APX GROUP HOLDINGS, INC.

FORM 10-Q
(Quarterly Report)

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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, 2014

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 333-193639

APX Group Holdings, Inc.

(Exact name of Registrant as specified in its charter)

Delaware **(State or Other Jurisdiction of Incorporation or Organization)**	**46-1304852** **(I.R.S. Employer Identification No.)**
4931 North 300 West **Provo, UT** **(Address of Principal Executive Offices)**	**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 ☐

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 ☒

As of August 8, 2014, 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

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 home automation industry, including risks of and publicity surrounding the sales, subscriber origination and retention process;
- the highly competitive nature of the security and home automation 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 and other energy costs, increased costs related to utility or governmental requirements; and
- cost increases or shortages in security and home automation technology products or components.

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, 2013 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.

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, 2014	December 31, 2013
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 36,961	$ 261,905
Short-term investments—other	60,058	-
Restricted cash and cash equivalents	14,214	14,375
Accounts receivable, net	10,720	2,593
Inventories, net	81,305	29,260
Prepaid expenses and other current assets	25,423	13,870
Total current assets	228,681	322,003
Property and equipment, net	44,841	35,818
Subscriber contract costs, net	440,059	288,316
Deferred financing costs, net	54,952	59,375
Intangible assets, net	772,663	840,714
Goodwill	836,702	836,318
Restricted cash and cash equivalents, net of current portion	14,214	14,214
Long-term investments and other assets, net	32,513	27,676
Total assets	$ 2,424,625	$ 2,424,434
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 81,822	$ 24,004
Accrued payroll and commissions	83,239	46,007
Accrued expenses and other current liabilities	33,409	33,118
Deferred revenue	31,727	26,894
Current portion of capital lease obligations	4,302	4,199
Total current liabilities	234,499	134,222
Notes payable, net	1,761,636	1,762,049
Liability—contracts sold, net of current portion	1,824	-
Capital lease obligations, net of current portion	7,869	6,268
Deferred revenue, net of current portion	26,284	18,533
Other long-term obligations	5,678	3,905
Deferred income tax liabilities	9,135	9,214
Total liabilities	2,046,925	1,934,191
Commitments and contingencies (See Note 13)		
Stockholders' equity:		
Common stock	-	-
Additional paid-in capital	653,391	652,488
Accumulated deficit	(268,166)	(154,615)
Accumulated other comprehensive loss	(7,525)	(7,630)
Total stockholders' equity	377,700	490,243
Total liabilities and stockholders' equity	$ 2,424,625	$ 2,424,434

See accompanying notes to unaudited condensed consolidated financial statements

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenues:				
Monitoring revenue	$ 128,602	$ 108,646	$ 253,156	$ 211,015
Service and other sales revenue	4,719	5,322	9,553	27,315
Activation fees	878	284	1,644	364
Total revenues	134,199	114,252	264,353	238,694
Costs and expenses:				
Operating expenses (exclusive of depreciation and amortization shown separately below)	47,216	38,435	88,533	84,128
Selling expenses	28,739	28,298	54,318	48,906
General and administrative expenses	35,326	24,910	60,461	45,249
Depreciation and amortization	53,364	46,338	103,716	92,132
Total costs and expenses	164,645	137,981	307,028	270,415
Loss from operations	(30,446)	(23,729)	(42,675)	(31,721)
Other expenses (income):				
Interest expense	35,712	27,381	71,352	53,254
Interest income	(572)	(396)	(1,124)	(676)
Other (income) expenses, net	(52)	(33)	(297)	317
Gain on 2GIG Sale	-	(46,643)	-	(46,643)
Loss before income taxes	(65,534)	(4,038)	(112,606)	(37,973)
Income tax expense	737	17,489	945	14,463
Net loss	$ (66,271)	$ (21,527)	$ (113,551)	$ (52,436)

See accompanying notes to unaudited condensed consolidated financial statements

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net loss	$ (66,271)	$ (21,527)	$ (113,551)	$ (52,436)
Other comprehensive loss, net of tax effects:				
Foreign currency translation adjustment	4,677	(4,368)	105	(6,987)
Total other comprehensive loss	4,677	(4,368)	105	(6,987)
Comprehensive loss	$ (61,594)	$ (25,895)	$ (113,446)	$ (59,423)

