year Three	Year Four	Year Five
***]% of the Fees	***]% of the Fees	***]% of the Fees	***]% of the Fees	***]% of the Fees

Note: After Year Five, ADT shall ***].

(b) Commencing on the date of delivery of the Deposit to ADT following the occurrence of a Release Event (the “**Source Code Delivery Date**”), ADT shall pay Alarm.com the Source Code License Fee to Alarm.com in accordance with the terms hereof; provided that the Source Code License Fee may be offset by any damages recoverable by ADT if the Release Event is under 4.2(b) above. For the avoidance of doubt, upon the release of the source code to ADT, Alarm.com shall have no further obligation to update or maintain the source code being used by ADT.

4.5 Deposit Audit. No more frequently than annually, ADT or an agreed upon third-party at ADT’s sole expense and subject to confidentiality obligations reasonably acceptable to Alarm.com, shall have the right to audit and access the Deposit to ensure Alarm.com’s compliance with the deposit requirements of this paragraph, to verify that all software associated with the Alarm.com-ready Services, Products and environments can be reconstructed.

4.6 No Time Bombs. Alarm.com warrants that the Deposit will not contain any of the following: (a) “time bombs”, time-out or deactivation functions; (b) “back doors” or other means whereby Alarm.com or any other party may remotely access and/or control ADT’s Networks without ADT’s express authorization; (c) functions or routines that will surreptitiously delete or corrupt ADT Data; or (d) computer viruses.

5. SECURITY

5.1 Security Requirements.

(a) **Security Processes.** In general, Alarm.com will implement and maintain information security processes designed to protect access and maintenance of information related to the Alarm.com Services and ADT Data that are (a) at least equal to applicable industry standards for such types of locations, (b) in accordance with ADT security requirements specified in Exhibit B, and (c) which provide appropriate technical and organizational safeguards against accidental or unlawful destruction, loss, alteration or unauthorized disclosure or access of ADT Data.

(b) **Alarm.com Personnel.** Alarm.com will require all Personnel with access to ADT Data to adhere to substantially similar security and confidentiality provisions as those outlined in the Agreement. In addition, Alarm.com shall require Personnel (including Alarm.com Affiliates) with access to PHI also to expressly agree to the same restrictions and conditions that apply to Alarm.com with respect to PHI as specified in Exhibit B. Alarm.com agrees that all assigned Alarm.com Personnel will be required to satisfactorily complete criminal background checks before such Personnel will be permitted to have access to ADT Data hereunder. Each party is responsible for the activities of its Personnel under the Agreement as if performed by the party directly.

(c) **Security Measures.** Alarm.com shall implement security measures as specified in Exhibit B hereto designed to protect the Alarm.com Services, computer systems, networks and databases, and any ADT Data processed, transmitted or stored thereon against the risk of penetration by, or exposure to, a third party via any system or feature utilized by Alarm.com in performing such work or accessing such systems. As set forth in Exhibit B such protections will include, but not be limited to: (i) protecting against intrusions, including but not limited to intrusions of operating systems or software, (ii) encrypting PHI and Personal Information while in transit or at rest (except that the user id is not required to be encrypted at rest unless otherwise agreed by the parties) and ADT Data while in transit, and (iii) securing the computer systems and network devices. In addition to the information security requirements set forth herein, ADT shall have the right from time to time to provide to Alarm.com ADT’s then-current version of information security requirements which reflect applicable industry changing events, risks or standards, or as required

by ADT current or potential customers, which shall be added to Exhibit B of the Agreement upon mutual agreement, which agreement shall not be unreasonably withheld or delayed. If such requirements are added to Exhibit B in accordance with this Section, Alarm.com shall comply with all such additional or revised information security requirements within a reasonable period of time, which in no event will exceed six (6) months.

(d) **Storage or Transmission of ADT Data.** All ADT Data will be stored in a physically and logically secure environment that protects it from unauthorized access, modification, theft, misuse and destruction. In addition to the general standards set forth in the Agreement and in Exhibit B, Alarm.com will maintain an adequate level of physical security controls over its facility that houses such ADT Data including, but not limited to, appropriate alarm systems, fire suppression, access controls (including off-hour controls) which may include visitor access procedures, security guard force, video surveillance, and staff egress searches. Further, Alarm.com will maintain an adequate level of data security controls as defined in Exhibit B, which may include: logical access controls including user sign-on identification and authentication, data access controls (e.g., firewalls, segmentation, encryption, password protection of applications, data files and libraries), accountability tracking, anti-virus software, secured printers, restricted download to disk capability and provision for system backup. Alarm.com shall use and employ a high standard of data protection mechanisms to protect ADT Data that is transmitted over any wireless connection or across any untrusted connection (including, but not limited to, the public Internet) all as further described in Exhibit B.

(f) **Data Privacy.** Alarm.com represents and warrants that at all times during and after the Term of the Agreement, Alarm.com shall use, handle, collect, maintain, and safeguard all Personal Information (as defined in Exhibit B to Schedule 3) in accordance with Alarm.com's Privacy Policy currently in effect, as such policy may be changed by Alarm.com in its discretion from time to time, provided such changes are reasonably acceptable to ADT, and with all applicable United States federal, and state consumer privacy laws, regulations and rules (collectively, the "Privacy Rules") which may be in effect during the Term of the Agreement as it concerns the subject matter of the Agreement. Alarm.com further acknowledges that it alone is responsible for understanding and complying with its obligations under the Privacy Rules. If the ADT Data includes any credit card information, Alarm.com shall be responsible for complying with all information security practices promulgated by United States federal, state, and municipal laws, regulations, and statutes pertaining to the acquisition, handling, and disposition of all such credit card information, and also by industry associations, including, but not limited to, the standards of the Payment Card Industry (PCI) Data Security Standard. For the sake of clarification, ADT agrees that it will not provide ADT Customer credit card data to Alarm.com, provided that if ADT does inadvertently provide ADT Customer credit card data to Alarm.com, ADT will not be in breach of the Agreement for doing so and Alarm.com's sole responsibility for such credit card information will be to use diligent efforts to remove it from its systems and any security breach related to this credit card information will not be considered a breach of the Agreement by Alarm.com.

5.2 Notification of Security Incident. Alarm.com shall address every known or suspected breach of security of an Alarm.com system or database that contains ADT Data in the manner specified in Exhibit B hereto. If any breach of the security, confidentiality, or privacy of the ADT Data requires notification by ADT to any party under any of the Privacy Rules, ADT shall have sole control over the timing, content, and method of such notification and Alarm.com shall reimburse ADT for its reasonable out-of-pocket costs in providing the notification.

5.3 Security Review

(a) ADT or its authorized representative may, from time to time, but not more frequently than yearly, at its reasonable request perform a security review (which may, at a minimum, include the items described in Exhibit B hereto) of the physical facilities from which the Alarm.com Services are developed, tested, operated or hosted. Alarm.com agrees to meet with ADT to discuss ADT's security review and the results of such review and Alarm.com shall use commercially reasonable efforts to remedy any material deficiencies identified by such review.

(b) During the time that Alarm.com is performing hosting services for ADT, Alarm.com or its hosting site Provider, as applicable, will maintain an unqualified SOC 2, Type II compliance on operations and tests of operational effectiveness in its shared services environment. As further described in Section 3.3 above, on an annual basis in any year during which Alarm.com performs any hosting Services for ADT, Alarm.com shall provide ADT with a minimum of two (2) hard copies of Alarm.com's (or its hosting site Provider's) most current multi-client unqualified SOC 2, Type II Report by a nationally recognized firm qualified to perform such audits. If Alarm.com's hosting site Provider will not permit ADT to receive the Provider's SOC 2, Type II, then Alarm.com will permit ADT to review such SOC 2, Type II in the presence of an Alarm.com representative. Alarm.com will deliver the reports to ADT within fifteen (15) days of receiving the completed report for each audit or within fifteen (15) days after ADT's request, whichever is later.

(c) If any security review requires access to the facilities from which the Alarm.com Services are operated or hosted, the individuals conducting the review shall, prior to entering the premises, sign a non-disclosure agreement and agree not to use the reviewed information for any purpose except to determine compliance with security requirements. Further, such individuals shall (i) comply with the requests, standard rules and regulations of the other party regarding safety, security and health, personal and professional conduct generally applicable to such facilities and (ii) otherwise conduct themselves in a businesslike manner.

5.4 Conduct at either Party's Premises. Whenever present at the other party's premises, each party shall comply and shall cause its Personnel to comply with all applicable on-site policies and procedures and all reasonable instructions or directions issued by the other party, and otherwise conduct themselves in a businesslike manner. If a party shall reasonably request the other party to remove any of its Personnel from the work hereunder (including, without limitation, lack of competence or conduct that interferes with the other party's operations), the first party shall promptly cause such individual to be removed and replaced at no cost to the other party; provided, however, except as otherwise provided herein, each party retains the sole right to hire and fire its Personnel, and shall be solely responsible for oversight of its Personnel and any decision to fire its Personnel.

5.5 ADT and Alarm.com Networks

(a) If access to any computers, computer systems, mobile and other electronic devices, and networks of ADT ("ADT's Networks") is required in order for Alarm.com to fulfill its obligations to ADT, then ADT shall determine the nature and extent of such access. If remote access to ADT's Networks is given to Alarm.com, then any and all information relating to such remote access shall be considered ADT's Confidential Information. In addition, any and all access to ADT Networks shall be subject to the following:

(i) ADT's Networks will be used solely to perform services for ADT, and shall be used for any purpose other than the legitimate business purposes of ADT;

(ii) Access to ADT's Networks will be restricted to Alarm.com's Personnel who need access in order for Alarm.com to fulfill its obligations under Agreement; and no access rights will be transferred to any other individuals without the prior written consent of ADT; and

(iii) Alarm.com shall employ personnel controls and processes designed to ensure that its Personnel do not attempt to break any security systems related to the ADT Networks, or attempt to obtain access to any programs or data beyond the scope of the access granted by Alarm.com's employee handbook.

(b) Without limiting any of its other rights, each ADT Affiliate shall have the right to restrict and monitor the use of the ADT Network, and to access, seize, copy and disclose any information, data or files developed, processed, transmitted, displayed, reproduced or otherwise accessed in conjunction with such use. Each ADT Affiliate may exercise its rights reserved hereunder: (i) to verify the performance of Alarm.com Services; (ii) to ensure compliance by Alarm.com's Personnel with ADT's policies and procedures; (iii) to investigate conduct that may be illegal or may adversely affect ADT; and (iv) to prevent inappropriate or excessive personal use of ADT Networks. Alarm.com will advise its Personnel concerning the rights stated hereunder.

(c) If ADT requires access to Alarm.com's Networks, then any and all information relating to such access shall be considered Alarm.com Confidential Information. Access to Alarm.com's Networks will be restricted to ADT Personnel with a specific need for such access under the provisions of this Agreement.

5.6 Export Compliance and Security Classifications

(a) Alarm.com understands that certain ADT Data may be subject to: (i) U.S. and other export control laws and regulations, or (ii) U.S. Defense Department ("DoD") procedures such as those governing release of Controlled or Sensitive but Uncontrolled Technical Data (as defined in applicable regulation) to certain foreign nationals. Each party will comply with applicable export and import laws and regulations. Without limiting the generality of the foregoing, Alarm.com agrees not to transfer or otherwise export or re-export (and to cooperate to prevent such transfers of) any such ADT Data except in compliance with the Applicable Laws and use restrictions. For ADT Data, regulated transfers may include those made to foreign nationals in the United States or another country. The parties will work together to create policies and procedures regarding the access to and transferring of such materials. Alarm.com agrees not to allow any access to any such identified ADT Data by any Alarm.com Personnel who are on the U.S. Treasury Department's list of Specially Designated Nationals, on the U.S. Commerce Department's Denied Persons List, Entity List or Unverified List, or who are nationals of Cuba, Iran, Sudan, or Syria, or any other countries that may be added to the list of U.S. embargoed countries from time to time. Alarm.com agrees not to allow access by any Alarm.com Personnel who are not U.S. nationals to ADT Data identified from time to time by ADT as subject to DoD restrictions, International Traffic in Arms Regulations, or similar restrictions. Alarm.com and ADT shall use commercially reasonable efforts to restrict access to any other ADT Data to such nationals and Alarm.com Personnel as may lawfully receive it without an export license unless and until any and all required licenses are obtained.

(b) Each party shall comply with all Applicable Laws and regulations pertaining to the export, re-export, and import of Alarm.com-ready Products and Documentation in effect from time to time, including any conditions of any export licenses under which Alarm.com ships Alarm.com-ready Products and/or related Documentation to ADT and for which ADT is advised by Alarm.com. Alarm.com shall not be obliged to perform deliveries, orders and other obligations under the Agreement if that performance is prohibited by the export laws and regulations of Canada, the United States or other countries that are applicable to Alarm.com, whether at law or by contract. Upon Alarm.com's reasonable request, ADT shall provide Alarm.com with copies of ADT's records regarding export and re-export of Alarm.com-ready Products and Documentation in order to verify compliance with applicable export laws and regulations, and ADT agrees to implement any corrective actions reasonably recommended by Alarm.com as a result of such audit findings.

Exhibit A to Schedule 3 - Service Level Support Related Terms

1. AVAILABILITY/UPTIME for The Alarm.com Environment

The “**Alarm.com Environment**” consists of the servers, storage and networking hardware, operating systems, database management systems and operating platforms and all application software, including Alarm.com software that is required at the data center, or in the Alarm.com-ready Products, to provide the Alarm.com Services contemplated in the Agreement, but specifically excludes communication and/or connectivity systems provided by wireless carriers, telecommunications providers and Internet providers other than the internet providers who provide services to the Alarm.com NOCs.

For the purpose of this Exhibit A, “**Software**” includes all application software provided by Alarm.com (whether developed by Alarm.com or any third party) intended to run in the Alarm.com Environment to provide the Alarm.com Services contemplated in the Agreement.

“**Tier 1 Support**” means support provided by ADT Personnel, who receive initial calls from ADT installers, ADT Dealers or Subscribers for issues related to the Alarm.com-ready Products or Alarm.com Services.

“**Tier 2 Support**” means support provided by Alarm.com Personnel who respond to calls placed by ADT Personnel regarding application and system issues related to the Alarm.com-ready Products or Alarm.com Services and their use and for issues originating from Tier 1 Support.

The following Service Level Agreement (“SLA”) covers the following approach: Alarm.com hosts and manages the Alarm.com Environment as described below (the “**Hosted Service**”).

1.1 Scheduled Maintenance. Subject to the other terms contained in the Agreement, Alarm.com will make the Alarm.com Services available for ADT’s access seven (7) days a week, twenty-four (24) hours a day. So long as Alarm.com complies with the limitations contained in this paragraph, Alarm.com is permitted to perform periodic maintenance on the portions of the Alarm.com Environment for which Alarm.com is responsible for purposes of system upgrades, maintenance, and backup procedures (“**Scheduled Maintenance**”). All Scheduled Maintenance will either be performed seamlessly to ADT and the ADT Dealers and the Subscribers (so that they are unaware of the Scheduled Maintenance) or, if not seamless, will (i) be provided upon no less than ten (10) days advance written notice to ADT except in such cases where immediate action by Alarm.com is necessary to maintain the best possible service quality for ADT, the ADT Dealers, and the Subscribers in which case Alarm.com will provide as much advance notice as possible; (ii) be limited to a mutually agreed window initially agreed to be 10:00 p.m. Wednesday to 6:00 a.m. on Thursday (all such times being United States Eastern Time); (iii) not exceed [**] ([**]) [**] per month (except for cases where ADT has requested new functionality and ADT and Alarm.com agree that implementation of the functionality reasonably requires more than [**] ([**]) [**]); and (iv) be subject to ADT’s prior approval, such approval not to be unreasonably withheld or delayed.

