

---

---

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

---

**FORM 10-Q**

---

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 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 333-191132-02

---

**APX Group Holdings, Inc.**

(Exact name of Registrant as specified in its charter)

---

**Delaware**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**4931 North 300 West**  
**Provo, UT**  
(Address of Principal Executive Offices)

**46-1304852**  
(I.R.S. Employer  
Identification No.)

**84604**  
(Zip Code)

**Registrant's Telephone Number, Including Area Code: (801) 377-9111**

---

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 ☒

(Note: From January 1, 2015 until the effectiveness of the registrant's Registration Statement on Form S-4 (File No. 333-212390) on July 8, 2016, the registrant was a voluntary filer not subject to the filing requirements of Section 13 or 15(d) of the Exchange Act; as a voluntary filer the registrant filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant would have been required to file such reports) as if it were subject to such filing requirements.)

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 ☒ (Do not check if a smaller reporting company)

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 ☒

---

[Table of Contents](#)

As of August 10, 2016 , there were 100 shares of the issuer’s common stock, par value \$0.01 per share, issued and outstanding.

---

---

APX Group Holdings Inc.

FORM 10-Q

TABLE OF CONTENTS

<b><a href="#">PART I — Financial Information</a></b>	<b>5</b>
Item 1. <a href="#">Unaudited Condensed Consolidated Financial Statements</a>	5
<a href="#">Unaudited Condensed Consolidated Balance Sheets as of June 30, 2016 and December 31, 2015</a>	5
<a href="#">Unaudited Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2016 and 2015</a>	6
<a href="#">Unaudited Condensed Consolidated Statements of Comprehensive Loss for the three and six months ended June 30, 2016 and 2015</a>	7
<a href="#">Unaudited Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2016 and 2015</a>	8
<a href="#">Notes to Unaudited Condensed Consolidated Financial Statements</a>	9
Item 2. <a href="#">Management’s Discussion and Analysis of Financial Condition and Results of Operations</a>	36
Item 3. <a href="#">Quantitative and Qualitative Disclosures About Market Risk</a>	55
Item 4. <a href="#">Controls and Procedures</a>	56
<b><a href="#">PART II — Other Information</a></b>	<b>56</b>
Item 1. <a href="#">Legal Proceedings</a>	56
Item 1A. <a href="#">Risk Factors</a>	57
Item 2. <a href="#">Unregistered Sales of Equity Securities and Use of Proceeds</a>	57
Item 3. <a href="#">Defaults Upon Senior Securities</a>	57
Item 4. <a href="#">Mine Safety Disclosures</a>	57
Item 5. <a href="#">Other Information</a>	57
Item 6. <a href="#">Exhibits</a>	58
<a href="#">SIGNATURES</a>	59

## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q includes forward-looking statements regarding, among other things, our plans, strategies and prospects, both business and financial. These statements are based on the beliefs and assumptions of our management. Although we believe that our plans, intentions and expectations reflected in or suggested by these forward-looking statements are reasonable, we cannot assure you that we will achieve or realize these plans, intentions or expectations. Forward-looking statements are inherently subject to risks, uncertainties and assumptions. Generally, statements that are not historical facts, including statements concerning our possible or assumed future actions, business strategies, events or results of operations, are forward-looking statements. These statements may be preceded by, followed by or include the words “believes,” “estimates,” “expects,” “projects,” “forecasts,” “may,” “will,” “should,” “seeks,” “plans,” “scheduled,” “anticipates” or “intends” or similar expressions.

Forward-looking statements are not guarantees of performance. You should not put undue reliance on these statements which speak only as of the date hereof. You should understand that the following important factors, in addition to those discussed in “Risk Factors” and elsewhere in this Quarterly Report, could affect our future results and could cause those results or other outcomes to differ materially from those expressed or implied in our forward-looking statements:

- risks of the security and smart home industry, including risks of and publicity surrounding the sales, subscriber origination and retention process;
- the highly competitive nature of the security and smart home industry and product introductions and promotional activity by our competitors;
- litigation, complaints or adverse publicity;
- the impact of changes in consumer spending patterns, consumer preferences, local, regional, and national economic conditions, crime, weather, demographic trends and employee availability;
- adverse publicity and product liability claims;
- increases and/or decreases in utility costs, increased costs related to utility or governmental requirements;
- cost increases or shortages in security and smart home technology products or components;
- the introduction of unsuccessful new products and services; and
- privacy and data protection laws, privacy or data breaches, or the loss of data.

In addition, the origination and retention of new subscribers will depend on various factors, including, but not limited to, market availability, subscriber interest, the availability of suitable components, the negotiation of acceptable contract terms with subscribers, local permitting, licensing and regulatory compliance, and our ability to manage anticipated expansion and to hire, train and retain personnel, the financial viability of subscribers and general economic conditions.

These and other factors that could cause actual results to differ from those implied by the forward-looking statements in this Quarterly Report are more fully described in the “Risk Factors” section of our Annual Report on Form 10-K for the fiscal year ended December 31, 2015 and elsewhere in this Quarterly Report on Form 10-Q. The risks described in “Risk Factors” are not exhaustive. Other sections of this Quarterly Report describe additional factors that could adversely affect our business, financial condition or results of operations. New risk factors emerge from time to time and it is not possible for us to predict all such risk factors, nor can we assess the impact of all such risk factors on our business or the extent to which any factor or combination of factors may cause actual results to differ materially from those contained in any forward-looking statements. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the foregoing cautionary statements. We undertake no obligations to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

## **WEBSITE AND SOCIAL MEDIA DISCLOSURE**

We use our website ([www.vivint.com](http://www.vivint.com)), our corporate Twitter account (@VivintHome), and our corporate Facebook account (VivintHome) as channels of distribution of company information. The information we post through these channels may be deemed material. Accordingly, investors should monitor these channels, in addition to following our press releases, SEC filings and public conference calls and webcasts. In addition, you may automatically receive e-mail alerts and other information about the Company when you enroll your e-mail address by visiting the “Email Alerts” section of our website at [www.investors.vivint.com](http://www.investors.vivint.com). The contents of our website and social media channels are not, however, a part of this report.

**PART I. FINANCIAL INFORMATION**
**ITEM 1. UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**APX Group Holdings, Inc. and Subsidiaries**  
**Condensed Consolidated Balance Sheets (unaudited)**  
**(In thousands)**

	June 30, 2016	December 31, 2015
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 121,406	\$ 2,559
Accounts receivable, net	8,545	8,060
Inventories	89,496	26,321
Prepaid expenses and other current assets	16,860	10,626
Total current assets	236,307	47,566
Property and equipment, net	54,062	55,274
Subscriber acquisition costs, net	945,851	790,644
Deferred financing costs, net	5,434	6,456
Intangible assets, net	503,146	558,395
Goodwill	836,129	834,416
Long-term investments and other assets, net	10,629	10,893
Total assets	\$ 2,591,558	\$ 2,303,644
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
Current Liabilities:		
Accounts payable	\$ 108,121	\$ 52,207
Accrued payroll and commissions	70,541	38,247
Accrued expenses and other current liabilities	36,616	35,573
Deferred revenue	42,621	34,875
Current portion of capital lease obligations	8,055	7,616
Total current liabilities	265,954	168,518
Notes payable, net	2,381,320	2,118,112
Revolving credit facility	—	20,000
Capital lease obligations, net of current portion	8,534	11,171
Deferred revenue, net of current portion	52,231	44,782
Other long-term obligations	11,849	10,530
Deferred income tax liabilities	8,046	7,524
Total liabilities	2,727,934	2,380,637
Commitments and contingencies (See Note 10)		
Stockholders' deficit:		
Common stock, \$0.01 par value, 100 shares authorized; 100 shares issued and outstanding	—	—
Additional paid-in capital	700,276	627,645
Accumulated deficit	(807,197)	(672,382)
Accumulated other comprehensive loss	(29,455)	(32,256)
Total stockholders' deficit	(136,376)	(76,993)
Total liabilities and stockholders' deficit	\$ 2,591,558	\$ 2,303,644

*See accompanying notes to unaudited condensed consolidated financial statements*

**APX Group Holdings, Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Operations (unaudited)**  
(In thousands)

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Revenues:				
Recurring revenue	\$ 172,472	\$ 149,543	\$ 339,918	\$ 295,207
Service and other sales revenue	5,826	6,992	10,837	12,216
Activation fees	2,509	1,378	4,305	2,685
Total revenues	180,807	157,913	355,060	310,108
Costs and expenses:				
Operating expenses (exclusive of depreciation and amortization shown separately below)	68,943	58,623	126,934	109,952
Selling expenses	37,343	31,244	66,223	56,520
General and administrative expenses	36,109	12,864	66,550	41,098
Depreciation and amortization	72,010	60,070	132,581	117,127
Restructuring and asset impairment charges	(725)	—	(680)	—
Total costs and expenses	213,680	162,801	391,608	324,697
Loss from operations	(32,873)	(4,888)	(36,548)	(14,589)
Other expenses (income):				
Interest expense	47,447	38,841	92,865	77,101
Interest income	(11)	—	(23)	(2)
Other loss (income), net	9,861	(294)	4,753	(335)
Loss before income taxes	(90,170)	(43,435)	(134,143)	(91,353)
Income tax (benefit) expense	(448)	179	672	308
Net loss	\$ (89,722)	\$ (43,614)	\$ (134,815)	\$ (91,661)

*See accompanying notes to unaudited condensed consolidated financial statements*

**APX Group Holdings, Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Comprehensive Loss (unaudited)**  
**(In thousands)**

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Net loss	\$ (89,722)	\$ (43,614)	\$ (134,815)	\$ (91,661)
Other comprehensive loss, net of tax effects:				
Foreign currency translation adjustment	40	2,202	2,801	(8,376)
Total other comprehensive gain (loss)	40	2,202	2,801	(8,376)
Comprehensive loss	<u>\$ (89,682)</u>	<u>\$ (41,412)</u>	<u>\$ (132,014)</u>	<u>\$ (100,037)</u>

*See accompanying notes to unaudited condensed consolidated financial statements*



**APX Group Holdings, Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Cash Flows (unaudited)**  
(In thousands)

	Six Months Ended June 30,	
	2016	2015
Cash flows from operating activities:		
Net loss	\$ (134,815)	\$ (91,661)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization of subscriber acquisition costs	65,975	41,187
Amortization of customer relationships	54,073	62,934
Depreciation and amortization of other intangible assets	12,533	13,013
Amortization of deferred financing costs	5,243	4,793
Non-cash gain on settlement of Merger-related escrow	—	(12,200)
Gain on sale or disposal of assets	70	6
Loss on early extinguishment of debt	9,933	—
Stock-based compensation	2,830	1,759
Provision for doubtful accounts	7,717	7,096
Deferred income taxes	487	216
Restructuring and asset impairment charges	(680)	—
Changes in operating assets and liabilities:		
Accounts receivable	(8,461)	(5,994)
Inventories	(62,785)	(21,898)
Prepaid expenses and other current assets	(6,144)	(3,954)
Subscriber acquisition costs – deferred contract costs	(214,594)	(177,071)
Other assets	265	—
Accounts payable	54,403	47,943
Accrued expenses and other current liabilities	29,270	35,198
Restructuring liability	(1,618)	—
Deferred revenue	14,725	8,943
Net cash used in operating activities	(171,573)	(89,690)
Cash flows from investing activities:		
Subscriber acquisition costs – company owned equipment	(1,791)	(15,566)
Capital expenditures	(4,526)	(18,064)
Proceeds from the sale of capital assets	1,925	408
Acquisition of intangible assets	(505)	(1,002)
Change in restricted cash	—	2,984
Acquisition of other assets	—	(67)
Net cash used in investing activities	(4,897)	(31,307)
Cash flows from financing activities:		
Proceeds from notes payable	500,000	—
Repayment of notes payable	(235,535)	—
Borrowings from revolving credit facility	57,000	149,000
Repayments on revolving credit facility	(77,000)	(10,000)
Proceeds from capital contribution	69,800	—
Repayments of capital lease obligations	(3,956)	(4,047)
Financing costs	(8,274)	—
Deferred financing costs	(6,277)	(4,233)
Net cash provided by financing activities	295,758	130,720
Effect of exchange rate changes on cash	(441)	(577)
Net increase in cash and cash equivalents	118,847	9,146
Cash and cash equivalents:		
Beginning of period	2,559	10,807
End of period	\$ 121,406	\$ 19,953

Supplemental non-cash investing and financing activities:			
Capital lease additions	\$	2,199	\$ 2,768
Capital expenditures included within accounts payable and accrued expenses and other current liabilities	\$	997	\$ 466
Subscriber acquisition costs - company owned assets included within accounts payable and accrued expenses and other current liabilities	\$	1,641	\$ 1,155
Financing costs included within accounts payable and accrued expenses and other current liabilities	\$	613	\$ —

*See accompanying notes to unaudited condensed consolidated financial statements*

**APX Group Holdings, Inc. and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements (unaudited)**

**NOTE 1 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES**

**Unaudited Interim Financial Statements** —The accompanying interim unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q have been prepared by APX Group Holdings, Inc. and subsidiaries (the “Company”) without audit. Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) have been condensed or omitted pursuant to such rules and regulations. The information as of December 31, 2015 included in the unaudited condensed consolidated balance sheets was derived from the Company’s audited consolidated financial statements. The unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q were prepared on the same basis as the audited consolidated financial statements and, in the opinion of management, reflect all adjustments (all of which are considered of normal recurring nature) considered necessary to present fairly the Company’s financial position, results of operations and cash flows for the periods and dates presented. The results of operations for the three and six months ended June 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016 .

These unaudited condensed consolidated financial statements and notes should be read in conjunction with the Company’s audited consolidated financial statements and related notes as set forth in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2015 , as filed with the Securities and Exchange Commission (“SEC”) on March 10, 2016, which is available on the SEC’s website at [www.sec.gov](http://www.sec.gov).

**Basis of Presentation** —The unaudited condensed consolidated financial statements of the Company are presented for APX Group Holdings, Inc. (“Holdings”) and its wholly-owned subsidiaries. The Company has prepared the accompanying unaudited condensed consolidated financial statements pursuant to GAAP. Preparing financial statements requires the Company to make estimates and assumptions that affect the amounts that are reported in the consolidated financial statements and accompanying disclosures. Although these estimates are based on the Company’s best knowledge of current events and actions that the Company may undertake in the future, actual results may be different from the Company’s estimates. The results of operations presented herein are not necessarily indicative of the Company’s results for any future period.

During the six months ended June 30, 2015 , the Company recorded certain out-of-period adjustments totaling \$2.0 million , primarily associated with the timing of the recognition of deferred revenue related to 2014 recurring monitoring services. As a result of these adjustments, recurring revenues increased for the six months ended June 30, 2015 and deferred revenue decreased by \$2.0 million , respectively. The Company evaluated the impact of the out-of-period adjustments and determined that they are immaterial to the unaudited condensed consolidated financial statements for the six months ended June 30, 2015 .

**Change in Accounting Estimate** — Effective as of the beginning of the second quarter of 2016, the Company updated the estimated life of its subscriber relationships and the period used to amortize deferred activation fees and deferred subscriber acquisition costs, to better approximate the related anticipated life of the customer. Prior to the change, the Company amortized deferred activation fees and subscriber acquisition costs over 12 years using a 150% declining balance method, which converted to a straight-line methodology after approximately five years . Subsequent to the change , the Company amortizes deferred activation fees and subscriber acquisition costs over 15 years using a 240% declining balance method, which converts to a straight-line methodology after approximately nine years when the resulting amortization exceeds that from the accelerated method. The effect of this change in estimate was to increase activation fee revenues for both the three and six months ended June 30, 2016 by \$0.5 million and increase depreciation and amortization for both the three and six months ended June 30, 2016 by \$7.6 million , resulting in an increase to loss from operations for both the three and six months ended June 30, 2016 of \$7.1 million and an increase to net loss for both the three and six months ended June 30, 2016 of \$6.9 million .

All pertinent factors, including actual customer attrition data, demand, competition, and the estimated technological life of the installed equipment, will continue to be reviewed by the Company, to assess the continued appropriateness of methods and estimated subscriber relationship period.

**Restructuring and Asset Impairment Charges** —Restructuring and asset impairment charges represent expenses incurred in connection with the transition of the Company’s wireless internet business from a 5Ghz to a 60Ghz-based network technology (the “Wireless Restructuring”) that occurred during the three months ended September 30, 2015 (See Note 13 ). These expenses consist of asset impairments, the costs of employee severance, and other contract termination charges. A liability for costs associated with the Wireless Restructuring is measured at its fair value when the liability is incurred. Expenses for one-time termination benefits were recognized at the date the Company notified the employee, unless the

employee was required to provide future service, in which case the benefits were expensed ratably over the future service period. Liabilities related to termination of a contract are measured and recognized at fair value when the contract does not have any future economic benefit to the entity and the fair value of the liability is determined based on the present value of the remaining obligation. The Company expenses all other costs related to an exit or disposal activity as incurred.

**Use of Estimates** —The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from those estimates.

**Changes in Presentation of Comparative Financial Statements** —Certain reclassifications have been made to the Company's prior period condensed consolidated financial information in order to conform to the current period presentation. These changes did not have a significant impact on the condensed consolidated financial statements.

**Revenue Recognition**— The Company recognizes revenue principally on three types of transactions: (i) recurring revenue, which includes revenues for monitoring and other smart home services of the Company's subscriber contracts and recurring monthly revenue associated with Vivint Wireless Inc. ("Wireless Internet" or "Wireless") , (ii) service and other sales, which includes non-recurring service fees charged to subscribers provided on contracts, contract fulfillment revenues and sales of products that are not part of the Company's service offerings, and (iii) activation fees on subscriber contracts, which are amortized over the expected life of the customer.

Recurring revenue for the Company's subscriber contracts is billed in advance, generally monthly, pursuant to the terms of subscriber contracts and recognized ratably over the service period. Costs of providing ongoing recurring services are expensed in the period incurred.

Service and other sales revenue is recognized as services are provided or when title to the products and equipment sold transfers to the customer. Contract fulfillment revenue, included in service and other sales, is recognized when payment is received from customers who cancel their contract in-term. Revenue from sales of products that are not part of the basic equipment package is generally recognized upon delivery of products.

Activation fees represent upfront one-time charges billed to subscribers at the time of installation and are deferred. The Company evaluates subscriber account attrition on a periodic basis, utilizing observed attrition rates for the Company's subscriber contracts and industry information and, when necessary, makes adjustments to the estimated subscriber relationship period and amortization method.

**Subscriber Acquisition Costs** — Subscriber acquisition costs represent the costs related to the origination of new subscribers. A portion of subscriber acquisition costs is expensed as incurred, which includes costs associated with the direct-to-home sale housing, marketing and recruiting, certain portions of sales commissions (residuals), overhead and other costs, considered not directly and specifically tied to the origination of a particular subscriber. The remaining portion of the costs is considered to be directly tied to subscriber acquisition and consists primarily of certain portions of sales commissions, equipment, and installation costs. These costs are deferred and recognized in a pattern that reflects the estimated life of the subscriber relationships. The Company evaluates subscriber account attrition on a periodic basis, utilizing observed attrition rates for the Company's subscriber contracts and industry information and, when necessary, makes adjustments to the estimated subscriber relationship period and amortization method.

On the condensed consolidated statement of cash flows, subscriber acquisition costs that are comprised of equipment and related installation costs purchased for or used in subscriber contracts in which the Company retains ownership to the equipment are classified as investing activities and reported as "Subscriber acquisition costs – company owned equipment". All other subscriber acquisition costs are classified as operating activities and reported as "Subscriber acquisition costs – deferred contract costs" on the condensed consolidated statements of cash flows as these assets represent deferred costs associated with customer contracts.

**Capital Contribution**— On April 25, 2016, APX Parent Holdco, Inc. ("Parent"), the parent company of the Company, completed the issuance and sale to certain investors of a series of preferred stock in a private placement exempt from registration under the Securities Act. On April 29, 2016, Parent contributed the net proceeds of \$69.8 million from such issuance and sale to the Company as an equity contribution.

**Cash and Cash Equivalents**— Cash and cash equivalents consists of highly liquid investments with remaining maturities when purchased of three months or less.

**Restricted Cash and Cash Equivalents** —Restricted cash and cash equivalents is restricted for a specific purpose and cannot be included in the general cash account. Restricted cash and cash equivalents consists of highly liquid investments with remaining maturities when purchased of three months or less. As of June 30, 2016 and December 31, 2015 the Company had no restricted cash.