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,	
	2014	**2013**
Cash flows from operating activities:		
Net loss	$ (113,551)	$ (52,436)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Amortization of subscriber contract costs	23,238	4,866
Amortization of customer relationships	71,806	80,319
Depreciation and amortization of other intangible assets	8,672	6,947
Amortization of deferred financing costs	4,581	4,233
Fire related asset losses	2,846	-
Loss on asset impairment	1,351	-
Gain on sale of 2GIG	-	(46,643)
Loss on sale or disposal of assets	10	293
Stock-based compensation	903	673
Provision for doubtful accounts	7,259	5,439
Paid-in-kind interest income	(910)	(530)
Non-cash adjustments to deferred revenue	117	905
Deferred income taxes	761	9,582
Changes in operating assets and liabilities, net of acquisitions and divestiture:		
Accounts receivable	(15,358)	(6,616)
Inventories	(52,154)	(25,874)
Prepaid expenses and other current assets	(12,361)	(4,492)
Accounts payable	57,816	6,008
Accrued expenses and other liabilities	37,638	45,031
Deferred revenue	12,427	15,368
Net cash provided by operating activities	35,091	43,073
Cash flows from investing activities:		
Subscriber acquisition costs	(174,567)	(156,742)
Capital expenditures	(12,057)	(3,781)
Proceeds from the sale of 2GIG, net of cash sold	-	143,262
Proceeds from the sale of property & equipment	-	9
Acquisition of intangible assets	(6,127)	-
Net cash used in acquisitions	(3,500)	(4,272)
Investment in short-term investments—other	(60,000)	-
Investment in convertible note	(3,000)	-
Other assets	(35)	(5,660)
Net cash used in investing activities	(259,286)	(27,184)
Cash flows from financing activities:		
Proceeds from notes payable	-	203,500
Repayments of revolving line of credit	-	(50,500)
Borrowings from revolving line of credit	-	22,500
Proceeds from contract sales	2,261	-
Change in restricted cash	161	-
Repayments of capital lease obligations	(3,057)	(3,881)
Deferred financing costs	(572)	(4,749)
Payments of dividends	-	(60,000)
Net cash (used in) provided by financing activities	(1,207)	106,870
Effect of exchange rate changes on cash	458	(19)
Net (decrease) increase in cash	(224,944)	122,740
Cash:		
Beginning of period	261,905	8,090
End of period	$ 36,961	$ 130,830
Supplemental non-cash flow disclosure:		
Capital lease additions	$ 4,746	$ 1,629

See accompanying notes to unaudited condensed consolidated financial statements

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 ("U.S. GAAP") have been condensed or omitted pursuant to such rules and regulations. The information as of December 31, 2013 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, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014.

These unaudited condensed consolidated financial statements and notes should be read in conjunction with the Company's audited consolidated financial statements and related notes for the years ended December 31, 2013 and 2012 set forth in the Company's Annual Report on Form 10-K dated March 24, 2014, as filed with the Securities and Exchange Commission ("SEC"), which is available on the SEC's website at sec.gov.

The direct-to-home component of the sales cycle for the Company is seasonal in nature. The Company makes investments in the recruitment of the sales force and inventory for the summer sales period prior to each summer season. The sales season generally runs from late April to the end of August each year. The Company experiences increases in subscriber acquisition costs, as well as costs to support the sales force around North America, during this time period.

Basis of Presentation –The unaudited condensed consolidated financial statements of the Company are presented for APX Group Holdings, Inc. and its wholly-owned subsidiaries. On April 1, 2013, the Company completed the sale of 2GIG Technologies, Inc. ("2GIG") and its subsidiary to Nortek, Inc. (the "2GIG Sale"). Therefore, its results of operations are excluded following the sale and the results of operations prior to and subsequent to the 2GIG Sale are not necessarily comparable.

Revenue Recognition —The Company recognizes revenue principally on three types of transactions: (i) monitoring, which includes revenues for monitoring and other automation services of the Company's subscriber contracts and certain subscriber contracts that have been sold, (ii) service and other sales, which includes services provided on contracts, contract fulfillment revenue, sales of products that are not part of the basic equipment package and revenue from 2GIG, and (iii) activation fees on the Company's contracts, which are amortized over the expected life of the customer.

Monitoring services for the Company's subscriber contracts are billed in advance, generally monthly, pursuant to the terms of subscriber contracts and recognized ratably over the service period. Revenue from monitoring contracts that have been sold is recognized monthly as services are provided based on rates negotiated as part of the contract sales. Costs of providing ongoing monitoring 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 recognized upon delivery of products.

Activation fees are generally charged to a customer when a new account is opened. This revenue is deferred and recognized using a 150% declining balance method over 12 years and converts to a straight-line methodology when the resulting revenue recognition is greater than that from the accelerated method for the remaining estimated life.