1.2 Availability SLA. In addition to Scheduled Maintenance, there may be events that from time to time will make the Alarm.com Services not “Available” for a limited amount of time due to unforeseen software, hardware, network, power and/or Internet outages (“**Unscheduled Downtime**”). Subject to the exclusive remedies set forth in Section 1.3 of this Exhibit A and Section 11.7 of the Agreement, the portions of the Alarm.com Environment for which Alarm.com is responsible will be “Available” at least [**]% of the time measured on a monthly basis (the “**Availability SLA**”). For purposes of the Agreement, the terms “**Available**” and “**Availability**” means that the core functionality of the portions of the Alarm.com Environment for which Alarm.com is responsible is accessible, excluding Scheduled Maintenance, any force majeure event (as described in Section 11.7 of the Agreement) or any loss or interruption of services resulting from actions or inactions of ADT, the ADT Dealers or the Subscribers, or the respective communication and network connectivity service Providers upon which the Alarm.com Services rely including cellular carriers and Internet providers. The Alarm.com Services will also be deemed not Available during the time period in which the system is down during a Severity Level 1 or 2 event in progress.

[***] = CONFIDENTIAL TREATMENT REQUESTED

The Alarm.com Availability SLA shall cover only the Alarm.com Services.

Actual Availability Percentage of the Alarm.com Services will be calculated with the following formula:

*100 minus [(X)[***]; divided by (Y) (i)[***)]; multiplied by (Z) 100].*

1.3 Downtime Credit. Alarm.com shall provide ADT, within ten (10) days of the end of each month, a report of the previous month's Availability. In the event that Alarm.com fails to meet the Availability SLA for any month, then, ADT shall, in addition to all of its other rights under Schedule 4 of the Agreement, receive a credit against the Fees payable in the subsequent monthly invoice for the portion of Subscribers affected by the Downtime, which shall be calculated using the table below:

Chart 1.3A SLA for Security Signaling Transmission Time		Monthly Credit
Level	Avg. Signal Transmission Time (monthly)	
1	[***]-[***]	[***]%
2	[***]-[***]	[***]%
3	[***]-[***]	[***]%
4	[***]-[***]	[***]%
5	[***]	[***]%

*Security Signaling means the generation, storage, and/or and transmission of actual, non-test alarm signals to an ADT central station.

*Signal transmission time as measured by duration from Customer site to ADT Control Station.

*Signal Incident = signal transmission time > [***].

*Signal times assume ADT is operating an IP receiver. The parties agree ADT may operate either an [***] or [***] receiver, or any other IP receiver mutually agreed upon by the parties. The Security Signaling Transmission Time SLA shall not apply in the event that delay in Security Signaling Transmission Time is due to the ADT IP receivers not properly functioning (due to no fault of Alarm.com).

Chart 1.3B - SLA for General Availability (EXCLUDES Security Signaling)		Monthly Credit (Consecutive Months)		
Availability (%)	Downtime Per Month	Month 1	Month 2	Month 3+
[***]-[***]	Fewer than [***]	No Credit		
[***]-[***]	[***]-[***]	[***]%	[***]%	[***]%
[***]-[***]	[***]-[***]	[***]%	[***]%	[***]%
[***]	Greater than [***]	[***]%	[***]%	[***]%

*The total downtime credit, if any, calculated in Chart 1.3A or 1.3B shall in no event exceed a total of 100% of monthly fees.

The SLA for General Availability shall apply to the Connect Platform as well (including but not limited as to such portions of the Connect Platform contained in any hub in use by a Subscriber), and the SLA for Security Signaling Transmission Time shall apply if the Connect Platform is adapted to provide Security Signaling.

Recognizing that excessively long outages as well as frequent or chronic outages may have significant impact on ADT's credibility and ADT customer satisfaction, Alarm.com acknowledges that such liquidated damages are not plainly or grossly disproportionate to the actual loss and are not intended as a penalty to compel performance. The downtime credit set forth in this Section 1.3 of Exhibit A to Schedule 3 shall be not be duplicative of any amount from any other remedy available to ADT for a failure by Alarm.com to achieve the Availability SLA.

1.4 Termination Right. Additionally, Alarm.com acknowledges that the payment of any such credit or other liquidated damage will not affect, in any way, the termination rights of ADT set forth in Schedule 4 to the Agreement.

1.5 Reporting. Alarm.com shall provide ADT, within five (5) days of the end of each month, an operations report detailing the previous month's Availability, Alarm.com's compliance with service levels specified in this Agreement, description of Incidents and their resolution, and other metrics agreed upon by the Parties.

2. SUPPORT SERVICE

Alarm.com will make Support Services available for the Alarm.com Services for a minimum period to satisfy the remaining Term of the Agreement and any Renewal Terms, and the period for Transition Services. The Support Services shall include, without limitation, the following:

2.1 ADT Obligations. ADT agrees to provide Alarm.com with reasonable access to all necessary Personnel to answer questions about any problems reported by ADT regarding the Alarm.com Services. ADT will provide Alarm.com with reasonable access to its facilities, network, equipment, hardware and software so that Alarm.com can provide support to ADT. ADT will provide, and update as needed, the telephone numbers and email addresses for ADT's technical support contacts.

2.2 Telephone Support - Alarm.com Problems at Severity Level 1, Severity Level 2 and Severity Level 3. Telephone support representative(s) shall be available to receive ADT and ADT Dealer telephone calls at all times (24 x 7) via pager response or direct phone access. Such telephone support representative(s) shall serve as ADT's interface with Alarm.com and shall ensure that reported Errors are handled in a timely manner as specified herein. Alarm.com shall provide to ADT in writing, the telephone number(s) of such telephone support representative(s) within ten (10) days of the execution of the Agreement. All Errors shall be investigated and (i) an Error report shall be opened, (ii) the Error shall be assigned a Severity Level as per the provisions of Section 4 of this Exhibit A, and (iii) the Error shall be resolved in accordance with the procedures and processes set forth in this Exhibit A.

2.3 Telephone Support - All other Alarm.com Support including Tier 2 Customer Support. Alarm.com's telephone support representatives shall answer ADT's application and system questions related to the Alarm.com Services, the Alarm.com-ready Products and their use; telephone support representative(s) shall be available to receive ADT telephone calls between the hours of 9:00 AM to 9:00 PM Eastern Time, Monday through Friday, and 10 am to 7:00 pm ET on Saturdays, excluding public holidays (and any others that are mutually agreed). Alarm.com shall provide ADT with a telephone number that is answered at all other times by an individual who will accept Error reports. Such telephone support representative(s) shall serve as the ADT's interface with Alarm.com and shall ensure that reported Errors are handled in a timely manner as specified herein. Alarm.com shall provide to ADT in writing, the telephone number(s) of such telephone support representative(s) within ten (10) days of the execution of the Agreement. All Errors shall be investigated and (i) an Error report shall be opened, (ii) the Error shall be assigned a Severity Level as per the provisions of Section 3 of this Exhibit A, and (iii) the Error shall be resolved in accordance with the procedures and processes set forth in this Exhibit A.

2.4 Web Site Support. Alarm.com will provide ADT with access to support through the ADT Website. Specific offerings on the ADT Website may change from time to time in Alarm.com's discretion, but the ADT Website generally includes ADT's case summary, Software downloads, Documentation, Incident reports and access to Alarm.com's knowledgebase.

2.5 Email Support. ADT may submit questions regarding the Alarm.com Services or Support Services via the ADT Website with relevant information needed to properly engage Alarm.com support staff, with access at support@alarm.com.

2.6 Primary Contacts. ADT shall appoint up to ten (10) trained technical contacts within ADT's IT organization to serve as primary contacts between ADT and Alarm.com for issues related to the Alarm.com Services and to receive support through Alarm.com's telephone and ADT Online support centers ("Primary Contacts"). All of ADT's support inquiries for the above services shall be initiated through these Primary Contacts. In addition, all ADT support Personnel are authorized to place calls to Alarm.com's Tier 2 Support team for Subscriber related issues.

2.7 Documentation. Alarm.com will provide modified Documentation to correspond to all material changes in accordance with applicable industry standards and best practices.

3. CLASSIFICATION OF ERRORS

Upon identification of any Error by ADT, ADT shall notify Alarm.com of such Error and shall provide Alarm.com with a problem report ("Error Report"). Alarm.com shall respond to Error Reports in accordance with the initial call back response time indicated in Section 4 of this Exhibit A for the applicable severity level. Alarm.com shall correct any Errors in the Alarm.com Environment with the level of effort commensurate with the Error and applicable industry standards and best practices. All Errors reported by ADT to Alarm.com shall be assigned a severity level jointly agreed upon by ADT and Alarm.com based on the following classifications ("Severity Level"):

Severity Level 1 - Severity Level 1 occurs when the Alarm.com Services or an Alarm.com-ready Product is effectively not functioning, and any failure in Security Signaling. Some examples of Severity Level 1 Errors are as follows:

1. The Alarm.com Services are down and will not restart;
2. Alarm.com-ready Products are not able to communicate with external systems;
3. Alarm.com-ready Products are generating a data corruption condition that halts online and other processing and no work around is available.
4. The performance of the Alarm.com Services has degraded to the point where it is not practically usable by Subscribers.
5. One or more Major Functional Components of the Alarm.com-ready Products is significantly impaired or not practically usable and affecting more than 50% of Subscribers.
6. Improper Security Signaling for any Subscribers even though other aspects of the Alarm.com Services and Alarm.com-ready Products do not appear to be impaired.

Severity Level 2 - Severity Level 2 occurs when the Alarm.com-ready Services are running, but that Subscriber is unable to use major portions of the Alarm.com-ready Product, and no work around is available. Some examples of Severity Level 2 Errors are as follows:

1. Intermittent Error in a live, production system that continues processing with no work around; and
2. Major Functional Component is unavailable with no work around.
3. Any functional component is significantly impaired or not practically usable and affecting more than 10% of Subscribers and results in a 10% or greater increase in ADT call center traffic related to Subscribers.

As used herein, "Major Functional Components" consist of: SMS and email notification, automations, remote arm/disarm, remote viewing of security panel status, remote viewing and control of devices, access to mobile app / portal for active user accounts, remote viewing of pictures and video clips, and any other major product components that may be added by the parties from time to time.

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Severity Level 3 - Severity Level 3 occurs when that the Alarm.com Environment is operating close to normal, but any functional area is significantly impaired and affecting no more than 10% of Subscribers for which an operational work around does not exist for such Error.

Severity Level 4 - Severity Level 4 occurs when the Alarm.com Environment is operating close to normal, but there is a noncritical Error for which an operational work around exists for such Error. Severity Level 4 Errors will be fixed in an update.

4. RESPONSE TO ERROR REPORTS

SEVERITY LEVEL 1

Error Resolution - Immediate steps shall be taken toward solving the Error. Alarm.com shall work to resolve Severity Level 1 Errors on a twenty-four (24) hour basis until the Error is resolved. If required, Alarm.com staff shall be moved off of lower Severity Level Errors to service Severity Level 1 Errors.

Resource Commitment - When a Severity Level 1 Error is reported, Alarm.com shall assign all resources required to correct the Error. Work on the Error shall be continuous until a fix is found. If system access is required, ADT shall provide a contact available to Alarm.com and access to its system and software for the duration of the Error correction procedures.

Completion Goal - The completion goal shall be to resolve one hundred percent (100%) of all Severity Level 1 Errors with a fix or bypass within (4) hours of receipt of the Error Report - but within (1) hour if the Error relates to Security Signaling.

Initial Response: Within 30 minutes (at all times); 5 minutes if it involves Security Signaling.

Escalation and Status Thresholds - When a Severity Level 1 Error Report is opened, the following escalation and status procedures shall be followed:

Problem Report - HOUR 1

1. The Error shall be resolved by Alarm.com's first line support; or
2. The Error will be referred to Alarm.com's maintenance engineering group.

ADT will be notified by email of the status of the Error each hour.

HOUR 1 - HOUR 2

1. The maintenance engineering point of contact will resolve the Error; or
2. It will be decided that more resources are required to work on the Error.

ADT will be notified of the status of the Error.

HOUR 2- RESOLUTION

1. Alarm.com shall continue to work on the Error, on a twenty-four (24) hour basis, until a resolution is found. All available resources shall be used to assist the person who is responsible for the resolution of the Error; and
2. The ADT Product Manager and Operations Support Manager shall be notified that a Severity Level 1 Error has reached a critical time frame.

SEVERITY LEVEL 2

Error Resolution - Severity Level 2 Errors will be analyzed in the order that they are reported. Severity Level 1 Errors will take priority over Severity Level 2 Errors.

Resource Commitment - Appropriate technical resources will be assigned to Severity Level 2 issues as long as Severity Level 1 Errors are not open.

Completion Goal - The completion goal will be to resolve one hundred percent (100%) of all Severity Level 2 Errors within eight (8) hours of receipt of the Error Report.

Initial Response: Within 60 minutes (at all times)

Escalation and Status Thresholds - When a Severity Level 2 Error Report is opened, the following escalation and status procedures will be followed:

HOUR 1 - HOUR 4

1. The Error shall be resolved by Alarm.com; or
2. Alarm.com's maintenance engineering group will continue working the Error until it is fixed.

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ADT will be notified of the status at this stage.

HOURL 4 - HOURL 8

1. Alarm.com's maintenance engineering group will resolve the Error; or
2. Alarm.com's maintenance engineering group will continue working the Error until it is fixed.
3. A date will be estimated upon when this Error will be fixed.

ADT will be notified of the status at this stage.

HOURL 8 - RESOLUTION

1. Alarm.com shall continue to work on the Error, on a twenty-four (24) hour basis, until a resolution is found. All available resources shall be used to assist the person who is responsible for the resolution of the Error; and
2. The ADT Product Manager and Operations Support Manager shall be notified that a Severity Level 2 Error has reached a critical time frame.

SEVERITY LEVEL 3

Error Resolution - Severity Level 3 Errors will be analyzed in the order that they are reported. Severity Level 1 and Severity Level 2 Errors will take priority over Severity Level 3 Errors.

Resource Commitment - Appropriate technical resources will be assigned to Severity Level 3 issues as long as Severity Level 1 and Severity Level 2 Errors are not open.

Completion Goal - The completion goal will be to resolve one hundred percent (100%) of all Severity Level 3 Errors within two days, or as otherwise mutually agreed by the parties, but no more than a commercially reasonable time period (based on the circumstances) following receipt of the Error Report.

Initial Response: Within 4 hours (during business hours)

Escalation and Status Thresholds - When a Severity Level 3 Error Report is opened, the following escalation and status procedures will be followed:

1. Alarm.com shall continue to work on the Error, during normal business hours, until a resolution is found. All available resources shall be used to assist the person who is responsible for the resolution of the Error; and
2. If the Error is not resolved within two days (or other agreed time frame), the ADT Project Manager and Operations Support Manager shall be notified that a Severity Level 3 Error has reached a critical time frame.

SEVERITY LEVEL 4

Error Resolution and Resource Commitment - Severity Level 4 errors shall be researched after Severity Level 1, Severity Level 2 and Severity Level 3 Errors. Severity Level 4 Errors mutually agreed by Alarm.com and ADT shall be scheduled for correction and be resolved a commercially reasonable time period following receipt of the Error Report in accordance with applicable industry standards and best practices.

Completion Goal - The completion goal and objective shall be to correct mutually agreed Errors in an update to all of Alarm.com's users of the Alarm.com Services generally.

Initial Response: Within 8 hours (during a business day)

Escalation and Status Thresholds - The status of Severity Level 4 Errors shall be available on demand. A quarterly report will be distributed that will reference any uncorrected Errors that are over thirty (30) days old.

Exhibit B to Schedule 3 - Security Requirements

The following items are considered ADT's minimum security requirements. This Schedule is not meant to be a comprehensive list of security requirements. Alarm.com agrees to include the requirements of this Exhibit B as a part of the Agreement. These requirements apply to Alarm.com operations as well as any third-party that may provide Alarm.com Services on behalf of Alarm.com in connection with the Agreement.

1. Definitions:

All capitalized terms used but not otherwise defined herein, shall have the meanings set forth in the Agreement.

"Data Masking" means the process of replacing live data elements to conceal ADT Data when stored in a Non-Production Environment.

