Alarm.com Holdings, Inc.
Form 10-Q
August 14, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

[x] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2015
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 001-37461

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

Delaware	26-4247032
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
8150 Leesburg Pike, Vienna, VA	22182
(Address of principal executive offices)	(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 þ 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). þ 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 x	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 [X] No
As of July 31, 2015, there were 45,567,123 outstanding shares of the registrant's common stock, par value of $0.01 per share.

ALARM.COM®

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ALARM.COM HOLDINGS, INC.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements (Unaudited)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Revenue:				
SaaS and license revenue	$34,134	$26,975	$66,089	$52,179
Hardware and other revenue	17,815	15,103	31,871	26,750
Total revenue	51,949	42,078	97,960	78,929
Cost of revenue: (1)				
Cost of SaaS and license revenue	6,297	5,669	12,330	10,677
Cost of hardware and other revenue	14,190	12,354	24,966	21,347
Total cost of revenue	20,487	18,023	37,296	32,024
Operating expenses:				
Sales and marketing	8,064	6,670	15,980	11,766
General and administrative	8,514	7,209	15,584	12,429
Research and development	9,079	5,764	16,831	10,374
Amortization and depreciation	1,528	850	2,866	1,656
Total operating expenses	27,185	20,493	51,261	36,225
Operating income	4,277	3,562	9,403	10,680
Interest expense	(42)	(55)	(84)	(113)
Other (expense) / income, net	(62)	—	(55)	10
Income before income taxes	4,173	3,507	9,264	10,577
Provision for income taxes	1,664	1,431	3,714	4,228
Net income	2,509	2,076	5,550	6,349
Dividends paid to participating securities	(18,987)	—	(18,987)	—
Income allocated to participating securities	—	(1,988)	—	(6,104)
Net (loss) / income attributable to common stockholders	$(16,478)	$88	$(13,437)	$245
Per share information attributable to common stockholders:				
Net (loss) / income per share:				
Basic	$(6.09)	$0.04	$(5.03)	$0.12
Diluted	$(6.09)	$0.02	$(5.03)	$0.07
Weighted average common shares outstanding:				
Basic	2,706,369	2,328,820	2,671,783	2,100,364
Diluted	2,706,369	3,718,440	2,671,783	3,569,283
Cash dividends declared per share	$0.36	$—	$0.36	$—

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net income	$2,509	$2,076	$5,550	$6,349
Other comprehensive income, net of tax:				
Change in unrealized gains on marketable securities	—	(1)	—	31
Comprehensive income	$2,509	$2,075	$5,550	$6,380

See accompanying notes to the condensed consolidated financial statements.

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

	June 30, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$20,883	$42,572
Accounts receivable, net	23,568	17,259
Inventory	8,344	6,852
Deferred tax assets	4,062	3,242
Other current assets	3,371	1,919
Total current assets	60,228	71,844
Property and equipment, net	8,409	8,130
Intangible assets, net	7,441	5,092
Goodwill	24,723	21,374
Deferred tax assets	6,426	5,121
Other assets	11,995	9,371
Total Assets	$119,222	$120,932
Liabilities, redeemable convertible preferred stock and stockholders’ deficit		
Current liabilities:		
Accounts payable, accrued expenses and other current liabilities	$24,254	$15,233
Accrued compensation	5,596	5,816
Deferred revenue	1,808	1,699
Total current liabilities	31,658	22,748
Deferred revenue	9,451	9,202
Long-term debt	6,700	6,700
Other liabilities	3,252	1,670
Total Liabilities	51,061	40,320
Commitments and contingencies (Note 11)		
Redeemable convertible preferred stock		
Series B redeemable convertible preferred stock, $0.001 par value, 1,809,685 shares authorized, 1,809,685 shares issued and outstanding as of June 30, 2015 and December 31, 2014, liquidation preference of $191,132 as of June 30, 2015 and December 31, 2014.	136,523	136,523
Series B-1 redeemable convertible preferred stock, $0.001 par value, 1,669,680 shares authorized, 82,934 shares issued and outstanding as of June 30, 2015 and December 31, 2014, liquidation preference of $8,759 as of June 30, 2015 and December 31, 2014.	6,265	6,265
Series A redeemable convertible preferred stock, $0.001 par value, 3,511,725 shares authorized, 1,998,257 shares issued and outstanding as of June 30, 2015 and December 31, 2014, liquidation preference of $25,283 and $24,309 as of June 30, 2015 and December 31, 2014.	59,668	59,668
Stockholders’ deficit		
Common stock, $0.01 par value, 100,000,000 shares authorized, 2,950,534 and 2,823,816 shares issued as of June 30, 2015 and December 31, 2014 and 2,794,525 and 2,614,444 shares outstanding as of June 30, 2015 and December 31, 2014.	28	26