Through the date of the 2GIG Sale, service and other sales revenue included net recurring services revenue, which was based on back-end services, provided by Alarm.com, for all panels sold to distributors and direct-sell dealers and subsequently placed in service at end-user locations. The Company received a fixed monthly amount from Alarm.com for each system installed with non-Vivint customers that used the Alarm.com platform.

Revenue from the sale of subscriber contracts is recognized when ownership of the contracts has transferred to the purchaser. Any unamortized deferred revenue and costs related to contract sales are recognized at the time of the sale.

Subscriber Contract Costs — A portion of the direct costs of acquiring new subscribers, primarily sales commissions, equipment, and installation costs, are deferred and recognized over a pattern that reflects the estimated life of the subscriber relationships. The Company amortizes these costs using a 150% declining balance method over 12 years and converts to a straight-line methodology when the resulting amortization charge is greater than that from the accelerated method for the remaining estimated life. 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.

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

Short-term Investments—Other —Short-term investments—other consists of a certificate of deposit with a remaining maturity when purchased of twelve 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. At June 30, 2014 and December 31, 2013, the restricted cash and cash equivalents was held by a third-party trustee. Restricted cash and cash equivalents consists of highly liquid investments with remaining maturities when purchased of three months or less.

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 $4.5 million and $1.9 million at June 30, 2014 and December 31, 2013, respectively. The Company estimates this allowance based on historical collection rates, subscriber attrition rates, and contractual obligations underlying the sale of the subscriber contracts to third parties. 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, 2014 and December 31, 2013, 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,	
	2014	2013	2014	2013
Beginning balance	$ 1,637	$ 1,939	$ 1,901	$ 2,301
Provision for doubtful accounts	4,760	3,023	7,259	5,439
Write-offs and adjustments	(1,896)	(2,337)	(4,659)	(5,115)
Balance at end of period	$ 4,501	$ 2,625	$ 4,501	$ 2,625

Inventories —Inventories, which comprise home automation 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. The allowance for excess and obsolete inventory was $9.1 million and $3.2 million as of June 30, 2014 and December 31, 2013, respectively.

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, 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 2 to 10 years. Amortization expense associated with leased assets is included with depreciation expense. Routine repairs and maintenance are charged to expense as incurred. 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. 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.

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. 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 at June 30, 2014 and December 31, 2013 were $55.0 million and $59.4 million, net of accumulated amortization of $14.9 million and $9.9 million, respectively. Amortization expense on deferred financing costs recognized and included in interest expense in the accompanying unaudited condensed consolidated statements of operations, totaled $2.5 million and $2.1 million for the three months ended June 30, 2014 and 2013, respectively and $5.0 million and $4.2 million for the six months ended June 30, 2014 and 2013, respectively.

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 other 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 expenses and other current liabilities was $0.3 million as of both June 30, 2014 and December 31, 2013, and the amount included in other long-term obligations was $2.4 million at both June 30, 2014 and December 31, 2013, representing the present value of the estimated amounts owed to third-party sales channel partners.

Stock-Based Compensation —The Company measures compensation cost based on the grant-date fair value of the award and recognizes that cost over the requisite service period of the awards (See Note 12).

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.

Liability—Contracts Sold —On March 31, 2014, the Company received approximately $2.3 million in proceeds from the sale of certain subscriber contracts to a third-party. Concurrently, the Company entered into an agreement with the buyer to continue providing billing, monitoring and support services for the contracts that were sold for a period of ten years. As a result of this continuing involvement on the part of the Company in the servicing of the contracts, accounting guidance precluded gain recognition at the time of the sale. Accordingly, the Company has treated this transaction as a secured borrowing and recorded a liability for the proceeds received at the time of the sale. The amount included in accrued expenses and other current liabilities related to this liability was $0.3 million and the amount included in contracts sold, net of current portion was $1.8 million as of June 30, 2014. These amounts are being amortized using the effective interest method over twelve years, the expected term of these subscriber contracts.

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.

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, 2014, approximately 80% of the Company's installed panels were 2GIG Go! Control panels. On April 1, 2013, the Company completed the 2GIG Sale. In connection with the 2GIG Sale, 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:

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, 2014 and the fiscal year 2013.

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 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.

Foreign Currency Translation and Other Comprehensive Income —The functional currencies of Vivint Canada, Inc. and Vivint New Zealand, Ltd. are the Canadian dollar and the New Zealand dollar, 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.

Letters of Credit —As of June 30, 2014 and December 31, 2013, the Company had $3.0 million and $2.2 million, respectively, of letters of credit issued in the ordinary course of business, all of which are unused.