"Information Processing System(s)" means the individual and collective electronic, mechanical, or software components of Alarm.com operations that store and/or process ADT Data.

"Information Security Event" is defined as any situation where ADT Data may be known or suspected to be lost by Alarm.com or its Providers; is subject to unauthorized or inappropriate access, use, or misuse; or the security, confidentiality, integrity, or availability of the information or Alarm.com Information Processing Systems is compromised by attack.

"Non-Production Environment" means the Information Processing Systems used for any purpose other than live use (e.g., development, system testing, pre-production, integration testing, user acceptance testing, performance testing, staging, etc.).

"Personal Information" means any personally identifiable information or data concerning or relating to ADT's employees, customers, or prospective customers that may be used to uniquely identify or contact such individuals.

"Personal Sensitive Information" ("PSI") is a sub-category of Personal Information containing the following elements of Personal Information requiring additional control and protection: financial account numbers (including credit card, debit card, and bank account numbers), social security numbers/social insurance numbers, passwords, security challenge information, date of birth, credit score, driver's license numbers, unique biometric data, ADT customer call lists, and ADT Personal Identification Codes ("PIC"). PSI also includes Personal Health Information ("PHI") and Non-Public Personal Information ("NPPI"), as such terms are defined under any applicable Privacy Rules, including by not limited to the Health Information Portability and Accountability Act, if applicable (collectively, the "Privacy Laws"); and any other information that ADT may identify in writing as Personal Sensitive Information.

"Production Environment" means the Information Processing Systems used to process live ADT Data, employed during the provision of services to ADT.

2. Information Security Program. Alarm.com will implement and maintain an information security program that establishes roles and responsibilities for information security, and supports the confidentiality, integrity, and availability of Information Processing Systems operated by Alarm.com.
3. Security Policy. Alarm.com will maintain information security policies that define requirements for access control, application and system development, passwords, remote access, data classification, operational security, network security and physical security. The information security policies will be reviewed annually, or when significant changes to the environment occur, to ensure their continuing suitability, adequacy, and effectiveness. The information security policies will be approved by Alarm.com's management, and communicated annually to all Alarm.com employees and relevant Providers.

4. Security Awareness Training. Prior to Alarm.com employees and Providers receiving access to ADT Data, they will receive up to date security awareness training appropriate to their job function. Alarm.com will also ensure that annual security awareness training is performed for Personnel and require such Personnel to acknowledge that they have read and understood Alarm.com security policies and procedures.
5. Required Background Checks. Employ background verification checks on all candidates for employment, contractors, and third party users, carried out in accordance with relevant laws and regulations, and proportional to the classification of the information to be accessed, as follows:
 - a. Social Security Number Verification (Includes Trace);
 - b. Criminal Search - Minimum 7 years (County Criminal; residence, school, & employment) - all counties provided or developed;
 - c. US Department of Treasury's Office of Foreign Assets Control (OFAC) Specially Designated National or a Blocked Persons;
 - d. Employment Verification - last 3 employers or past 7 years, whichever comes first;
 - e. Education Verification (highest level obtained post high school); and
 - f. Professional License or Certificate Verification (if applicable).
6. Provider and Subsequent Party Access. Prior to allowing Providers access to ADT Data, including Alarm.com Information Processing Systems or media containing ADT Data, Alarm.com will:
 - a. Require Providers to agree in writing to terms substantially similar to the applicable confidentiality and security requirements of this Agreement, and make this a requirement for all subsequent parties receiving ADT Data; and
 - b. Identify and mitigate risks to ADT Data from this access.
7. Asset Inventory. Alarm.com will maintain an inventory of all Alarm.com Information Processing Systems and media containing ADT Data.
8. Acceptable Use. Alarm.com will implement rules for the acceptable use of information and assets which is no less restrictive than industry best practice and consistent with the requirements of the Agreement.
9. Portable Devices. ADT Data may not be stored on portable devices including, but not limited to, laptops, Personal Digital Assistants, smartphones, MP3 devices, and USB devices unless the ADT Data on the portable device is encrypted and secured from unauthorized access.
10. Personally-owned Equipment. ADT Data may not be stored on personally-owned equipment not controlled by Alarm.com.
11. Protection of Data at Rest. Alarm.com will use and employ industry best practice data protection mechanisms to protect ADT Data.
12. Encryption of Data. Alarm.com will encrypt the following categories of data using an encryption mechanism providing protection that is equal to or greater than 128-bit AES encryption:
 - a. Personal Sensitive Information, in all forms of storage and transmission;
 - b. Any ADT Data that is removed from Alarm.com's facility or stored off-site; and
 - c. Any ADT Customer Data (including but not limited to Personal Sensitive Information) that is transmitted wirelessly or over an untrusted connection (e.g., the Internet); provided, however that in no event shall any Personal Sensitive Information be transmitted by email unless it is provided or sent by a Subscriber. The parties agree that Alarm.com can make certain ADT Customer Data available to ADT to provide customer support and troubleshooting, and Alarm.com will provide such data to ADT in manner mutually agreed upon by the parties.

13. Data in DMZ. ADT Data may not be stored within a file or database in any network demilitarized zone ("DMZ").
14. Encryption Keys. All keys used for encryption must be handled in accordance with documented key management processes and procedures that include and describe, at a minimum, the following controls:
 - a. Secure key storage;
 - b. Secure key distribution;
 - c. Generation of strong keys;
 - d. Annual encryption key changes (particularly as used to handle video);
 - e. Addition of new keys;
 - f. Destruction of old keys;
 - g. Split knowledge and dual control of keys;
 - h. Replacement of known or suspected compromised keys;
 - i. Revocation of old or invalid keys;
 - j. Prevention of unauthorized substitution of keys; and
 - k. Requirements for key custodians.
15. Secure Areas. Alarm.com will secure all areas that house Information Processing Systems or media containing ADT Data by the use of appropriate and multiple security controls in order to ensure that only authorized Personnel are allowed access and to prevent damage and interference.
16. Security Perimeter. Access will be controlled and restricted by use of a defined security perimeter, appropriate security barriers, entry controls and authentication controls. A record of all accesses will be securely maintained.
17. Identification. All Personnel at the NOCs will be required to wear some form of visible identification to identify them as employees, contractors, visitors, and so forth.
18. Visitors. Visitors to secure areas will be supervised, or cleared for non-escorted access via an appropriate verification process. Their date and time of entry and departure will be recorded.
19. Physical Media Controls. Physically secure and maintain control over all paper, electronic media and devices (e.g., computers, electronic media, wireless access points/devices, paper receipts, paper reports, and faxes) that contain, transmit, or display ADT Data.
20. Protection Against Malicious Code. Alarm.com will implement detection, prevention, and recovery controls to protect against malicious software ("Malware"), which is no less than current industry best practice and perform appropriate employee and Provider training on the prevention and detection of malicious software.
21. Anti-Malware Mechanisms. Alarm.com will ensure anti-malware mechanisms are deployed on all systems commonly affected by malware (e.g., PC's and servers) and are capable of detecting, removing, and protecting against viruses and other forms of malicious software, including spyware and adware. Alarm.com will ensure anti-malware mechanisms are current, updated daily, actively running, monitored and capable of generating audit logs.
22. Media Handling. Alarm.com will protect against unauthorized access or misuse of ADT Data contained on media by use of a media control management program.
23. Media and Information Disposal. Alarm.com will securely and safely dispose of media (including but not limited to hard copies, disks, CDs, DVDs, optical disks, USB devices, backup media, hard drives) containing ADT Data when no longer required by the establishment of documented procedures that include the following:

- a. Disposing of media containing ADT Data so that it is rendered unreadable or undecipherable, such as by burning, shredding, pulverizing or using techniques in compliance with DoD 5220.22-M;
- b. Maintaining a secured disposal log that provides an audit trail of ADT Data media disposal activities;
- c. Upon request, providing certification to ADT that all ADT Data was purged. The certification will be provided to ADT within thirty (30) business days of being requested; and
- d. When transporting media containing ADT Data off-site prior to destruction, ensuring that all media is either (i) protected from misuse or theft in transit using industry standard best practices for transport of confidential information, or (ii) securely erased in a manner compliant with the most current version of NIST 800-88.

24. Exchange of Information. To protect confidentiality and integrity of ADT Data in transit, Alarm.com will:

- a. Perform an inventory, analysis and risk assessment of all data exchange channels (including but not limited to FTP, HTTP, HTTPS, SMTP, modem, and fax) to identify and mitigate risks to ADT Data from these channels;
- b. Monitor and inspect all data exchange channels to detect unauthorized information releases;
- c. Employ appropriate security controls to minimize information leakage; and
- d. Ensure that appropriate security controls using approved data exchange channels are employed when exchanging ADT Data.

25. Monitoring. To protect against unauthorized access or misuse of ADT Data residing on Alarm.com Information Processing Systems, Alarm.com will:

- a. Employ current industry best practice security controls and tools to monitor Information Processing Systems and log key events such as user activities (including root or administrative access), exceptions, successful and unsuccessful logins, access to audit logs, unauthorized information processing activities, suspicious activities and information security events;
- b. Regularly back up logs to a secure central location, protected against tampering and unauthorized access;
- c. Retain logs for at least one year;
- d. Perform frequent reviews of logs (including but not limited to firewall, router, wireless access points and authentication server logs) and take necessary actions to protect against unauthorized access or misuse of ADT Data;
- e. At ADT's request, Alarm.com will review logs to assist in investigations regarding unauthorized access or misuse of ADT Data and report back to ADT the results of such review.
- f. Comply with all relevant legal requirements applicable to monitoring and logging activities;
- g. Ensure that the clocks of all relevant information processing systems are synchronized using an authoritative national or international time source;
- h. Incorporate date and time stamp into log entries;
- i. Employ, monitor and keep up to date network intrusion detection systems, host-based intrusion detection systems, or intrusion prevention systems to monitor all network traffic and alert Personnel to suspected compromises;
- j. Monitor all alerts reported by intrusion detection systems, host-based intrusion detection systems, or intrusion prevention systems and respond immediately to all intrusion events;
- k. Employ a wireless analyzer at least monthly to identify all unauthorized wireless devices in any environment where ADT Customer Data could be accessed; and
- l. Prevent Personal Sensitive Information from being logged in the audit log.

26. Subscriber Access Management. To protect against unauthorized access or misuse of ADT Data residing on Alarm.com Information Processing Systems, Alarm.com will:

- a. Employ a formal user registration and de-registration procedure for granting and revoking access and access rights to all Alarm.com Information Processing Systems;
 - b. Employ a formal password management process that includes a minimum of eight-character alphanumeric passwords, password changes every 90 days, disallows reuse of at least the previous six passwords, and lockout after no more than six invalid login attempts;
 - c. Ensure passwords are not displayed;
 - d. Ensure access to systems and applications storing or transmitting ADT Data is limited to only those individuals whose job requires such access based on a need-to-know;
 - e. Ensure the access rights of all users to Alarm.com Information Processing Systems or media containing ADT Data are removed rapidly, and always within 24 hours of termination of their employment, contract or agreement, or adjusted upon change of need-to-know;
 - f. Perform recurring reviews of users' access and access rights to ensure that they are appropriate for the users' role;
 - g. Ensure that users have a unique user ID and prohibit the use of group, shared, or generic accounts;
 - h. Ensure inactive accounts are automatically disabled after 90 days of inactivity; and
 - i. Ensure accounts used for remote maintenance, if any, by Alarm.com's Providers are enabled only during the time needed.
27. Subscriber Responsibilities. To protect against unauthorized access or misuse of ADT Data residing on Alarm.com Information Processing Systems, Alarm.com will:
 - a. Ensure that Alarm.com Information Processing Systems users follow current security practices in the selection and use of strong passwords; and
 - b. Ensure that unattended equipment has appropriate protection to prohibit access and use by unauthorized individuals.
28. Session Timeouts. To protect against unauthorized access or misuse of ADT Data residing on Alarm.com Information Processing Systems, Alarm.com will:
 - a. Ensure that inactive user sessions are terminated or require the user to re-authenticate after a defined period of inactivity;
 - b. Ensure that desktop, laptops, and where technically possible, servers, invoke a password-protected screen saver after a predetermined period of inactivity not to exceed 15 minutes; and
 - c. Ensure handheld devices employ a "lock screen" security control, requiring the entry of a pass code to unlock, after a predetermined period of inactivity.
29. Network Access Control. Access to internal, external, Provider and public network services that allow access to Alarm.com Information Processing Systems shall be controlled. Alarm.com will:
 - a. Ensure that current industry best practice standard authentication mechanisms for network users and equipment are in place and updated as necessary;
 - b. Ensure publicly reachable servers are located on a network segment separated from the internal network by a firewall (e.g., a DMZ);
 - c. Ensure a stateful firewall is in place for each Internet connection and between any DMZ and the Intranet;
 - d. Ensure that firewalls are configured to deny all traffic except the traffic that is required for business reasons;
 - e. Ensure authentication methods are used to control access by remote users;
 - f. Ensure physical and logical access to diagnostic and configuration ports is controlled; and
 - g. Ensure wireless implementations are only used if required for business reasons, put into practice WPA2, 802.11i or a superseding standard and must not use WEP.
30. Operating System Access Control. To protect against unauthorized access or misuse of ADT Data residing on Alarm.com Information Processing Systems, Alarm.com will:
 - a. Ensure that access to operating systems is controlled by a secure log-on procedure;

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- b. Ensure encrypted communications (SSH, HTTPS, etc.) are used for administrative access to production systems and applications when not physically present at the device; and
 - c. Ensure that the use of utility programs that are capable of overriding system and application controls are highly restricted and tightly controlled.
31. Mobile Computing and Remote Working. To protect ADT Data residing on Alarm.com Information Processing Systems from the risks inherent in mobile computing and remote working, Alarm.com will:
- a. Identify and mitigate risks to ADT Data from mobile computing and remote working;
 - b. Develop policy and procedures for managing mobile computing and remote working;
 - c. Protect mobile computing devices that connect to the Internet outside of Alarm.com's corporate network by using a personal firewall; and
 - d. Ensure remote access software (e.g., remote terminal, dial in or VPN) is configured with industry best practice security features including but not limited to: two-factor authentication, unique credentials, encryption, and prevention of split-tunneling.
32. Data Residency. Alarm.com agrees that during the Term of the Agreement, except as ADT shall agree otherwise in writing,
- a. All ADT Data that has not been masked per the Agreement, shall remain within the United States or Canada; and
 - b. All services involving access to ADT Data that has not been masked per the Agreement, shall take place within the United States or Canada. Alarm.com shall impose the same restrictions on its Providers and shall remain fully responsible for Providers' compliance with such restrictions.
33. Configuration Standards. Develop configuration standards for all system components that address all known security vulnerabilities and are consistent with industry-accepted system hardening standards as defined, for example, by SysAdmin Audit Network Security Institute (SANS), National Institute of Standards Technology (NIST), or Center for Internet Security (CIS).
34. Patch Management. Alarm.com shall employ a process to review vendor-supplied patches for applicability in Alarm.com's environment using a risk-based approach. Patches identified as critical shall be addressed through implementation or mitigating controls within 30 days.
35. Vulnerability Management. Alarm.com shall employ a process for vulnerability management, including:
- a. Internal and external network vulnerability scans conducted at least quarterly;
 - b. Network and application layer penetration test conducted at least annually;
 - c. System, application and source code scanning and analysis processes;
 - d. A framework for remediation of findings; and
 - e. A process to identify newly discovered security vulnerabilities and update system and application standards to address new vulnerability issues.
36. Development Processes. Alarm.com will incorporate security into the development lifecycle, including:
- a. Restricting access to source code to authorized users who have a direct need to know; and
 - b. Employing oversight quality controls and security management of software development.
37. Change Management. Alarm.com will utilize processes to control changes in Alarm.com's technical environment, including:
- a. Use of formal change control procedures to approve and implement changes; and
 - b. Ensuring file integrity in the operating environment is maintained and monitored for approved change.
38. Incident Reporting Process. Implement a process to ensure that Information Security Events are reported through appropriate management channels as quickly as possible.