Additional paid-in capital	—	7,168
Treasury stock (35,523 shares at cost of $1.20 per share)	(42)	(42)
Accumulated other comprehensive income	—	—
Accumulated deficit	(134,281)	(128,996)
Total Stockholders’ Deficit	(134,295)	(121,844)
Total Liabilities, Redeemable Convertible Preferred Stock and Stockholders’ Deficit	$119,222	$120,932

See accompanying notes to the condensed consolidated financial statements.

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

	Six Months Ended June 30,	
Cash flows from operating activities:	2015	2014
Net income	$5,550	$6,349
Adjustments to reconcile net income to net cash from operating activities:		
Provision for doubtful accounts	389	482
Reserve for product returns	763	995
Amortization on patents	124	101
Amortization and depreciation	2,866	1,656
Amortization of debt issuance costs	54	16
Deferred income taxes	(2,125)	(642)
Gain in change in fair value of contingent liability	70	—
Undistributed losses from equity investees	188	238
Stock-based compensation	1,389	1,619
Other, net	(76)	(137)
Changes in operating assets and liabilities (net of business acquisition):		
Accounts receivable	(7,447)	(4,976)
Inventory	(1,416)	(3,460)
Other assets	(1,171)	(1,551)
Accounts payable, accrued expenses and other current liabilities	7,367	5,386
Deferred revenue	351	629
Other liabilities	840	(90)
Cash flows from operating activities	7,716	6,615
Cash flows used in investing activities:		
Business acquisition, net of cash acquired	(5,632)	—
Additions to property and equipment	(2,012)	(2,294)
Investment in cost method investee	(54)	—
Issuances of notes receivable	(219)	(234)
Purchases of licenses to patents	(1,000)	—
Cash flows used in investing activities	(8,917)	(2,528)
Cash flows (used in) / from financing activities		
Proceeds from issuance of debt, net of debt issuance costs	—	6,376
Repayments of term loan	—	(7,500)
Dividends paid to common stockholders	(1,013)	—
Dividends paid to employees for unvested shares	(57)	—
Dividends paid to redeemable convertible preferred stockholders	(18,930)	—
Payments of deferred offering costs	(1,205)	(1,078)
Repurchases of common stock	(1)	(3)
Proceeds from early exercise of stock-based awards	124	1,516
Issuances of common stock from equity based plans	184	484
Tax windfall benefit from stock-based awards	410	748
Cash flows (used in) / from financing activities	(20,488)	543
Net (decrease) / increase in cash and cash equivalents	(21,689)	4,630
Cash and cash equivalents at beginning of the period	42,572	33,583
Cash and cash equivalents at end of the period	$20,883	$38,213
Supplemental disclosure of noncash investing and financing activities:		

Cash not yet paid for business acquisitions	$834	$—
Contingent liability from business acquisition	$630	$—
Cash not yet paid for capital expenditures	$112	$—
Deferred offering costs in accounts payable, accrued expenses and other current liabilities	$1,340	$778

See accompanying notes to the condensed consolidated financial statements.