**Accounts Receivable** — Accounts receivable consists primarily of amounts due from customers for recurring monthly monitoring services. The accounts receivable are recorded at invoiced amounts and are non-interest bearing. The gross amount of accounts receivable has been reduced by an allowance for doubtful accounts of \$3.1 million and \$3.5 million at June 30, 2016 and December 31, 2015 , respectively. The Company estimates this allowance based on historical collection experience and subscriber attrition rates. When the Company determines that there are accounts receivable that are uncollectible, they are charged off against the allowance for doubtful accounts. As of June 30, 2016 and December 31, 2015 , no accounts receivable were classified as held for sale. Provision for doubtful accounts is included in general and administrative expenses in the accompanying unaudited condensed consolidated statements of operations.

The changes in the Company's allowance for accounts receivable were as follows for the periods ended (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Beginning balance	\$ 3,022	\$ 2,908	\$ 3,541	\$ 3,373
Provision for doubtful accounts	3,736	3,538	7,717	7,096
Write-offs and adjustments	(3,661)	(3,203)	(8,161)	(7,226)
Balance at end of period	\$ 3,097	\$ 3,243	\$ 3,097	\$ 3,243

**Inventories** —Inventories, which are comprised of smart home and security system equipment and parts, are stated at the lower of cost or market with cost determined under the first-in, first-out (FIFO) method. The Company records an allowance for excess and obsolete inventory based on anticipated obsolescence, usage and historical write-offs.

**Long-lived Assets and Intangibles** — Property and equipment are stated at cost and depreciated on the straight-line method over the estimated useful lives of the assets or the lease term for assets under capital leases, whichever is shorter. Intangible assets with definite lives are amortized over the remaining estimated economic life of the underlying technology or relationships, which ranges from two to ten years . Definite-lived intangible assets are amortized on the straight-line method over the estimated useful life of the asset or in a pattern in which the economic benefits of the intangible asset are consumed. Amortization expense associated with leased assets is included with depreciation expense. Routine repairs and maintenance are charged to expense as incurred. The Company periodically assesses potential impairment of its long-lived assets and intangibles and performs an impairment review whenever events or changes in circumstances indicate that the carrying value may not be recoverable. In addition, the Company periodically assesses whether events or changes in circumstance continue to support an indefinite life of certain intangible assets or warrant a revision to the estimated useful life of definite-lived intangible assets.

During the fiscal quarter ended March 31, 2016, the Company adopted guidance issued by the Financial Accounting Standards Board ("FASB") which provides new standards to determine whether a cloud computing arrangement includes a software license. The guidance requires the company to determine if an internal use software obtained in a cloud hosting arrangement contains a contractual right to take possession of the software and if it is feasible to either run the software on internal hardware or contract with an unrelated vendor to host the software. If both criteria are met, the company will consider the arrangement to include a software license and classify the purchase as an intangible. The company has elected to adopt the guidance prospectively to all arrangements entered into or materially modified after the beginning of 2016. The company did not enter into, or modify, any material cloud computing arrangements during the fiscal quarter ended June 30, 2016 .

**Long-term Investments** —The Company's long-term investments are comprised of cost based investments in other companies (See Note 3 ). The Company performs impairment analyses of its cost based investments annually, as of October 1, or more often when events occur or circumstances change that would, more likely than not, reduce the fair value of the investment below its carrying value. When indicators of impairment do not exist and certain accounting criteria are met, the Company evaluates impairment using a qualitative approach. As of June 30, 2016 , no indicators of impairment existed associated with these cost based investments.

**Deferred Financing Costs** —Costs incurred in connection with obtaining debt financing are deferred and amortized utilizing the straight-line method, which approximates the effective-interest method, over the life of the related financing.

## [Table of Contents](#)

Deferred financing costs incurred with draw downs on APX Group, Inc.'s ("APX") revolving credit facility will be amortized over the amended maturity dates discussed in Note 2. If such financing is paid off or replaced prior to maturity with debt instruments that have substantially different terms, the unamortized costs are charged to expense. Deferred financing costs included in the accompanying unaudited condensed consolidated balance sheets within deferred financing costs, net and notes payable, net at June 30, 2016 and December 31, 2015 were \$46.9 million and \$46.7 million, net of accumulated amortization of \$36.5 million and \$30.9 million, respectively. Amortization expense on deferred financing costs recognized and included in interest expense in the accompanying unaudited condensed consolidated statements of operations, totaled \$2.8 million for both the three months ended June 30, 2016 and 2015, respectively and \$5.6 million and \$5.3 million for the six months ended June 30, 2016 and 2015, respectively (See Note 2).

Effective January 1, 2016, the Company adopted guidance issued by the FASB requiring debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The Company has applied this retrospectively resulting in a reduction to deferred financing costs, net by \$40.2 million as of December 31, 2015 with a corresponding decrease to notes payable, net.

**Residual Income Plan** —The Company has a program that allows third-party sales channel partners to receive additional compensation based on the performance of the underlying contracts they create. The Company calculates the present value of the expected future payments and recognizes this amount in the period the commissions are earned. Subsequent accretion and adjustments to the estimated liability are recorded as interest and operating expense, respectively. The Company monitors actual payments and customer attrition on a periodic basis and, when necessary, makes adjustments to the liability. The amount included in accrued payroll and commissions was \$1.0 million and \$0.8 million at June 30, 2016 and December 31, 2015, respectively, and the amount included in other long-term obligations was \$5.4 and \$4.3 million at June 30, 2016 and December 31, 2015, respectively, representing the present value of the estimated amounts owed to third-party sales channel partners.

**Stock-Based Compensation** —The Company measures compensation costs based on the grant-date fair value of the award and recognizes that cost over the requisite service period of the awards (See Note 9).

**Advertising Expense** —Advertising costs are expensed as incurred. Advertising costs were \$8.5 million and \$6.2 million for the three months ended June 30, 2016 and 2015, respectively and \$17.0 million and \$11.5 million for the six months ended June 30, 2016 and 2015, respectively.

**Income Taxes** —The Company accounts for income taxes based on the asset and liability method. Under the asset and liability method, deferred tax assets and deferred tax liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Valuation allowances are established when necessary to reduce deferred tax assets when it is determined that it is more likely than not that some portion of the deferred tax asset will not be realized.

The Company recognizes the effect of an uncertain income tax position on the income tax return at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. The Company's policy for recording interest and penalties is to record such items as a component of the provision for income taxes.

**Concentrations of Credit Risk** —Financial instruments that potentially subject the Company to concentration of credit risk consist principally of receivables and cash. At times during the year, the Company maintains cash balances in excess of insured limits. The Company is not dependent on any single customer or geographic location. The loss of a customer would not adversely impact the Company's operating results or financial position.

**Concentrations of Supply Risk** —As of June 30, 2016, approximately 50% of the Company's installed panels were 2GIG Go!Control panels and 50% were SkyControl panels. In connection with the 2GIG Sale in April 2013, the Company entered into a five-year supply agreement with 2GIG, pursuant to which they will be the exclusive provider of the Company's control panel requirements, subject to certain exceptions as provided in the supply agreement. The loss of 2GIG as a supplier could potentially impact the Company's operating results or financial position.

**Fair Value Measurement** —Fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Assets and liabilities subject to on-going fair value measurement are categorized and disclosed into one of three categories depending on observable or unobservable inputs employed in the measurement. These two types of inputs have created the following fair value hierarchy:

## [Table of Contents](#)

Level 1: Quoted prices in active markets that are accessible at the measurement date for assets and liabilities.

Level 2: Observable prices that are based on inputs not quoted in active markets, but corroborated by market data.

Level 3: Unobservable inputs are used when little or no market data is available.

This hierarchy requires the Company to minimize the use of unobservable inputs and to use observable market data, if available, when determining fair value. The Company recognizes transfers between levels of the hierarchy based on the fair values of the respective financial measurements at the end of the reporting period in which the transfer occurred. There were no transfers between levels of the fair value hierarchy during the six months ended June 30, 2016 and 2015 .

The carrying amounts of the Company's accounts receivable, accounts payable and accrued and other liabilities approximate their fair values due to their short maturities.

**Goodwill** —The Company conducts a goodwill impairment analysis annually in the fourth fiscal quarter, as of October 1, and as necessary if changes in facts and circumstances indicate that the fair value of the Company's reporting units may be less than its carrying amount. When indicators of impairment do not exist and certain accounting criteria are met, the Company is able to evaluate goodwill impairment using a qualitative approach. When necessary, the Company's quantitative goodwill impairment test consists of two steps. The first step requires that the Company compare the estimated fair value of its reporting units to the carrying value of the reporting unit's net assets, including goodwill. If the fair value of the reporting unit is greater than the carrying value of its net assets, goodwill is not considered to be impaired and no further testing is required. If the fair value of the reporting unit is less than the carrying value of its net assets, the Company would be required to complete the second step of the test by analyzing the fair value of its goodwill. If the carrying value of the goodwill exceeds its fair value, an impairment charge is recorded. As of June 30, 2016 , no indicators of impairment existed.

**Foreign Currency Translation and Other Comprehensive Income** —The functional currencies of Vivint Canada, Inc. and Vivint New Zealand, Ltd. are the Canadian and New Zealand dollars, respectively. Accordingly, assets and liabilities are translated from their respective functional currencies into U.S. dollars at period-end rates and revenue and expenses are translated at the weighted-average exchange rates for the period. Adjustments resulting from this translation process are classified as other comprehensive income (loss) and shown as a separate component of equity.

When intercompany foreign currency transactions between entities included in the consolidated financial statements are of a long term investment nature (i.e., those for which settlement is not planned or anticipated in the foreseeable future) foreign currency translation adjustments resulting from those transactions are included in stockholders' deficit as accumulated other comprehensive loss. When intercompany transactions are deemed to be of a short term nature, translation adjustments are required to be included in the condensed consolidated statement of operations. Translation gains related to intercompany balances were \$0.2 million and \$0 for the three months ended June 30, 2016 and 2015 , respectively and \$4.9 million and \$0 for the six months ended June 30, 2016 and 2015 , respectively.

**Letters of Credit** —As of June 30, 2016 and December 31, 2015 , the Company had \$5.7 million and \$5.0 million , respectively, of letters of credit issued in the ordinary course of business, all of which are undrawn.

**New Accounting Pronouncements** — In May 2014, the FASB originally issued Accounting Standard Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)* which clarifies the principles used to recognize revenue for all entities. This guidance requires companies to recognize revenue when they transfer goods or services to a customer in an amount that reflects the consideration to which they expect to be entitled. In August 2015, the FASB issued ASU 2015-14 which deferred the effective date of ASU 2014-09 by one year. In March 2016, the FASB issued ASU 2016-08 to clarify the implementation guidance on principal versus agent considerations as it relates to Topic 606. In June 2016, the FASB issued ASU 2016-10 to clarify the implementation guidance on identifying performance obligations and licensing as it relates to Topic 606. This update reduces the complexity when applying the guidance for identifying performance obligations and improves the operability and understandability of the license implementation guidance. In June 2016, the FASB issued ASU 2016-12 to clarify the implementation guidance on Topic 606, which amends the guidance on transition, collectability, non-cash consideration and the presentation of sales and other similar taxes. The Company is evaluating all new Topic 606 guidance and plans to provide additional information about its expected impact at a future date.

In March 2016, the FASB issued ASU 2016-09 to simplify accounting for employee share-based payments. This update involves several aspects of the accounting for 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. This update is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017 and will be



## [Table of Contents](#)

applied prospectively and/or retrospectively, with early adoption permitted. The Company plans to adopt this update on the effective date and the adoption is not expected to materially impact the consolidated financial statements.

In March 2016, the FASB issued ASU 2016-07 which eliminates the requirement to retroactively adopt the equity method of accounting when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence. This update is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016 and must be applied prospectively, with early adoption permitted. The Company plans to adopt this update on the effective date and the adoption is not expected to materially impact the consolidated financial statements.

In March 2016, the FASB issued ASU 2016-06 to clarify the assessment of contingent put and call options in debt instruments as it relates to Derivatives and Hedging (Topic 815). The amendments in this update clarify the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. An entity performing the assessment under the amendments in this update is required to assess the embedded call (put) options solely in accordance with the four-step decision sequence. This update is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016 and must be applied using a modified retrospective approach, with early adoption permitted. The Company plans to adopt this update on the effective date and is not expected to materially impact the consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02 to increase transparency and comparability among organizations as it relates to lease assets and lease liabilities. The update requires that lease assets and lease liabilities be recognized on the balance sheet, and that key information about leasing arrangements be disclosed. Prior to this update, GAAP did not require operating leases to be recognized as lease assets and lease liabilities on the balance sheet. This update is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018 and must be applied using a modified retrospective approach, with early adoption permitted. The Company is evaluating the new guidance and plans to provide additional information about its expected impact at a future date.

In January 2016, the FASB issued ASU 2016-01 to address certain aspects of the recognition, measurement, presentation, and disclosure of financial instruments. The main provisions of this update require equity investments to be measured at fair value with changes in fair value recognized in earnings, allows a company to value equity investments without a readily determined fair value at cost, less any impairments, and simplifies the assessment of impairments of equity investments without a readily determinable fair value by requiring a qualitative assessment. This update is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. An entity should apply the amendments by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values (including disclosure requirements) should be applied prospectively to equity investments that exist as of the date of adoption of the Update. Early adoption is permitted. The Company is evaluating the new guidance and plans to provide additional information about its expected impact at a future date.



## NOTE 2 – LONG-TERM DEBT

On November 16, 2012, APX issued \$1.3 billion aggregate principal amount of notes, of which \$925.0 million aggregate principal amount of 6.375% senior secured notes due 2019 (the “2019 notes”) mature on December 1, 2019 and are secured on a first-priority lien basis by substantially all of the tangible and intangible assets whether now owned or hereafter acquired by the Company, subject to permitted liens and exceptions, and \$380.0 million aggregate principal amount of 8.75% senior notes due 2020 (the “2020 notes”), mature on December 1, 2020.

During 2013, APX completed two offerings of additional 2020 notes under the indenture dated November 16, 2012. On May 31, 2013, the Company issued \$200.0 million of 2020 notes at a price of 101.75% and on December 13, 2013, APX issued an additional \$250.0 million of 2020 notes at a price of 101.50% .

During 2014, APX issued an additional \$100.0 million of 2020 notes at a price of 102.00% .

In October 2015, APX issued \$300.0 million aggregate principal amount of 8.875% senior secured notes due 2022 (the “2022 private placement notes”), pursuant to a note purchase agreement dated as of October 19, 2015 in a private placement exempt from registration under the U.S. Securities Act of 1933, as amended (the “Securities Act”). The 2022 private placement notes will mature on December 1, 2022, unless on September 1, 2020 (the 91st day prior to the maturity of the 2020 notes) more than an aggregate principal amount of \$190.0 million of such 2020 notes remain outstanding or have not been refinanced as permitted under the note purchase agreement for the 2022 private placement notes, in which case the 2022 private placement notes will mature on September 1, 2020. The 2022 private placement notes are secured, on a pari passu basis, by the collateral securing obligations under the 2019 notes, the 2022 private placement notes and the 2022 notes (as defined below) and the revolving credit facilities, in each case, subject to certain exceptions and permitted liens.

In May 2016, APX issued \$500.0 million aggregate principal amount of 7.875% senior secured notes due 2022 (the “2022 notes” and, together with the 2019 notes, the 2020 notes and the 2022 private placement notes, the “notes”) , pursuant to an indenture dated as of May 26, 2016 among APX, the guarantors party thereto and Wilmington Trust, National Association, as trustee and collateral agent. The 2022 notes will mature on December 1, 2022, or on such earlier date when any outstanding pari passu lien indebtedness matures as a result of the operation of any “Springing Maturity” provision set forth in the agreements governing such pari passu lien indebtedness. The 2022 notes are secured, on a pari passu basis, by the collateral securing obligations under the 2019 notes and 2022 private placement notes and the revolving credit facilities, in all cases, subject to certain exceptions and permitted liens. APX used a portion of the net proceeds from the offering of the 2022 notes to repurchase approximately \$235 million aggregate principal amount of the outstanding 2019 notes and 2022 private placement notes in privately negotiated transactions and repaid borrowings under the existing revolving credit facility.

In accordance with ASC 470-50 Debt – Modifications and Extinguishments, the Company performed an analysis on a creditor-by-creditor basis to determine if the debt instruments were substantially different. As a result of this analysis, during the three and six months ended June 30, 2016 , the Company recorded \$9.9 million of other expense and loss on extinguishment, consisting of \$1.1 million of original issue discount and deferred financing costs associated with the 2019 notes and 2022 private placement notes, and \$8.9 million of the \$15.4 million of total costs incurred in conjunction with issuance of the 2022 notes. The original unamortized portion of deferred financing costs associated with new creditors and creditors under both the 2019 notes and the 2022 notes, whose debt instruments were not deemed to be substantially different, will be amortized to interest expense over the life of the 2022 notes. The following table presents deferred financing activity for the six months ended June 30, 2016 (in thousands):

	Unamortized Deferred Financing Costs					
	Balance 12/31/2015	Additions	Rolled Over	Early Extinguishment	Amortized	Balance 6/30/2016
Revolving Credit Facility	\$ 6,456	\$ —	\$ —	\$ —	\$ (1,022)	\$ 5,434
6.375% Senior Secured Notes due 2019	20,182	—	(3,423)	(585)	(2,477)	13,697
8.75% Senior Notes due 2020	18,892	—	—	—	(1,919)	16,973
8.875% Senior Secured Notes Due 2022	1,170	—	—	(110)	(82)	978
7.875% Senior Secured Notes Due 2022	—	6,526	3,423	—	(128)	9,821
Total Deferred Financing Costs	\$ 46,700	\$ 6,526	\$ —	\$ (695)	\$ (5,628)	\$ 46,903

The notes are fully and unconditionally guaranteed, jointly and severally by APX and each of APX's existing restricted subsidiaries that guarantee indebtedness under APX's revolving credit facility or our other indebtedness. Interest accrues at the rate of 6.375% per annum for the 2019 notes, 8.75% per annum for the 2020 notes, 8.875% per annum for the 2022 private placement notes and 7.875% per annum for the 2022 notes. Interest on the notes is payable semiannually in arrears on each June 1 and December 1. APX may redeem the notes at the prices and on the terms specified in the applicable indenture or note purchase agreement.

### ***Revolving Credit Facility***

On November 16, 2012, APX entered into a \$200.0 million senior secured revolving credit facility, with a five year maturity. In addition, APX may request one or more term loan facilities, increased commitments under the revolving credit facility or new revolving credit commitments, in an aggregate amount not to exceed \$225.0 million. Availability of such incremental facilities and/or increased or new commitments will be subject to certain customary conditions.

On June 28, 2013, APX amended and restated the credit agreement to provide for a new repriced tranche of revolving credit commitments with a lower interest rate. Nearly all of the existing tranches of revolving credit commitments was terminated and converted into the repriced tranche, with the untermated portion of the existing tranche continuing to accrue interest at the original rate.

On March 6, 2015, APX amended and restated the credit agreement governing the revolving credit facility to provide for, among other things, (1) an increase in the aggregate commitments previously available to APX thereunder from \$200.0 million to \$289.4 million ("Revolving Commitments") and (2) the extension of the maturity date with respect to certain of the previously available commitments.

Borrowings under the amended and restated revolving credit facility bear interest at a rate per annum equal to an applicable margin plus, at APX's option, either (1) the base rate determined by reference to the highest of (a) the Federal Funds rate plus 0.50%, (b) the prime rate of Bank of America, N.A. and (c) the LIBOR rate determined by reference to the costs of funds for U.S. dollar deposits for an interest period of one month, plus 1.00% or (2) the LIBOR rate determined by reference to the London interbank offered rate for dollars for the interest period relevant to such borrowing. The applicable margin for base rate-based borrowings (1)(a) under the Series A Revolving Commitments of approximately \$247.5 million and Series C Revolving Commitments of approximately \$20.8 million is currently 2.0% per annum and (b) under the Series B Revolving Commitments of approximately \$21.2 million is currently 3.0% and (2)(a) the applicable margin for LIBOR rate-based borrowings (a) under the Series A Revolving Commitments and Series C Revolving Commitments is currently 3.0% per annum and (b) under the Series B Revolving Commitments is currently 4.0%. The applicable margin for borrowings under the revolving credit facility is subject to one step-down of 25 basis points based on APX meeting a consolidated first lien net leverage ratio test at the end of each fiscal quarter. Outstanding borrowings under the amended and restated revolving credit facility are allocated on a pro-rata basis between each Series based on the total Revolving Commitments.

In addition to paying interest on outstanding principal under the revolving credit facility, APX is required to pay a quarterly commitment fee (which will be subject to one interest rate step-down of 12.5 basis points, based on APX meeting a consolidated first lien net leverage ratio test) to the lenders under the revolving credit facility in respect of the unutilized commitments thereunder. APX also pays customary letter of credit and agency fees.