New Accounting Pronouncement —In May 2014, the FASB issued authoritative guidance which clarifies the principles used to recognize revenue for all entities. The new guidance requires companies to recognize revenue when it transfers goods or services to a customer in an amount that reflects the consideration to which a company expects to be entitled. The guidance is effective for annual and interim periods beginning after December 15, 2016. The guidance allows for either a "full retrospective" adoption or a "modified retrospective" adoption, however early adoption is not permitted. The Company is currently evaluating the impact the adoption of this guidance will have on our consolidated financial statements.

In February 2013, the FASB issued authoritative guidance which expands the disclosure requirements for amounts reclassified out of accumulated other comprehensive income ("AOCI"). The guidance requires an entity to provide information about the amounts reclassified out of AOCI by component and present, either on the face of the income statement or in the notes to financial statements, significant amounts reclassified out of AOCI by the respective line items of net income but only if the amount reclassified is required under GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts, an entity is required to cross-reference to other disclosures required under GAAP that provide additional detail about those amounts. This guidance does not change the current requirements for reporting net income or OCI in financial statements. The guidance became effective for us in the first quarter of fiscal year 2014. The adoption of this guidance did not have a material impact on our financial position, results of operations or cash flows.

In July 2013, the FASB issued authoritative guidance which amends the guidance related to the presentation of unrecognized tax benefits and allows for the reduction of a deferred tax asset for a net operating loss carryforward whenever the net operating loss carryforward or tax credit carryforward would be available to reduce the additional taxable income or tax due if the tax position is disallowed. This guidance became effective for us for annual and interim periods beginning in fiscal year 2014. The adoption of this guidance did not have a material

impact on our financial position, results of operations or cash flows.

NOTE 2 – BUSINESS COMBINATIONS

Wildfire Acquisition

On January 31, 2014, a wholly-owned subsidiary of the Company completed the purchase of certain assets, and assumed certain liabilities, of Wildfire Broadband, LLC ("Wildfire"). Pursuant to the terms of the asset purchase agreement the Company paid aggregate cash consideration of $3.5 million, of which $0.4 million is held in escrow for indemnification obligations and will be released no later than January 31, 2015. This strategic acquisition was made to provide the Company access to Wildfire's existing customers, wireless internet infrastructure and know-how. The accompanying condensed consolidated financial statements include the financial position and results of operations associated with the Wildfire assets acquired and liabilities assumed from January 31, 2014. The pro forma impact of Wildfire on the Company's financial position and results of operations for the six months ended June 30, 2014 is immaterial. The associated goodwill is deductible for income tax purposes.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the time of acquisition (in thousands):

Net assets acquired from Wildfire	$	96
Intangible assets (See Note 9)		2,900
Goodwill		504
Total cash consideration		3,500
Estimated net working capital adjustment		(61)
Total fair value of the assets acquired and liabilities assumed	$	3,439

During the three and six months ended June 30, 2014, the Company incurred costs associated with the Wildfire acquisition, which were not material, consisting of accounting, legal and professional fees and payments to employees directly associated with the acquisition. These costs are included in general and administrative expenses in the accompanying unaudited condensed consolidated statements of operations.

NOTE 3 — DIVESTITURE OF SUBSIDIARY

On April 1, 2013, the Company completed the 2GIG Sale. Pursuant to the terms of the 2GIG Sale, Nortek, Inc. acquired all of the outstanding common stock of 2GIG for aggregate cash consideration of approximately $148.9 million, including cash, working capital and indebtedness adjustments as provided in the stock purchase agreement. In connection with the 2GIG Sale, 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. A portion of the net proceeds from the 2GIG Sale was used to repay $44.0 million of outstanding borrowings under the Company's revolving credit facility. The terms of the indenture governing the existing senior unsecured notes, the indenture governing the existing senior secured notes and the credit agreement governing the revolving credit facility, permit the Company, subject to certain conditions, to distribute all or a portion of the net proceeds from the 2GIG Sale to the Company's stockholders. In May 2013, the Company distributed a dividend of $60.0 million from such proceeds to stockholders. Subject to the applicable conditions, the Company may distribute the remaining proceeds in the future. The Company's financial position and results of operations include 2GIG through March 31, 2013.