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

	Common Stock		Additional Paid-In-Capital	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' (Deficit) Equity
	Shares	Amount					
Balance, January 1, 2015	2,614	$26	$ 7,168	$(42)	$ (128,996)	$ —	$ (121,844)
Common stock issued in connection with equity based plans	190	2	182	—	—	—	184
Vesting of common stock subject to repurchase	65	1	230	—	—	—	231
Stock-based compensation expense	—	—	1,389	—	—	—	1,389
Tax benefit from stock-based awards, net	—	—	241	—	—	—	241
Modification of employee stock-based award and repurchase of common stock	(75)	(1)	(45)	—	—	—	(46)
Dividends paid to common stockholders	—	—	(673)	—	(340)	—	(1,013)
Dividends paid to employees with unvested common stock	—	—	(38)	—	(19)	—	(57)
Dividends paid to redeemable convertible preferred stockholders	—	—	(8,454)	—	(10,476)	—	(18,930)
Net income	—	—	—	—	5,550	—	5,550
Balance, June 30, 2015	2,794	$28	$ —	$(42)	$ (134,281)	$ —	$ (134,295)

See accompanying notes to the condensed consolidated financial statements.

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ALARM.COM HOLDINGS, INC.
Notes to the Condensed Consolidated Financial Statements
June 30, 2015 and 2014
(unaudited)

Note 1. Organization

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

Initial Public Offering

On July 1, 2015, we closed our initial public offering ("IPO") of 7,000,000 shares of common stock at an offering price of $14.00 per share, resulting in gross proceeds of approximately $98.0 million. Our registration statement on Form S-1 relating to our IPO was declared effective by the Securities and Exchange Commission on June 25, 2015. In addition, on July 8, 2015, we closed the underwriters exercise of their over-allotment option to purchase 525,000 additional shares of our common stock from us, resulting in additional gross proceeds of approximately $7.4 million. We raised a total of $105.4 million in gross proceeds from the IPO, or approximately $93.0 million in net proceeds after deducting underwriting discount and commission of $7.4 million and offering costs of $5.0 million. The accompanying consolidated financial statements, including share and per share amounts, do not include the effects of the offering as it was completed subsequent to June 30, 2015. Upon completion of the IPO in the third quarter of 2015, (i) all outstanding shares of convertible preferred stock converted into an aggregate of 35,017,884 shares of common stock and (ii) we issued 7,525,000 shares of common stock resulting in net proceeds of $93.0 million after deducting the underwriters discount and offering costs.

Dividend

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

Note 2. Basis of Presentation

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts and our results of operations and our majority owned and controlled subsidiaries. All intercompany balances and transactions have been eliminated in the accompanying unaudited condensed consolidated financial statements.

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 for the year ended December 31, 2014 appearing in our final prospectus filed with the SEC on June 26, 2015, pursuant to Rule 424(b) under the Securities Act of 1933, as amended. The condensed balance sheet data as of December 31, 2014 was derived from our audited financial statements, but does not include all disclosures required by GAAP.

In the opinion of management, these condensed consolidated financial statements include all normal recurring adjustments necessary for a fair presentation of the results of operations, financial position and cash flows. The results

of operations for the three and six months ended June 30, 2015 are not necessarily indicative of the results that can be expected for the entire fiscal year ending December 31, 2015.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Our estimates, judgments and assumptions are continually evaluated based on available information and experience. Because of the use of estimates inherent in the financial reporting process, actual results could differ from those estimates.

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Estimates are used when accounting for revenue recognition, allowances for doubtful accounts receivable, allowance for hardware returns, estimates of obsolete inventory, long-term incentive compensation, stock-based compensation, income taxes, legal reserves, contingent consideration and goodwill and intangible assets.

Recent Accounting Pronouncements

Adopted

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

Not yet adopted

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

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

On April 7, 2015, the FASB issued ASU 2015-03, “Simplifying the Presentation of Debt Issuance Costs,” which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability, consistent with the presentation of a debt discount. The guidance in the new standard is limited to the presentation of debt issuance costs. The ASU is effective retrospectively for the presentation of debt issuance costs in periods beginning after December 15, 2015 with early adoption permitted. We are required to adopt this pronouncement in the first quarter of 2016 and we do not anticipate that adoption of the pronouncement will have a material 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 they should consolidate certain legal entities. All legal entities are subject to reevaluation under the revised consolidation model. The amendment modifies the evaluation of whether limited partnerships and similar legal entities are variable interest entities ("VIEs"). The amendment eliminates the presumption that a general partner should consolidate a limited partnership. The amendment affects the consolidation analysis of reporting entities that are involved with VIEs particularly those that have fee arrangements and related party relationships. The amendment also provides a scope exception from consolidation guidance for reporting entities that comply with the requirements for registered money market funds. We are required to adopt ASU 2015-02 in the first quarter of 2016 and we do not anticipate that adoption of the pronouncement will have a material impact on our financial statements.