39. Incident Response Plan. Implement, and provide to ADT, a formally documented security incident response plan that includes: formation of an incident response team, categorization of incidents and responsibility for receiving alerts and investigations.
40. Incident Training. Train all Personnel and Provider users of Information Processing Systems and services how to report any Information Security Events.
41. Termination of Incidents. Alarm.com shall use commercially reasonable efforts to immediately terminate any Information Security Event and not allow any Information Security Event to persist for any amount of time or for any reason except as required by Applicable Law, or as deemed reasonably necessary by Alarm.com to determine the identity of the perpetrator and to stop such Information Security Event.
42. Notification of Incidents. Notify ADT by email CSIRT@ADT.com or by phone (877-ADT-HELP) within 8 hours of all Information Security Events involving ADT Customer Data and within 36 hours of any other Information Security Events. Following any Information Security Events, Alarm.com will promptly notify ADT whether or not ADT Customer Data was compromised or released to unauthorized parties, the ADT Data affected and the details of the Information Security Event.
43. Occurrence Reports. As soon as commercially reasonable following Alarm.com's discovery of the occurrence of an Information Security Event, Alarm.com shall provide ADT with written documentation of the cause, remedial steps and future plans to prevent a recurrence of the same or similar breach. In the case of Information Security Events involving ADT Customer Data, if such remediation plan is acceptable to ADT, Alarm.com shall immediately implement the proposed remediation plan or in a mutually agreed upon time frame; or if such remediation plan is unacceptable, based on ADT's commercially reasonable judgment, Alarm.com shall promptly but in any event no later than five days enter into good faith negotiations to address the proposed remediation plan. Alarm.com shall reasonably cooperate with ADT security investigation activities and with the preparation and transmittal of any notice or any action, which ADT in its sole discretion may deem appropriate or required by Applicable Law, to be sent or done for customers or other affected third parties regarding any Information Security Event.
44. Initial and Recurring Security Assessments. ADT or its third party designee may, but is not obligated to, perform an on-site physical and logical security assessment of Alarm.com's data processing and business facilities ("Security Assessment") prior to the release of ADT Data and each year thereafter. Security Assessments may also be conducted by means of a security questionnaire.
45. External Security Audits. At least twice annually, Alarm.com will perform security audits against Alarm.com's Internet-facing environment as it relates to any ADT Customer Data (and Alarm.com data generally). Alarm.com will provide ADT with the executive summary of such audits and will use commercially reasonable efforts to cure any material deficiencies reported. ADT may, at its expense, perform security audits against the ADT NOC and the ADT Failover NOC. Alarm.com will provide reasonable assistance to ADT in auditing the ADT NOC and the ADT Failover NOC.
46. Data Masking in Non-Production Environments. Alarm.com will implement Data Masking when ADT Data is stored in Non-Production Environments.
47. Data Masking Exception Process. If a business need exists to use ADT Data in a Non-Production Environment without Data Masking, Alarm.com will obtain written permission from ADT.
48. Data Masking Requirements. The following fields are currently identified as sensitive and require special handling including masking when stored in Non-Production Environments:
 - a. Name (includes any name field and userid or account name);

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- b. Address (includes any address field, property location, garage location, and so forth);
 - c. Email Address (includes any email address field);
 - d. Phone Number (includes any phone number field including home phone, personal phone, business phone (does not include ADT employee business phone), and so forth);
 - e. Date of Birth;
 - f. Driver License Number;
 - g. Social Security Number or Social Insurance Number;
 - h. Financial information (includes, credit card, bank account, credit score, or other sensitive financial information);
 - i. Password or security codes (e.g., application passwords, PIC, etc.); and
 - j. Central Station number.
49. Display Masking. Alarm.com will hide or obscure Personal Sensitive Information, as defined in the Agreement, in Production Environments including paper output (e.g., reports, printouts, and copies), when displayed to those without a need-to-know.

Exhibit C to Schedule 3 - Business Recovery Plan

All Alarm.com servers (web, application, and database) have redundant critical components and RAID Level 5 and RAID Level 6 drive arrays. A full backup of the Alarm.com system is available which duplicates the functionality and data of the production system. The backup system is used during upgrades or disaster recovery. In addition to the servers, all network hardware is fully redundant. All Alarm.com data is synchronized between its primary and secondary data center throughout the day. Local backups are also done on the primary database. System health is monitored in addition to scheduled weekly maintenance of all machines. Alarm.com uses a predominantly Microsoft-based NOC environment including SQL Server database. The network equipment is Cisco and Juniper. All of the Software is self-maintained and tested.

For reliability purposes, Alarm.com also establishes redundant IPSEC/VPN tunnels between its data centers and wireless carriers to ensure quick fail-over in the event of an outage or disaster. To monitor network reliability, Alarm.com can configure any communication modules deployed as “pingers” to monitor connections in a particular geography. Alarm.com 24/7 connections established with over 1.8M cellular gateways installed in households and businesses and has a dedicated team that monitors these connections 24/7.

The above provisions apply both to the ADT NOC’s to the extent under Alarm.com’s control and to the Alarm.com NOC’s.

Schedule 4 - Termination & Transition Services

1.1 Termination Due to Sale or Change in Control to an ADT Competitor. In the event that all or substantially all of the assets or shares of Alarm.com are, or if Control of Alarm.com is, acquired by an ADT Competitor, ADT shall have the right to terminate the Agreement. As used herein, “ADT Competitor” means any company that provides (directly, or through a related entity) electronic security, interactive home and business automation, home health, and/or monitoring services. “Control” shall mean, with respect to any entity, the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such entity, whether through the ownership of voting securities (or other ownership interest), by contract or otherwise.

1.2 Termination for Failed Service Levels. ADT may, at its option, terminate the Agreement for cause and without penalty by providing written notice of such termination to Alarm.com and may avail itself of any and all rights and remedies to which it may be entitled by law or in equity subject to the limitations contained in the Agreement, in the event that Alarm.com fails to meet the Availability SLA for the Alarm.com Environment for three (3) consecutive months or for any five (5) months in a twelve (12) month period.

1.3 Termination for Breach. If either party defaults in the performance of, or fails to perform, any of its material obligations (except as provided in Sections 1.2 and 1.4 of this Schedule 4) under the Agreement, and such default is not remedied within forty-five (45) days of the receipt of written notice from the non-defaulting party, then the non-defaulting party shall have the right to terminate the Agreement, as the case may be, by providing written notice of such termination to the other party and may avail itself of any and all rights and remedies to which it may be entitled by law or in equity or under the Agreement except as otherwise specifically set forth in the Agreement.

1.4 Termination for Ceasing to Perform Ongoing Development. In the event that Alarm.com or its successor fails to perform Ongoing Development (as defined below), and fails to cure its Ongoing Development failure within thirty (30) days of the receipt of written notice from ADT, then (after exhausting the dispute resolution process set forth in the Agreement, if Alarm.com or its successor disputes whether it has failed to perform Ongoing Development), ADT shall have the right to terminate the Agreement and exercise its escrow release rights in accordance with Section 4 of Schedule 3 to the Agreement. A failure to provide “Ongoing Development” means that Alarm.com or its successor had failed to (i) provide commercially reasonable bug fixing; or (ii) reasonably adhere to schedules and deliverables as agreed upon between the parties in any SOWs for ADT Custom Products.

1.5 Termination for Insolvency. Either party may terminate the Agreement if any one of the following events occurs: (i) the other files a voluntary petition in bankruptcy or an involuntary petition is filed against it which is not dismissed within one hundred twenty (120) days; (ii) the other is adjudged bankrupt; (iii) a court assumes jurisdiction of the assets of the other under a federal reorganization act, or other statute; (iv) a trustee or receiver is appointed by a court for all or a substantial portion of the assets of the other; (v) the other suspends business or ceases to conduct its business in the ordinary course; (vi) the other ceases to pay its debts in the ordinary course of business or cannot pay its debts as they become due; or (vii) the other makes an assignment of its assets for the benefit of its creditors. Each party will give prompt written notice of any such event relating to it.

1.6 Transition Services

(a) In the event of the expiration or termination of this Agreement for any reason, Alarm.com shall cooperate with ADT in effecting the orderly transfer of all ADT Data to a third-party or to ADT on media reasonably acceptable to ADT. In the event of a Release Event (as defined in Section 4.2 of Schedule 3) and after ADT has assumed responsibility for hosting and supporting the Alarm.com Services and Alarm.com-ready Products for its Subscribers, ADT shall have the option to continue to provide support for Subscribers and ADT shall have a perpetual, irrevocable, non-transferable license to the Product Software to the full extent needed for the sole purpose of continuing to provide such hosting and/or support; provided, however, that such use is subject to ADT's payment of the applicable Source Code License Fees.

(b) Alarm.com agrees that if the Agreement expires or is terminated by ADT, then upon ADT's written request to Alarm.com prior to the effective date of termination, Alarm.com shall continue to provide the Alarm.com Services (including the Hosted Service) and support and maintenance for Subscribers (the "Transition Services") for a period of [***] ([***)] years from the effective date of expiration or termination (unless terminating under Section 1.1, in which case for a period of [***] ([***)] years), and all of ADT's obligations under the Agreement (including payment obligations) shall continue for such period. ADT shall have the right to add new Subscribers who will then receive Alarm.com support and maintenance during the Transition Services period. The service levels set forth in Schedule 3 of the Agreement will not be adversely affected by the provision of such Transition Services. The prices associated with such Transition Services will be in accordance with the pricing for the Alarm.com Services and Alarm.com-ready Products under the Agreement in effect as of the expiration or termination of the Agreement, it being understood that if, for any portion of the Transition Services period, Alarm.com had the right to increase its Fees as provided in the Agreement been renewed and not terminated, Alarm.com shall have the right to so increase its Fees for the Transition Services period including, without limitation, to reflect verifiable third party cost increases in accordance with Section 6.6 of the Agreement. ADT shall pay all Fees charged during the Transition Services period in accordance with the payment provisions of the Agreement.

(c) In the event that the Agreement is terminated due to ADT's breach of its payment obligations, Alarm.com acknowledges and agrees that it shall perform the Transition Services on a month-to-month basis for up to [***] ([***)] days if (a) ADT promptly pays all undisputed outstanding invoices; and (b) ADT makes payment on the first of the month for any and all fees that will be incurred by Alarm.com in such month, subject to the applicable pricing under the Agreement in effect as of the expiration or termination of the Agreement.

(d) In the event that Alarm.com terminates other than as set forth in 1.6(c) above or fails to renew the Agreement, then Alarm.com shall, if so requested by ADT in writing, provide the Transition Services for a period of [***] ([***)] years from the effective date of expiration or termination, all of ADT's obligations under the Agreement (including payment obligations) shall continue for such period, and ADT shall have the right to add new Subscribers for a period of [***] ([***)] months from the effective date of such termination. The service levels set forth in Schedule 3 will not be adversely affected by the provision of such Transition Services. The prices associated with such Transition Services will be in accordance with the pricing for the Products under the Agreement in effect as of the expiration or termination of the Agreement. ADT shall pay all fees charged for the Transition Services in accordance with the payment provisions herein.

1.7 Post-Termination Covenant Against Enforcement. Following termination of the Agreement, Alarm.com covenants:

(i) not to seek, at any time following termination, any injunction against the subsequent use of any product or platform used by ADT, its Affiliates, ADT Dealers, and/or its Subscribers for ADT's electronic security, interactive home and business automation, home health, and/or monitoring services based on any patent that is presently or hereafter owned by, controlled by, or exclusively licensed to Alarm.com; provided that (1) Alarm.com may seek an injunction against any party with respect to any patent that such party is held to have willfully infringed, (2) [***] and (3) for the avoidance of doubt, Alarm.com expressly reserves its rights to enforce any patent to seek any damages therefor, subject only to subsection (ii) below; and

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(ii) only with respect to the Alarm.com-ready Products, Third Party Products, ADT Custom Products, and Alarm.com Services provided pursuant to the Agreement, not to enforce, at any time following termination, any patent that is presently or hereafter owned by, controlled by, or exclusively licensed to Alarm.com, against ADT, its Affiliates, ADT Dealers, and/or its Subscribers for making or having made under the terms of the Agreement, and/or using, selling or importing, any ADT Custom Products or any ADT or Third Party Products that were integrated with the Alarm.com Services or an Alarm.com-ready Product or used with the Alarm.com Services during the Term and the period of the Transition Services (together with 1.7(i) above, “Post-Termination Covenant Against Enforcement”). For the avoidance of doubt and subject to ADT’s having used the Alarm.com Services and Alarm.com-ready Products in accordance with the terms of the Agreement during the Term and period of Transition Services, the Post-Termination Covenant Against Enforcement shall continue in perpetuity with such patents beyond the Term and the period of Transition Services and this provision shall be binding upon any successor-in-interest to Alarm.com and upon any assignee of any of Alarm.com’s rights in such patents.

1.8 [***].

(a) [***].

(b) Nothing in Section 1.8(a) above shall be construed as modifying or limiting the rights or defenses of ADT, ADT’s Affiliates, ADT Dealers, Supporting Canopy Partners, and Subscribers with respect to a claim of infringement, including but not limited to the right to use the Alarm.com-ready Products, Third Party Products, ADT Custom Products, and Alarm.com Services during any period of Transition Services in accordance with this Agreement.

Schedule 5 - Product Sourcing & Warranty Terms

1. SCOPE

Scope. The terms set forth in this Schedule 5 shall govern each Alarm.com-ready Product provided by Alarm.com to ADT and ADT's Affiliates, (each a "Buyer") during the Term. The liability of each of any Buyer under the Agreement shall be several and not joint. Alarm.com shall bill each such Buyer separately for the Alarm.com-ready Products sold to such Buyer. Each Buyer shall only be liable for those obligations expressly set forth in the Purchase Order to which it is a party. In no event will a Buyer be liable for any of the obligations or liabilities of any other Buyer pursuant to the Agreement.

2. PURCHASE AND SALE OF PRODUCTS

A. General. During the Term, Alarm.com agrees to sell to Buyer the Alarm.com-ready Products ordered by Buyer's duly issued purchase orders or electronically transmitted ("**EDI**") sales orders (each, a "**Purchase Order**") on the terms and conditions provided herein. For EDI orders if available, Alarm.com agrees to comply with the terms and conditions of the then-current version of Buyer's EDI Supplier Handbook, a copy of which will be provided to Alarm.com upon request. Each Purchase Order shall be deemed to be incorporated as part of the Agreement upon Buyer's issuance thereof. A Purchase Order shall be deemed accepted by Alarm.com in the event Alarm.com fails to provide proper written notice of rejection within forty eight (48) hours of Buyer's issuance of the Purchase Order in accordance with the terms and conditions of the Agreement. Alarm.com shall have the right to reject a Purchase Order only if the Purchase Order does not comply with the express requirements of the Agreement or the ADT Website. Buyer will purchase Products solely for its use in the ADT or ADT Dealer business.

B. Supply Chain Management for Products.

(i) Forecasting. On a monthly basis, Buyer shall provide Alarm.com with a non-binding rolling forecast of Alarm.com-ready Products for the following 12 months. Alarm.com shall notify Buyer via written confirmation that non-binding Forecast shall be met by the third week of the current month. Alarm.com shall maintain a four (4) week supply of finished Alarm.com-ready Products ("**Safety Stock**") at Alarm.com's manufacturing or United States stocking facility to reduce lead-times and to meet on time delivery.