The following table summarizes the net gain recognized in connection with this divestiture (in thousands):

Adjusted net sale price	$	148,378
2GIG assets (including cash of $3,383), net of liabilities		(108,797)
2.0 technology, net of amortization		16,903
Other		(9,841)
Net gain on divestiture	$	46,643

NOTE 4 — VARIABLE INTEREST ENTITY

Accounting rules require the primary beneficiary of a variable interest entity ("VIE") to include the financial position and results of operations of the VIE in its condensed consolidated financial statements. Vivint Solar, Inc. ("Solar"), formed by the Company in April 2011, installs solar panels on the roofs of customers' homes and enters into agreements for customers to purchase the electricity generated by the panels. Solar also takes advantage of local government and federal incentive programs that offer assistance in generating green power. Solar was consolidated as a VIE by APX Group, Inc. from April 2011 through November 15, 2012. On November 16, 2012, an investor group comprised of certain investment funds affiliated with Blackstone Capital Partners VI L.P., and certain co-investors and management investors (collectively, the "Investors") purchased Solar for $75.0 million and became its primary beneficiary and, as a result, the Solar financial position and results of operations are not consolidated by the Company subsequent to November 16, 2012. The assets of Solar are restricted in that they are only available to settle the obligations of Solar and not of the Company and similarly, the creditors of Solar have no recourse to the general assets of the Company.

The Company and Solar have entered into an agreement under which the Company subleases corporate office space, and provides certain other administrative services, to Solar. During the three months ended June 30, 2014 and 2013, the Company charged $2.5 million and $0.3 million, respectively, and during the six months ended June 30, 2014 and 2013, the Company charged $4.1 million and $0.6 million, respectively, of general and administrative expenses to Solar in connection with this agreement. The balance due from Solar in connection with this agreement and other expenses paid on Solar's behalf was $2.3 million and $3.1 million at June 30, 2014 and December 31, 2013, respectively, and is included in prepaid expenses and other current assets in the accompanying unaudited condensed consolidated balance sheets.

On December 27, 2012, the Company executed a Subordinated Note and Loan Agreement with Solar. The terms of the agreement state that Solar may borrow up to $20.0 million, bearing interest on the outstanding balance at an annual rate of 7.5%, which interest is due and payable semi-annually on June 1 and December 1 of each year commencing on June 1, 2013. The balance outstanding on June 30, 2014, representing principal of $20.0 million and payment-in-kind interest of $2.2 million, and on December 31, 2013, representing principal of $20.0 million and payment-in-kind interest of $1.3 million, is included in long-term investments and other assets, net in the accompanying unaudited condensed consolidated balance sheets. In addition, accrued interest of $0.2 million and $0.1 million on June 30, 2014 and December 31, 2013, respectively, is included in prepaid expenses and other current assets in the accompanying unaudited condensed consolidated balance sheets. These variable interests represent the Company's maximum exposure to loss from direct involvement with Solar.

NOTE 5 – 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 "outstanding 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 "outstanding 2020 notes" and together with the outstanding 2019 notes, the "notes"), mature on December 1, 2020.

During 2013, the Company completed two offerings of additional 8.75% senior notes due 2020 under the indenture dated November 16, 2012 (the "2020 notes"). On May 31, 2013, the Company issued $200.0 million of 2020 notes at a price of 101.75% and on December 13, 2013, the Company issued an additional $250.0 million of 2020 notes at a price of 101.50%. Blackstone Advisory Partners L.P. participated as one of the initial purchasers of the 2020 notes in each of the May 31, 2013 and December 31, 2013 offerings and received approximately $0.2 million and $0.2 million in fees, respectively, at the time of closing.

Interest on the notes accrues at the rate of 6.375% per annum for the outstanding 2019 notes and 8.75% per annum for the outstanding 2020 notes. Interest on the notes is payable semiannually in arrears on each June 1 and December 1. The Company may redeem each series of the notes, in whole or part, at any time at a redemption price equal to the principal amount of the notes to be redeemed, plus a make-whole premium and any accrued and unpaid interest at the redemption date. In addition, APX may redeem the notes at the prices and on the terms specified in the applicable indenture.

In connection with each issuance of the notes, the Company entered into Exchange and Registration Rights Agreements (each a "Registration Rights Agreement") with the initial purchasers of the notes, dated November 16, 2012, May 8, 2013 and December 13, 2013, respectively.

In connection with the issuance of the initial notes on November 16, 2012 and the subsequent offering on May 31, 2013, in accordance with the applicable Registration Rights Agreements, the Company filed a registration statement on Form S-4 with the Securities and Exchange Commission with respect to an exchange offer to exchange the notes of each series for an issue of Notes (except the Exchange Notes do not contain transfer restrictions). The exchange offer was completed on October 29, 2013.

In connection with the issuance of the subsequent offering on December 13, 2013, under the applicable Registration Rights Agreement, the Company filed a registration statement on Form S-4 with the Securities and Exchange Commission with respect to an exchange offer to exchange the Notes of each series for an issue of Notes (except the Exchange Notes do not contain transfer restrictions). This exchange offer was completed on March 7, 2014.