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On August 27, 2014, the FASB issued ASU 2014-15, "Presentation of Financial Statements — Going Concern (Subtopic 205-40)," which requires management to perform interim and annual assessments regarding conditions or events that raise substantial doubt about a company's ability to continue as a going concern and to provide related disclosures, if applicable. We are required to adopt ASU 2014-15 in the first quarter of 2017, with early adoption permitted. We do not anticipate that the adoption of this standard will have a material effect on our financial statements.
On June 19, 2014, the FASB issued ASU 2014-12, "Compensation — Stock Compensation (Topic 718)," which affects any entity that grants its employees share-based payments in which the terms of the award stipulate that a performance target that affects vesting could be achieved after the requisite service period. The amendments require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. We are required to adopt ASU 2014-12 in the first quarter of 2016 and the adoption of this standard is not expected to have a material effect on our financial statements.
On May 28, 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)," which 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 Codification. The guidance also supersedes some cost guidance included in Subtopic 605-35, "Revenue Recognition — Contract-Type and Production-Type Contracts". On April 1, 2015, the FASB voted to propose to defer the effective date of the pronouncement by one year, which was reaffirmed at the FASB July 9, 2015 meeting. ASU 2014-9, as amended, is effective for annual periods, and interim periods within those years, beginning after December 31, 2017. An entity is required to apply the amendments using one of the following two methods: (1) retrospectively to each prior period presented with three possible expedients: (a) for completed contracts that begin and end in the same reporting period no restatement is required; (b) for completed contract with variable consideration an entity may use the transaction price at completion rather than restating estimated variable consideration amounts in comparable reporting periods; and (c) for comparable reporting periods before date of initial application reduced disclosure requirements related to transaction price; (2) retrospectively with the cumulative effect of initially applying the amendment recognized at the date of initial application with additional disclosures for the differences of the prior guidance to the reporting periods compared to the new guidance and an explanation of the reasons for significant changes. We are required to adopt ASU 2014-09 in the first quarter of 2018 and we are currently assessing the impact of this pronouncement on our financial statements.
Note 3. Accounts Receivable, Net
The components of accounts receivable are as follows (in thousands):

	June 30, 2015	December 31, 2014
Accounts receivable	$27,400	$20,494
Allowance for doubtful accounts	(1,804)	(1,397)
Allowance for product returns	(2,028)	(1,838)
Accounts receivable, net	$23,568	$17,259

For the three and six months ended June 30, 2015, we recorded a $0.4 million and $0.8 million reserve for product returns in our hardware and other revenue. For the three and six months ended June 30, 2014, we recorded a $0.6 million and $1.0 million reserve for product returns in our hardware and other revenue. For the three and six months ended June 30, 2015, we recorded a $0.1 million and a $0.4 million provision for doubtful accounts receivable. For the three and six months ended June 30, 2014, we recorded a $0.3 million and a $0.5 million provision for doubtful accounts receivable. Historically, we have not experienced write-offs for uncollectible accounts or sales returns that have differed significantly from our estimates.

Note 4. Inventory

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

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	June 30, 2015	December 31, 2014
Raw materials	$4,483	$3,371
Finished goods	3,861	3,481
Total inventory	$8,344	$6,852

Note 5. Acquisitions

SecurityTrax Acquisition

On March 13, 2015, in accordance with an asset purchase agreement, we completed our purchase of certain assets of HiValley Technology, Inc., ("SecurityTrax") that constituted a business. SecurityTrax is a provider of SaaS-based, customer relationship management software tailored for security system dealers. The consideration included $5.6 million cash paid at closing 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. We included the results of SecurityTrax's operations since its acquisition date in the Alarm.com segment (see Note 18).