## [Table of Contents](#)

APX is not required to make any scheduled amortization payments under the revolving credit facility. The principal amount outstanding under the revolving credit facility will be due and payable in full on (1) with respect to the non-extended commitments under the Series C Revolving Credit Facility, November 16, 2017 and (2) with respect to the extended commitments under the Series A Revolving Credit Facility and Series B Revolving Credit Facility, March 31, 2019 .

The Company's debt at June 30, 2016 consisted of the following (in thousands):

	Outstanding Principal	Unamortized Premium (Discount)	Unamortized Deferred Financing Costs	Net Carrying Amount
6.375% Senior Secured Notes due 2019	\$ 719,465	\$ —	\$ (13,697)	\$ 705,768
8.75% Senior Notes due 2020	930,000	6,478	(16,973)	919,505
8.875% Senior Secured Notes Due 2022	270,000	(3,154)	(978)	265,868
7.875% Senior Secured Notes Due 2022	500,000	—	(9,821)	490,179
Total Long-Term Debt	<u>\$ 2,419,465</u>	<u>\$ 3,324</u>	<u>\$ (41,469)</u>	<u>\$ 2,381,320</u>

The Company's debt at December 31, 2015 consisted of the following (in thousands):

	Outstanding Principal	Unamortized Premium (Discount)	Unamortized Deferred Financing Costs	Net Carrying Amount
Series C Revolving Credit Facility Due 2017	\$ 1,440	\$ —	\$ —	\$ 1,440
Series A, B Revolving Credit Facilities Due 2019	18,560	—	—	18,560
6.375% Senior Secured Notes due 2019	925,000	—	(20,182)	904,818
8.75% Senior Notes due 2020	930,000	7,060	(18,892)	918,168
8.875% Senior Secured Notes due 2022	300,000	(3,704)	(1,170)	295,126
Total Long-Term Debt	<u>\$ 2,175,000</u>	<u>\$ 3,356</u>	<u>\$ (40,244)</u>	<u>\$ 2,138,112</u>

### NOTE 3 – COST BASED INVESTMENTS

During the year ended December 31, 2014, the Company entered into a project agreement with a privately-held company (the "Investee"), whereby the Investee will develop technology for the Company. The Company is not required to make any payments to the Investee for developing the above technology, however, the Company is required to pay the Investee a royalty for any sales of product that include the technology once developed. In connection with the project agreement, the Company also entered into an investment agreement with the Investee, whereby the Company will purchase up to a predetermined number of shares of the Investee. The amount of the investment by the Company in the Investee was \$0.3 million as of June 30, 2016 . The Company could make up to \$1.6 million in additional investments in the Investee, subject to the achievement of certain technology development milestones. The Company has determined that the arrangement with the Investee constitutes a variable interest. The Company is not required to consolidate the results of the Investee as the Company is not the primary beneficiary.

On February 19, 2014 , the Company invested \$3.0 million in preferred stock of a privately held company not affiliated with the Company.

### NOTE 4 – BALANCE SHEET COMPONENTS

The following table presents material balance sheet component balances (in thousands):

[Table of Contents](#)

	June 30, 2016	December 31, 2015
Subscriber acquisition costs		
Subscriber acquisition costs	\$ 1,180,390	\$ 958,261
Accumulated amortization	(234,539)	(167,617)
Subscriber acquisition costs, net	\$ 945,851	\$ 790,644
Accrued payroll and commissions		
Accrued commissions	49,213	20,176
Accrued payroll	21,328	18,071
Total accrued payroll and commissions	\$ 70,541	\$ 38,247
Accrued expenses and other current liabilities		
Accrued interest payable	\$ 16,520	\$ 17,153
Accrued payroll taxes and withholdings	3,543	3,938
Accrued taxes	3,396	2,683
Wireless restructuring costs	2,570	4,275
Loss contingencies	2,545	2,504
Other	8,042	5,020
Total accrued expenses and other current liabilities	\$ 36,616	\$ 35,573

#### NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following (in thousands):

	June 30, 2016	December 31, 2015	Estimated Useful Lives
Vehicles	\$ 27,296	\$ 26,935	3 - 5 years
Computer equipment and software	25,047	21,702	3 - 5 years
Leasehold improvements	17,714	17,434	2 - 15 years
Office furniture, fixtures and equipment	13,046	11,776	7 years
Buildings	702	702	39 years
Construction in process	4,425	3,837	
Property and equipment, gross	88,230	82,386	
Accumulated depreciation and amortization	(34,168)	(27,112)	
Property and equipment, net	\$ 54,062	\$ 55,274	

Property and equipment includes approximately \$19.1 million and \$20.4 million of assets under capital lease obligations at June 30, 2016 and December 31, 2015, respectively net of accumulated amortization of \$8.8 million and \$7.0 million at June 30, 2016 and December 31, 2015, respectively. Depreciation and amortization expense on all property and equipment was \$4.1 million and \$4.4 million for the three months ended June 30, 2016 and 2015, respectively and 8.1 million and 8.1 million for the six months ended June 30, 2016 and 2015, respectively. Amortization expense relates to assets under capital leases and is included in depreciation and amortization expense.

#### NOTE 6 – GOODWILL AND INTANGIBLE ASSETS

##### Goodwill

As of June 30, 2016 and December 31, 2015, the Company had a goodwill balance of \$ 836.1 million and \$834.4 million, respectively. The change in the carrying amount of goodwill during the six months ended June 30, 2016 was the result of foreign currency translation adjustments.

##### Intangible assets, net

The following table presents intangible asset balances (in thousands):

[Table of Contents](#)

	June 30, 2016			December 31, 2015			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Estimated Useful Lives
<u>Definite-lived intangible assets:</u>							
Customer contracts	\$ 967,741	\$ (487,169)	\$ 480,572	\$ 962,842	\$ (430,803)	\$ 532,039	10 years
2GIG 2.0 technology	17,000	(8,772)	8,228	17,000	(7,064)	9,936	8 years
Other technology	7,067	(4,262)	2,805	7,067	(3,438)	3,629	5 years
Space Monkey technology	7,100	(1,515)	5,585	7,100	(761)	6,339	6 years
Patents	8,143	(2,910)	5,233	7,524	(2,094)	5,430	5 years
Non-compete agreements	1,200	(1,100)	100	1,200	(800)	400	2-3 years
Total definite-lived intangible assets:	\$ 1,008,251	\$ (505,728)	\$ 502,523	\$ 1,002,733	\$ (444,960)	\$ 557,773	
<u>Indefinite-lived intangible assets:</u>							
IP addresses	\$ 564	\$ —	\$ 564	\$ 564	\$ —	\$ 564	
Domain names	59	—	59	58	—	58	
Total Indefinite-lived intangible assets	623	—	623	622	—	622	
Total intangible assets, net	\$ 1,008,874	\$ (505,728)	\$ 503,146	\$ 1,003,355	\$ (444,960)	\$ 558,395	

The Company recognized amortization expense related to the capitalized software development costs of \$0.3 million during each of the three months ended June 30, 2016 and 2015 and \$0.6 million during each of the six months ended June 30, 2016 and 2015 . Amortization expense related to intangible assets was approximately \$29.3 million and \$33.9 million for the three months ended June 30, 2016 and 2015 , respectively and \$58.5 million and \$67.9 million during the six months ended June 30, 2016 and 2015 , respectively.

Estimated future amortization expense of intangible assets, excluding approximately \$0.3 million in patents currently in process, is as follows as of June 30, 2016 (in thousands):

2016 - Remaining Period	\$ 58,289
2017	101,423
2018	89,834
2019	78,177
2020	67,396
Thereafter	107,082
Total estimated amortization expense	<u>\$ 502,201</u>

#### NOTE 7 – FAIR VALUE MEASUREMENTS

Cash equivalents and restricted cash equivalents are classified as Level 1 as they have readily available market prices in an active market. As of June 30, 2016 the Company held \$110.0 million of Money market funds classified as level 1 investments. As of December 31, 2015 the Company held an immaterial amount of Money market funds classified as level 1 investments.

The carrying amounts of the Company's accounts receivable, accounts payable and accrued and other liabilities approximate their fair values due to their short maturities.

Components of long-term debt including the associated interest rates and related fair values are as follows (in thousands, except interest rates):

Issuance	June 30, 2016		December 31, 2015		Stated Interest Rate
	Face Value	Estimated Fair Value	Face Value	Estimated Fair Value	
2019 Notes	\$ 719,465	\$ 715,868	\$ 925,000	\$ 879,906	6.375%
2020 Notes	930,000	843,696	930,000	756,788	8.75%
2022 Private Placement Notes	270,000	272,351	300,000	296,296	8.875%
2022 Notes	500,000	500,000	—	—	7.875%
Total	<u>\$ 2,419,465</u>	<u>\$ 2,331,915</u>	<u>\$ 2,155,000</u>	<u>\$ 1,932,990</u>	

The fair values of the 2019 notes, the 2020 notes, the 2022 private placement notes and the 2022 notes were considered Level 2 measurements as the values were determined using observable market inputs, such as current interest rates, prices observable from less active markets, as well as prices observable from comparable securities.

## NOTE 8 – INCOME TAXES

In order to determine the quarterly provision for income taxes, the Company uses an estimated annual effective tax rate, which is based on expected annual income and statutory tax rates in the various jurisdictions in which the Company operates. Certain significant or unusual items are separately recognized in the quarter during which they occur and can be a source of variability in the effective tax rates from quarter to quarter.

The Company's effective income tax rate for the six months ended June 30, 2016 was approximately negative 0.52% . In computing income tax expense, the Company estimates its annual effective income tax rate jurisdiction by jurisdiction and entity by entity for which tax attributes must be separately considered for the calendar year ending December 31, 2015 , excluding discrete items. Each jurisdictional or entity estimated annual tax rate is applied to actual year-to-date pre-tax book income (loss) of each jurisdiction or entity. Income tax expense for the six months ended June 30, 2016 was affected by discrete items resulting from the finalization of an audit by Revenue Canada of the 2008 and 2009 tax years; prior year return to provision true-ups on the Canadian tax return; and a change to the tax rate at which the Canadian net deferred tax liabilities are expected to reverse. Both the 2016 and 2015 effective tax rates are less than the statutory rate primarily due to the combination of not recognizing benefit for expected pre-tax losses of the US jurisdiction and recognizing current state income tax expense for minimum state taxes.

For 2016 , the Company expects to realize a loss before income taxes and expects to record a full valuation allowance against the net deferred tax assets of the consolidated group within the US, Canadian and New Zealand jurisdictions. The Company has recorded tax expense for state and local taxes. A valuation allowance is required when there is significant uncertainty as to the ability to realize the deferred tax assets. Because the realization of the deferred tax assets related to the Company's net operating losses (NOLs) is dependent upon future income related to domestic and foreign jurisdictional operations that have historically generated losses, management determined that the Company continues to not meet the "more likely than not" threshold that those NOLs will be realized. Accordingly, a valuation allowance is required. A similar history of losses is present in the Company's Canadian and New Zealand jurisdictions. However, as of June 30, 2016 , the deferred tax assets related to the Company's Canadian and New Zealand jurisdictions' NOLs are offset by existing deferred income tax liabilities resulting in a net deferred tax liability position in both jurisdictions.

## NOTE 9 – STOCK-BASED COMPENSATION

### 313 Incentive Units

The Company's indirect parent, 313 Acquisition LLC ("313"), which is owned by Blackstone, has authorized the award of profits interests, representing the right to share a portion of the value appreciation on the initial capital contributions to 313 ("Incentive Units"). In March 2015, a total of 4,315,106 Incentive Units previously issued to the Company's Chief Executive Officer and President were voluntarily relinquished. The Company recorded all unrecognized stock-based compensation associated with such Incentive Units at the time the Incentive Units were relinquished. As of June 30, 2016 , 73,562,836 Incentive Units had been awarded, and were outstanding, to current and former members of senior management and a board member, of which 42,169,456 were outstanding to the Company's Chief Executive Officer and President. The Incentive Units are subject to time-based and performance-based vesting conditions, with one-third subject to ratable time-based vesting

## [Table of Contents](#)

over a five year period and two-thirds subject to the achievement of certain investment return thresholds by The Blackstone Group, L.P. and its affiliates (“Blackstone”). The Company has not recorded any expense related to the performance-based portion of the awards, as the achievement of the vesting condition is not yet deemed probable. The fair value of stock-based awards is measured at the grant date and is recognized as expense over the employee’s requisite service period. The grant date fair value was determined using a Monte Carlo simulation valuation approach with the following assumptions: expected volatility varies from 55% to 65% ; expected exercise term between 3.96 and 6.21 years ; and risk-free rates between 0.62% and 2.03% .

### *Vivint Stock Appreciation Rights*

The Company’s subsidiary, Vivint Group, Inc. (“Vivint Group”), has awarded Stock Appreciation Rights (“SARs”) to various levels of key employees, pursuant to an omnibus incentive plan. The purpose of the SARs is to attract and retain personnel and provide an opportunity to acquire an equity interest of Vivint Group. The SARs are subject to time-based and performance-based vesting conditions, with one-third subject to ratable time-based vesting over a five year period and two-thirds subject to the achievement of certain investment return thresholds by 313. The Company has not recorded any expense related to the performance-based portion of the awards, as the achievement of the vesting condition is not yet deemed probable. In connection with this plan, 17,260,184 SARs were outstanding as of June 30, 2016 . In addition, 53,621,143 SARs have been set aside for funding incentive compensation pools pursuant to long-term incentive plans established by the Company. On April 1, 2015, a new plan was created and all issued and outstanding Vivint, Inc. (“Vivint”) SARs were re-granted and all reserved SARs were converted under the new Vivint Group plan. The Company assessed the conversion of the SARs as a modification of equity instruments. The restructuring did not change the fair value of the existing awards and as such, no incremental compensation expense was incurred as a result of the restructuring.

The fair value of the Vivint Group awards is measured at the grant date and is recognized as expense over the employee’s requisite service period. The fair value is determined using a Black-Scholes option valuation model with the following assumptions: expected volatility varies from 55% to 75% , expected dividends of 0% ; expected exercise term between 1.91 and 6.50 years ; and risk-free rates between 0.65% and 1.81% . Due to the lack of historical exercise data, the Company used the simplified method in determining the estimated exercise term, for all Vivint Group awards.

### *Wireless Stock Appreciation Rights*

The Company’s subsidiary, Vivint Wireless, has awarded SARs to various key employees, pursuant to an omnibus incentive plan. The purpose of the SARs is to attract and retain personnel and provide an opportunity to acquire an equity interest of Vivint Wireless. The SARs are subject to a five year time-based ratable vesting period. In connection with this plan, 17,500 SARs were outstanding as of June 30, 2016 . The Company does not intend to issue any additional Wireless SARs.

The fair value of the Vivint Wireless awards is measured at the grant date and is recognized as expense over the employee’s requisite service period. The fair value is determined using a Black-Scholes option valuation model with the following assumptions: expected volatility of 65% , expected dividends of 0% ; expected exercise term between 6.0 and 6.5 years ; and risk-free rates between 1.51% and 1.81% . Due to the lack of historical exercise data, the Company used the simplified method in determining the estimated exercise term, for all Vivint Wireless awards.

Stock-based compensation expense in connection with all stock-based awards is presented as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Operating expenses	\$ 14	\$ 26	\$ 31	\$ 40
Selling expenses	43	357	(239)	389
General and administrative expenses	2,691	588	3,038	1,330
Total stock-based compensation	\$ 2,748	\$ 971	\$ 2,830	\$ 1,759

Stock-based compensation expense presented in selling expenses was negative for the six months ended June 30, 2016 due to a retrospective adjustment in the grant-date fair value of a series of stock-based awards. Stock-based compensation expense included in general and administrative expenses for both the three and six months ended June 30, 2016 included \$2.2 million of compensation related to an equity repurchase by 313 from one of the Company’s executives.

## **NOTE 10 – COMMITMENTS AND CONTINGENCIES**



**Indemnification** – Subject to certain limitations, the Company is obligated to indemnify its current and former directors, officers and employees with respect to certain litigation matters and investigations that arise in connection with their service to the Company. These obligations arise under the terms of its certificate of incorporation, its bylaws, applicable contracts, and Delaware and California law. The obligation to indemnify generally means that the Company is required to pay or reimburse the individuals’ reasonable legal expenses and possibly damages and other liabilities incurred in connection with these matters.

**Legal** – The Company is named from time to time as a party to lawsuits arising in the ordinary course of business related to its sales, marketing, the provision of its services and equipment claims. Actions filed against the Company include commercial, intellectual property, customer, and labor and employment related claims, including complaints of alleged wrongful termination and potential class action lawsuits regarding alleged violations of federal and state wage and hour and other laws. In general, litigation can be expensive and disruptive to normal business operations. Moreover, the results of legal proceedings are difficult to predict, and the costs incurred in litigation can be substantial. The Company believes the amounts provided in its financial statements are adequate in light of the probable and estimated liabilities. Factors that the Company considers in the determination of the likelihood of a loss and the estimate of the range of that loss in respect of legal matters include the merits of a particular matter, the nature of the matter, the length of time the matter has been pending, the procedural posture of the matter, how the Company intends to defend the matter, the likelihood of settling the matter and the anticipated range of a possible settlement. Because such matters are subject to many uncertainties, the ultimate outcomes are not predictable and there can be no assurances that the actual amounts required to satisfy alleged liabilities from the matters described above will not exceed the amounts reflected in the Company’s financial statements or that the matters will not have a material adverse effect on the Company’s results of operations, financial condition or cash flows.

The Company regularly reviews outstanding legal claims and actions to determine if reserves for expected negative outcomes of such claims and actions are necessary. The Company had reserves for all such matters of approximately \$2.5 million and \$2.5 million as of June 30, 2016 and December 31, 2015 , respectively. In conjunction with one of the settlements, the Company is obligated to pay certain future royalties, based on sales of future products.

**Operating Leases** —The Company leases office, warehouse space, certain equipment, towers, wireless spectrum, software and an aircraft under operating leases with related and unrelated parties expiring in various years through 2028 . The leases require the Company to pay additional rent for increases in operating expenses and real estate taxes and contain renewal options. The Company's operating lease arrangements and related terms consisted of the following (in thousands):

	Rent Expense		Rent Expense		Lease Term
	For the three months ended,		For the six months ended,		
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015	
<b>Arrangement</b>					
Warehouse, office space and other	\$ 2,781	\$ 2,915	\$ 5,593	\$ 5,838	11 - 15 years
Wireless towers and spectrum	1,205	819	2,367	1,482	1 - 10 years
Total Rent Expense	\$ 3,986	\$ 3,734	\$ 7,960	\$ 7,320	

**Capital Leases** —The Company also enters into certain capital leases with expiration dates through July 2020 . On an ongoing basis, the Company enters into vehicle lease agreements under a Fleet Lease Agreement. The lease agreements are typically 36 months leases for each vehicle and the average remaining life for the fleet is 20 months as of June 30, 2016 . As of June 30, 2016 and December 31, 2015 , the capital lease obligation balance was \$16.6 million and \$18.8 million , respectively.

## NOTE 11 – RELATED PARTY TRANSACTIONS

### *Transactions with Vivint Solar*

The Company and Vivint Solar, Inc. (“Solar”) have entered into agreements under which the Company subleased corporate office space through October 2014, and provides certain other ongoing administrative services to Solar. During the three months ended June 30, 2016 and 2015 , the Company charged \$1.4 and \$1.8 million , respectively, and during the six months ended June 30, 2016 and 2015 the Company charged \$2.8 and \$3.5 million , respectively, of general and administrative expenses to Solar in connection with these agreements. The balance due from Solar in connection with these agreements and other expenses paid on Solar’s behalf was \$0.5 million and \$1.9 million at June 30, 2016 and December 31, 2015 , respectively, and is included in prepaid expenses and other current assets in the accompanying condensed consolidated balance sheets.