(ii) Inventory Planning and Targets. Alarm.com shall be responsible for material planning to meet mutually agreed upon service levels for Alarm.com-ready Products. These material planning responsibilities include, but are not limited to: (a) monitoring daily and weekly Buyer demand data provided by Buyer in relation to Alarm.com's Lead Time; (b) reviewing Alarm.com-ready Product forecasts provided by Buyer; and (c) providing timely feedback on Alarm.com-ready Product availability issues

(iii) Fulfillment. Both Buyer and Alarm.com shall strive to achieve a 100% fulfillment. Fulfillment is defined as the percentage of Buyer's Purchase Orders for Alarm.com ready Products that were successfully filled and shipped on average each month. Every day or as determined by Buyer, Buyer will record the total number of Alarm.com-ready Product units required by Buyer for such day (i.e., the number of Alarm.com-ready Product units ordered by Buyer for shipment on such day to meet the applicable Delivery Date (defined below)) compared to Alarm.com's existing inventory level of such Alarm.com-ready Products on such day, and calculate either success or stock out for that day, where (a) success means that such inventory exceeds the day's demand, and (b) stock out means that such inventory is less than the day's demand. At the end of each month, Buyer will calculate the actual fulfillment level, which shall be the quotient of the number of success days over the total number of shippable days for the month.

- (iv) Supply Flexibility. Alarm.com will provide upside supply flexibility of +[***]% of the forecasted demand of Alarm.com-ready Products within [***] days; and +[***]% of the forecasted demand of Alarm.com-ready Products beyond [***] days. Alarm.com will maintain [***] ([***]) [***] of unique/long lead time Alarm.com-ready Product components to minimize lead-time.
- (v) Tooling. Buyer shall reimburse Alarm.com for any custom or specialized tooling purchased by Alarm.com, with Buyer's prior approval, for use solely in the manufacture of ADT Custom Products (as defined in Schedule 6). All such tooling shall be owned by Buyer ADT and shall only be used by Alarm.com in the manufacture of Custom Products for Buyer. All such tooling shall be appropriately marked as the property of Buyer and shall be handled in accordance with industry standard practices for prevention of physical damage and environmental concerns. Alarm.com shall maintain property insurance for the full replacement value of such tooling. Alarm.com expressly agrees to return such tooling to Buyer upon request and acknowledges that it has no power or authority to sell, transfer, deliver, modify, transform or otherwise use such tooling, except as expressly permitted by the Agreement. Alarm.com hereby irrevocably appoints Buyer as its attorney-in-fact (which appointment is coupled with an interest) and authorizes Buyer to file a financing statement with respect to its ownership of such tooling in such jurisdictions as Buyer deems appropriate, as well as any continuation statements and amendments thereto.

C. Minimum Order Quantity. Buyer will only accept and Alarm.com shall agree to a Minimum Order Quantity ("**MOQ**") per Purchase Order equal to twenty (20) units of any Alarm.com cellular or broadband gateway SKU, five (5) units of any camera SKU, twenty (20) units of any Image Sensor SKU, or five (5) units of any home automation SKU sourced from Alarm.com. Alarm.com, at its discretion, may opt to fill smaller orders for ADT on an occasional basis, or when the part is a seldom used product.

D. Exclusivity. This Agreement shall not impose any obligation of exclusivity on either party hereto, and each party shall be free to purchase and sell goods and services similar or identical to the Alarm.com-ready Products from and to third parties, at its sole discretion. This Agreement is neither a requirement nor an output contract.

E. Software. In the event the Alarm.com-ready Products include or incorporate software developed, owned or licensed by Alarm.com including embedded software and firmware ("**Product Software**"), Alarm.com hereby authorizes Buyer to sell, resell and or license the Product Software to the Subscribers subject to the terms of the Agreement.

F. Hardware. "**Product Hardware**" shall be defined as Alarm.com-ready Products or any portion thereof that includes the compiled version of the Product Software needed for the device to function.

4. DISCONTINUATION AND MODIFICATION OF PRODUCTS

A. Discontinuation Notices. Alarm.com may discontinue manufacturing and supplying Alarm.com-ready Products to and for Buyer (each, a "**Discontinued Product**") during the Term upon [***] ([***]) [***] prior written notice to Buyer (each, a "**Discontinuation Notice**"); provided, however, that notwithstanding such Discontinuation Notice, Alarm.com shall continue to make each Discontinued Product available for purchase by Buyer hereunder for so long as Alarm.com continues to supply such Discontinued Product to any of its other customers.

B. Alarm.com-ready Product Modifications. Alarm.com will use its commercially reasonable efforts to ensure that all Alarm.com-ready Products that are modified by Alarm.com after the Effective Date ("**Modified Product(s)**") shall be "**compatible**" (as defined herein) in such modified form with all hardware and software utilized by Buyer in conjunction with such Modified Products (including monitoring software) prior to the modification thereof (collectively, "**Existing Systems**"). In all cases where Alarm.com cannot assure that Modified Products will be compatible with Existing Systems, Alarm.com will provide Buyer with three (3) months written notice in advance of Alarm.com's implementation of such modification, and will use its commercially reasonable efforts to continue to manufacture compatible Alarm.com-ready Products. For the purposes of the Agreement, an Alarm.com-ready Product shall be "**compatible**" if it will continue to perform all significant functions when used in conjunction with Existing Systems, without any modification to such Existing Systems. In addition to the foregoing, Alarm.com shall use commercially reasonable efforts to notify Buyer of any material updates, revisions, changes, enhancements or other modifications ("**Modifications**") to any Alarm.com-ready Products sold to or offered for sale to Buyer.

5. PURCHASE ORDERS

A. Generally. Buyer shall purchase only those Alarm.com-ready Products set forth on Purchase Orders duly issued by an authorized representative of Buyer's corporate Purchasing Department. Each Purchase Order shall, at a minimum, specify the following information for each Alarm.com-ready Product listed thereon: (i) the SKU number and Alarm.com-ready Product name; (ii) the quantity ordered; (iii) the total Purchase Price; (iv) shipping instructions; (v) the final delivery destination (the "**Delivery Destination**"); and (vi) the required delivery date for the Alarm.com-ready Product at the Delivery Destination (the "**Delivery Date**"). Purchase Orders shall be submitted to Alarm.com in writing and may be sent electronically, by facsimile, or by mail.

B. Rescheduling Purchase Orders. Buyer may, free of charge, reschedule the Delivery Date for any Alarm.com-ready Product prior to Alarm.com's shipment thereof by providing Alarm.com with notice thereof (the "**Rescheduling**").

Notice”) electronically, by facsimile, or by mail. The new Delivery Date specified in such Rescheduling Notice shall then become the new Delivery Date for the Purchase Order, which shall in all other respects remain in full force and effect.

C. Cancellation of Purchase Orders. Buyer may cancel any Purchase Order, in whole or in part, without further obligation or liability to Alarm.com, at any time prior to Alarm.com’s shipment of the Alarm.com-ready Products covered by such Purchase Order by providing Alarm.com notice of such cancellation electronically, by facsimile, or by mail.

6. SHIPMENT AND DELIVERY

A. Packing. All Alarm.com-ready Products shall be prepared, marked (bar coded), and packed for shipment in accordance with the packing instructions attached as Exhibit “C.”

B. Shipping Terms; Freight Charges. Alarm.com shall ship all Alarm.com-ready Products to Buyer in new condition. Alarm.com shall fill each Purchase Order in accordance with its terms and the provisions hereof. All Alarm.com-ready Products shall be shipped to Buyer (Incoterms 2010) Ex-Works, DDU or as required by Buyer. Title and risk of loss shall pass to Buyer at the time the Alarm.com-ready Products are delivered to the Buyer’s carrier at the Ex-Works or DDU point or the agreed to Incoterms 2010 shipping method. Alarm.com shall convey to Buyer good title, free and clear of all liens and other security interests. Freight charges shall be billed by Buyer’s designated carrier to Buyer’s third party carrier account(s) (as designated by Buyer) unless otherwise specified in the Purchase Order. If Alarm.com fails to deliver Alarm.com-ready Products in accordance to the lead-time specified in the Agreement or the applicable Purchase Order, then Alarm.com will be responsible for all premium freight charges and any other associated costs required to supply Alarm.com-ready Product to Buyer as soon as possible.

C. Shipping Delays. Alarm.com will immediately notify Buyer in writing of any event or condition that could delay delivery of the Alarm.com-ready Products beyond the Delivery Date; provided, however, that such notification shall not require Buyer to accept any late shipment or waive any of its rights or remedies with respect thereto.

D. Excess and Premature Product. Buyer shall not be obligated to accept or pay for: (i) any Alarm.com-ready Products in excess of the quantity ordered in its Purchase Order (“**Excess Product(s)**”), or (ii) deliveries arriving more than five (5) days in advance of the Delivery Date specified on the Purchase Order (“**Premature Product(s)**”).

E. Product Documentation. Alarm.com shall enclose with each shipment of Alarm.com-ready Products one (1) complete up-to-date set (in electronic or paper format) of its standard user manuals, technical manuals setting forth pertinent information relating to the operation, installation and maintenance of Alarm.com-ready Products, including all warranties and Alarm.com-ready Product warnings, for each Alarm.com-ready Product shipped (collectively, “**Product Documentation**”). Each Alarm.com-ready Product shall materially conform to the “**Performance Warranty**” (as defined below) and the terms of the Agreement and applicable orders (each, a “**Conforming Product**”). An Alarm.com-ready Product will not be deemed a Conforming Product until Buyer receives the corresponding Product Documentation therefor. Buyer shall have the right to use, reproduce, translate and disclose information contained in the Product Documentation to its customers for marketing, maintenance and repair of Alarm.com-ready Products and for such other purposes as Alarm.com may expressly authorize in writing.

F. Inventory Held By Alarm.com. In the event, at the request and consent of Buyer, Alarm.com holds or maintains possession, custody or control of any Alarm.com-ready Products sold to Buyer hereunder, Alarm.com shall hold all such Alarm.com-ready Products in trust for Buyer, and shall physically segregate and identify all such Alarm.com-ready Products as being property of the Buyer.

7. PERFORMANCE WARRANTY; INSPECTION; ACCEPTANCE

A. Performance Warranty. Alarm.com hereby warrants to Buyer that for a period of the earlier of twelve (12) months from the date of sale to the applicable Subscriber or eighteen (18) months after delivery to Buyer (the “**Warranty Period**”) that the Alarm.com-ready Products shall: (i) be fit for their intended purpose; (ii) be free from material defects in materials, workmanship, and design; (iii) operate in material conformity with the performance, functionality, and other specifications contained in its Documentation; and (iv) materially conform to all specifications, drawings, and descriptions referenced or set forth in the applicable Purchase Order (collectively, the “**Performance Warranty**”). The Performance Warranty shall survive the termination and expiration of the Warranty Period with respect to any claim made by Buyer prior to such termination or expiration. Notwithstanding anything contained herein to the contrary, Buyer may, at its option, assign or otherwise transfer the Performance Warranty, in whole or in part, on any particular Alarm.com-ready Product(s) to any of the Subscribers; whereupon (a) such Subscriber may enforce such Performance Warranty against Alarm.com on, in, and for such Subscriber’s own behalf, name, and benefit, and (b) Buyer may enforce such Performance Warranty against Alarm.com on, in, and for Buyer’s or such Subscriber’s behalf, name, or benefit.

B. Warranty Obligations. All return shipments of defective Alarm.com-ready Products to Alarm.com shall be at Alarm.com’s sole cost, risk, and expense. Alarm.com shall bear all shipping cost for warranty returns. Buyer has the right to return Alarm.com-ready Product on a per occurrence basis. No minimum quantity shall be required for returns. At the end of the Warranty Period, Alarm.com will make available to the Buyer any technical documentation (including schematic diagrams), repair parts (to be sold to Buyer at Alarm.com’s cost) and training for Buyer technicians as may be reasonably required to permit Buyer to maintain and repair the Alarm.com-ready Products. Notwithstanding the foregoing, Alarm.com will have no warranty obligations for Alarm.com-ready Products that are not actually defective or were broken or rendered defective by ADT or an ADT Dealer.

C. Excessive Failure Rates; Recalls. In addition to the Performance Warranty and during the first 36 months of Alarm.com-ready Product deployment, if (i) any of the Alarm.com-ready Products manufactured by (or for) Alarm.com and purchased by ADT or an ADT Dealer from Alarm.com experience greater than [***] annual failure rate (as measured by mutually agreed upon quality metrics/systems) after shipment of such Alarm.com-ready Product(s) to Buyer, or (ii) any Alarm.com-ready Product manufactured by (or for) Alarm.com and purchased by ADT or an ADT Dealer from Alarm.com is subject to a mandatory or voluntary recall issued by Alarm.com, Alarm.com shall [***], provided further that Buyer provides to Alarm.com (a) reasonable documentation to Alarm.com demonstrating that the Alarm.com-ready Products are defective for failing to comply with Alarm.com’s warranty hereunder and not due to misuse, abuse, improper installation or other causes not attributable to Alarm.com; and (b) a reasonable opportunity to inspect the defective Alarm.com-ready Products to confirm compliance with the foregoing terms. For the avoidance of doubt, Alarm.com will only be required to reimburse ADT for such occurrences when Alarm.com has sold the Alarm.com-ready Product directly to ADT, and not when such Alarm.com-ready Product has been sold by another manufacturer or distributor to ADT. For the further avoidance of doubt, the loss of cellular coverage and/or the expiration of a battery do not constitute a product failure for the purposes of measuring this failure rate.

D. Out of Box Warranty. Alarm.com will provide new warranty advance replacement for out-of-box failures if the failure occurs within ninety (90) days of the date of receipt by Buyer. Alarm.com will issue a warranty advance replacement number and form to Buyer. A copy of the advance replacement number will be sent by Buyer with the defective item in order for Buyer to receive proper credit. Warranty advance replacements must be returned to Alarm.com within fifteen (15) days of Alarm.com issuing the advance replacement number to Buyer. Alarm.com will ship the new warranty advance replacement by the same way of the original invoice. If Buyer wants it shipped any other way, the Buyer must pay all shipping charges. Alarm.com will immediately ship the replacement item at no cost to Buyer. If, however, after Alarm.com receives the defective product, the item is found to be outside of the warranty period, then the Buyer will be notified and charged for the item.

E. Inspection. All Alarm.com-ready Products shall be subject to inspection and testing by Buyer prior to acceptance and payment of the Purchase Price therefor. Any Alarm.com-ready Product requiring installation shall not be deemed finally accepted until Buyer establishes that such Alarm.com-ready Product conforms to the Performance Warranty or Software Warranty, as applicable, through installation, inspection, or use thereof. The Performance Warranty and Software Warranty, as applicable, on each Alarm.com-ready Product shall survive any testing, inspection, delivery, payment, and acceptance of any Alarm.com-ready Product by Buyer.

F. Support for Discontinued Products. Alarm.com shall continue to offer Alarm.com-ready Product support to repair and/or provide service parts for a period of three (3) years beginning with the date the Alarm.com-ready Product is discontinued or no longer offered for sale by Alarm.com.

G. Rights and Remedies. No payment shall be due hereunder for any amount invoiced for any defective Alarm.com-ready Product, Excess Product, Premature Product, or any Alarm.com-ready Product not received at the Delivery Location ("**Undelivered Product(s)**"). Nothing herein shall limit Buyer's right to cancel Purchase Orders for defective Alarm.com-ready Products and Undelivered Products hereunder or Buyer's right to revoke its acceptance of any defective Alarm.com-ready Product under the Agreement or Applicable Law. All of Buyer's rights and remedies under this Section for defective Alarm.com-ready Products shall be in addition to, and cumulative with, Buyer's other rights and remedies under the Agreement, at law, or in equity.