Revolving Credit Facility

On November 16, 2012, APX, the Company and the other guarantors entered into a revolving credit facility in the aggregate principal amount of $200.0 million. Borrowings bear interest based on the London Interbank Offered Rate ("LIBOR") or, at the Company's option, an alternative base rate, plus spread, based upon the Company's consolidated first lien leverage ratio at the end of each fiscal quarter and a commitment fee of 0.50% on unused portions of the revolving credit facility. The borrowings are due November 16, 2017, which may be repaid at any time without penalty.

The Company's outstanding debt at June 30, 2014 had maturity dates of 2019 and beyond and consisted of the following (in thousands):

	Outstanding Principal	Unamortized Premium	Net Carrying Amount
Revolving credit facility	$ -	$ -	$ -
6.375% Senior Secured Notes due 2019	925,000	-	925,000
8.75% Senior Notes due 2020	830,000	6,636	836,636
Total Notes payable	$ 1,755,000	$ 6,636	$ 1,761,636

The Company's outstanding debt at December 31, 2013 consisted of the following (in thousands):

	Outstanding Principal	Unamortized Premium	Net Carrying Amount
Revolving credit facility	$ -	$ -	$ -
6.375% Senior Secured Notes due 2019	925,000	-	925,000
8.75% Senior Notes due 2020	830,000	7,049	837,049
Total Notes payable	$ 1,755,000	$ 7,049	$ 1,762,049

NOTE 6 – BALANCE SHEET COMPONENTS

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

	June 30, 2014	December 31, 2013
Subscriber contract costs		
Subscriber contract costs	$ 485,696	$ 310,666
Accumulated amortization	(45,637)	(22,350)
Subscriber contract costs, net	$ 440,059	$ 288,316
Long-term investments and other assets		
Notes receivable from related parties, net of allowance (See Note 4)	$ 22,233	$ 21,323
Security deposit receivable	6,947	6,261
Other	3,333	92
Total long-term investments and other assets, net	$ 32,513	$ 27,676
Accrued payroll and commissions		
Accrued payroll	$ 17,055	$ 15,475
Accrued commissions	66,184	30,532
Total accrued payroll and commissions	$ 83,239	$ 46,007
Accrued expenses and other current liabilities		
Accrued interest payable	$ 10,972	$ 10,982
Loss contingencies	8,463	9,263
Other	13,974	12,873
Total accrued expenses and other current liabilities	$ 33,409	$ 33,118

NOTE 7 – PROPERTY AND EQUIPMENT

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

	June 30, 2014	December 31, 2013	Estimated Useful Lives
Vehicles	$ 17,140	$ 13,851	3 - 5 years
Computer equipment and software	14,658	6,742	3 - 5 years
Leasehold improvements	11,096	13,345	2 - 15 years
Office furniture, fixtures and equipment	7,316	6,472	7 years
Warehouse equipment	133	123	7 years
Buildings	702	702	39 years
Construction in process	6,174	3,119	
	57,219	44,354	
Accumulated depreciation and amortization	(12,378)	(8,536)	
Net property and equipment	$ 44,841	$ 35,818	

Property and equipment includes approximately $13.0 million and $13.7 million of assets under capital lease obligations, net of accumulated amortization of $4.2 million and $2.7 million at June 30, 2014 and December 31, 2013, respectively. Depreciation and amortization expense on all property and equipment was $2.7 million and $2.1 million for the three months ended June 30, 2014 and 2013, respectively and $5.2 million and $4.5 million for the six months ended June 30, 2014 and 2013, respectively. Amortization expense relates to assets under capital leases and is included in depreciation and amortization expense.

NOTE 8 – INTANGIBLE ASSETS

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

	June 30, 2014	December 31, 2013	Estimated Useful Lives
Definite-lived intangible assets:			
Customer contracts	$ 986,159	$ 984,403	10 years
2.0 technology	17,000	17,000	8 years
Smartrove technology	4,040	4,040	3 years
Skypanel technology	3,813	3,814	3 years
Patents	5,964	-	5 years
Non-compete agreements	800	-	3 years
Other intellectual property	650	650	2 years
CMS technology	337	2,300	1 year
	1,018,763	1,012,207	
Accumulated amortization	(246,323)	(171,493)	
Definite-lived intangible assets, net	772,440	840,714	
Indefinite-lived intangible assets:			
IP addresses	164	-	
Domain names	59	-	
Total Indefinite-lived intangible assets	223	-	
Total intangible assets, net	$ 772,663	$ 840,714	

Identifiable intangible assets acquired by the Company in connection with the Wildfire acquisition were $2.1 million of customer contracts and $0.8 million associated with non-compete agreements entered into by certain former members of Wildfire management. In addition, during the six months ended June 30, 2014, the Company acquired $6.2 million of other intangible assets related to patents, domain names and Internet Protocol ("IP") addresses.