Also in connection with Solar's initial public offering, the Company entered into a number of agreements with Solar related to services and other support that it has provided and will provide to Solar including:

- A Master Intercompany Framework Agreement which establishes a framework for the ongoing relationship between the Company and Solar and contains master terms regarding the protection of each other's confidential information, and master procedural terms, such as notice procedures, restrictions on assignment, interpretive provisions, governing law and dispute resolution;
- A Non-Competition Agreement in which the Company and Solar each define their current areas of business and their competitors, and agree not to directly or indirectly engage in the other's business for three years;
- A Transition Services Agreement pursuant to which the Company will provide to Solar various enterprise services, including services relating to information technology and infrastructure, human resources and employee benefits, administration services and facilities-related services;
- A Product Development and Supply Agreement pursuant to which one of Solar's wholly owned subsidiaries will, for an initial term of three years, subject to automatic renewal for successive one -year periods unless either party elects otherwise, collaborate with the Company to develop certain monitoring and communications equipment that will be compatible with other equipment used in Solar's energy systems and will replace equipment Solar currently procures from third parties;
- A Marketing and Customer Relations Agreement which governs various cross-marketing initiatives between the Company and Solar, in particularly the provision of sales leads from each company to the other; and
- A Trademark License Agreement pursuant to which the licensor, a special purpose subsidiary majority-owned by the Company and minority-owned by Solar, will grant Solar a royalty-free exclusive license to the trademark "VIVINT SOLAR" in the field of selling renewable energy or energy storage products and services.

#### *Other Related-party Transactions*

Long-term investments and other assets, includes amounts due for non-interest bearing advances made to employees that are expected to be repaid in excess of one year. Amounts due from employees as of both June 30, 2016 and December 31, 2015 , amounted to approximately \$0.3 million . As of June 30, 2016 and December 31, 2015 , this amount was fully reserved.

Prepaid expenses and other current assets at June 30, 2016 and December 31, 2015 included a receivable for \$0.2 million and \$0.2 million , respectively, from certain members of management in regards to their personal use of the corporate jet.

The Company incurred additional expenses during the three months ended June 30, 2016 and 2015 , respectively, of \$0.6 million and \$0.4 million , and \$1.2 million and \$0.8 million during the six months ended June 30, 2016 and 2015 , respectively, for other related-party transactions including contributions to the charitable organization Vivint Gives Back, legal fees, and services. Accrued expenses and other current liabilities at June 30, 2016 and December 31, 2015 , included a payable to Vivint Gives Back for \$1.3 million and \$1.7 million , respectively.

On November 16, 2012, the Company was acquired by an investor group comprised of certain investment funds affiliated with Blackstone Capital Partners VI L.P., and certain co-investors and management investors through certain mergers and related reorganization transactions (collectively, the "Merger"). In connection with the Merger, the Company engaged Blackstone Management Partners L.L.C. ("BMP") to provide monitoring, advisory and consulting services on an ongoing basis. In consideration for these services, the Company agreed to pay an annual monitoring fee equal to the greater of (i) a minimum base fee of \$2.7 million , subject to adjustments if the Company engages in a business combination or disposition that is deemed significant and (ii) the amount of the monitoring fee paid in respect of the immediately preceding fiscal year, without regard to any post-fiscal year "true-up" adjustments as determined by the agreement. The Company incurred expenses of approximately \$1.1 million and \$0.7 million during the three months ended June 30, 2016 and 2015 , and approximately \$1.9 million and \$1.4 million during the six months ended June 30, 2016 and 2015 . Accounts payable at June 30, 2016 included a liability for \$0.8 million to BMP in regards to the payment of the 2016 base monitoring fee during the quarter ended March 31, 2016.

Under the support and services agreement, the Company also engaged BMP to arrange for Blackstone's portfolio operations group to provide support services customarily provided by Blackstone's portfolio operations group to Blackstone's private equity portfolio companies of a type and amount determined by such portfolio services group to be warranted and appropriate. BMP will invoice the Company for such services based on the time spent by the relevant personnel providing such services during the applicable period but in no event shall the Company be obligated to pay more than \$1.5 million during any calendar year. During the three months ended June 30, 2016 and 2015 the Company incurred no costs associated with such services.

Blackstone Advisory Partners L.P. participated as one of the initial purchasers of the 2022 notes and received approximately \$0.4 million in fees at the time of closing.

On May 2, 2016, the Company and David Bywater, its Chief Operating Officer, agreed that in connection with the appointment of Mr. Bywater as interim Chief Executive Officer of Vivint Solar, Inc., Mr. Bywater would take a leave of absence from the Company.

On April 25, 2016, Parent completed the issuance and sale to certain investors of a series of preferred stock in a private placement exempt from registration under the Securities Act. On April 29, 2016, Parent contributed the net proceeds of \$69.8 million from such issuance and sale to the Company as an equity contribution.

The company incurred stock-based compensation expense of \$2.2 million included in general and administrative expenses for both the three and six months ended June 30, 2016 related to an equity repurchase by 313 from one of the Company's executives.

From time to time, the Company does business with a number of other companies affiliated with Blackstone.

Transactions involving related parties cannot be presumed to be carried out at an arm's-length basis.

#### NOTE 12 – EMPLOYEE BENEFIT PLAN

The Company offers eligible employees the opportunity to contribute a percentage of their earned income into company-sponsored 401(k) plans. No matching contributions were made to the plans for the three and six months ended June 30, 2016 and 2015 .

#### NOTE 13 – RESTRUCTURING AND ASSET IMPAIRMENT CHARGES

On September 21, 2015, the board of directors of the Company approved a plan to transition the Company's wireless internet business from a 5Ghz to a 60Ghz-based network technology that provides higher data transmission speeds. The Company will continue to service its existing 5Ghz subscribers. As a result of this transition, the Company discontinued the build-out of additional 5Ghz networks and the installation of new 5Ghz customers. The Company expects the shift to the new technology will begin with a set of 60Ghz test installations in 2016.

Restructuring and asset impairment charges and recoveries for the three and six months ended June 30, 2016 were as follows (in thousands):

	Three Months Ended June 30, 2016	Six Months Ended June 30, 2016
Recoveries of impaired assets	\$ (709)	(710)
Contract termination (recoveries) costs	(16)	4
Employee severance and termination benefits	—	26
Total restructuring and asset impairment recoveries	<u>\$ (725)</u>	<u>\$ (680)</u>

The following table presents accrued restructuring activity for the six months ended June 30, 2016 (in thousands):

[Table of Contents](#)

	Asset Impairments	Contract termination costs	Employee severance and termination benefits	Total
Accrued restructuring balance as of December 31, 2015	\$ —	\$ 3,954	\$ 321	\$ 4,275
Restructuring and impairment (recoveries) charges	(710)	4	26	(680)
Cash payments	—	(1,455)	(163)	(1,618)
Non-cash settlements	710	(93)	(24)	593
Accrued restructuring balance as of June 30, 2016	\$ —	\$ 2,410	\$ 160	\$ 2,570

The restructuring and impairment recoveries during the three and six months ended June 30, 2016 resulted primarily from a vendor settlement for amounts less than previously estimated. The Company did not have any restructuring and asset impairment charges during the three and six months ended June 30, 2015 .

The unpaid portion of the restructuring charge is expected to be paid within 12 months and is recorded in accrued expenses and other current liabilities on the consolidated balance sheets as of June 30, 2016 .

Additional charges may be incurred in the future for facility-related or other restructuring activities as the Company continues to align resources to meet the needs of the business.

**NOTE 14 – SEGMENT REPORTING AND BUSINESS CONCENTRATIONS**

For the three and six months ended June 30, 2016 and 2015, the Company conducted business through one operating segment, Vivint. The Company primarily operates in three geographic regions: United States, Canada and New Zealand. The operations in New Zealand are considered immaterial and reported in conjunction with the United States. Revenues and long-lived assets by geographic region were as follows (in thousands):

	United States	Canada	Total
<b>Revenue from external customers</b>			
Three months ended June 30, 2016	\$ 171,255	\$ 9,552	\$ 180,807
Three months ended June 30, 2015	149,647	8,266	157,913
Six months ended June 30, 2016	337,161	17,899	355,060
Six months ended June 30, 2015	294,026	16,082	310,108
<b>Property and equipment, net</b>			
As of June 30, 2016	\$ 53,971	\$ 91	\$ 54,062
As of December 31, 2015	55,103	171	55,274

**NOTE 15 – GUARANTOR AND NON-GUARANTOR SUPPLEMENTAL FINANCIAL INFORMATION**

The 2019 notes, 2020 notes, 2022 private placement notes and 2022 notes were issued by APX. The 2019 notes, 2020 notes, 2022 private placement notes and 2022 notes are fully and unconditionally guaranteed, jointly and severally by Holdings and each of APX's existing and future material wholly-owned U.S. restricted subsidiaries. APX's existing and future foreign subsidiaries are not expected to guarantee the notes.

Presented below is the condensed consolidating financial information of APX, subsidiaries of APX that are guarantors (the "Guarantor Subsidiaries"), and APX's subsidiaries that are not guarantors (the "Non-Guarantor Subsidiaries") as of June 30, 2016 and December 31, 2015 and for the three and six months ended June 30, 2016 and 2015. The unaudited condensed consolidating financial information reflects the investments of APX in the Guarantor Subsidiaries and the Non-Guarantor Subsidiaries using the equity method of accounting.

**Supplemental Condensed Consolidating Balance Sheet**  
**June 30, 2016**  
**(In thousands)**  
**(unaudited)**

	Parent	APX Group, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
<b>Assets</b>						
Current assets	\$ —	\$ 115,259	\$ 180,815	\$ 7,088	\$ (66,855)	\$ 236,307
Property and equipment, net	—	—	53,888	174	—	54,062
Subscriber acquisition costs, net	—	—	865,629	80,222	—	945,851
Deferred financing costs, net	—	5,434	—	—	—	5,434
Investment in subsidiaries	—	2,141,534	—	—	(2,141,534)	—
Intercompany receivable	—	—	15,777	—	(15,777)	—
Intangible assets, net	—	—	465,578	37,568	—	503,146
Goodwill	—	—	809,678	26,451	—	836,129
Long-term investments and other assets	—	106	10,615	14	(106)	10,629
<b>Total Assets</b>	<b>\$ —</b>	<b>\$ 2,262,333</b>	<b>\$ 2,401,980</b>	<b>\$ 151,517</b>	<b>\$ (2,224,272)</b>	<b>\$ 2,591,558</b>
<b>Liabilities and Stockholders' (Deficit) Equity</b>						
Current liabilities	\$ —	\$ 17,389	\$ 237,270	\$ 78,150	\$ (66,855)	\$ 265,954
Intercompany payable	—	—	—	15,777	(15,777)	—
Notes payable and revolving credit facility, net of current portion	—	2,381,320	—	—	—	2,381,320
Capital lease obligations, net of current portion	—	—	8,533	1	—	8,534
Deferred revenue, net of current portion	—	—	47,511	4,720	—	52,231
Other long-term obligations	—	—	11,849	—	—	11,849
Accumulated losses of investee	136,376	—	—	—	(136,376)	—
Deferred income tax liability	—	—	106	8,046	(106)	8,046
Total (deficit) equity	(136,376)	(136,376)	2,096,711	44,823	(2,005,158)	(136,376)
<b>Total liabilities and stockholders' (deficit) equity</b>	<b>\$ —</b>	<b>\$ 2,262,333</b>	<b>\$ 2,401,980</b>	<b>\$ 151,517</b>	<b>\$ (2,224,272)</b>	<b>\$ 2,591,558</b>

**Supplemental Condensed Consolidating Balance Sheet**  
**December 31, 2015**  
(In thousands)

	Parent	APX Group, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
<b>Assets</b>						
Current assets	\$ —	\$ 2,537	\$ 91,555	\$ 6,540	\$ (53,066)	\$ 47,566
Property and equipment, net	—	—	55,012	262	—	55,274
Subscriber acquisition costs, net	—	—	728,547	62,097	—	790,644
Deferred financing costs, net	—	6,456	—	—	—	6,456
Investment in subsidiaries	—	2,070,404	—	—	(2,070,404)	—
Intercompany receivable	—	—	22,398	—	(22,398)	—
Intangible assets, net	—	—	519,301	39,094	—	558,395
Goodwill	—	—	809,678	24,738	—	834,416
Long-term investments and other assets	—	106	10,880	13	(106)	10,893
<b>Total Assets</b>	<b>\$ —</b>	<b>\$ 2,079,503</b>	<b>\$ 2,237,371</b>	<b>\$ 132,744</b>	<b>\$ (2,145,974)</b>	<b>\$ 2,303,644</b>
<b>Liabilities and Stockholders' (Deficit) Equity</b>						
Current liabilities	\$ —	\$ 18,384	\$ 143,896	\$ 59,304	\$ (53,066)	\$ 168,518
Intercompany payable	—	—	—	22,398	(22,398)	—
Notes payable and revolving credit facility, net of current portion	—	2,138,112	—	—	—	2,138,112
Capital lease obligations, net of current portion	—	—	11,169	2	—	11,171
Deferred revenue, net of current portion	—	—	40,960	3,822	—	44,782
Accumulated Losses of Investee	76,993	—	—	—	(76,993)	—
Other long-term obligations	—	—	10,530	—	—	10,530
Deferred income tax liability	—	—	106	7,524	(106)	7,524
Total (deficit) equity	(76,993)	(76,993)	2,030,710	39,694	(1,993,411)	(76,993)
<b>Total liabilities and stockholders' (deficit) equity</b>	<b>\$ —</b>	<b>\$ 2,079,503</b>	<b>\$ 2,237,371</b>	<b>\$ 132,744</b>	<b>\$ (2,145,974)</b>	<b>\$ 2,303,644</b>

**Supplemental Condensed Consolidating Statements of Operations and Comprehensive Loss**  
**For the Three Months Ended June 30, 2016**  
(In thousands)  
(unaudited)

	Parent	APX Group, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues	\$ —	\$ —	\$ 171,315	\$ 10,168	\$ (676)	\$ 180,807
Costs and expenses	—	—	203,030	11,326	(676)	213,680
Loss from operations	—	—	(31,715)	(1,158)	—	(32,873)
Loss from subsidiaries	(89,722)	(32,449)	—	—	122,171	—
Other expense (income), net	—	57,273	236	(212)	—	57,297
Loss before income tax expenses	(89,722)	(89,722)	(31,951)	(946)	122,171	(90,170)
Income tax expense (benefit)	—	—	121	(569)	—	(448)
Net loss	\$ (89,722)	\$ (89,722)	\$ (32,072)	\$ (377)	\$ 122,171	\$ (89,722)
Other comprehensive (loss) income, net of tax effects:						
Net loss	\$ (89,722)	\$ (89,722)	\$ (32,072)	\$ (377)	\$ 122,171	\$ (89,722)
Foreign currency translation adjustment	—	40	—	40	(40)	40
Total other comprehensive income	—	40	—	40	(40)	40
Comprehensive loss	\$ (89,722)	\$ (89,682)	\$ (32,072)	\$ (337)	\$ 122,131	\$ (89,682)

**Supplemental Condensed Consolidating Statements of Operations and Comprehensive (Loss) Income**  
**For the Three Months Ended June 30, 2015**  
(In thousands)  
(unaudited)

	Parent	APX Group, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues	\$ —	\$ —	\$ 149,770	\$ 8,823	\$ (680)	\$ 157,913
Costs and expenses	—	—	154,904	8,577	(680)	162,801
(Loss) income from operations	—	—	(5,134)	246	—	(4,888)
Loss from subsidiaries	(43,614)	(4,923)	—	—	48,537	—
Other expense, net	—	38,691	(171)	27	—	38,547
(Loss) income before income tax expenses	(43,614)	(43,614)	(4,963)	219	48,537	(43,435)
Income tax expense	—	—	53	126	—	179
Net (loss) income	\$ (43,614)	\$ (43,614)	\$ (5,016)	\$ 93	\$ 48,537	\$ (43,614)
Other comprehensive loss, net of tax effects:						—
Net (loss) income	\$ (43,614)	\$ (43,614)	\$ (5,016)	\$ 93	\$ 48,537	\$ (43,614)
Foreign currency translation adjustment	—	2,202	5,240	(3,038)	(2,202)	2,202
Total other comprehensive (loss) income	—	2,202	5,240	(3,038)	(2,202)	2,202
Comprehensive (loss) income	\$ (43,614)	\$ (41,412)	\$ 224	\$ (2,945)	\$ 46,335	\$ (41,412)



**Supplemental Condensed Consolidating Statements of Operations and Comprehensive (Loss) Income**  
**For the Six Months Ended June 30, 2016**  
(In thousands)  
(unaudited)

	Parent	APX Group, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues	\$ —	\$ —	\$ 337,256	\$ 19,155	\$ (1,351)	\$ 355,060
Costs and expenses	—	—	373,319	19,640	(1,351)	391,608
Loss from operations	—	—	(36,063)	(485)	—	(36,548)
Loss from subsidiaries	(134,815)	(32,494)	—	—	167,309	—
Other expense (income), net	—	102,321	(1,428)	(3,298)	—	97,595
(Loss) income before income tax expenses	(134,815)	(134,815)	(34,635)	2,813	167,309	(134,143)
Income tax expense	—	—	185	487	—	672
Net (loss) income	\$ (134,815)	\$ (134,815)	\$ (34,820)	\$ 2,326	\$ 167,309	\$ (134,815)
Other comprehensive loss, net of tax effects:						—
Net (loss) income	\$ (134,815)	\$ (134,815)	\$ (34,820)	\$ 2,326	\$ 167,309	\$ (134,815)
Foreign currency translation adjustment	—	2,801	—	2,801	(2,801)	2,801
Total other comprehensive loss	—	2,801	—	2,801	(2,801)	2,801
Comprehensive (loss) income	\$ (134,815)	\$ (132,014)	\$ (34,820)	\$ 5,127	\$ 164,508	\$ (132,014)

**Supplemental Condensed Consolidating Statements of Operations and Comprehensive (Loss) Income**  
**For the Six Months Ended June 30, 2015**  
(In thousands)  
(unaudited)

	Parent	APX Group, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues	\$ —	\$ —	\$ 294,505	\$ 17,053	\$ (1,450)	\$ 310,108
Costs and expenses	—	—	309,804	16,343	(1,450)	324,697
(Loss) income from operations	—	—	(15,299)	710	—	(14,589)
Loss from subsidiaries	(91,661)	(15,016)	—	—	106,677	—
Other expense, net	—	76,645	76	43	—	76,764
(Loss) income before income tax expenses	(91,661)	(91,661)	(15,375)	667	106,677	(91,353)
Income tax expense	—	—	92	216	—	308
Net (loss) income	\$ (91,661)	\$ (91,661)	\$ (15,467)	\$ 451	\$ 106,677	\$ (91,661)
Other comprehensive loss, net of tax effects:						
Net (loss) income	\$ (91,661)	\$ (91,661)	\$ (15,467)	\$ 451	\$ 106,677	\$ (91,661)
Foreign currency translation adjustment	—	(8,376)	(1,096)	(7,280)	8,376	(8,376)
Total other comprehensive loss	—	(8,376)	(1,096)	(7,280)	8,376	(8,376)
Comprehensive loss	\$ (91,661)	\$ (100,037)	\$ (16,563)	\$ (6,829)	\$ 115,053	\$ (100,037)

**Supplemental Condensed Consolidating Statements of Cash Flows**  
**For the Six Months Ended June 30, 2016**  
(In thousands)  
(unaudited)

	Parent	APX Group, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities:						
Net cash provided by (used in) operating activities	\$ —	\$ —	\$ (176,661)	\$ 5,088	\$ —	\$ (171,573)
Cash flows from investing activities:						
Subscriber acquisition costs – company owned equipment	—	—	(1,791)	—	—	(1,791)
Capital expenditures	—	—	(4,526)	—	—	(4,526)
Proceeds from sale of assets	—	—	1,925	—	—	1,925
Investment in subsidiary	(69,800)	(187,004)	—	—	256,804	—
Acquisition of intangible assets	—	—	(505)	—	—	(505)
Net cash used in investing activities	(69,800)	(187,004)	(4,897)	—	256,804	(4,897)
Cash flows from financing activities:						
Proceeds from notes payable	—	500,000	—	—	—	500,000
Repayment on notes payable	—	(235,535)	—	—	—	(235,535)
Borrowings from revolving credit facility	—	57,000	—	—	—	57,000
Repayments on revolving credit facility	—	(77,000)	—	—	—	(77,000)
Proceeds from capital contribution	69,800	69,800	—	—	(69,800)	69,800
Intercompany receivable	—	—	6,621	—	(6,621)	—
Intercompany payable	—	—	187,004	(6,621)	(180,383)	—
Repayments of capital lease obligations	—	—	(3,955)	(1)	—	(3,956)
Financing costs	—	(8,274)	—	—	—	(8,274)
Deferred financing costs	—	(6,277)	—	—	—	(6,277)
Net cash provided by (used in) financing activities	69,800	299,714	189,670	(6,622)	(256,804)	295,758
Effect of exchange rate changes on cash	—	—	—	(441)	—	(441)
Net increase (decrease) in cash and cash equivalents	—	112,710	8,112	(1,975)	—	118,847
Cash and cash equivalents:						
Beginning of period	—	2,299	(1,941)	2,201	—	2,559
End of period	\$ —	\$ 115,009	\$ 6,171	\$ 226	\$ —	\$ 121,406