11. ADDITIONAL WARRANTIES

In addition to the Performance Warranty provided herein, Alarm.com hereby represents and warrants to Buyer that:

- (i) All information provided by Alarm.com to Buyer with respect to the Alarm.com-ready Products is complete and accurate in all material respects;
- (ii) Alarm.com and all Alarm.com-ready Products shall materially conform to Quality Assurance Requirements provided by ADT, and to the requirements applicable to suppliers pursuant to The ADT Supplier Social Responsibility Guide which are available at <http://www.adt.com/about-adt/ethics>. ADT shall provide Alarm.com with notice of any material change to the ADT Supplier Social Responsibility Guide.
- (iii) The Alarm.com-ready Products manufactured by (or for) Alarm.com comply with all Applicable Laws or regulations applicable to manufacturers of the Alarm.com-ready Products, including the restriction on the use of certain hazardous substances in electrical and electronic equipment, including, but not limited to, RoHS, WEEE, REACH, etc., and other environmental protection laws and/or regulations.
- (iv) Except as disclosed by Alarm.com to ADT in writing, no Open Source Software is incorporated (either directly by Alarm.com, or indirectly, by the incorporation of third party software that itself incorporates Open Source Software) into or required for the intended use or operation of any of the Alarm.com-ready Products. In the event that Alarm.com develops new Alarm.com-ready Products or modifies its existing Alarm.com-ready Products to incorporate Open Source Software into, or require Open Source Software for the operation of, such Alarm.com-ready Products, Alarm.com shall provide prompt written notice of such fact to Buyer. Alarm.com is and shall continue to be in full compliance with the terms of all licenses relating to the Open Source Software incorporated into or required for the operation of any of the Alarm.com-ready Products ("**Open Source Licenses**"). None of the Open Source Licenses obligate or will obligate Buyer to make any source or object code available to third parties or to include any license agreement, copyright notice or other attribution when distributing any Alarm.com-ready Product, except for any such items that Alarm.com has included in or with such Alarm.com-ready Products. None of the Open Source Licenses obligate or will obligate Buyer to (A) distribute or disclose any other software combined, distributed or otherwise made commercially available with such Open Source Software in source code form or (B) license or otherwise make available such Open Source Software and/or other software combined, distributed or otherwise made commercially available with such Open Source Software or any associated Intellectual Property on a royalty free basis. As used herein, the term "**Open Source Software**" means any software, program, module, code, library, database, driver or similar component (or portion thereof) that is royalty free, proprietary software, the use of which requires any contractual obligations by the user such as, without limitation, that software that is subject to, distributed, transmitted, licensed or otherwise made available under any of the following licenses: GNU General Public License, GNU Library or "Lesser" Public License, Berkeley Software Design (BSD) license (including Free BSD and BSD-style licenses), MIT license, Mozilla Public License, IBM Public License, Apache Software License, Artistic license (e.g., PERL), Sun Industry Standards Source License, Sun Community Source License (SCSL), Intel Open Source License, Apple Public Source License, or any substantially similar license, or any license that has been approved by the Open Source Initiative, Free Software Foundation or similar group.

Schedule 6 - Product Development & Intellectual Property

1. INTELLECTUAL PROPERTY

1.1 Ownership. The parties anticipate that the activities performed under the Agreement will result in the creation of technology and related Intellectual Property Rights. The parties agree that ownership of the Intellectual Property Rights will, as between the parties, be determined as described below.

(i) Intellectual Property Rights. “Intellectual Property Rights” means all of the following, whether protected, created, or arising under the laws of the United States or any other foreign jurisdiction:

(a) All patents, patent disclosures, patent applications (along with all patents issuing thereon), statutory invention registrations, divisions, continuations, continuations-in-part, substitute applications of the foregoing, all patent rights in improvement thereto, and any extensions, reissues, restorations and reexaminations thereof, and all rights therein provided by international treaties or conventions;

(b) copyrights, mask work rights, database rights and design rights, whether or not registered, published or unpublished, and registrations and applications for registration thereof, and all rights therein whether provided by international treaties or conventions or otherwise;

(c) rights in trade secrets, proprietary information, and confidential business information (including ideas, research and development, know-how, formulas, compositions, manufacturing and production processes and techniques, technical data, designs, bills of materials and component layouts, drawings, specifications, customer and supplier lists, pricing and cost information and business and marketing plans and proposals);

(d) all sui generis rights in computer software (including data and related documentation) and all copies and tangible embodiments thereof (in whatever form or medium) specifically including source code; and

(e) all other applications and registrations related to any of the intellectual property rights set forth in the foregoing clauses (a) - (d) above.

(ii) Background IP. Alarm.com shall continue to own all right, title, and interest in and to all Intellectual Property Rights in technology developed or owned by Alarm.com prior to the Effective Date or developed after the Effective Date independent of the Agreement including, without limitation, the Alarm.com Services, Alarm.com-ready Products, derivatives and improvements thereof (“**Alarm.com Background IP**”). For the avoidance of doubt, any derivatives or improvements to the Alarm.com Services and Alarm.com-ready Products that Alarm.com makes as a result of any feedback or suggestions provided by ADT or ADT Dealers in the ordinary course of business (which is not ADT Background IP, an ADT Invention, or a Joint Invention) shall also be deemed Alarm.com Background IP. ADT shall continue to own all right, title, and interest in and to all Intellectual Property Rights in technology developed or owned by ADT prior to the Effective Date or developed after the Effective Date independent of the Agreement including, without limitation all ADT Customer Data and all technology created by or on behalf of ADT that may interoperate with the Alarm.com Services and Alarm.com-ready Products, along with derivatives or improvements thereof (“**ADT Background IP**”).

(iii) Alarm.com Inventions. Except for ADT Custom Products, Alarm.com shall own all right, title and interest in and to all Intellectual Property Rights in technology that is created solely by the employees or contractors of Alarm.com, and not by employee(s) or contractors of ADT, whether patentable or not, during the Term of the Agreement and under the Agreement (“**Alarm.com Inventions**”).

(iv) ADT Inventions. ADT shall own all right, title and interest in and to all Intellectual Property Rights in technology that is created solely by the employees or contractors of ADT, and not by employee(s) of Alarm.com, whether patentable or not, during the Term of the Agreement and under the Agreement (“**ADT Inventions**”).

(v) ADT Custom Products. All right, title and interest in and to Intellectual Property Rights in ADT Custom Products shall be the sole property of ADT, subject to Alarm.com’s ownership of the Alarm.com Background IP. All source code, specifications, and Documentation therefor, including flow charts and diagrams, produced by or as a result of ADT Custom Products shall be the sole and exclusive property of ADT (subject to Alarm.com’s ownership of the Alarm.com Background IP), it being intended that such material shall be deemed “works made for hire,” of which ADT shall be deemed the author. To the extent that such materials are not deemed “works made for hire,” Alarm.com hereby irrevocably grants, assigns, transfers, and sets over unto ADT all right, title, and interest of any kind, nature, or description in and to the materials. Alarm.com shall be entitled to use the materials only as permitted in the Agreement. Alarm.com agrees to execute any documents reasonably requested by ADT and at ADT’s sole expense in connection with the registration of copyrights in the materials produced hereunder.

(vi) Joint Inventions. Except as provided in paragraphs 1.1(i)-(v) above, ADT and Alarm.com shall jointly own all right, title and interest in and to Intellectual Property Rights in technology that is jointly created by at least one employee or contractor of Alarm.com and at least one employee or contractor of ADT, whether patentable or not, during the Term of the Agreement and under the Agreement (“**Joint Inventions**”). Each party shall have the right to grant licenses to third parties to practice such Joint Inventions without the prior written consent of, or payment to, the other party, provided that: (a) Alarm.com shall not grant any license to an ADT Competitor without ADT’s prior written agreement, and (b) ADT shall not grant any license to any third party that carries on a business that is competitive with the business carried on by Alarm.com at such time. Neither party may assign, convey, or transfer its rights in the Joint Invention to any third party without the prior written agreement of the other party. For the avoidance of doubt, Alarm.com may use Joint Inventions in the provision of the Alarm.com Services by Alarm.com to its customers.

(vii) Documentation. Alarm.com shall own the copyrights in all Documentation that Alarm.com provides to ADT except for Documentation for ADT Custom Products. To the extent that ADT creates derivative works in Alarm.com Documentation, Alarm.com shall own the copyrights in such derivative works.

(viii) ADT IP and Alarm.com IP. For clarity, ADT IP (“**ADT IP**”) shall mean, together, ADT Background IP, ADT Inventions, and all specifications for and Intellectual Property Rights in ADT Custom Products, all as further defined in this Section 1.1. Alarm.com IP (“**Alarm.com IP**”) shall mean, together, Alarm.com Background IP and Alarm.com Inventions, copyright in derivative works of Alarm.com APIs, server Documentation, and all specifications for and Intellectual Property Rights in the Alarm.com Services and Alarm.com-ready Products (except for Intellectual Property Rights in ADT Custom Products which shall be owned by ADT), all as further defined in this Section 1.1.

1.2 Prosecution of Patents in Joint Inventions.

(i) The parties shall make reasonable commercial efforts to mutually determine (a) whether a patent application or applications shall be filed on Joint Inventions, (b) the party that will prepare and file any such application, (c) the party that will be responsible for the prosecution of such application, (d) the party responsible for the maintenance of any patent granted in respect of such any such application, and (e) the country or countries in which such application is or applications are to be filed. The party determined to be responsible for subsections (i) - (iv) in respect of any Joint Patent shall promptly notify the other party of any action required by the other party in regard to such patent or patent application.

(ii) Any expenses incurred in preparing or filing patent applications relating to, and maintaining patents granted with respect to, Joint Inventions shall be divided equally between the parties. In the event that a party does not desire, or otherwise refuses, to contribute by paying its share of the expenses of such application or maintenance (the “Non-Contributing Party”), then the Non-Contributing Party agrees to vest in the other party (a) all rights worldwide in, and all patent rights issued in respect of, the Joint Invention that is the subject of such application or required maintenance, and (b) to the extent permitted by Applicable Laws, all claims with respect to any patent rights issued in respect of the Joint Invention that is the subject of such application, whether known or unknown; and the Non-Contributing Party hereby irrevocably assigns, conveys, and transfers to the other party all right, title and interest in and to, and all such claims with respect to, the Joint Invention that is the subject of such application or required maintenance. The Non-Contributing Party shall execute, without compensation, all documents necessary for the perfection of the other party’s interests in any Joint Invention that is the subject of such application or required maintenance.

2. ADT DATA

(i) ADT shall own and retain all right, title and interest, including all Intellectual Property Rights, in and to all ADT Data, including in particular all ADT Customer Data. Alarm.com acknowledges and agrees that notwithstanding any reformatting, modification, reorganization or adaptation of the ADT Data (in whole or in part) during its incorporation, storage or processing, or the creation of derivative works from the ADT Data, the same will remain ADT Data and will be subject to the terms and conditions of the Agreement. This Agreement does not grant to Alarm.com any license or other rights, express or implied, in the ADT Data, except that ADT grants to Alarm.com a limited, non-transferable, non-sublicensable license during the Term of the Agreement to use ADT Data for the sole purpose of performing Alarm.com’s obligations under the Agreement. The parties recognize that Alarm.com, may at times, use the ADT Data in aggregated form to monitor usage and performance of its products and services and to make improvements to such products and services. Alarm.com also makes available certain statistics, such as percentage of homes impacted by a power outage, which rely on aggregated data from all Alarm.com customers, including ADT Data. Alarm.com agrees that it shall never use ADT Data to market directly to ADT customers without ADT’s consent, even after the Agreement terminates or expires.

(ii) In the event that Alarm.com wishes to access and/or use any portion of the ADT Data for any other purpose (including activation of any new feature of the Alarm.com Services or an Alarm.com-ready Product), Alarm.com shall make such request in writing to ADT’s Vice President of Product Development (or equivalent person at that time), who shall promptly review such request and either authorize such request in writing on such commercially reasonable terms as ADT in its sole discretion may determine or reject it.

3. PRODUCT DEVELOPMENT

3.1 Alarm.com Roadmap

(i) Within [***] ([**]) days after the Effective Date, and, at a minimum, every [***] ([**]) months during the Term thereafter, Alarm.com shall provide to ADT a preview of the latest version of its Product Roadmap prior to its general release of the Alarm.com Services and Alarm.com-ready Products.

(ii) As used herein, “Product Roadmap” means the document or briefing made generally available to Alarm.com dealers that will detail (a) any and all features projected for upgrades and updates scheduled to be developed during the next succeeding [***] ([**]) months, (b) the target date on which such updates and upgrades are scheduled to be generally commercially available, (c) the hardware products and functionality that Alarm.com intends to support (including the types of regulatory certification (if any) that Alarm.com intends to obtain for such hardware products); and (d) all of Alarm.com’s long term product plans for the following [***] ([**]) months; provided, however, Alarm.com will maintain a separate Product Roadmap for ADT (the “ADT Product Roadmap”) that will catalogue any ADT Custom Products. Alarm.com will maintain the ADT Product Roadmap for ADT alone.

(iii) To the extent that the Product Roadmap or the ADT Product Roadmap includes ADT IP and/or Alarm.com IP, nothing in this Article 6 shall be construed to grant an ownership interest, nor license rights, in or to such ADT IP and/or Alarm.com IP.

3.2 ADT Custom Products

(i) ADT may request that Alarm.com provide ADT with ADT Custom Products, provided, however, any updates or upgrades made generally available to ADT and Alarm.com’s other customers will not constitute ADT Custom Products. “**ADT Custom Products**” means all deliverables, inventions, discoveries, designs, and new versions of existing Alarm.com Services or Alarm.com-ready Products that Alarm.com develops solely for ADT hereunder, but excludes all Alarm.com Background IP. The parties will agree upon a written Statement of Work (“SOW”) for developing ADT Custom Products, subject to the terms of the Agreement and subject to mutually agreed upon terms regarding compensation, development, acceptance, and support with respect to such ADT Custom Products. Both ADT and Alarm.com agree that ADT Custom Products will not affect the Fees described in Schedule 2 (Pricing Schedule) and Schedule 7 (Connect Platform Terms), except that in some cases such ADT Custom Products may include an ongoing monthly fee for the new service if agreed upon in the SOW. ADT will not be obligated to compensate Alarm.com for the development of any ADT Custom Products other than as set forth in an SOW or otherwise agreed to in writing by ADT and Alarm.com. Alarm.com will deliver the source code for each ADT Custom Product along with the specifications and Documentation relating to such ADT Custom Product, upon delivery or as otherwise agreed in an SOW. Without limiting Alarm.com’s sole ownership of the Alarm.com Background IP, no provision in this Article 3 or elsewhere shall be construed to conflict with or limit ADT’s sole ownership of all Intellectual Property Rights in an ADT Custom Product.

(ii) If Alarm.com wishes to use any portion of an ADT Custom Product for any of its other customers, ADT in its sole discretion may agree to license such portion of the ADT Custom Product to Alarm.com for such purpose at a mutually agreeable license fee and other commercially reasonable terms. The parties will address whether or not Alarm.com has a right to use any or all of an ADT Custom Product for its other customers, and in what timeframes such right would be exercisable, at the time that the SOW for the ADT Custom Product is developed. It is anticipated that the circumstances surrounding each ADT Custom Product will be different, and as such the SOW will vary from initiative to initiative, but the parties agree generally that an ADT Custom Product would be offered exclusively for ADT customers for a period of one to two years, and then generally enabled for other Alarm.com customers.

3.3 Integration with Third-Party Products. At ADT's request, Alarm.com agrees to work with ADT to ensure that the Alarm.com Services and Alarm.com-ready Products integrate with third party products and platforms in accordance with the following:

(i) ADT will identify hardware manufacturers and Alarm.com will work directly with a reasonable number of these hardware manufactures to facilitate the design, testing, and introduction of hardware products that interface to Alarm.com-ready Products and the Alarm.com Services in order for them to provide products for ADT. In such cases, Alarm.com will (a) work with the hardware manufacturer to develop requirements and a specifications document that details the hardware, software, and firmware capabilities needed to support the integration (including CPU performance, connectivity, hardware modules, operating system and version(s), device drivers, and tool chain capabilities), (b) work with the hardware manufacturer to develop the software and implementation process that the hardware manufacture will use to compile and configure the software onto the target hardware platform, (c) provide the hardware manufacturer with a validation test that exercises the Alarm.com software on the target hardware platform, (d) work with the hardware manufacturer to ensure that all issues are resolved and that the Alarm.com validation tests pass, (e) perform bring-up (assure product works in a production environment) and final test using the final hardware platform provided by the hardware manufacturer, (f) perform Alarm.com's quality-assurance tests on the hardware, and (g) generate an "application performance report" to indicate if the implementation by their hardware manufacturer meets the application performance specifications as defined in (a) and is acceptable to ADT. Alarm.com agrees to cooperate with the hardware manufacturers but Alarm.com's obligation to work with any hardware manufacturers under this Section 3.3(i) shall be subject to the applicable hardware manufacturer similarly working with Alarm.com, entering into confidentiality or other agreements with Alarm.com on terms and conditions acceptable to Alarm.com acting reasonably, and providing reasonable cooperation and support to Alarm.com. To the extent the activities in this Section 3.3(i) are not in the Product Roadmap, such work will be done pursuant to a mutually agreed SOW.