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

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

Goodwill of $3.3 million reflects the value of acquired workforce and expected synergies from pairing SecurityTrax solutions to security service providers with our offerings. The goodwill will be deductible for tax purposes. Our estimate of the fair value of intangible net assets was developed 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.

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

The customer relationships intangible was recorded separate 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 percent 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 percent. The customer relationships, valued at $1.7 million, are being amortized on a straight-line basis over a weighted-average estimated useful life of 7 years.

Developed Technology

Developed technology recorded separately from goodwill consists of intellectual property such as proprietary software used internally for revenue producing activities. SecurityTrax's proprietary software is offered for sale on a SaaS hosted basis to customers. The developed technology was valued by applying the relief from royalty method, an income approach. We used several assumptions in the relief from royalty method, which included revenue growth, a market royalty rate of 25 percent and a

22.5 percent discount rate used to the calculate the present value of the cash flows. There was also an additional component of the developed technology that we refer to as the home page that organized customer data and functioned as the billing and administration tool. The home page component was valued by applying the replacement cost model, a cost approach. We used several assumptions in the replacement cost approach, which included analyzing costs that a company would expect to incur in order to recreate an asset of equivalent utility. In addition, there was an adjustment for developer's profit of 30.4 percent which brought the asset to fair value on an exit-price basis. The developed technology, valued at $1.4 million, is being amortized on a straight-line basis over a weighted-average estimated useful life of 8 years.

Contingent Consideration Liability

The amount of contingent consideration liability to be paid, up to a maximum of $2.0 million, to the former owners will be determined based on revenue and EBITDA 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. The contingent consideration, valued at $0.7 million, was recorded as a contingent consideration liability in other liabilities in our consolidated balance sheet. The liability will be remeasured each reporting date with changes recorded in general and administrative expense until it is paid in the first quarter of 2018. As of the June 30, 2015, the fair value of the contingent consideration liability was remeasured to $0.6 million using the same method with a 9.13% discount rate and a 7.5% revenue risk adjustment which resulted in a $0.1 million gain.

Secure-i Acquisition

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

Horizon Analog Acquisition

On December 10, 2014, in accordance with an asset purchase agreement, we completed our purchase of certain assets of Horizon Analog, Inc. ("Horizon Analog") that constituted a business. Horizon Analog is a producer of research that focuses on cost-effective collection and analysis of data relating to energy usage and consumer behavior and energy disaggregation. Total consideration included $0.6 million in cash and $0.1 million in cash not yet paid. We recorded less than $0.1 million of property and equipment and $0.7 million of goodwill in connection with the acquisition, which reflects the acquired workforce and synergies expected from combining our operations with those of Horizon Analog. The goodwill will be deductible for tax purposes. We included the results of Horizon Analog's operations since its acquisition date in the Alarm.com segment.

Unaudited Pro Forma Information

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

This pro forma financial information includes our historical financial statements and those of our business combinations with the following adjustments: (1) we adjusted for amortization expense assuming the fair value adjustments to intangible assets had been applied beginning January 1, 2014; (2) we adjusted for $0.1 million of transaction costs incurred in 2015 and reclassified them to 2014 and (3) we 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, as follows (in thousands):

	Pro forma Six Months Ended June 30,	
	2015	2014
Revenue	$98,182	$79,740
Net income	5,512	6,046

Note 6. Goodwill and Intangible Assets, Net

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The changes in goodwill by operating segment are outlined below for the six months ended June 30, 2015 (in thousands):

	Alarm.com	Other	Total
Balance as of December 31, 2014	$21,374	$—	$21,374
Goodwill acquired	3,349	—	3,349
Balance as of June 30, 2015	$24,723	$—	$24,723

The $3.3 million of acquired goodwill in the Alarm.com segment was related to the acquisition of SecurityTrax in March 2015. See Note 5 for additional information regarding this acquisition.

There were no impairments of goodwill during the three and six months ended June 30, 2015 or 2014.