**Supplemental Condensed Consolidating Statements of Cash Flows**  
**For the Six Months Ended June 30, 2015**  
(In thousands)  
(unaudited)

	Parent	APX Group, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities:						
Net cash provided by (used in) operating activities	\$ —	\$ (538)	\$ (98,773)	\$ 9,621	\$ —	\$ (89,690)
Cash flows from investing activities:						
Subscriber acquisition costs – company owned equipment	—	—	(14,922)	(644)	—	(15,566)
Capital expenditures	—	—	(18,023)	(41)	—	(18,064)
Investment in subsidiary	—	(140,640)	—	—	140,640	—
Acquisition of intangible assets	—	—	(1,002)	—	—	(1,002)
Proceeds from sale of assets	—	—	408	—	—	408
Proceeds from insurance claims	—	—	2,984	—	—	2,984
Acquisition of other assets	—	—	(67)	—	—	(67)
Net cash used in investing activities	—	(140,640)	(30,622)	(685)	140,640	(31,307)
Cash flows from financing activities:						
Borrowings from revolving credit facility	—	149,000	—	—	—	149,000
Repayments on revolving credit facility	—	(10,000)	—	—	—	(10,000)
Intercompany receivable	—	—	(8,423)	—	8,423	—
Intercompany payable	—	—	140,640	8,423	(149,063)	—
Repayments of capital lease obligations	—	—	(4,045)	(2)	—	(4,047)
Deferred financing costs	—	(4,233)	—	—	—	(4,233)
Net cash (used in) provided by financing activities	—	134,767	128,172	8,421	(140,640)	130,720
Effect of exchange rate changes on cash	—	—	—	(577)	—	(577)
Net (decrease) increase in cash and cash equivalents	—	(6,411)	(1,223)	16,780	—	9,146
Cash and cash equivalents:						
Beginning of period	—	9,432	(2,233)	3,608	—	10,807
End of period	\$ —	\$ 3,021	\$ (3,456)	\$ 20,388	\$ —	\$ 19,953

**NOTE 16 – SUBSEQUENT EVENTS**

In July 2016 , Parent completed the final issuance and sale of shares of preferred stock in a private placement exempt from registration under the Securities Act. Parent contributed the net proceeds of \$30.6 million from such issuance and sale to the Company in August 2016 as an equity contribution. This offering was the final installment of an issuance and sale of Parent’s preferred stock to certain investors and to certain co-investors that was originally announced in April 2016.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Introduction

*The following discussion and analysis provides information which management believes is relevant to an assessment and understanding of the Company's consolidated results of operations and financial condition. The discussion should be read in conjunction with the consolidated financial statements and notes thereto contained in the Annual Report on Form 10-K for the year ended December 31, 2015. This discussion contains forward-looking statements and involves numerous risks and uncertainties, including, but not limited to, those described in the "Risk Factors" section of our Annual Report on Form 10-K for the year ended December 31, 2015. Actual results may differ materially from those contained in any forward-looking statements. Unless the context otherwise requires, references to "we", "us", "our", and "the Company" are intended to mean the business and operations of APX Group Holdings, Inc. and its consolidated subsidiaries. The unaudited condensed consolidated financial statements for the three and six months ended June 30, 2016 and 2015, respectively, present the financial position and results of operations of APX Group Holdings, Inc. and its wholly-owned subsidiaries.*

### Business Overview

We are one of the largest companies in North America focused on delivering smart home products and services. Our fully integrated smart home platform offers subscribers a comprehensive suite of products and services to remotely control, monitor and manage their homes using any smart device. Unlike many other smart home companies, who generally focus only on selling equipment and software, subscriber origination or servicing, we are a vertically integrated smart home company, owning the entire customer lifecycle including sales, professional installation, service, monitoring, billing and customer support. We believe that with our proven business model, along with 17 years of experience installing integrated solutions, we are well positioned to continue to lead the large and growing smart home market. We offer homeowners a customized smart home that integrates a wide variety of security and smart home devices. We seek to deliver a quality subscriber experience through a combination of innovative products and services and a commitment to customer service, which together with our focus on originating high-quality new subscribers, has enabled us to achieve attrition rates that we believe are historically at or below industry averages. Through our established underwriting criteria and compensation structure, we have built a subscriber portfolio with an average credit score of 715 as of June 30, 2016. As of June 30, 2016, we had approximately 1,089,000 subscribers in North America and New Zealand. Approximately 95% of our revenues during each of the three and six months ended June 30, 2016 and June 30, 2015 consisted of contractually committed revenues, which have historically resulted in consistent and predictable operating results.

### Key Operating Metrics

In evaluating our results, we review the key performance measures discussed below. We believe that the presentation of key performance measures is useful to investors and lenders because they are used to measure the value of companies such as ours with recurring revenue streams.

#### *Total Subscribers*

Total subscribers is the aggregate number of our active security and smart home subscribers at the end of a given period.

#### *Recurring Monthly Revenue*

Recurring monthly revenue ("RMR") is the recurring monthly revenue billed to a security and smart home subscriber.

#### *Total Recurring Monthly Revenue*

Total RMR is the aggregate RMR billed to all security and smart home subscribers. This revenue is earned for Smart Protect, Smart Protect & Control, Smart Complete, and additional service offerings.

#### *Average RMR per Subscriber*

Average RMR per subscriber is the total RMR divided by the total subscribers at the end of the period. This is also commonly referred to as Average Revenue per User, or ARPU.

## [Table of Contents](#)

### *Attrition Rate*

Attrition rate is the aggregate number of canceled security and smart home subscribers during a period divided by the monthly weighted average number of total security and smart home subscribers for such period. Subscribers are considered canceled when they terminate in accordance with the terms of their contract, are terminated by us or if payment from such subscribers is deemed uncollectible (when at least four monthly billings become past due).

### *Net Subscriber Acquisition Costs*

Net subscriber acquisition costs is the direct and indirect costs to create a new security and smart home subscriber. These include commissions, equipment, installation, marketing and other allocations (general and administrative and overhead); less activation fees and up sell revenue. These costs exclude residuals and long-term equity direct-to-home expenses.

### *Net Creation Cost Multiple*

Net creation cost multiple is the total net subscriber acquisition costs, divided by the number of new subscribers originated, and then divided by the Average RMR per New Subscriber.

### *Net Service Cost per Subscriber*

Net service cost per subscriber is the total service costs for the period, including monitoring, customer service, field service and other allocations (general and administrative and overhead) costs, less total service revenue for the period, divided by total service subscribers.

### *Net Service Margin*

Net service margin is the average RMR per subscriber for the period less net service costs per subscriber, divided by average RMR per subscriber for the period.

## **Recent Developments**

In April 2016, Parent completed the first installment of the issuance and sale to certain investors of a series of preferred stock in a private placement exempt from registration under the Securities Act. In July 2016, Parent completed the final installment of the issuance and sale of Parent's preferred stock to certain investors and to certain co-investors in a private placement exempt from registration under the Securities Act. Parent contributed the net proceeds from such issuances and sales of \$69.8 million to us in April 2016 and \$30.6 million to us in August 2016 as equity contributions.

In May 2016, APX issued \$500.0 million aggregate principal amount of 2022 notes, pursuant to an indenture dated as of May 26, 2016 among APX, the guarantors party thereto and Wilmington Trust, National Association, as trustee and collateral agent. The 2022 notes will mature on December 1, 2022, or on such earlier date when any outstanding pari passu lien indebtedness matures as a result of the operation of any "Springing Maturity" provision set forth in the agreements governing such pari passu lien indebtedness. The 2022 notes are secured, on a pari passu basis, by the collateral securing obligations under the 2019 notes and 2022 private placement notes and the revolving credit facilities, in all cases, subject to certain exceptions and permitted liens. APX used a portion of the net proceeds from the offering of the 2022 notes to repurchase approximately \$235 million aggregate principal amount of the outstanding 2019 notes and 2022 private placement notes in privately negotiated transactions and repaid borrowings under the existing revolving credit facility.

On May 2, 2016, we and David Bywater, our Chief Operating Officer, agreed that in connection with the appointment of Mr. Bywater as interim Chief Executive Officer of Vivint Solar, Inc., Mr. Bywater would take a leave of absence from the Company.

## **Critical Accounting Policies and Estimates**

In preparing our unaudited Condensed Consolidated Financial Statements, we make assumptions, judgments and estimates that can have a significant impact on our revenue, loss from operations and net loss, as well as on the value of certain assets and liabilities on our unaudited Condensed Consolidated Balance Sheets. We base our assumptions, judgments and estimates on historical experience and various other factors that we believe to be reasonable under the circumstances. Actual

## [Table of Contents](#)

results could differ materially from these estimates under different assumptions or conditions. At least quarterly, we evaluate our assumptions, judgments and estimates and make changes accordingly. Historically, our assumptions, judgments and estimates relative to our critical accounting estimates have not differed materially from actual results. We believe that the assumptions, judgments and estimates involved in the accounting for income taxes, allowance for doubtful accounts, valuation of intangible assets, and fair value have the greatest potential impact on our unaudited Condensed Consolidated Financial Statements; therefore, we consider these to be our critical accounting estimates. For information on our significant accounting policies, see Note 1 to our accompanying unaudited Condensed Consolidated Financial Statements.

### *Change in Accounting Estimate*

Effective as of the beginning of the second quarter of 2016, we updated the estimated life of our subscriber relationships and the period used to amortize deferred activation fees and deferred subscriber acquisition costs, to better approximate the related anticipated life of the customer. Prior to the change, we amortized deferred activation fees and subscriber acquisition costs over 12 years using a 150% declining balance method, which converted to a straight-line methodology after approximately five years. Subsequent to the change, we amortize deferred activation fees and subscriber acquisition costs over 15 years using a 240% declining balance method, which converts to a straight-line methodology after approximately nine years when the resulting amortization exceeds that from the accelerated method. The effect of this change in estimate was to increase activation fee revenues for both the three and six months ended June 30, 2016 by \$0.5 million, increase depreciation and amortization for both the three and six months ended June 30, 2016 by \$7.6 million resulting in an increase to loss from operations for both the three and six months ended June 30, 2016 of \$7.1 million and an increase to net loss for both the three and six months ended June 30, 2016 of \$6.9 million.

All pertinent factors, including actual customer attrition data, demand, competition, and the estimated technological life of the installed equipment, will continue to be reviewed by us to assess the continued appropriateness of methods and estimated subscriber relationship period.

### *Revenue Recognition*

We recognize revenue principally on three types of transactions: (i) recurring revenue, which includes revenues for monitoring and other smart home services of our subscriber contracts and recurring monthly revenue associated with Vivint Wireless Inc., (ii) service and other sales, which includes non-recurring service fees charged to subscribers provided on contracts, contract fulfillment revenues and sales of products that are not part of our service offerings, and (iii) activation fees on subscriber contracts, which are amortized over the expected life of the customer.

Recurring revenue for our subscriber contracts is billed in advance, generally monthly, pursuant to the terms of subscriber contracts and recognized ratably over the service period. Costs of providing ongoing recurring services are expensed in the period incurred.

Service and other sales revenue is recognized as services are provided or when title to the products and equipment sold transfers to the customer. Contract fulfillment revenue, included in service and other sales, is recognized when payment is received from customers who cancel their contract in-term. Revenue from sales of products that are not part of the basic equipment package is generally recognized upon delivery of products.

Activation fees represent upfront one-time charges billed to subscribers at the time of installation and are deferred. We evaluate subscriber account attrition on a periodic basis, utilizing observed attrition rates for our subscriber contracts and industry information and, when necessary, makes adjustments to the estimated subscriber relationship period and amortization method.

### *Subscriber Acquisition Costs*

Subscriber acquisition costs represent the costs related to the origination of new subscribers. A portion of subscriber acquisition costs is expensed as incurred, which includes costs associated with the direct-to-home sale housing, marketing and recruiting, certain portions of sales commissions (residuals), overhead and other costs, considered not directly and specifically tied to the origination of a particular subscriber. The remaining portion of the costs is considered to be directly tied to subscriber acquisition and consists primarily of certain portions of sales commissions, equipment, and installation costs. These costs are deferred and recognized in a pattern that reflects the estimated life of the subscriber relationships. The Company evaluates subscriber account attrition on a periodic basis, utilizing observed attrition rates for the Company's subscriber contracts and



industry information and, when necessary, makes adjustments to the estimated subscriber relationship period and amortization method.

On the accompanying unaudited condensed consolidated statement of cash flows, subscriber acquisition costs that are comprised of equipment and related installation costs purchased for, or used in, subscriber contracts in which we retain ownership to the equipment are classified as investing activities and reported as “Subscriber acquisition costs – company owned equipment”. All other subscriber acquisition costs are classified as operating activities and reported as “Subscriber acquisition costs – deferred contract costs” on the condensed consolidated statements of cash flows as these assets represent deferred costs associated with customer contracts.

#### *Accounts Receivable*

Accounts receivable consists primarily of amounts due from customers for recurring monthly monitoring services. The accounts receivable are recorded at invoiced amounts and are non-interest bearing. The gross amount of accounts receivable has been reduced by an allowance for doubtful accounts of \$3.1 million and \$3.5 million at June 30, 2016 and December 31, 2015, respectively. We estimate this allowance based on historical collection experience and subscriber attrition rates. When we determine that there are accounts receivable that are uncollectible, they are charged off against the allowance for doubtful accounts. As of June 30, 2016 and December 31, 2015, no accounts receivable were classified as held for sale. Provision for doubtful accounts recognized and included in general and administrative expenses in the accompanying unaudited condensed consolidated statements of operations totaled \$3.7 million and \$3.5 million for the three months ended June 30, 2016 and 2015, respectively, and \$7.7 million and \$7.1 million for the six months ended June 30, 2016 and 2015, respectively.

#### *Loss Contingencies*

We record accruals for various contingencies including legal proceedings and other claims that arise in the normal course of business. The accruals are based on judgment, the probability of losses and, where applicable, the consideration of opinions of legal counsel. We record an accrual when a loss is deemed probable to occur and is reasonably estimable. Factors that we consider in the determination of the likelihood of a loss and the estimate of the range of that loss in respect of legal matters include the merits of a particular matter, the nature of the litigation, the length of time the matter has been pending, the procedural posture of the matter, whether we intend to defend the matter, the likelihood of settling for an insignificant amount and the likelihood of the plaintiff accepting an amount in this range. However, the outcome of such legal matters is inherently unpredictable and subject to significant uncertainties.

#### *Goodwill and Intangible Assets*

Purchase accounting requires that all assets and liabilities acquired in a transaction be recorded at fair value on the acquisition date, including identifiable intangible assets separate from goodwill. For significant acquisitions, we obtain independent appraisals and valuations of the intangible (and certain tangible) assets acquired and certain assumed obligations as well as equity. Identifiable intangible assets include customer relationships, trade names and trademarks and developed technology, which equaled \$503.1 million and \$558.4 million as of June 30, 2016 and December 31, 2015, respectively. Goodwill represents the excess of cost over the fair value of net assets acquired and was \$836.1 million and \$834.4 million as of June 30, 2016 and December 31, 2015, respectively.

The estimated fair values and useful lives of identified intangible assets are based on many factors, including estimates and assumptions of future operating performance and cash flows of the acquired business, estimates of cost avoidance, the nature of the business acquired, the specific characteristics of the identified intangible assets and our historical experience and that of the acquired business. The estimates and assumptions used to determine the fair values and useful lives of identified intangible assets could change due to numerous factors, including product demand, market conditions, regulations affecting the business model of our operations, technological developments, economic conditions and competition. The carrying values and useful lives for amortization of identified intangible assets are reviewed annually during our fourth fiscal quarter and as necessary if changes in facts and circumstances indicate that the carrying value may not be recoverable and any resulting changes in estimates could have a material adverse effect on our financial results.

When we determine that the carrying value of intangible assets, goodwill and long-lived assets may not be recoverable, an impairment charge is recorded. Impairment is generally measured based on valuation techniques considered most appropriate under the circumstances, including a projected discounted cash flow method using a discount rate determined by our management to be commensurate with the risk inherent in our current business model or prevailing market rates of investment securities, if available.

## [Table of Contents](#)

We conduct a goodwill impairment analysis annually in our fourth fiscal quarter, as of October 1, and as necessary if changes in facts and circumstances indicate that the fair value of our reporting units may be less than their carrying amount. Under applicable accounting guidance, we are permitted to use a qualitative approach to evaluate goodwill impairment when no indicators of impairment exist and if certain accounting criteria are met. To the extent that indicators exist or the criteria are not met, we use a quantitative approach to evaluate goodwill impairment. Such quantitative impairment assessment is performed using a two-step, fair value based test. The first step requires that we compare the estimated fair value of our reporting units to the carrying value of the reporting unit's net assets, including goodwill. If the fair value of the reporting unit is greater than the carrying value of its net assets, goodwill is not considered to be impaired and no further testing is required. If the fair value of the reporting unit is less than the carrying value of its net assets, we would be required to complete the second step of the test by analyzing the fair value of its goodwill. If the carrying value of the goodwill exceeds its fair value, an impairment charge is recorded.

### *Property and Equipment*

Property and equipment are stated at cost and depreciated on the straight-line method over the estimated useful lives of the assets or the lease term for assets under capital leases, whichever is shorter. Amortization expense associated with leased assets is included with depreciation expense. Routine repairs and maintenance are charged to expense as incurred. We periodically assess potential impairment of our property and equipment and perform an impairment review whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

### *Income Taxes*

We account for income taxes based on the asset and liability method. Under the asset and liability method, deferred tax assets and deferred tax liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Valuation allowances are established when necessary to reduce deferred tax assets when it is determined that it is more likely than not that some portion of the deferred tax asset will not be realized.

We recognize the effect of an uncertain income tax position on the income tax return at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Our policy for recording interest and penalties is to record such items as a component of the provision for income taxes.

### *Recent Accounting Pronouncements*

In May 2014, the FASB originally issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* which clarifies the principles used to recognize revenue for all entities. This guidance requires companies to recognize revenue when they transfer goods or services to a customer in an amount that reflects the consideration to which they expect to be entitled. In August 2015, the FASB issued ASU 2015-14 which deferred the effective date of ASU 2014-09 by one year. In March 2016, the FASB issued ASU 2016-08 to clarify the implementation guidance on principal versus agent considerations as it relates to Topic 606. In June 2016, the FASB issued ASU 2016-10 to clarify the implementation guidance on identifying performance obligations and licensing as it relates to Topic 606. This update reduces the complexity when applying the guidance for identifying performance obligations and improves the operability and understandability of the license implementation guidance. In June 2016, the FASB issued ASU 2016-12 to clarify the implementation guidance on Topic 606, which amends the guidance on transition, collectability, non-cash consideration and the presentation of sales and other similar taxes. We are evaluating all new Topic 606 guidance and plan to provide additional information about its expected impact at a future date.

In March 2016, the FASB issued ASU 2016-09 to simplify accounting for employee share-based payments. This update involves several aspects of the accounting for 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. This update is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017 and will be applied prospectively and/or retrospectively, with early adoption permitted. We plan to adopt this update on the effective date and the adoption is not expected to materially impact the consolidated financial statements.

In March 2016, the FASB issued ASU 2016-07 which eliminates the requirement to retroactively adopt the equity method of accounting when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence. This update is effective for fiscal years, and interim periods within those years,

beginning after December 15, 2016 and must be applied prospectively, with early adoption permitted. We plan to adopt this update on the effective date and the adoption is not expected to materially impact the consolidated financial statements.

In March 2016, the FASB issued ASU 2016-06 to clarify the assessment of contingent put and call options in debt instruments as it relates to Derivatives and Hedging (Topic 815). The amendments in this update clarify the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. An entity performing the assessment under the amendments in this update is required to assess the embedded call (put) options solely in accordance with the four-step decision sequence. This update is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016 and must be applied using a modified retrospective approach, with early adoption permitted. We plan to adopt this update on the effective date and the adoption is not expected to materially impact the consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02 to increase transparency and comparability among organizations as it relates to lease assets and lease liabilities. The update requires that lease assets and lease liabilities be recognized on the balance sheet, and that key information about leasing arrangements be disclosed. Prior to this update, GAAP did not require operating leases to be recognized as lease assets and lease liabilities on the balance sheet. This update is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018 and must be applied using a modified retrospective approach, with early adoption permitted. We are evaluating the new guidance and plan to provide additional information about its expected impact at a future date.