3.4 Issuance of SOW. In each instance when ADT desires to engage Alarm.com to develop ADT Custom Products or perform other services not set forth in the Agreement or an existing Schedule, exhibit or other attachment hereto, the parties will develop and agree upon an SOW defining the services to be provided by Alarm.com, the deliverables ("**Deliverables**") and such other details as the parties deem appropriate, and Alarm.com will render such services in accordance with the schedule and standards described in the applicable SOW and in the Agreement. Each SOW shall set forth: (i) a description of the services to be furnished by Alarm.com and corresponding date by which each is to be completed; (ii) the extent (if any) that Alarm.com will maintain, monitor, and support the Deliverable on an ongoing basis; (iii) the compensation to be paid by ADT; (iv) the applicable acceptance criteria (if any); (v) the name of the Project Manager for each party; and (vi) such additional terms and conditions as may be mutually agreed upon by the parties thereto. Each SOW will be governed by the terms of the Agreement and will be binding upon the parties and will be deemed to constitute a part of the Agreement as if fully set forth herein and all rights and obligations of the parties will be deemed to apply to such SOW as if fully set forth therein. In the event of a conflict between the terms and conditions of the Agreement and the terms and conditions of any SOW, the terms and conditions of the Agreement will control, unless an SOW makes specific reference to the section of the Agreement that is to be amended in the SOW. Any exceptions expressly agreed upon in writing by ADT and Alarm.com pursuant to a particular SOW will apply only for purposes of that SOW, and will not be deemed to in any way amend, modify, cancel, or waive the provisions of the Agreement for any other SOW.

3.5 Project Managers. Each party shall appoint a “**Project Manager**” to act as liaison with the other party with respect to the ADT Custom Products, as identified on each SOW. The Project Managers shall participate in review meetings as set forth in the applicable SOW or otherwise by mutual agreement. The Project Managers shall have primary responsibility for coordinating all major decisions related to the development of ADT Custom Products. In addition, if required, Alarm.com shall appoint a project resource to manage the development of ADT Custom Products on the development and test environment provided by ADT. The Project Managers shall have the authority to represent each of their respective parties and make any changes to an SOW pursuant to the procedures set forth herein. Each party may replace its Project Manager from time to time as it deems necessary or appropriate upon written notice to the other party.

3.6 Functional/Design Specifications.

(i) For each SOW, Alarm.com shall develop and complete, with ADT’s reasonable cooperation, and deliver to ADT the following specification documents, to the extent applicable:

(a) A document reasonably satisfactory to ADT, setting forth the functional capabilities, parameters and requirements applicable to the development of a Deliverable (the “**Functional Specifications**”). The Functional Specifications may include user pertinent procedures, data entry requirements and correction procedures, required input formats, output formats (including screen formats and report forms which will be produced or will be capable of being produced), interface requirements among various sub systems, error deduction capabilities, error correction and recovery procedures, and security devices, as is appropriate to adequately detail the Deliverable for testing, evaluation and functionality purposes; and

(b) A document reasonably satisfactory to ADT detailing the design and architecture of the Deliverable (the “**Design Specifications**”). The Design Specifications will include descriptions of system environments, identification of system files and support modules, definition of on line and batch modules and other design characteristics, along with design development tools, flow charts, program logic, data base layouts, utilities, sub routines, and other programming characteristics, as is appropriate to adequately define the Deliverable’s scope and functionality and will identify all third party software that may be part of the Deliverable. The Functional Specifications and Design Specifications shall form a part of and be incorporated into the SOW.

(ii) ADT shall have the right to maintain and use the Alarm.com-ready Products in pre-launch product trials, in each trial for up to six (6) months in duration, involving no more than fifty (50) devices, and for no more than three hundred (300) participants.

3.7 Payment for SOWs. Unless otherwise expressly indicated in the SOW, ADT shall pay Alarm.com on a fixed price basis using rates that are no higher than applicable industry standards.

3.8 Reasonable Efforts. Alarm.com shall develop the ADT Custom Products and deliver the Deliverables according to the deadlines set forth in the agreed SOWs. Alarm.com shall diligently perform such development and provide associated Deliverables in a workmanlike and professional manner consistent with applicable industry standards. Penalties for Alarm.com’s failure to meet the agreed upon schedule, if any, and deadlines shall be specified in the applicable SOW.

3.9 ADT Obligations.

(i) At ADT’s option, ADT shall provide Alarm.com with hardware and applications development and test environments that are unique to ADT, as well as appropriately trained ADT Personnel, in order to reasonably assist Alarm.com in performing development and testing of ADT Custom Products at no additional charge. ADT will also provide reasonable assistance to Alarm.com as Alarm.com procures specialized hardware for such ADT Custom Products. The parties shall agree on specific requirements in each SOW.

(ii) ADT agrees to provide Alarm.com with such assistance as Alarm.com may reasonably request from time to time in connection with developing the ADT Custom Products, including any activities relating to regulatory certification; provided, however, Alarm.com will be responsible for obtaining such regulatory compliance.

3.10 Change Control. ADT may request reasonable changes to the scope of Services or any SOW by submitting a request in writing to Alarm.com. Once ADT has submitted the request, Alarm.com will use reasonable efforts to respond within five (5) business days with a proposal for undertaking the applicable tasks, a price quote setting forth the fees (if any) applicable to the change, and a timetable for performing the tasks. If ADT accepts Alarm.com's proposal, Alarm.com shall prepare a change control form ("**Change Control Form**") pursuant thereto. Once the parties agree, then the Change Control Form, upon execution by both parties, shall amend and become a part of the Agreement or the SOW, and Alarm.com shall proceed to implement such changes in accordance therewith. The parties will agree upon a Change Control Form that will be used for the Agreement.

3.11 Parity. Alarm.com shall, at its sole expense as part of the Fees, continue to incorporate new peripherals, features, and functionality, and improved performance levels into each of its software platforms used as part of the Alarm.com Services that are equal to or better than any third party platforms for interactive security, automation and video services as well as its own other software platforms, including but not limited to the Connect Platform ("Parity"). Alarm.com's obligation to achieve and maintain Parity shall not apply to the significant software features and non-routine hardware design initiatives for the Connect Platform that are subject to Section 3.2 of Schedule 7.

4. INTEGRATION OF ADT PRODUCTS

4.1 Alarm.com APIs. Upon ADT's request, Alarm.com will provide application programming interfaces ("**APIs**") sufficient for ADT to develop and/or modify non-Alarm.com software applications ("ADT Software") in order to make them interoperable with the Alarm.com Services and the Alarm.com-ready Products or, at ADT's option, to have a third party develop software applications for use with Alarm.com-ready Products at no charge, including but not limited to the API's illustrated in Exhibit A attached to this Schedule 6. As between ADT and Alarm.com, all Intellectual Property Rights in such applications developed by ADT or its third parties shall be ADT IP owned by ADT. For clarity, such ADT IP does not include the existing or any custom API's or other modifications made to the Alarm.com Services (or to any Alarm.com-ready Products owned by Alarm.com) unless mutually agreed by the parties. As between ADT and Alarm.com, all Intellectual Property Rights in such applications developed by Alarm.com or its third parties shall be Alarm.com IP owned by Alarm.com, except for any ADT Background IP, ADT Invention, or Joint Invention. For the avoidance of doubt, the parties intend this Section to allow for the development of additional capabilities on top of the Alarm.com platform, and not as a mechanism to replace or reproduce significant components of the Alarm.com platform.

4.2 Modifications to the Alarm.com Services. Alarm.com in its sole discretion from time to time may develop and deploy modifications and enhancements to the Alarm.com Services which will be deployed to all customers of Alarm.com. With respect to any material new feature or functionality, Alarm.com will use all commercially reasonable efforts to provide such new features or functionality on an "opt in / opt out" basis and ADT will have the right to decide whether to enable, and subsequently disable, a new feature or functionality for the Subscribers. Alarm.com will provide ADT with commercially reasonable notice prior to any deployment of such material new feature for ADT to so decide. In the event it is not feasible for Alarm.com to provide such an opt-in / opt-out capability, Alarm.com shall still be permitted to deploy a new feature and functionality in its discretion; provided however, that Alarm.com will not deploy any new feature or functionality without the capability to regress the Software in the event of any Error arising from such deployment, and failure to do so shall constitute a default of Alarm.com's material obligations under this Agreement. Alarm.com will not disable or remove any material feature or functionality affecting the Subscribers without ADT's prior approval.

[***] = CONFIDENTIAL TREATMENT REQUESTED

Exhibit A to Schedule 6 - List of Alarm.com API's

Alarm.com shall make the following APIs available to ADT.

Customer Management

[***] Order Management

[***] MobileWebServices WSDL

[***]

Schedule 7 - Connect Platform Terms

The terms and conditions applicable to the Alarm.com Services elsewhere in this Agreement shall apply to the Connect Platform, except that the terms and conditions set forth below shall apply exclusively to the Connect Platform. To the extent that the terms and conditions below conflict with any other provision of this Agreement with respect to the Connect Platform, the terms and conditions set forth below shall prevail. The provisions of this Schedule 7 shall take effect upon the closing of the transactions set forth in the APA.

1. OBLIGATIONS AS TO USE OF THE CONNECT PLATFORM

1.1 Maintain Architecture. During the Initial Term, Alarm.com shall (i) operate the Connect Platform separate from the remainder of the Alarm.com Services and shall not merge any portion of the Connect Platform with any other portion of the Alarm.com Services without the express prior written consent of ADT; and (ii) maintain the existing hub-based architecture of the Connect Platform. If Provider merges the Connect Platform with the other Alarm.com Services at any time after the Initial Term, it shall nevertheless maintain Parity for, and the hub-based architecture of, the Connect Platform as part of such merger to ensure continuity of service for ADT Subscribers.

1.2 Exclusivity. During the Term, Alarm.com shall provide the Connect Platform in the Territory exclusively to ADT and its Affiliates, to any ADT Dealers existing as of the date of this Agreement, and to any party to a contract acquired pursuant to the APA to the extent necessary to meet its obligations under such acquired contract.

1.3 ADT Dealers. ADT shall have the right, in ADT's sole discretion, to enable any ADT Dealers to offer the Connect Platform or any other Alarm.com Service to Subscribers; provided that for any ADT Dealer who is offering the Alarm.com Services as of the effective date of its contract to become an ADT Dealer ("Dealer Effective Date"), ADT shall pay the applicable monthly Fee under Schedule 2 of this Agreement for each Subscriber for twelve months from the Dealer Effective Date, irrespective of whether or not such Subscriber is using the Connect Platform, after which ADT shall pay the Subscriber Fee set forth in this Schedule 7 for any such Subscriber using the Connect Platform.

2. LICENSE GRANT

2.1 License. Subject to the above and the other terms of this Agreement, Alarm.com grants to ADT a non-exclusive, worldwide, non-transferable (except as provided in Section 11.7 of the Agreement) license for the Term and as needed during the period of Transition Services to (i) use and distribute (subject to the limitation on distribution below) the Connect Platform in executable form solely to provide the functionality of the Connect Platform to Subscribers in the Territory, (ii) provide support to such Subscribers with respect to the Connect Platform, including support, testing, and administrative functions associated with hosting and management of hosted systems for the Connect Platform at ADT's hosting facility (whether owned or managed by ADT or a subcontractor), (iii) copy and use, screen shots from the Connect Platform for the sole purpose of incorporating such screen shots into written end-user training or marketing materials prepared by ADT (or by a third party for ADT) for Subscribers subject to Alarm.com's prior written approval, not to be unreasonably withheld or delayed, and (iv) use, reproduce, prepare derivative works of, and distribute Documentation, subject to the ownership provisions of Section 1.1 of Schedule 6 of this Agreement. For purposes of clarification, (a) the Connect Platform server software may not be distributed to any third party other than to a subcontractor, (b) the iScreen software may only be distributed as embedded into the iScreen and not on a standalone basis other than to provide updates and upgrade existing iScreen hardware or to subcontractors, and (c) the iHub software may only be distributed as embedded into the iHub gateway and not on a standalone basis other than to provide updates and upgrades for existing iHub gateway hubs or to subcontractors (where "iScreen" and "iHub" are as set forth in the iControl MSA).

2.2 Sublicenses. ADT shall not have the right to grant any sublicenses in connection with any of the rights licensed to ADT hereunder. Alarm.com agrees that ADT shall have the right to grant sublicenses (i) to ADT Subscribers as necessary to use the Connect Platform in accordance with the Subscription Agreement, and (ii) to ADT Dealers to use the Connect Platform for the specific purpose of marketing, installing, and supporting the Connect Platform, under terms acceptable to Alarm.com, such acceptance not to be unreasonably withheld or delayed, provided further that any and all sublicense terms that are consistent with the Agreement shall be hereby deemed acceptable to Alarm.com. Such ADT Dealers shall have the right to sublicense the use of the Connect Platform to their customers who will become ADT Subscribers. ADT shall have no liability for breach of the sublicense agreement or any other actions by ADT Dealers or Subscribers, provided that, with respect to ADT Dealers, the sublicense agreement with ADT Dealers includes an enforceable third party beneficiary provision for the benefit of Alarm.com, and provided, further, with respect to ADT Subscribers, ADT will use commercially reasonable efforts to enforce the terms of ADT's agreement with such Subscribers. In any event ADT shall be liable for payment obligations hereunder for such ADT Dealers' Subscribers.

2.3 Limited Use Licenses. If an ADT customer is no longer a Subscriber under this Agreement, without expanding the license rights granted under ADT's agreement with such customer, Alarm.com agrees that such former customer will have the perpetual right to use any portions of the Connect Platform in their hub and/or touchscreen for limited security purposes only and without any connectivity to the Connect Platform server software. Alarm.com will have no support obligations for discontinued Subscriber.

3. DEVELOPMENT

3.1 New Products. The parties recognize that ADT may wish to extend the Alarm.com Services to a new device or set of devices not yet supported on an Alarm.com software platform, on Alarm.com's roadmap, or required for Parity, such as, for example, the [***] and peripherals. The parties agree to regularly discuss the ecosystem of commercially available or soon to be commercially available devices, and Alarm.com agrees that it shall support the requested new devices with the Connect Platform unless it is not commercially reasonable, in which case it will be subject to the provisions of the related Section 3.2 below.

3.2 ADT Exclusive Features. Subject to the requirements of Section 3 of Schedule 6 (Product Development & Intellectual Property) and Section 3.3 below, the Parties may mutually agree and set forth in an applicable SOW that certain significant software features and non-routine hardware design initiatives will be exclusively implemented in the Connect Platform for ADT for a specified period of time lasting a minimum of [***] ([***) months, such agreement not to be unreasonably withheld or delayed ("ADT Exclusive Features"). During such [***] ([***) month (or longer, as applicable) time period, Alarm.com shall not use the ADT Exclusive Features for any third-party and shall not include them in the Product Roadmap until at least [***] ([***) days after ADT has Commercially Launched such ADT Exclusive Feature. All ADT Exclusive Features will be delivered as part of an Update or Upgrade. To the extent that an ADT Exclusive Features includes ADT IP and/or Alarm.com IP, nothing in this section shall be construed to grant an ownership interest, nor license rights, in or to such ADT IP and/or Alarm.com IP.