On March 29, 2014, the Company implemented new customer relationship management software ("CRM"). Historically, the Company's customer management system ("CMS") technology was used for customer support and inventory tracking. The new CRM software replaced the customer support functionality of the CMS technology. Following the CRM implementation, the CMS technology continued to be used for inventory tracking. Due to the implementation of the new CRM software, as of March 31, 2014, the Company determined there to be a significant change in the extent and manner in which the CMS technology was being used. The Company estimated the fair value of the CMS technology as of March 31, 2014 to be $0.3 million based on management experience, inquiry and assessment of the remaining functionality of this technology as it related to inventory tracking. The associated impairment loss of $1.4 million is included in operating expenses in the accompanying unaudited condensed consolidated statement of operations for the six months ended June 30, 2014. In addition, the estimated remaining useful life of the CMS technology was evaluated and revised to one year from March 31, 2014, based on the intended use of the asset. The impact on income from continuing operations and net income from the change in the estimated remaining useful life was immaterial.

Amortization expense related to intangible assets was approximately $37.8 million and $40.5 million for the three months ended June 30, 2014 and 2013, respectively. Amortization expense related to intangible assets was approximately $75.3 million and $82.7 million for the six months ended June 30, 2014 and 2013, respectively.

Estimated future amortization expense of intangible assets, excluding patents currently in process, is as follows as of June 30, 2014 (in thousands):

2014 - remaining period	$ 75,983
2015	135,222
2016	116,984
2017	100,670
2018	88,961
Thereafter	254,446
Future amortization associated with patents currently in process	174
Total estimated amortization expense	$ 772,440

NOTE 9 – 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. Short-term investments—other are classified as Level 2 and their cost basis plus accrued interest at June 30, 2014 approximates fair value. The Convertible Note, as defined below, is classified as Level 3 and is valued using its cost basis, which approximates fair value. The following summarizes the financial instruments of the Company at fair value based on the valuation approach applied to each class of security as of June 30, 2014 and December 31, 2013 (in thousands):

	Fair Value Measurement at Reporting Date Using			
	Balance at June 30, 2014	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets:				
Cash equivalents:				
Money market funds	$ 10,009	$ 10,009	$ -	$ -
Short-term investments—other:				
Certificate of deposit	60,058	-	60,058	-
Restricted cash equivalents:				
Money market funds	14,214	14,214	-	-
Restricted cash equivalents, net of current portion:				
Money market funds	14,214	14,214	-	-
Long-term investments and other assets, net				
Convertible note	3,000	-	-	3,000
Total assets	$ 101,495	$ 38,437	$ 60,058	$ 3,000

	Fair Value Measurement at Reporting Date Using			
	Balance at December 31, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents:				
Money market funds	$ 10,002	$ 10,002	$ -	$ -
Restricted cash equivalents:				
Money market funds	14,214	14,214	-	-
Restricted cash equivalents, net of current portion:				
Money market funds	14,214	14,214	-	-
Total assets	$ 38,430	$ 38,430	$ -	$ -

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.

On February 19, 2014, the Company invested $3.0 million in a convertible note ("Convertible Note") of a privately held company ("Investee") not affiliated with the Company. The Convertible Note has a stated maturity date of February 19, 2015 and bears interest equal to the greater of (a) 0.5% or (b) annual interest rates established for federal income tax purposes by the Internal Revenue Service. The outstanding principal and accrued interest balance of the Convertible Note converts to preferred stock of the Investee no later than August 19, 2014. The Convertible Note has been classified as available-for-sale and measured at fair value in accordance with ASC 320, *Investments—Debt and Equity Securities* , with remeasurement occurring at the end of each reporting period and any changes in fair value included in other comprehensive income until the Convertible Note converts or matures. As of June 30, 2014, the estimated aggregate fair value of the Convertible Note was equal to its cost of $3.0 million and was considered a Level 3 measurement and is included in long-term investments and other assets, net in the accompanying unaudited condensed consolidated balance sheet as of June 30, 2014.

The fair market value of the Company's Senior Secured Notes was approximately $957.4 million and $941.2 million as of June 30, 2014 and December 31, 2013, respectively. The carrying value of the Company's Senior Secured Notes was $925.0 million as of June 30, 2014 and December 31, 2013. The Company's Senior Notes had a fair market value of approximately $848.7 million and $844.5 million as of June 30, 2014 and December 31, 2013, respectively, and a carrying amount of $830.0 million as of both June 30, 2014 and December 31, 2013. The fair value of the Senior Secured Notes and the Senior Notes was considered a Level 2 measurement as the value was determined using observable market inputs, such as current interest rates as well as prices observable from less active markets.