In January 2016, the FASB issued ASU 2016-01 to address certain aspects of the recognition, measurement, presentation, and disclosure of financial instruments. The main provisions of this update require equity investments to be measured at fair value with changes in fair value recognized in earnings, allows a company to value equity investments without a readily determined fair value at cost, less any impairments, and simplifies the assessment of impairments of equity investments without a readily determinable fair value by requiring a qualitative assessment. This update is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. An entity should apply the amendments by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values (including disclosure requirements) should be applied prospectively to equity investments that exist as of the date of adoption of the Update. Early adoption is permitted. We are evaluating the new guidance and plan to provide additional information about its expected impact at a future date.

### **Key Factors Affecting Operating Results**

Our business is driven through the generation of new subscribers and servicing and maintaining our existing subscriber base. The generation of new subscribers requires significant upfront investment, which in turn provides predictable contractual recurring monthly revenue generated from our monitoring and additional services. We market our service offerings through two sales channels, direct-to-home and inside sales. Historically, most of our new subscriber accounts were generated through direct-to-home sales, primarily from April through August. New subscribers generated through inside sales was approximately 32% of total new subscriber additions in the twelve months ended June 30, 2016, as compared to 25% of total new subscribers in the twelve months ended June 30, 2015. Over time we expect the number of subscribers originated through inside sales to continue to increase, resulting from increased advertising and lead conversion.

Our operating results are impacted by the following key factors: number of subscriber additions, net subscriber acquisition costs, average RMR per subscriber, subscriber adoption rate of additional services beyond our base security package, subscriber attrition, the costs to monitor and service our subscribers, the level of general and administrative expenses and the availability and cost of capital required to generate new subscribers. We focus our investment decisions on generating new subscribers and servicing our existing subscribers in the most cost-effective manner, while maintaining a high level of customer service to minimize subscriber attrition. These decisions are based on the projected cash flows and associated margins generated over the expected life of the subscriber relationship.

Our ability to increase subscribers depends on a number of factors, both external and internal. External factors include the overall macroeconomic environment, the availability of additional capital and competition from other companies in the geographies we serve, particularly in those markets where our direct-to-home sales representatives are present. Some of our current competitors have longer operating histories, greater name recognition and substantially greater financial and marketing resources than us. In the future, other companies may also choose to begin offering services similar to ours. In addition, because such a large percentage of our new subscribers are generated through direct-to-home sales, any actions limiting this sales channel could negatively affect our ability to grow our subscriber base. We are continually evaluating ways to improve the

## [Table of Contents](#)

effectiveness of our subscriber acquisition activities in both our direct-to-home and inside sales channels, and over time we intend to evaluate other sales models and channels to grow our subscriber base.

Internal factors include our ability to recruit, train and retain personnel, along with the level of investment in sales and marketing efforts. As a result, we expect to increase our investment in advertising over time. We believe maintaining competitive compensation structures, differentiated product offerings and establishing a strong brand are critical to attracting and retaining high-quality personnel and competing effectively in the markets we serve. Successfully growing our revenue per subscriber depends on our ability to continue expanding our technology platform by offering additional value added services demanded by the market. Therefore, we continually evaluate the viability of additional service packages that could further leverage our existing technology platform and sales channels. As evidence of this focus on new services, since 2010, we have successfully expanded our service packages from residential security into smart home services, which allows us to charge higher RMR for these additional service packages. During 2013, we began offering high-speed wireless internet to a limited number of residential customers. In August 2014, we also acquired a distributed cloud storage technology solution that we began selling that year. These service offerings leverage our existing direct-to-home selling model for the generation of new subscribers. During the six months ended June 30, 2016, approximately 86% of our new subscribers contracted for one of our additional service packages. Due to the high rate of adoption for these additional service packages, our average RMR per new subscriber has increased from \$44.50 in 2009 to \$65.59 for the six months ended June 30, 2016, an increase of 47%.

We focus on managing the costs associated with monitoring and service without jeopardizing our award-winning service quality. We believe our ability to retain subscribers over the long-term starts with our underwriting criteria and is enhanced by maintaining our consistent quality service levels.

Subscriber attrition has a direct impact on the number of subscribers who we monitor and service and on our financial results, including revenues, operating income and cash flows. A portion of the subscriber base can be expected to cancel its service every year. Subscribers may choose not to renew or may terminate their contracts for a variety of reasons, including, but not limited to, relocation, cost, switching to a competitor's service or service issues. If a subscriber relocates but continues their service, we do not consider this as a cancellation. If a subscriber discontinues their service and transfers the original subscriber's contract to a new subscriber continuing the revenue stream, we also do not consider this as a cancellation. We analyze our attrition by tracking the number of subscribers who cancel as a percentage of the monthly average number of subscribers at the end of each twelve month period. We caution investors that not all companies, investors and analysts in our industry define attrition in the same manner.

The table below presents our security and smart home subscriber data for the twelve months ended June 30, 2016 and June 30, 2015 :

	Twelve months ended June 30, 2016	Twelve months ended June 30, 2015
Beginning balance of subscribers	955,163	851,129
Net new additions	264,732	209,759
Subscriber contracts repurchased	—	2,185
Attrition	(130,986)	(107,911)
Ending balance of subscribers	1,088,909	955,162
Monthly average subscribers	1,017,663	897,959
Attrition rate	12.9%	12.0%

Historically, we have experienced an increased level of subscriber cancellations in the months surrounding the expiration of such subscribers' initial contract term. Attrition in any twelve month period may be impacted by the number of subscriber contracts reaching the end of their initial term in such period. Increases in attrition in the twelve months ended June 30, 2016, reflect the effect of the 2012 42-month pool reaching the end of its initial contract term. We believe this trend in cancellations at the end of the initial contract term is comparable to other companies within our industry.

### **Basis of Presentation**

We conduct business through one operating segment, Vivint. We operate primarily in three geographic regions: United States, Canada and New Zealand. The operations in New Zealand are considered immaterial and are reported in conjunction

with the United States. See Note 14 in the accompanying unaudited condensed consolidated financial statements for more information about our geographic segments.

## **How We Generate Revenue**

Our primary source of revenue is generated through recurring monthly services and wireless internet services provided to our subscribers in accordance with their subscriber contracts. The remainder of our revenue is generated through additional services, activation fees, upgrades and maintenance and repair fees. Recurring revenues accounted for approximately 95% of total revenues for each of the six months ended June 30, 2016 and 2015 .

*Recurring revenue.* Recurring services for our subscriber contracts are billed in advance, generally monthly, pursuant to the terms of subscriber contracts and recognized ratably over the service period. The amount of RMR billed is dependent upon which of our service packages is included in the subscriber contracts. Our Smart Complete and Smart Protect and Control packages generally provide higher RMR than our Smart Protect service package. Historically, we have generally offered contracts to subscribers that range in length from 36 to 60 months that are subject to automatic annual or monthly renewal after the expiration of the initial term. At the end of each monthly period, the portion of recurring fees related to services not yet provided are deferred and recognized as these services are provided.

*Service and other sales revenue .* Our service and other sales revenue is primarily comprised of amounts charged for selling additional equipment, and maintenance and repair. These amounts are billed, and the associated revenue recognized, at the time of installation or when the services are performed. Service and other sales revenue also includes contract fulfillment revenue, which relates to amounts paid by subscribers who cancel their monitoring contract in-term and for which we have no future service obligation to them. We recognize this revenue upon receipt of payment from the subscriber.

*Activation fees.* Activation fees represent upfront one-time charges billed to subscribers at the time of installation and are deferred. Effective April 1, 2016 these fees are recognized over 15 years using a 240% declining balance method, which converts to a straight-line methodology after approximately nine years when the resulting amortization exceeds that from the accelerated method.

## **Costs and Expenses**

*Operating expenses.* Operating expenses primarily consists of labor associated with monitoring and servicing subscribers and labor and equipment expenses related to upgrades and service repairs. We also incur equipment costs associated with excess and obsolete inventory and rework costs related to equipment removed from subscribers' homes. In addition, a portion of general and administrative expenses, comprised of certain human resources, facilities and information technologies costs are allocated to operating expenses. This allocation is primarily based on employee headcount and facility square footage occupied. Because our field service professionals perform most subscriber installations generated through our inside sales channels, the costs incurred by the field service associated with these installations are allocated to capitalized subscriber acquisition costs.

*Selling expenses.* Selling expenses are primarily comprised of costs associated with housing for our direct-to-home sales representatives, advertising and lead generation, marketing and recruiting, certain portions of sales commissions, overhead (including allocation of certain general and administrative expenses) and other costs not directly tied to a specific subscriber origination. These costs are expensed as incurred.

*General and administrative expenses.* General and administrative expenses consist largely of finance, legal, research and development ("R&D"), human resources, information technology and executive management expenses, including stock-based compensation expense. Stock-based compensation expense is recorded within various components of our costs and expenses. General and administrative expenses also include the provision for doubtful accounts. We allocate approximately one-third of our gross general and administrative expenses, excluding the provision for doubtful accounts, into operating and selling expenses in order to reflect the overall costs of those components of the business. In addition, in connection with certain service agreements with Solar, we provide various administrative services to Solar. We charge Solar the costs associated with these service agreements (See Note 11 to the accompanying unaudited condensed consolidated financial statements).

*Depreciation and amortization.* Depreciation and amortization consists of depreciation from property and equipment, amortization of equipment leased under capital leases, capitalized subscriber acquisition costs and intangible assets.

## **Results of operations**

[Table of Contents](#)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in thousands)		(in thousands)	
Total revenues	\$ 180,807	\$ 157,913	\$ 355,060	\$ 310,108
Total costs and expenses	213,680	162,801	391,608	324,697
Loss from continuing operations	(32,873)	(4,888)	(36,548)	(14,589)
Other expenses	57,297	38,547	97,595	76,764
Loss before taxes	(90,170)	(43,435)	(134,143)	(91,353)
Income tax expense	(448)	179	672	308
Net loss	\$ (89,722)	\$ (43,614)	\$ (134,815)	\$ (91,661)
<b>Key operating metrics</b>				
Total Subscribers, as of June 30 (thousands)(1)	1,088.9	955.2		
Total RMR (thousands)(1)	\$ 61,196	\$ 52,403		
Average RMR per Subscriber(1)	\$ 56.20	\$ 54.86		
Net Service Cost per Subscriber	\$ 15.02	\$ 14.73	\$ 14.72	\$ 14.29
Net Service Margin	72.7%	72.6%	73.3%	73.8%
Net Creation Cost Multiple(2)			30.5x	31.1x

(1) Total Subscribers and RMR data excludes the wireless Internet business and are provided as of each period end.

(2) Reflects net creation cost multiple for the trailing twelve month period.

### Three Months Ended June 30, 2016 Compared to the Three Months Ended June 30, 2015

#### Revenues

The following table provides the significant components of our revenue for the three month period ended June 30, 2016 and the three month period ended June 30, 2015 (in thousands):

	Three Months Ended June 30,		% Change
	2016	2015	
Recurring revenue	\$ 172,472	\$ 149,543	15 %
Service and other sales revenue	5,826	6,992	(17)%
Activation fees	2,509	1,378	82 %
Total revenues	\$ 180,807	\$ 157,913	14 %

Total revenues increased \$22.9 million , or 14% , for the three months ended June 30, 2016 as compared to the three months ended June 30, 2015 , primarily due to the growth in recurring revenue of \$22.9 million , or 15% . This increase resulted from \$18.7 million of fees from the net addition of approximately 134,000 subscribers at June 30, 2016 as compared to June 30, 2015 , and a \$7.2 million increase from continued growth in the percentage of our subscribers contracting for new products and service packages. Recurring revenues associated with our wireless internet business increased \$0.8 million for the three months ended June 30, 2016 as compared to the three months ended June 30, 2015 . When compared to the three months ended June 30, 2015 , currency translation negatively affected total revenues by \$0.5 million , as computed on a constant currency basis.

Total service and other sales revenue decreased \$1.2 million , or 17% , for the three months ended June 30, 2016 as compared to the three months ended June 30, 2015 , primarily due to a decrease in upgrade revenue at the time of a new installation as we have shifted to recurring revenue upgrades for new installation.

The revenue associated with activation fees is deferred upon billing and recognized over the estimated life of the subscriber relationship. Revenues recognized related to activation fees increased \$1.1 million , or 82% , for the three months ended June 30, 2016 as compared to the three months ended June 30, 2015 , primarily due to the increase in the number of subscribers from whom we have collected activation fees and a change in the timing of recognizing deferred activation fees as a result of the estimate relating to amortization.

## [Table of Contents](#)

### *Costs and Expenses*

The following table provides the significant components of our costs and expenses for the three month period ended June 30, 2016 and the three month period ended June 30, 2015 (in thousands):

	Three Months Ended June 30,		% Change
	2016	2015	
Operating expenses	\$ 68,943	\$ 58,623	18%
Selling expenses	37,343	31,244	20%
General and administrative	36,109	12,864	NM
Depreciation and amortization	72,010	60,070	20%
Total costs and expenses	\$ 214,405	\$ 162,801	32%

Operating expenses increased \$10.3 million , or 18% , for the three months ended June 30, 2016 as compared to the three months ended June 30, 2015 , primarily to support the growth in our subscriber base and investments in servicing costs to improve our customers' experience. This increase was principally comprised of \$6.2 million in personnel costs within our monitoring, customer support and field service functions and \$2.2 million in facilities and IT infrastructure costs.

Selling expenses, excluding capitalized subscriber acquisition costs, increased by \$6.1 million , or 20% , for the three months ended June 30, 2016 as compared to the three months ended June 30, 2015 . This increase was principally comprised of \$2.6 million in expenses associated with lead generation, primarily related to the 65.8% growth in new subscribers generated through our inside sales channel, and \$2.4 million in personnel costs. These costs were incurred to support the growth in our subscriber base.

General and administrative expenses increased \$23.2 million for the three months ended June 30, 2016 as compared to the three months ended June 30, 2015 , primarily due to a non-cash gain of \$12.2 million in connection with the settlement of the Merger-related escrow recorded during the three months ended June 30, 2015, an increase of \$5.5 million in personnel costs primarily associated with our R&D activities and a \$2.2 million stock-based compensation expense related to an equity repurchase by 313 from one our executives, and an increase of \$2.1 million in legal costs.

Depreciation and amortization increased \$ 11.9 million , or 20% , for the three months ended June 30, 2016 as compared to the three months ended June 30, 2015 . The increase was primarily due to increased amortization of subscriber acquisition costs related to new subscribers and a change in the timing of recognizing capitalized subscriber acquisition costs as a result of the estimate relating to amortization.

### *Other Expenses, net*

The following table provides the significant components of our other expenses, net for the three month period ended June 30, 2016 and the three month period ended June 30, 2015 (in thousands):

	Three Months Ended June 30,		% Change
	2016	2015	
Interest expense	\$ 47,447	\$ 38,841	22%
Interest income	(11)	—	NM
Other loss (income), net	9,861	(294)	NM
Total other expenses, net	\$ 57,297	\$ 38,547	49%

Interest expense increased \$8.6 million , or 22% , for the three months ended June 30, 2016 , as compared with the three months ended June 30, 2015 , due to a higher principal balance on our debt.

Other loss, net, increased by \$10.2 million , for the three months ended June 30, 2016 , as compared with the three months ended June 30, 2015 , primarily due to the loss and expenses of \$9.9 million resulting from our debt modification and



## [Table of Contents](#)

extinguishment that occurred during the three months ended June 30, 2016 (See Note 2 to the accompanying unaudited condensed consolidated financial statements).

### *Income Taxes*

The following table provides the significant components of our income tax expense for the three month period ended June 30, 2016 and the three month period ended June 30, 2015 (in thousands):

	Three Months Ended June 30,		% Change
	2016	2015	
Income tax (benefit) expense	\$ (448)	\$ 179	NM

Income tax benefit was \$0.4 million for the three months ended June 30, 2016 as compared to an income tax expense of \$0.2 million for the three months ended June 30, 2015. The income tax benefit for the three months ended June 30, 2016 resulted primarily from a transfer pricing adjustment in our Canadian subsidiary. The income tax expense for the three months ended June 30, 2015 resulted primarily from earnings in our Canadian subsidiary, as well as U.S. minimum state taxes.

### *Six Months Ended June 30, 2016 Compared to the Six Months Ended June 30, 2015*

#### *Revenues*

The following table provides the significant components of our revenue for the six month period ended June 30, 2016 and the six month period ended June 30, 2015 (in thousands):

	Six Months Ended June 30,		% Change
	2016	2015	
Recurring revenue	\$ 339,918	\$ 295,207	15 %
Service and other sales revenue	10,837	12,216	(11)%
Activation fees	4,305	2,685	60 %
Total revenues	\$ 355,060	\$ 310,108	14 %

Total revenues increased \$45.0 million, or 14%, for the six months ended June 30, 2016 as compared to the six months ended June 30, 2015, primarily due to the growth in recurring revenue of \$44.7 million, or 15%. This increase resulted from \$33.6 million of fees from the net addition of approximately 134,000 subscribers at June 30, 2016 as compared to June 30, 2015, and a \$13.8 million increase from continued growth in the percentage of our subscribers contracting for new products and service packages. Recurring revenues associated with our wireless internet business increased \$2.5 million for the six months ended June 30, 2016 as compared to the six months ended June 30, 2015. When compared to the six months ended June 30, 2015, currency translation negatively affected total revenues by \$1.4 million, as computed on a constant currency basis.

Total service and other sales revenue decreased \$1.4 million, or 11%, for the six months ended June 30, 2016 as compared to the six months ended June 30, 2015, primarily due to a decrease in upgrade revenue at the time of a new installation as we have shifted to recurring revenue upgrades for new installation.

The revenue associated with activation fees is deferred upon billing and recognized over the estimated life of the subscriber relationship. Revenues recognized related to activation fees increased \$1.6 million, or 60%, for the six months ended June 30, 2016 as compared to the six months ended June 30, 2015, primarily due to the increase in the number of subscribers from whom we have collected activation fees and a change in the timing of recognizing deferred activation fees as a result of the estimate relating to amortization.

#### *Costs and Expenses*

The following table provides the significant components of our costs and expenses for the six month period ended June 30, 2016 and the six month period ended June 30, 2015 (in thousands):



## [Table of Contents](#)

	Six Months Ended June 30,		% Change
	2016	2015	
Operating expenses	\$ 126,934	\$ 109,952	15%
Selling expenses	66,223	56,520	17%
General and administrative	66,550	41,098	62%
Depreciation and amortization	132,581	117,127	13%
Total costs and expenses	\$ 392,288	\$ 324,697	21%

Operating expenses increased \$17.0 million , or 15% , for the six months ended June 30, 2016 as compared to the six months ended June 30, 2015 , primarily to support the growth in our subscriber base and investments in servicing costs to improve our customers' experience. This increase was principally comprised of \$11.1 million in personnel costs within our monitoring, customer support and field service functions and \$3.3 million in facilities and IT infrastructure costs.

Selling expenses, excluding capitalized subscriber acquisition costs, increased by \$9.7 million , or 17% , for the six months ended June 30, 2016 as compared to the six months ended June 30, 2015 . This increase was principally comprised of \$5.0 million in expenses associated with lead generation, primarily related to the 76.4% growth in new subscribers generated through our inside sales channel, and \$3.7 million in personnel costs. These costs were incurred to support the growth in our subscriber base.

General and administrative expenses increased \$25.5 million , or 62% , for the six months ended June 30, 2016 as compared to the six months ended June 30, 2015 , primarily due to a non-cash gain of \$12.2 million in connection with the settlement of the Merger-related escrow recorded during the six months ended June 30, 2015, an increase of \$7.4 million in personnel costs primarily associated with our R&D activities and a \$2.2 million stock-based compensation expense related to an equity repurchase by 313 from one of our executives, and an increase of \$2.9 million in legal costs.

Depreciation and amortization increased \$15.5 million , or 13% , for the six months ended June 30, 2016 as compared to the six months ended June 30, 2015 . The increase was primarily due to increased amortization of subscriber acquisition costs related to new subscribers and a change in the timing of recognizing capitalized subscriber acquisition costs as a result of the estimate relating to amortization.

### *Other Expenses, net*

The following table provides the significant components of our other expenses, net for the six month period ended June 30, 2016 and the six month period ended June 30, 2015 (in thousands):

	Six Months Ended June 30,		% Change
	2016	2015	
Interest expense	\$ 92,865	\$ 77,101	20%
Interest income	(23)	(2)	NM
Other loss (income), net	4,753	(335)	NM
Total other expenses, net	\$ 97,595	\$ 76,764	27%

Interest expense increased \$15.8 million , or 20% , for the six months ended June 30, 2016 , as compared with the six months ended June 30, 2015 , due to a higher principal balance on our debt.