The following table reflects changes in the net carrying amount of the components of intangible assets for the six months ended June 30, 2015 (in thousands):

	Customer Relationships	Developed Technology	Trade Name	Other	Total
Balance as of December 31, 2014	$3,853	$918	$94	$227	$5,092
Intangible assets acquired	1,699	1,407	271	—	3,377
Amortization	(537)	(384)	(40)	(67)	(1,028)
Balance as of June 30, 2015	$5,015	$1,941	$325	$160	$7,441

For the three and six months ended June 30, 2015, we recorded $0.5 million and $1.0 million of amortization related to our intangible assets. For the three and six months ended June 30, 2014, we recorded $0.4 million and $0.8 million of amortization related to our intangible assets.

The following tables reflect the weighted average remaining life and carrying value of finite-lived intangible assets as of June 30, 2015 and December 31, 2014 (in thousands):

	June 30, 2015			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	Weighted-average Remaining Life
Customer relationships	$10,666	$(5,651)	$5,015	4.8
Developed technology	5,390	(3,449)	1,941	5.5
Trade name	914	(589)	325	5.5
Other	234	(74)	160	1.4
Total intangible assets	$17,204	$(9,763)	$7,441	

	December 31, 2014			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	Weighted-average Remaining Life
Customer relationships	$8,967	$(5,114)	$3,853	4.4
Developed technology	3,983	(3,065)	918	1.6
Trade name	643	(549)	94	1.8
Other	234	(7)	227	1.9
Total intangible assets	$13,827	$(8,735)	$5,092	

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

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Year ending December 31,	Amortization
2015	$1,100
2016	1,726
2017	1,400
2018	1,329
2019 and thereafter	1,886

Note 7. Investments in Other Entities

Cost Method Investment in Connected Home Service Provider

On September 4, 2012, we purchased 20,000 Series A Convertible Preferred Membership Units of a Brazilian connected home solutions provider for $15.00 per unit, or $0.3 million, for a 12.2% interest on a fully diluted basis in this entity. On June 26, 2013, we entered into an agreement with the same company to purchase 2,667 Series B Convertible Preferred Membership Units at $26.22 per unit, or $0.1 million, which brought our aggregate interest to 12.4% on a fully diluted basis. On April 15, 2015, we entered into an additional agreement with the same company to purchase 2,333 Series B-1 Convertible Preferred Membership Units at $23.31 per unit or $0.1 million, which brought our aggregate equity interest to 12.6% on a fully diluted basis. The entity resells our products and services to residential and commercial customers in Brazil. Based upon the level of equity investment at 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 the connected home services provider. We account for this investment using the cost method. As of June 30, 2015 and December 31, 2014, the fair value of this cost method investment was not estimated as there were no events or changes in circumstances that may have had a significant adverse effect on the fair value of the investment. The $0.4 million investment balance is included in other assets in our consolidated balance sheets as of June 30, 2015 and December 31, 2014.

Loans to and Investments in an Installation Partner

On November 20, 2013, we paid $1.0 million to purchase 48,190 common units of an installation partner for a 48.2% interest on a fully diluted basis in this entity. The entity performs installation services for security dealers. Based upon the level of equity investment at risk, we determined that the installation partner is not a VIE. We account for this investment under the equity method because we have the ability to exercise significant influence over the operating and financial policies of the entity. Under the equity method, we recognize our share of the earnings or losses of the installation partner in other (expense) / income, net in our consolidated statements of operations in the periods they are reported by the installation partner. The loss in other (expense) / income, net was $0.1 million and $0.2 million for the three and six months ended June 30, 2015. The loss in other (expense) / income, net was $0.1 million and $0.2 million for the three and six months ended June 30, 2014. Our $1.0 million investment, net of equity losses, is included in other assets in our consolidated balance sheets and was $0.2 million and $0.4 million as of June 30, 2015 and December 31, 2014.