3.3 Changes in Functionality. If Alarm.com deletes functions from the Connect Platform to which ADT is being granted access hereunder and offers those functions in other or new applications or products, the portion of those other or new applications or products which contain the functions in question, or the entire product if the functions cannot be separated out, will be provided to ADT under the terms of this Agreement or an applicable SOW at no additional charge to ADT. If the Connect Platform provided to ADT under an SOW are updated as replacement, renamed or re-branded applications or products for any reason, then ADT shall be entitled to the same license to use the replacement, renamed or re-branded product with respect to the Connect Platform that ADT had immediately prior to such replacement, renaming or re-branding at no additional charge to ADT so long as the new applications or products are functionally equivalent, at a minimum, and the same conditions of use apply as to the Connect Platform.

3.4 Notice of Upgrades. Alarm.com shall provide ADT with no fewer than [***] ([***)] days prior written notice of the delivery of any upgrade to the Connect Platform (which includes, without limitation, any ADT Exclusive Features and applicable Custom Products) and shall deliver to ADT, at least [***] ([***)] days prior to the release thereof, all of Alarm.com's release notes and other Documentation regarding the upgrade to the Connect Platform to be incorporated through such upgrade. Additionally, Alarm.com shall provide ADT with early versions of any such upgrade prior to Alarm.com's targeted release date; provided, however, that in no event will the Acceptance Period begin until Alarm.com has released a final version of the upgrade. The Documentation provided shall be sufficient to enable reasonably qualified ADT Personnel to install, configure, and host the Connect Platform and support the installation and use of the Connect Platform by Subscribers. ADT shall have the right, at no additional charge, to reproduce solely for its internal use and for use by Subscribers and ADT Dealers, all manuals and Documentation furnished by Alarm.com; provided that ADT shall have no right to provide any Documentation that is not intended for users to any Subscribers.

3.5 Acceptance Period. ADT will have [***] ([***)] days from the delivery of an upgrade (the "Acceptance Period") to determine whether the upgrade complies in all material respects with this Agreement, and any applicable SOW and Specifications. ADT will conduct the acceptance tests or, in ADT's reasonable discretion, may require that Alarm.com conduct the acceptance tests on the upgrade as set forth in any applicable SOW. In the event that Alarm.com is responsible for performing such acceptance tests, then the Acceptance Period will be deemed to be [***] ([***)] days following Alarm.com's successful completion of its acceptance test. ADT shall have the right to be present at and to monitor all testing activity and Alarm.com shall keep ADT fully informed concerning such activity.

3.6 Acceptance. ADT shall, within the Acceptance Period, notify Alarm.com whether ADT has accepted the upgrade or provide Alarm.com with a written list of material non-conformities that must be corrected. Alarm.com shall thereafter as quickly as reasonably possible correct, repair, or modify the upgrade, at no additional charge to ADT, in order to enable retesting. Each time the upgrade requires retesting for material nonconformities, the applicable Acceptance Period will restart. If ADT determines that the upgrade, as revised, still does not comply in all material respects with Agreement and/or any applicable SOW, then ADT may either: (i) request that Alarm.com repeat the aforementioned correction process at no additional charge to ADT, or (ii) terminate the applicable SOW. In the event of termination of an SOW under this provision, Alarm.com shall refund to ADT, within [***] ([***)] days of written notice of termination, all sums paid to Alarm.com by ADT under an applicable SOW in advance of testing for acceptance. If ADT commercially releases an upgrade, it will be deemed to have been accepted. ADT will not unreasonably withhold or delay performance of acceptance tests or acceptance of upgrades. Acceptance of any upgrade having non-conformities (material or otherwise) will not relieve Alarm.com of its obligation to cure such non-conformities in accordance with the Support Services or any other provision of this Agreement.

4. PRICING, BILLING & PAYMENT

4.1 Fees. The Connect Platform shall NOT be subject to the Fees set forth in Schedule 2 (Pricing) of this Agreement, and instead ADT shall pay Alarm.com the following Fees for the Connect Platform:

Item	Price
Subscriber Fee: a per month fee for each Subscriber using the Connect Platform, which is all-inclusive as to the use of all Connect Platform components and functionality (except as mutually agreed for the certain significant software features and non-routine hardware design initiatives under Section 3.2 of this Schedule 7), for Alarm.com's maintenance of the Connect Platform (including its API's), and for ADT's use of all APIs to build and use ADT's own applications for accessing the Connect Platform, such as the ADT Website, admin portal, installer app, and ADT's "***" API server and mobile application. The amount of the Subscriber Fee for the Connect Platform for each of ADT's service offerings for ADT Pulse® shall be:	
Tier 1 Subscribers: any Subscriber being provided ADT's Tier 1 offering (or equivalent) for ADT Pulse using the Connect Platform	\$***] per month
Tier 2 Subscribers: any Subscriber being provided ADT's Tier 2 offering (or equivalent) for ADT Pulse using the Connect Platform	\$***] per month
Tier 3 Subscribers: any Subscriber being provided ADT's Tier 3 offering (or equivalent) for ADT Pulse using the Connect Platform	\$***] per month
One-Time iHub Fee: a one-time software license fee per hub for the first activation of iHub software (as set forth in the iControl MSA) contained in a hub for use with a Subscriber on the Connect Platform; i.e.,***]. For clarity, the fee will also apply to the OneLink device. For any future supported hubs, ADT and Alarm.com will negotiate any one-time fee in good faith.	\$***] (one-time)
Content Fee: a per month fee for each Subscriber using the Connect Platform that is enrolled in the optional service that enables iScreen Widget Content (as set forth in the iControl MSA) on each dedicated touchscreen.	\$***] per month

If, after the Effective Date, Alarm.com is obligated to pay a per subscriber per month royalty or license fee to a third party for one or more patent rights covering the use of the Connect Platform, then upon disclosing the complete terms surrounding such patent royalty or license to ADT, Alarm.com may charge ADT up to \$***] per month per Subscriber for the amount that Alarm.com has paid to such third party for such Subscriber under such patent royalty or license fee. For the avoidance of doubt, the \$***] per month, per Subscriber fee is the maximum amount that may be passed through to ADT even if there are multiple licenses and royalties required to be paid by Alarm.com.

4.2 Fees for Renewal Terms. Alarm.com's Fees under this Schedule 7 shall not change for the Initial Term. In the event of any Renewal Term, Alarm.com may increase the Fees by providing notice to ADT at least ***] (***) days prior to commencement of such Renewal Term. Any such increase will not exceed the percentage change in the Consumer Price Index (All Urban Consumers) during the immediately preceding Initial Term or Renewal Term.

4.3 Billing & Payment. Alarm.com shall implement a module in the Connect Platform which provides a daily reconciliation of account activations and deletions and the total number of accounts at end of day by each of the Subscriber Fee "tiers" in Section 4.1 above. Such module shall send a daily report via email to the designated representative of each party. Other recipients may be added as needed, but the parties agree that this information is sensitive and shall be provided to others on a need to know basis only. Unless either party contests the data in the report in writing (email acceptable) within ***] (***) calendar days after the end of each month, then the report from the last day of the month will become the report of the number of accounts for which Alarm.com will invoice ADT on the seventh calendar day of the new month. ADT shall pay the invoiced amount within thirty (30) days thereafter; provided that ADT shall have the right to withhold payment of any amount due to Alarm.com under this Schedule 7 that the ADT disputes in good faith, which withholding shall not constitute a material breach of ADT's payment obligations under this Agreement. The making of any payment or payments by, on the behalf of, ADT shall not imply ADT's acceptance of such items or the waiver of any warranties or requirements of, or rights to make any claims under, this Agreement.

***] = CONFIDENTIAL TREATMENT REQUESTED

4.4 Other Terms. Except as provided in this Schedule 7, all other billing, payment, audit, reservation of rights, and dispute resolution provisions shall otherwise remain as set forth elsewhere in this Agreement.

FOURTH AMENDMENT TO DEED OF OFFICE LEASE AGREEMENT

THIS FOURTH AMENDMENT TO DEED OF OFFICE LEASE AGREEMENT (this "**Amendment**") is made as of September 15, 2016 ("**Effective Date**") by and between **MARSHALL PROPERTY LLC**, a Delaware limited liability company ("**Landlord**"), and **ALARM.COM INCORPORATED**, a Delaware corporation ("**Tenant**").

RECITALS

R-1 Pursuant to that certain Deed of Office Lease Agreement dated August 8, 2014, as amended by that certain First Amendment to Deed of Office Lease Agreement dated as of May 29, 2015 but not fully executed until June 8, 2015, that certain Second Amendment to Deed of Office Lease Agreement dated as of October 19, 2015 (the "**Second Amendment**"), and that certain Third Amendment to Deed of Office Lease Agreement dated as of May 6, 2016 (collectively, as amended, the "**Lease**"), Landlord is currently leasing to Tenant and Tenant is currently leasing from Landlord an "agreed upon" one hundred twenty-nine thousand seven hundred forty-four (129,744) square feet of rentable area on the first (1st), fifth (5th), eighth (8th), ninth (9th), tenth (10th), and eleventh (11th) floors (collectively, the "**Premises**") of the building located at 8281 Greensboro Drive, Tysons, Virginia 22102 (the "**Building**"), as more particularly described in the Lease.

R-2 Landlord and Tenant desire to amend the Lease to provide for the extension of the period by which Tenant must request payment of the Expansion Allowance (as defined in the Second Amendment), to provide for Tenant's lease of additional storage space in the Building, and to otherwise amend the Lease, subject to and in accordance with the terms and conditions set forth in this Amendment.

R-3 Except as otherwise defined herein, all terms and phrases used in this Amendment that are defined in the Lease shall have the same meaning as set forth in the Lease. In the event of any conflict between the Lease and this Amendment, the terms of this Amendment shall control.

COVENANTS

NOW, THEREFORE, in consideration of the mutual covenants hereinafter set forth, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. Recitals. The foregoing Recitals are true and correct and are incorporated herein by reference.
2. Expansion Allowance. The outside date for Tenant to request payment of the Expansion Allowance as set forth in Paragraph 6 of the Second Amendment shall be extended to December 31, 2016.
3. Additional Storage Space. Landlord hereby leases to Tenant and Tenant hereby leases from Landlord an "agreed on" eight hundred five (805) square feet of additional storage space on the lower level of the Building, the location and configuration of which are shown on Attachment A (the "**Additional Storage Space**"), subject to and in accordance with the terms and conditions set forth in this Paragraph. The term of the lease of the Additional Storage Space (the "**Additional Storage Space Term**") shall commence on October 1, 2016 (the "**Additional Storage Space Commencement Date**") and expire on September 30, 2019. Commencing on the Additional Storage Space Commencement Date, Tenant shall pay, in the same manner and at the same time as payment of the Storage Space Rent (as defined in the Lease), annual rent for the Additional Storage Space ("**Additional Storage Space Rent**") in an amount equal to Twelve Dollars (\$12.00) multiplied by the total number of square feet of area in the Additional Storage Space. On the first anniversary of the Additional Storage Space Commencement Date and on each anniversary thereafter, the Additional Storage Space Rent shall escalate by an amount equal to two percent (2%) of the Additional Storage Space Rent then in effect. As of the Additional Storage Space Commencement Date, the Additional Storage Space shall become part of the Storage Space (as defined in the Lease) and shall be subject to all terms and provisions of the Lease affecting the Storage Space, except that the Additional Storage Space Term and Additional Storage Space Rent shall be as set forth in this Paragraph, and there shall be no abatement of the Additional Storage Space Rent. Tenant shall accept the Additional Storage Space in its "as is" condition as of the Additional Storage Space Commencement Date.
4. Brokerage. Landlord and Tenant each represents and warrants that it has not entered into any agreement with, or otherwise had any dealing with, any broker, agent or finder in connection with the negotiation or execution of this Amendment which could form the basis of any claim by any such broker, agent or finder for a brokerage fee or commission, finder's fee, or any other compensation of any kind or nature. Landlord and Tenant acknowledge that Landlord shall not be obligated to pay any commission or fee due to any broker, agent or finder in connection with this Amendment. Tenant shall indemnify and hold Landlord harmless from and against any claim for brokerage or other commissions asserted by any broker, agent or finder employed by Tenant or with whom Tenant has dealt, including without limitation all reasonable attorneys' fees and costs incurred by Landlord in connection with any breach by Tenant of the representations set forth in this Section and/or enforcing this indemnity. Landlord shall indemnify and hold Tenant harmless from and against any claim for brokerage or other commissions asserted by any broker, agent or finder employed by Landlord, including without limitation all reasonable attorneys' fees and costs incurred by Tenant in connection with any breach by Landlord of the representations set forth in this Section and/or enforcing this indemnity.

5. Ratification. Except as otherwise expressly modified by the terms of this Amendment, the Lease shall remain unchanged and continue in full force and effect. All terms, covenants and conditions of the Lease not expressly modified herein are hereby confirmed and ratified and remain in full force and effect, and, as further amended hereby, constitute valid and binding obligations of Tenant enforceable according to the terms thereof. Tenant hereby acknowledges that Landlord is not in default under the Lease as of the date hereof, and that it is unaware of any condition or circumstance which, but for the passage of time or delivery of notice, or both, would constitute an event of default by Landlord under the Lease. Tenant has no claims, defenses or set-offs of any kind to the payment or performance of Tenant's obligations under the Lease. Nothing contained herein shall be deemed to waive any sums due from Tenant to Landlord, or any default or event which, with the passage of time or delivery of notice, or both, would constitute a default by Tenant under the Lease as of the date hereof.

6. Authority. Tenant and each of the persons executing this Amendment on behalf of Tenant hereby covenants and warrants that Tenant is a duly organized, authorized and existing corporation and is in good standing under the laws of the Commonwealth of Virginia, that Tenant has full right and authority to enter into this Amendment, and that the person signing on behalf of Tenant is authorized to do so on behalf of Tenant. Landlord and each of the persons executing this Amendment on behalf of Landlord hereby covenants and warrants that Landlord is a duly organized, authorized and existing limited liability company and is in good standing under the laws of the Commonwealth of Virginia, that Landlord has full right and authority to enter into this Amendment, and that the person signing on behalf of Landlord is authorized to do so on behalf of Landlord.

7. Counterparts. This Amendment may be executed in multiple counterparts, each of which shall be an original, but all of which shall constitute one and the same Amendment. Faxed or electronically reproduced signatures shall have the same binding effect as original signatures, and a faxed or an electronically forwarded in pdf or similar format Amendment containing the signatures (original, electronically reproduced or faxed) of the parties shall be binding.

8. Binding Effect. This Amendment shall not be effective and binding unless and until fully executed and delivered by each of the parties hereto. All of the covenants contained in this Amendment shall be binding upon and inure to the benefit of the parties hereto, their respective heirs, legal representatives, and permitted successors and assigns.

[Signatures appear on the following page.]

IN WITNESS WHEREOF, Landlord and Tenant have caused this Amendment to be executed under seal as of the date first above written.

LANDLORD:

MARSHALL PROPERTY LLC, a Delaware limited liability company

By: /s/ Jeffrey L. Kovach
Name: Jeffrey L. Kovach
Title: Managing Director

Date: September 23, 2016

TENANT:

ALARM.COM INCORPORATED, a Delaware corporation

By: /s/ Daniel Ramos
Name: Daniel Ramos
Title: SVP

Date: September 15, 2016

ATTACHMENT A

DIAGRAM OF ADDITIONAL STORAGE SPACE

4.

CERTIFICATION

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. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. 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: November 14, 2016

/s/ Stephen Trundle

Stephen Trundle

President and Chief Executive Officer (Principal
Executive Officer and Principal Financial 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), I, Stephen Trundle, President and Chief Executive Officer (Principal Executive Officer and Principal Financial Officer) of Alarm.com Holdings, Inc. (the "Company"), hereby certify that, to the best of my knowledge:

- (1) The Company's Quarterly Report on Form 10-Q for the period ended September 30, 2016, to which this Certification is attached as Exhibit 32.1 (the "Quarterly Report") fully complies with the requirements of Section 13(a) or 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.

Date: November 14, 2016

/s/ Stephen Trundle

Stephen Trundle

President and Chief Executive Officer (Principal
Executive Officer and Principal Financial Officer)

This certification accompanies the Quarterly Report to which it relates and shall not be deemed filed by the Company for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.