Other loss, net, increased by \$ 5.1 million , for the six months ended June 30, 2016 , as compared with the six months ended June 30, 2015 , primarily due to the loss and expenses of \$9.9 million resulting from our debt modification and extinguishment that occurred during the three months ended June 30, 2016 (See Note 2 to the accompanying unaudited condensed consolidated financial statements). These losses and expenses were partially offset by \$4.9 million increase in foreign currency translation gains as a result of a change in treatment of gains and losses on intercompany balances. Prior to July 2015, we classified intercompany receivable balances with our Canadian and New Zealand subsidiaries as long-term investments with translation gains and losses recorded in other comprehensive income. Beginning in July 2015, as part of our cash management strategy we determined that settlement of these intercompany balances was anticipated and therefore these balances are not considered to be long-term investments and any subsequent translation gains or losses are recorded in income.

## [Table of Contents](#)

### *Income Taxes*

The following table provides the significant components of our income tax expense for the six month period ended June 30, 2016 and the six month period ended June 30, 2015 (in thousands):

	Six Months Ended June 30,		% Change
	2016	2015	
Income tax expense	\$ 672	\$ 308	NM

Income tax expense was \$0.7 million for the six months ended June 30, 2016 as compared to an income tax expense of \$0.3 million for the six months ended June 30, 2015. The income tax expense for each of the six months ended June 30, 2016 and June 30, 2015 resulted primarily from earnings in our Canadian subsidiary, as well as U.S. minimum state taxes.

### **Liquidity and Capital Resources**

Our primary source of liquidity has historically been cash from operations, proceeds from the issuance of debt securities, borrowing availability under our revolving credit facility and, to a lesser extent, capital contributions. As of June 30, 2016, we had \$121.4 million of cash and cash equivalents and \$283.7 million of availability under our revolving credit facility (after giving effect to \$5.7 million of letters of credit outstanding and no borrowings).

As market conditions warrant, we and our equity holders, including Blackstone Capital Partners VI L.P., its affiliates and members of our management, may from time to time, seek to purchase our outstanding debt securities or loans, including the notes and borrowings under our revolving credit facility, in privately negotiated or open market transactions, by tender offer or otherwise. Subject to any applicable limitations contained in the agreements governing our indebtedness, any purchases made by us may be funded by the use of cash on our balance sheet or the incurrence of new secured or unsecured debt, including additional borrowings under our revolving credit facility. The amounts involved in any such purchase transactions, individually or in the aggregate, may be material. Any such purchases may be with respect to a substantial amount of a particular class or series of debt, with the attendant reduction in the trading liquidity of such class or series. In addition, any such purchases made at prices below the “adjusted issue price” (as defined for U.S. federal income tax purposes) may result in taxable cancellation of indebtedness income to us, which amounts may be material, and in related adverse tax consequences to us. Depending on conditions in the credit and capital markets and other factors, we will, from time to time, consider various financing transactions, the proceeds of which could be used to refinance our indebtedness or for other purposes. For example, in May 2016, we repurchased approximately \$205 million of the 2019 notes in privately negotiated transactions in conjunction with the issuance of the 2022 notes.

### *Capital Contribution*

In April 2016, Parent completed the first installment of the issuance and sale to certain investors of a series of preferred stock in a private placement exempt from registration under the Securities Act. In July 2016, Parent completed the final installment of the issuance and sale of Parent’s preferred stock to certain investors and to certain co-investors in a private placement exempt from registration under the Securities Act. Parent contributed the net proceeds from such issuances and sales of \$69.8 million to us in April 2016 and \$30.6 million to us in August 2016 as equity contributions.

The following table sets forth our cash and cash equivalents and capitalization as of June 30, 2016 on an actual basis and on an as adjusted basis to give effect to this capital contribution and the use of the proceeds therefrom as if the \$30.6 million August 2016 equity contribution had occurred on June 30, 2016.

	As of June 30, 2016		
	Actual	Adjustments	As Adjusted
	(in thousands) (unaudited)		
Cash and cash equivalents <sup>(1)</sup>	\$ 121,406	\$ 30,600	\$ 152,006
Long-term debt:			
6.375% Senior Secured Notes due 2019 <sup>(2)</sup>	719,465	—	719,465
8.75% Senior Notes due 2020 <sup>(2)</sup>	930,000	—	930,000
8.875% Senior Secured Notes Due 2022 <sup>(2)</sup>	270,000	—	270,000
7.875% Senior Secured Notes Due 2022 <sup>(2)</sup>	500,000	—	500,000
Total debt <sup>(3)</sup>	2,419,465	—	2,419,465
Total stockholders' deficit	(136,376)	30,600	(105,776)
Total Capitalization	\$ 2,283,089	\$ 30,600	\$ 2,313,689

(1) Does not reflect uses of cash and cash equivalents since June 30, 2016.

(2) Amounts reflect the aggregate principal amount of the notes and does not reflect any premium, discounts, fees or expenses.

(3) Consists of a \$289.4 million revolving credit facility with maturities through 2019, of which \$283.7 million was available as of June 30, 2016 (after giving effect to \$5.7 million of letters of credit outstanding and no borrowings).

#### Cash Flow and Liquidity Analysis

Significant factors influencing our liquidity position include cash flows generated from recurring revenue and other fees received from the subscribers we service and the level of investment in capitalized subscriber acquisition costs and general and administrative expenses. Our cash flows provided by operating activities include cash received from RMR, along with upfront activation fees, upgrade and other maintenance and repair fees. Cash used in operating activities includes the cash costs to monitor and service those subscribers, and certain costs, principally marketing, a portion of subscriber acquisition costs and general and administrative costs. Historically, we financed subscriber acquisition costs through our operating cash flows, the issuance of debt, and to a lesser extent, through the issuance of equity and contract sales to third parties. We expect to continue financing subscriber acquisition costs in a similar manner in future periods.

Our direct-to-home sales are seasonal in nature. We make investments in the recruitment of our direct-to-home sales force and the inventory for the April through August sales period prior to each sales season. We experience increases in subscriber acquisition costs, as well as costs to support the sales force throughout North America, during this time period.

The following table provides a summary of cash flow data (in thousands):

	Six Months Ended June 30,		% Change
	2016	2015	
Net cash used in operating activities	\$ (171,573)	\$ (89,690)	91 %
Net cash used in investing activities	(4,897)	(31,307)	(84)%
Net cash provided by financing activities	295,758	130,720	126 %

#### Cash Flows from Operating Activities

We generally reinvest the cash flows from our recurring revenues into our business, primarily to (1) maintain and grow our subscriber base, (2) expand our infrastructure to support this growth, (3) enhance our existing service offerings and (4) develop new service offerings. These investments are focused on generating new subscribers, increasing the revenue from our existing subscriber base, enhancing the overall quality of service provided to our subscribers, increasing the productivity and efficiency of our workforce and back-office functions necessary to scale our business.

For the six months ended June 30, 2016, net cash used in operating activities was \$171.6 million. This cash used was primarily from a net loss of \$134.8 million, adjusted for (1) \$140.7 million in non-cash amortization, depreciation, and stock-based compensation, and (2) a provision for doubtful accounts of \$7.7 million, along with a \$54.4 million increase in accounts payable due primarily to increases in inventory purchases, a \$29.3 million increase in accrued expenses and other liabilities.

due primarily to increases in accrued interest on our long term debt, a \$14.7 million increase in deferred revenue due to the increased subscriber base and a \$9.9 million loss on early extinguishment of debt. This was offset with a \$214.6 million increase in subscriber acquisition costs, a \$62.8 million increase in inventories, a \$8.5 million increase in accounts receivable and a \$6.1 million increase in prepaid expenses and other current assets.

For the six months ended June 30, 2015, net cash used in operating activities was \$89.7 million. This cash used was primarily from a net loss of \$91.7 million, adjusted for \$111.5 million in non-cash amortization, depreciation, stock-based compensation and a non-cash gain on settlement of Merger-related escrow a \$177.1 million increase in subscriber acquisition costs, a \$21.9 million increase in inventories due to the seasonality of our inventory purchases and usage, a \$6.0 million increase in accounts receivable primarily due to the growth in our subscriber base and RMR per subscriber as well as a \$4.0 million increase in prepaid expenses and other current assets primarily related to housing and other costs associated with our direct-to-home sales channel. This was partially offset by a \$47.9 million increase in accounts payable, primarily related to purchases of inventory, a \$35.2 million increase in accrued expenses and other liabilities, \$8.9 million increase in fees paid by our subscribers in advance of when the associated revenue is recognized, and a \$7.1 million increase in the provision for doubtful accounts.

Net cash interest paid for the six months ended June 30, 2016 , and 2015 related to our indebtedness (excluding capital leases) totaled \$86.3 million and \$71.6 million , respectively. Our net cash used in operating activities for the six months ended June 30, 2016 , and the net cash used in operating activities for the six months ended June 30, 2016 , before these interest payments, was \$85.2 million and \$18.1 million , respectively. Accordingly, our net cash provided by operating activities for the six months ended June 30, 2016 was insufficient to cover these interest payments. Our net cash provided by operating activities for the six months ended March 31, 2015 was sufficient to cover these interest payments. For additional information regarding our outstanding indebtedness see “Long-Term Debt” below.

#### *Cash Flows from Investing Activities*

Historically, our investing activities have primarily consisted of capital expenditures, business combinations and technology acquisitions. Capital expenditures primarily consist of periodic additions to property and equipment to support the growth in our business.

For the six months ended June 30, 2016 , net cash used in investing activities was \$4.9 million . This cash used in investing activities primarily consisted of capital expenditures of \$4.5 million and capitalized subscriber acquisition costs of \$1.8 million .

For the six months ended June 30, 2015, net cash used in investing activities was \$31.3 million. This cash used in investing activities primarily consisted of capital expenditures of \$18.1 million and capitalized subscriber acquisition costs of \$15.6 million, partially offset by \$3.0 million in insurance proceeds relating to a 2014 facility fire.

#### *Cash Flows from Financing Activities*

Historically, our cash flows provided by financing activities primarily related to the issuance of debt to fund the portion of upfront costs associated with generating new subscribers that are not covered through our operating cash flows, and to a lesser extent, capital contributions from Parent. Uses of cash for financing activities are generally associated with the payment of dividends to our stockholders and the repayment of debt.

For the six months ended June 30, 2016 , net cash provided by financing activities was \$295.8 million , consisting primarily of \$500.0 million in borrowings and \$235.5 million of repayments on notes, \$69.8 million of proceeds from capital contributions from Parent, \$57.0 million in borrowings and \$77.0 million of repayments on the revolving credit facility, \$14.6 million in financing costs and \$4.0 million of repayments under our capital lease obligations.

For the six months ended June 30, 2015, net cash provided by financing activities was \$130.7 million, consisting primarily of \$149.0 million in borrowings on the revolving line of credit partially offset by \$10.0 million of repayments on the revolving line of credit, \$4.2 million in deferred financing costs and \$4.0 million of repayments under our capital lease obligations.

#### *Long-Term Debt*

We are a highly leveraged company with significant debt service requirements. As of June 30, 2016 , we had approximately \$2.4 billion of total debt outstanding, consisting of \$719.5 million of outstanding 2019 notes, \$930.0 million of

## [Table of Contents](#)

outstanding 2020 notes, \$270.0 million of outstanding 2022 private placement notes, and \$500.0 million of outstanding 2022 notes, with \$283.7 million of availability under the revolving credit facility (after giving effect to \$5.7 million of letters of credit outstanding and no borrowings).

### *Revolving Credit Facility*

On November 16, 2012, we entered into a \$200.0 million senior secured revolving credit facility, with a five year maturity. In addition, we may request one or more term loan facilities, increased commitments under the revolving credit facility or new revolving credit commitments, in an aggregate amount not to exceed \$225.0 million. Availability of such incremental facilities and/or increased or new commitments will be subject to certain customary conditions.

On June 28, 2013, we amended and restated the credit agreement to provide for a new repriced tranche of revolving credit commitments with a lower interest rate. Nearly all of the existing tranches of revolving credit commitments was terminated and converted into the repriced tranche, with the untermated portion of the existing tranche continuing to accrue interest at the original higher rate.

On March 6, 2015, we amended and restated the credit agreement to provide for, among other things, (1) an increase in the aggregate commitments previously available to us from \$200.0 million to \$289.4 million and (2) the extension of the maturity date with respect to certain of the previously available commitments.

Borrowings under the amended and restated revolving credit facility bear interest at a rate per annum equal to an applicable margin plus, at our option, either (1) the base rate determined by reference to the highest of (a) the Federal Funds rate plus 0.50%, (b) the prime rate of Bank of America, N.A. and (c) the LIBOR rate determined by reference to the costs of funds for U.S. dollar deposits for an interest period of one month, plus 1.00% or (2) the LIBOR rate determined by reference to the London interbank offered rate for dollars for the interest period relevant to such borrowing. The applicable margin for base rate-based borrowings (1)(a) under the Series A Revolving Commitments of approximately \$247.5 million and Series C Revolving Commitments of approximately \$20.8 million is currently 2.0% per annum and (b) under the Series B Revolving Commitments of approximately \$21.2 million is currently 3.0% and (2)(a) the applicable margin for LIBOR rate-based borrowings (a) under the Series A Revolving Commitments and Series C Revolving Commitments is currently 3.0% per annum and (b) under the Series B Revolving Commitments is currently 4.0%. The applicable margin for borrowings under the revolving credit facility is subject to one step-down of 25 basis points based on our meeting a consolidated first lien net leverage ratio test at the end of each fiscal quarter.

In addition to paying interest on outstanding principal under the revolving credit facility, we are required to pay a quarterly commitment fee (which will be subject to one step-down based on our meeting a consolidated first lien net leverage ratio test) to the lenders under the revolving credit facility in respect of the unutilized commitments thereunder. We also pay customary letter of credit and agency fees.

We are not required to make any scheduled amortization payments under the revolving credit facility. The principal amount outstanding under the revolving credit facility will be due and payable in full on (1) with respect to the non-extended commitments under the Series C Revolving Credit Facility, November 16, 2017 and (2) with respect to the extended commitments under the Series A Revolving Credit Facility and Series B Revolving Credit Facility, March 31, 2019.

### *2019 Notes*

On November 16, 2012, we issued \$925.0 million of the 2019 notes. Interest on the 2019 notes is payable semi-annually in arrears on each June 1 and December 1. In May 2016, we repurchased approximately \$205 million of the 2019 notes in conjunction with the issuance of the 2022 notes.

From and after December 1, 2015, we may, at our option, redeem at any time and from time to time some or all of the 2019 notes at 104.781%, declining ratably on each anniversary thereafter to par from and after December 1, 2018, in each case, plus any accrued and unpaid interest to the date of redemption.

### *2020 Notes*

On November 16, 2012, we issued \$380.0 million of the 2020 notes. Interest on the 2020 notes is payable semi-annually in arrears on each June 1 and December 1. During the year ended December 31, 2013, we issued an additional \$450.0 million of the 2020 notes and on July 1, 2014, we issued an additional \$100.0 million of the 2020 notes, each under the indenture dated as of November 16, 2012.

## [Table of Contents](#)

From and after December 1, 2015, we may, at our option, redeem at any time and from time to time some or all of the 2020 notes at 106.563%, declining ratably on each anniversary thereafter to par from and after December 1, 2018, in each case, plus any accrued and unpaid interest to the date of redemption.

### *2022 Private Placement Notes*

On October 19, 2015, we issued \$300.0 million aggregate principal amount of our 2022 private placement notes. Interest on the 2022 private placement notes will be payable semi-annually in arrears on June 1 and December 1 of each year, commencing on June 1, 2016. In May 2016, we repurchased \$30 million in principal amounts of the 2022 private placement notes in conjunction with the issuance of the 2022 notes.

We may, at our option, redeem at any time and from time to time prior to December 1, 2018, some or all of the 2022 private placement notes at 100% of their principal amount thereof plus accrued and unpaid interest to the redemption date plus a “make-whole premium.” From and after December 1, 2018, we may, at our option, redeem at any time and from time to time some or all of the 2022 private placement notes at 104.500%, declining to par from and after December 1, 2019, in each case, plus any accrued and unpaid interest to the date of redemption. In addition, on or prior to December 1, 2018, we may, at our option, redeem up to 35% of the aggregate principal amount of the 2022 private placement notes with the proceeds from certain equity offerings at 108.875%, plus accrued and unpaid interest to the date of redemption. At any time and from time to time prior to December 1, 2018, we may at our option redeem during each 12-month period commencing with the issue date on October 19, 2015 up to 10% of the aggregate principal amount of the 2022 private placement notes at a redemption price equal to 103% of the aggregate principal amount of the 2022 private placement notes redeemed, plus accrued and unpaid interest, to the redemption date.

### *2022 Notes*

On May 26, 2016, we issued \$500.0 million aggregate principal amount of our 2022 notes. Interest on the 2022 notes will be payable semi-annually in arrears on June 1 and December 1 of each year, commencing on December 1, 2016.

We may, at our option, redeem at any time and from time to time prior to December 1, 2018, some or all of the 2022 notes at 100% of their principal amount thereof plus accrued and unpaid interest to the redemption date plus a “make-whole premium.” From and after December 1, 2018, we may, at our option, redeem at any time and from time to time some or all of the 2022 notes at 103.938%, declining to par from and after December 1, 2020, in each case, plus any accrued and unpaid interest to the date of redemption. In addition, on or prior to December 1, 2018, we may, at our option, redeem up to 35% of the aggregate principal amount of the 2022 notes with the proceeds from certain equity offerings at 107.875%, plus accrued and unpaid interest to the date of redemption. At any time and from time to time prior to December 1, 2018, we may at our option redeem during each 12-month period commencing on the issue date of May 26, 2016 up to 10% of the aggregate principal amount of the 2022 notes at a redemption price equal to 103% of the aggregate principal amount of the 2022 notes redeemed, plus accrued and unpaid interest, to the redemption date.

### *Guarantees and Security*

All of our obligations under the revolving credit facility, the 2019 notes, the 2020 notes, the 2022 private placement notes and the 2022 notes are guaranteed by APX Group Holdings, Inc. and each of our existing and future material wholly-owned U.S. restricted subsidiaries to the extent such entities guarantee indebtedness under the revolving credit facility or our other indebtedness. See Note 15 of our accompanying consolidated financial statements included elsewhere in this quarterly report on Form 10-Q for additional financial information regarding guarantors and non-guarantors.

The obligations under the revolving credit facility, the 2019 notes, the 2022 private placement notes, and the 2022 notes are secured by a security interest in (i) substantially all of the present and future tangible and intangible assets of APX Group, Inc., and the guarantors, including without limitation equipment, subscriber contracts and communication paths, intellectual property, fee-owned real property, general intangibles, investment property, material intercompany notes and proceeds of the foregoing, subject to permitted liens and other customary exceptions, (ii) substantially all personal property of APX Group, Inc. and the guarantors consisting of accounts receivable arising from the sale of inventory and other goods and services (including related contracts and contract rights, inventory, cash, deposit accounts, other bank accounts and securities accounts), inventory and intangible assets to the extent attached to the foregoing books and records of the Issuer and the guarantors, and the proceeds thereof, subject to permitted liens and other customary exceptions, in each case held by the Issuer and the guarantors and (iii) a pledge of all of the capital stock of APX Group, Inc., each of its subsidiary guarantors and each restricted subsidiary of APX Group, Inc. and its subsidiary guarantors, in each case other than excluded assets and subject to the limitations and exclusions provided in the applicable collateral documents.

## [Table of Contents](#)

Under the terms of the applicable security documents and intercreditor agreement, the proceeds of any collection or other realization of collateral received in connection with the exercise of remedies will be applied first to repay amounts due under the revolving credit facility, and up to an additional \$60.0 million of “superpriority” obligations that we may incur in the future, before the holders of the 2019 notes receive any such proceeds.

### *Debt Covenants*

The credit agreement governing the revolving credit facility and the indentures governing the notes contain a number of covenants that, among other things, restrict, subject to certain exceptions, our and our restricted subsidiaries’ ability to:

- incur or guarantee additional debt or issue disqualified stock or preferred stock;
- pay dividends and make other distributions on, or redeem or repurchase, capital stock;
- make certain investments;
- incur certain liens;
- enter into transactions with affiliates;
- merge or consolidate;
- enter into agreements that restrict the ability of restricted subsidiaries to make dividends or other payments to APX;
- designate restricted subsidiaries as unrestricted subsidiaries; and
- transfer or sell assets.

The credit agreement governing the revolving credit facility and the indentures governing the notes contain change of control provisions and certain customary affirmative covenants and events of default. As of June 30, 2016, we were in compliance with all restrictive covenants related to our long-term obligations.