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

Loans to and Investments in a Platform Partner

A platform partner produces connected devices that are integrated into our connected home platform, and we entered into investments to provide capital in order to bring our platform partner’s devices to market and integrate them onto our connected home platform. In the first quarter of 2013, we paid $3.5 million in cash to purchase 3,548,820 shares of our platform partner’s Series A convertible preferred shares, or an 18.7% interest on as-converted and fully diluted basis. In the fourth quarter of 2014, we entered into a Series 1 Preferred Stock purchase agreement with the platform partner and another investor. The other investor invested cash to purchase shares of the platform partner’s Series 1 Preferred Stock. As a result of the purchase, our 3,548,820 shares of Series A convertible preferred shares converted

into 3,548,820 shares of common stock, and we hold an 8.6% interest in the platform partner on an as converted and fully diluted basis. In conjunction with the transaction, we received a $2.5 million dividend which 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 continue to conclude that we are not the primary beneficiary of our platform partner and, therefore, we do not consolidate it. We account for this investment under the cost method. As of June 30, 2015, the fair value of this cost method investment was not estimated as there were no events

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or changes in circumstances that may have had a significant adverse effect on the fair value of the investment. As of June 30, 2015 and December 31, 2014, our $1.0 million cost method investment in a platform partner was recorded in other assets in our consolidated balance sheets.

Note 8. Other Assets

Patent Licenses

From time to time, we enter into agreements to license patents. We have $3.3 million in patent licenses related to two such agreements, which are being amortized over the estimated useful lives of the patents which range from three to eleven years. The net balance as of June 30, 2015 and December 31, 2014 was $2.4 million and $1.5 million. Amortization expense on patent licenses was $0.1 million for each of the three months ended June 30, 2015 and 2014, was $0.1 million for each of the six months ended June 30, 2015 and 2014.

Loan to a Distribution Partner

On July 25, 2013, we entered into a revolving loan agreement with a distribution partner. The distribution partner is also a service provider with whom we have a standard agreement to resell our connected home service and hardware. We evaluate the credit quality of our distribution partner for purposes of the revolving loan agreement using the same methods that we employ to evaluate its creditworthiness as a service provider, including a credit review at the inception of the arrangement and if risk indicators arise. At the inception of the loan agreement, we determined the credit quality of our distribution partner to be good. No risk indicators have arisen to cause us to change that assessment.

Under the terms of the revolving loan agreement, we agreed to loan our distribution partner up to $2.8 million, with the proceeds of the loan used to finance the creation of new customer accounts that use our products and services. The amount that our distribution partner may draw down on the loan is based on the number of its qualifying new customer accounts created each month. The loan bears interest at a rate of 8.0% per annum, and requires monthly interest payments, with the entire principal balance due on the loan maturity date, July 24, 2018. The balance outstanding under the loan is collateralized by the customer accounts owned by our distribution partner, as well as all of the physical assets and accounts receivable associated with those customer accounts. As of June 30, 2015 and December 31, 2014, our distribution partner has borrowed $2.2 million and $2.0 million under this loan agreement, respectively, and this note receivable is included in other assets on our consolidated balance sheets.

Deferred Offering Costs

Deferred offering costs of $5.0 million and $2.8 million consisting primarily of legal and accounting fees, are included in other assets on the consolidated balance sheets as of June 30, 2015 and December 31, 2014. Upon the closing of our IPO these amounts will be offset against the proceeds of the offering and will be included in stockholders' (deficit) equity.

Note 9. Accounts Payable, Accrued Expenses and Other Current Liabilities

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

	June 30, 2015	December 31, 2014
Accounts payable	$16,724	$11,179
Accrued expenses	3,431	1,911
Other current liabilities	4,099	2,143
Accounts payable, accrued expenses and other current liabilities	$24,254	$15,233

Note 10. Fair Value Measurements

The following presents our assets and liabilities measured at fair value on a recurring basis as of June 30, 2015 and December 31, 2014 (in thousands):

	Fair Value Measurements on a Recurring Basis as of June 30, 2015			
	Level 1	Level 2	Level 3	Total
Assets:				
Money market account	$15,097	$—	$—	$15,097
Liabilities:				

Subsidiary unit awards	—	—	(152)	(152)
Contingent consideration liability from acquisition	—	—	(630)	(630)
	$15,097	$—	$(782)	