Subject to certain exceptions, the credit agreement governing the revolving credit facility and the indentures governing the notes permit us and our restricted subsidiaries to incur additional indebtedness, including secured indebtedness.

Our future liquidity requirements will be significant, primarily due to debt service requirements. The actual amounts of borrowings under the revolving credit facility will fluctuate from time to time. We believe that amounts available through our revolving credit facility and incremental facilities will be sufficient to meet our operating needs for the next twelve months, including working capital requirements, capital expenditures, debt repayment obligations and potential new acquisitions.

Our liquidity and our ability to fund our capital requirements is dependent on our future financial performance, which is subject to general economic, financial and other factors that are beyond our control and many of which are described under “Item 1A—Risk Factors” in our most recently filed Annual Report on Form 10-K. If those factors significantly change or other unexpected factors adversely affect us, our business may not generate sufficient cash flow from operations or we may not be able to obtain future financings to meet our liquidity needs. We anticipate that to the extent additional liquidity is necessary to fund our operations, it would be funded through borrowings under our revolving credit facility, incurring other indebtedness, additional equity or other financings or a combination of these potential sources of liquidity. We may not be able to obtain this additional liquidity on terms acceptable to us or at all.

### *Covenant Compliance*

Under the indentures governing our notes and the credit agreement governing our revolving credit facility, our ability to engage in activities such as incurring additional indebtedness, making investments, refinancing certain indebtedness, paying dividends and entering into certain merger transactions is governed, in part, by our ability to satisfy tests based on Adjusted EBITDA.



## [Table of Contents](#)

“Adjusted EBITDA” is defined as net income (loss) before interest expense (net of interest income), income and franchise taxes and depreciation and amortization (including amortization of capitalized subscriber acquisition costs), further adjusted to exclude the effects of certain contract sales to third parties, non-capitalized subscriber acquisition costs, stock based compensation, the historical results of Solar and certain unusual, non-cash, non-recurring and other items permitted in certain covenant calculations under the indentures governing our notes and the credit agreement governing our revolving credit facility.

We believe that the presentation of Adjusted EBITDA is appropriate to provide additional information to investors about the calculation of, and compliance with, certain financial covenants in the indentures governing our notes and the credit agreement governing our revolving credit facility. We caution investors that amounts presented in accordance with our definition of Adjusted EBITDA may not be comparable to similar measures disclosed by other issuers, because not all issuers and analysts calculate Adjusted EBITDA in the same manner.

Adjusted EBITDA is not a measurement of our financial performance under GAAP and should not be considered as an alternative to net income (loss) or any other performance measures derived in accordance with GAAP or as an alternative to cash flows from operating activities as a measure of our liquidity.

The following table sets forth a reconciliation of net loss to Adjusted EBITDA (in thousands):

	Three Months Ended June 30, 2016	Six Months Ended June 30, 2016	Twelve months ended June 30, 2016
Net loss	\$ (89,722)	\$ (134,815)	\$ (322,261)
Interest expense, net	47,436	92,842	176,992
Other (income) expense, net	9,861	4,753	13,920
Income tax expense	(448)	672	715
Restructuring and asset impairment charge (1)	(725)	(680)	58,517
Depreciation and amortization (2)	33,421	66,606	142,396
Amortization of subscriber acquisition costs	38,589	65,975	117,782
Non-capitalized subscriber acquisition costs (3)	51,484	87,513	172,973
Non-cash compensation (4)	2,705	3,070	4,244
Other adjustments (5)	12,440	21,890	46,741
Adjusted EBITDA	\$ 105,041	\$ 207,826	\$ 412,019

- (1) Reflects costs related to the restructuring charges and asset impairments related to the transition of our Wireless Internet business (See Note 13 to the accompanying unaudited condensed consolidated financial statements).
- (2) Excludes loan amortization costs that are included in interest expense.
- (3) Reflects subscriber acquisition costs that are expensed as incurred because they are not directly related to the acquisition of specific subscribers. Certain other industry participants purchase subscribers through subscriber contract purchases, and as a result, may capitalize the full cost to purchase these subscriber contracts, as compared to our organic generation of new subscribers, which requires us to expense a portion of our subscriber acquisition costs under GAAP.
- (4) Reflects non-cash compensation costs related to employee and director stock and stock option plans. Excludes non-cash compensation costs included in non-capitalized subscriber acquisition costs.
- (5) Other adjustments represent primarily the following items (in thousands):



## [Table of Contents](#)

	Three Months Ended June 30, 2016	Six Months Ended June 30, 2016	Twelve months ended June 30, 2016
Product development (a)	\$ 6,564	\$ 11,346	\$ 23,355
One-time compensation-related payments (b)	369	528	6,789
Non-operating legal and professional fees	2,229	3,690	5,722
Purchase accounting deferred revenue fair value adjustment (c)	1,112	2,238	4,520
Monitoring fee (d)	1,054	1,875	4,069
Information technology implementation (e)	930	1,550	2,488
All other adjustments	182	663	(202)
Total other adjustments	\$ 12,440	\$ 21,890	\$ 46,741

- (a) Costs related to the development of control panels, including associated software, peripheral devices and Wireless Internet Technology.
- (b) Run-rate savings related to the Wireless Restructuring reduction-in-force ("RIF"), along with severance payments associated with the RIF and other non-recurring employee compensation payments.
- (c) Add back revenue reduction directly related to purchase accounting deferred revenue adjustments.
- (d) BMP monitoring fee (See Note 11 to the accompanying unaudited condensed consolidated financial statements).
- (e) Costs related to the implementation of new information technologies.

### **Other Factors Affecting Liquidity and Capital Resources**

**Vehicle Leases.** Since 2010, we have leased, and expect to continue leasing, vehicles primarily for use by our field service professionals. For the most part, these leases have 36 month durations and we account for them as capital leases. At the end of the lease term for each vehicle we have the option to either (i) purchase it for the estimated end-of-lease fair market value established at the beginning of the lease term; or (ii) return the vehicle to the lessor to be sold by them and in the event the sale price is less than the estimated end-of-lease fair market value we are responsible for such deficiency. As of June 30, 2016, our total capital lease obligations were \$ 16.6 million, of which \$ 8.1 million is due within the next 12 months.

**Aircraft Lease.** In December 2012, we entered into an aircraft lease agreement for the use of a corporate aircraft, which is accounted for as an operating lease. Upon execution of the lease, we paid a \$5.9 million security deposit which is refundable at the end of the lease term. Beginning January 2013, we are required to make 156 monthly rental payments of approximately \$83,000 each. In January 2015, an amendment to the agreement was made which, among other changes, increased the required monthly rental payments to approximately \$87,000 each. We also have the option to extend the lease for an additional 36 months upon expiration of the initial term. The lease agreement also provides us the option to purchase the aircraft on certain specified dates for a stated dollar amount, which represents the current estimated fair value as of the purchase date.

### **Off-Balance Sheet Arrangements**

Currently we do not engage in off-balance sheet financing arrangements.

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

Our operations include activities in the United States, Canada and New Zealand. These operations expose us to a variety of market risks, including the effects of changes in interest rates and foreign currency exchange rates. We monitor and manage these financial exposures as an integral part of our overall risk management program.

### *Interest Rate Risk*

On November 16, 2012, we entered into a revolving credit facility that bears interest at a floating rate. As a result, we may be exposed to fluctuations in interest rates to the extent of our borrowings under the revolving credit facility. Our long-

## [Table of Contents](#)

term debt portfolio is expected to primarily consist of fixed rate instruments. To help manage borrowing costs, we may from time to time enter into interest rate swap transactions with financial institutions acting as principal counterparties. Assuming the borrowing of all amounts available under our revolving credit facility (after giving effect to the amendment and restatement of our revolving credit facility on March 6, 2015), if interest rates related to our revolving credit facility increase by 1% due to normal market conditions, our interest expense will increase by approximately \$2.9 million per annum.

We had no borrowings under the revolving credit facility as of June 30, 2016 .

### *Foreign Currency Risk*

We have exposure to the effects of foreign currency exchange rate fluctuations on the results of our Canadian operations. Our Canadian operations use the Canadian dollar to conduct business but our results are reported in U.S. dollars. Our operations in New Zealand are immaterial to our overall operating results. We are exposed periodically to the foreign currency rate fluctuations that affect transactions not denominated in the functional currency of our U.S. and Canadian operations. Based on results of our Canadian operations for the six months ended June 30, 2016 , if foreign currency exchange rates had decreased 10% throughout the period, our revenues would have decreased by approximately \$1.8 million , our total assets would have decreased by \$14.4 million and our total liabilities would have decreased by \$10.0 million . We do not currently use derivative financial instruments to hedge investments in foreign subsidiaries. For the six months ended June 30, 2016 , before intercompany eliminations, approximately \$17.9 million of our revenues, \$144.3 million of our total assets and \$99.7 million of our total liabilities were denominated in Canadian Dollars.

## **ITEM 4. CONTROLS AND PROCEDURES**

### **Disclosure Controls and Procedures**

We maintain disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) that are designed to ensure that information required to be disclosed in our reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosures. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

### *Internal Control Procedures*

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2016 , the end of the period covered by this report. Based upon that evaluation, our principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, the design and operation of our disclosure controls and procedures were effective at the reasonable assurance level.

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

There have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter ended June 30, 2016 that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

## **Part II. OTHER INFORMATION**

## **ITEM 1. LEGAL PROCEEDINGS**

We are engaged in the defense of certain claims and lawsuits arising out of the ordinary course and conduct of our business and have certain unresolved claims pending, the outcomes of which are not determinable at this time. Our subscriber contracts include exculpatory provisions as described under “—Subscriber Contracts—Other Terms” in our Annual Report on Form 10-K. We also have insurance policies covering certain potential losses where such coverage is available and cost effective. In our opinion, any liability that might be incurred by us upon the resolution of any claims or lawsuits will not, in the

[Table of Contents](#)

aggregate, have a material adverse effect on our financial condition or results of operations. See Note 10 of our unaudited Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report on Form 10-Q for additional information.

**ITEM 1A. RISK FACTORS**

For a discussion of the Company's potential risks or uncertainties, please see "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015 (the "Annual Report"). There have been no material changes to the risk factors disclosed in the Annual Report.

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

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5. OTHER INFORMATION**

Pursuant to Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012, which added Section 13(r) of the Exchange Act, the Company hereby incorporates by reference herein Exhibit 99.1 of this report, which includes disclosure publicly filed by NCR Corporation and Travelport Worldwide Limited which may be considered the Company's affiliates.

**ITEM 6. EXHIBITS**
***Exhibits***

<u>Exhibit Number</u>	<u>Exhibit Title</u>	<u>Form</u>	<u>File No.</u>	<u>Incorporated by Reference</u>		<u>Provided Herewith</u>
				<u>Exhibit No.</u>	<u>Filing Date</u>	
4.1	Indenture, dated as of May 26, 2016, among APX Group, Inc., the guarantors party thereto and Wilmington Trust, National Association, as trustee and collateral agent.	8-K	333-191132-02	4.1	5/26/2016	
4.2	Registration Rights Agreement, dated as of May 26, 2016, by and among APX Group, Inc., the guarantors listed in Schedule I thereto and Credit Suisse Securities (USA) LLC, as representative of the several initial purchasers of the Notes.	8-K	333-191132-02	4.2	5/26/2016	
10.1	Letter Agreement, dated May 2, 2016, among 313 Acquisition LLC, APX Group, Inc. and David Bywater.					X
31.1	Certification of the Registrant's Chief Executive Officer, Todd Pedersen, pursuant to Rule 13a-14 of the Securities Exchange Act of 1934					X
31.2	Certification of the Registrant's Principal Financial Officer, Mark Davies, pursuant to Rule 13a-14 of the Securities Exchange Act of 1934					X
32.1	Certification of the Registrant's Chief Executive Officer, Todd Pedersen, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
32.2	Certification of the Registrant's Principal Financial Officer, Mark Davies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
99.1	Section 13(r) Disclosure					X
101.INS	XBRL Instance Document.					X
101.SCH	XBRL Taxonomy Extension Schema Document.					X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.					X
101.DEF	XBRL Taxonomy Extension Schema Document.					X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.					X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.					X

**SIGNATURES**

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.

**APX Group Holdings Inc.**

Date: August 10, 2016

By: /s/ Todd Pedersen

**Todd Pedersen**  
*Chief Executive Officer and Director*  
*(Principal Executive Officer)*

Date: August 10, 2016

By: /s/ Mark Davies

**Mark Davies**  
*Chief Financial Officer*  
*(Principal Financial Officer)*

313 Acquisition LLC

APX Group, Inc.  
4931 N. 300 W.  
Provo, UT 84604

May 2, 2016

Mr. David Bywater

**Re: Leave of Absence**

Mr. Bywater:

Reference is made to the Management Subscription Agreement (Incentive Units) (the “Subscription Agreement”) that you entered into with 313 Acquisition LLC (the “Company”) under the 313 Acquisition LLC Unit Plan (the “Plan”), each and any agreement you entered into pursuant thereto, and the letter regarding post-termination vesting delivered to you on March 8, 2016 (together with the Subscription Agreement, and the Plan, collectively, your “Equity Agreements”), and the employment agreement entered into by and between you and APX Group, Inc. (together with its affiliates other than Vivint Solar, Inc., “APX Group”) as of March 8, 2016 (the “Employment Agreement”). Capitalized terms used but not defined in this letter shall have the meanings ascribed such terms in the Agreements.

The purpose of this letter agreement (the “Agreement”) is to set forth the terms of your leave of absence from your employment with APX Group at the request of APX Group (the “Leave of Absence”) while you serve as interim chief executive officer of Vivint Solar, Inc. (“Vivint Solar”, and such appointment, the “Interim Appointment”).

**Duration of Leave of Absence:**

Your leave of absence shall be effective immediately, and will continue until you cease to be the interim chief executive officer of Vivint Solar (such period, the “Absence Period”). Following the last day of the Absence Period, you will resume active, full-time employment with APX Group, subject to and in accordance with, the Employment Agreement.

**Compensation During Leave of Absence:**

During the Absence Period, you will not be entitled to a Base Salary pursuant to Section 3(a) of the Employment Agreement. The Leave of Absence will not affect your eligibility to earn an Annual Bonus in respect of the 2016 fiscal year in accordance with Section 3(b) of the Employment Agreement, and your Annual Bonus in respect of 2016, if any, will not be prorated as a result of the Absence Period.

---

**Equity Incentive Awards:**

For the purposes of vesting and any repurchase rights with respect to your Incentive Units, your employment with Vivint Solar during the Absence Period shall be deemed employment with APX Group, and the Leave of Absence shall not constitute a termination of your employment with APX Group. If, for any reason, you do not return to active employment with APX Group following the last day of the Absence Period, your last day of employment for the purposes of the Incentive Units shall be the last day of the Absence Period.

**Employee Benefits:**

During the Absence Period, subject to applicable law, you will continue to be eligible to participate in the employee benefit programs of APX Group, including any health, dental, life and disability insurance benefits.

**Employment Relationship:**

As a reminder, your employment with APX Group is for no specific period of time and continues to be “at will,” meaning that either you or APX Group may terminate your employment at any time and for any reason, with or without notice or cause, including during the Absence Period (subject to the terms and conditions of your Employment Agreement).

During the Absence Period, you will be relieved of your duties to APX Group under your Employment Agreement, except as otherwise agreed to from time to time by you and the President of APX Group. Your Employment Agreement will continue in full force and effect, except as expressly set forth and agreed to in this Agreement with respect to your position, duties, and authority under your Employment Agreement and your Base Salary during the Absence Period.

**Miscellaneous:**

Except as is provided in this letter, the Equity Agreements and the Employment Agreement shall remain unchanged and continue in full force and effect. This agreement will be construed and interpreted in accordance with the laws of the State of Utah, without reference to the choice of law provisions thereof.

[ *Signatures follow* ]

---

Sincerely,

313 Acquisition LLC

/s/PeterWallace

By:

Its:

APX Group, Inc.

/s/Peter Wallace

By:

Its:

Agreed and accepted this 2nd day of May, 2016:

/s/ David Bywater  
David Bywater



**CERTIFICATION OF PERIODIC REPORT UNDER SECTION 302 OF  
THE SARBANES-OXLEY ACT OF 2002**

I, Todd Pedersen, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended June 30, 2016 of APX Group Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f), for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 10, 2016

/s/ Todd Pedersen

Todd Pedersen

Chief Executive Officer and Director  
(Principal Executive Officer)

**CERTIFICATION OF PERIODIC REPORT UNDER SECTION 302 OF  
THE SARBANES-OXLEY ACT OF 2002**

I, Mark Davies, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended June 30, 2016 of APX Group Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f), for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 10, 2016

/s/ Mark Davies

Mark Davies

Chief Financial Officer  
(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**

In connection with the Quarterly Report of APX Group Holdings, Inc. (the “Company”) on Form 10-Q for the quarterly period ended June 30, 2016 filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Todd Pedersen, Chief Executive Officer and Director of the Company, do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the periods presented therein.

Date: August 10, 2016

/s/ Todd Pedersen

---

Todd Pedersen

Chief Executive Officer and Director  
(Principal Executive Officer)

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

In connection with the Quarterly Report of APX Group Holdings, Inc. (the “Company”) on Form 10-Q for the quarterly period ended June 30, 2016 filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Mark Davies, Chief Financial Officer of the Company, do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the periods presented therein.

Date: August 10, 2016

/s/ Mark Davies

---

Mark Davies

Chief Financial Officer  
(Principal Financial Officer)

## Section 13(r) Disclosure

*After APX Group Holdings, Inc. (“APX”) filed its quarterly report on Form 10-Q for the fiscal quarter ended March 31, 2016 with the Securities and Exchange Commission (the “SEC”), Travelport Worldwide Limited (“Travelport Worldwide”), which may be considered an affiliate of The Blackstone Group L.P. (“Blackstone”), and, therefore, may be considered an affiliate of APX, filed the disclosure reproduced below with respect to such period, in accordance with Section 13(r) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). In addition, NCR Corporation (“NCR”), which may be considered an affiliate of Blackstone, and, therefore, may be considered an affiliate of APX, included the disclosure reproduced below in its quarterly report on Form 10-Q filed with the SEC with respect to the fiscal quarter ended June 30, 2016, in accordance with Section 13(r) of the Exchange Act. APX did not independently verify or participate in the preparation of any of these disclosures.*

Travelport Worldwide included the following disclosure in its Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2016 :

“The following activities are disclosed as required by Section 13(r)(1)(D)(iii) of the Exchange Act.

As part of our global business in the travel industry, we provide certain passenger travel related Travel Commerce Platform and Technology Services to Iran Air. We also provide certain Technology Services to Iran Air Tours. All of these services are either exempt from applicable sanctions prohibitions pursuant to a statutory exemption permitting transactions ordinarily incident to travel or, to the extent not otherwise exempt, specifically licensed by the U.S. Office of Foreign Assets Control. Subject to any changes in the exempt/licensed status of such activities, we intend to continue these business activities, which are directly related to and promote the arrangement of travel for individuals.

The gross revenue and net profit attributable to these activities in the quarter ended March 31, 2016 were approximately \$156,000 and \$109,000, respectively.”

NCR included the following disclosure in its Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2016 :

“Pursuant to Section 13(r)(1)(D)(iii) of the Securities Exchange Act of 1934, as amended, we note that, during the period from April 1, 2016 through April 30, 2016, we continued to maintain a bank account and guarantees at the Commercial Bank of Syria (“CBS”), which was designated as a Specially Designated National pursuant to Executive Order 13382 (“EO 13382”) on August 10, 2011. This bank account and the guarantees at CBS were maintained in the normal course of business prior to the listing of CBS pursuant to EO 13382. We note that the last known account balance as of April 30, 2016 was approximately \$3,468. The bank account did not generate interest from April 1, 2016 through April 30, 2016, and the guarantees did not generate any revenue or profits for the Company. Pursuant to a license granted to the Company by OFAC on January 3, 2013, and subsequent licenses granted on April 29, 2013, July 12, 2013, February 28, 2014, November 12, 2014, and October 24, 2015, the Company had been engaged in winding down its past operations in Syria. The Company’s last such license expired on April 30, 2016. In addition, the Company’s application to renew its license to transact business with CBS, which was submitted to OFAC on May 18, 2015, was not acted upon prior to the expiration of the Company’s last such license. As a result, and in connection with the license expiration, the Company abandoned its remaining property in Syria, which, including the CBS account, was commercially insignificant, and ended the employment of its final two employees in Syria, who had remained employed by the Company to assist with the execution of the Company’s wind-down activities pursuant to authority granted by the OFAC licenses. The Company does not intend to engage in any further business activities with CBS.”