In connection with the Wildfire acquisition, the fair value of intangible assets was considered a Level 3 measurement and was determined using the income and market approach. Key assumptions used in the determination of the fair value include estimated earnings and discount rates between 12% and 20%.

NOTE 10 – FACILITY FIRE

On March 18, 2014, a fire occurred at a facility leased by the company in Lindon, Utah. This facility contained the Company's primary inventory warehouse and call center operations. Through June 30, 2014, the Company recognized gross expenses of $5.7 million, less probable insurance recoveries of $3.0 million, related to the fire damage. Of the $3.0 million in probable insurance recoveries, $1.8 million were received by the Company prior to June 30, 2014. The expenses associated with the fire primarily related to impairment of damaged assets and recovery costs to maintain business continuity. The Company is seeking additional insurance recoveries and will recognize those when receipt becomes probable. The net expenses of approximately $1.7 million and $2.7 million for the three and six months ended June 30, 2014, respectively, are included in general and administrative costs on the unaudited condensed consolidated statements of operations. The $1.2 million of probable insurance recoveries not yet received from the Company's insurance provider are included in prepaid expenses and other current assets in the accompanying unaudited condensed consolidated balance sheet at June 30, 2014.

NOTE 11 – INCOME TAXES

In order to determine the quarterly provision (benefit) 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, 2014 was approximately (0.84)%. In computing income tax expense (benefit), 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, 2014, 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. The Company had no discrete items that affected the calculated income tax benefit or expense for the three and six months ended June 30, 2014. Both the 2014 and 2013 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 2014, 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, 2014, 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 12 – STOCK-BASED COMPENSATION

313 Incentive Units

The Company's indirect parent, 313 Acquisition LLC, which is wholly owned by the Investors, 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 Acquisition LLC ("Incentive Units"). As of June 30, 2014, a total of 75,181,252 Incentive Units had been awarded to members of senior management and a board member, of which 46,484,562 were issued 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 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. The Company anticipates making comparable equity incentive grants at 313 Acquisition LLC to other members of senior management and adopting other equity and cash-based incentive programs for other members of management from time to time. 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 of 55% to 65%; expected exercise term from 4 to 5 years; and risk-free rate of 0.62% to 1.18%.

Vivint Stock Appreciation Rights

The Company's subsidiary, Vivint, has awarded Stock Appreciation Rights ("SARs") to various levels of key employees. The purpose of the SARs is to attract and retain personnel and provide an opportunity to acquire an equity interest of Vivint. 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 The Blackstone Group, L.P. and its affiliates. In connection with this plan, 8,221,250 SARs were outstanding as of June 30, 2014. In addition, 36,065,303 SARs have been set aside for funding incentive compensation pools pursuant to long-term incentive plans established by the Company.

The fair value of the Vivint 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 60%, expected dividends of 0%; expected exercise term between 6.01 and 6.50 years; and risk-free rates between 1.72% and 1.77%. Due to the lack of historical exercise data, the Company used the simplified method in determining the estimated exercise term, for all Vivint awards.

Wireless Stock Appreciation Rights

The Company's subsidiary, Vivint Wireless, has awarded SARs to various key employees. 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, 70,000 SARs were outstanding as of June 30, 2014. The Company anticipates making similar grants from time to time.

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 of 6.50 years; and risk-free rate of 1.51%. 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 stock awards is presented by entity as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Operating expenses	$ 21	$ -	$ 30	$ -
Selling expenses	36	-	104	-
General and administrative expenses	401	445	769	673
Total stock-based compensation	$ 458	$ 445	$ 903	$ 673

NOTE 13 – 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. 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 litigation, the length of time the matter has been pending, the procedural posture of the matter, whether the Company intends to defend the matter, the likelihood of settling for an insignificant amount and the likelihood of the plaintiff accepting an amount in this range. 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 is party to claims, legal actions and complaints arising in the ordinary course of business related to its sales, marketing, the provision of its services and equipment claims. 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 $8.5 million and $9.3 million as of June 30, 2014 and December 31, 2013, 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, 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 entered into a lease agreement for its corporate headquarters in 2009. In July 2012, the Company entered into a lease for additional office space for an initial lease term of 15 years.

Total rent expense for operating leases was approximately $2.9 million and $1.3 million for the three months ended June 30, 2014 and 2013, respectively, and $4.4 million and $2.7 million for the six months ended June 30, 2014 and 2013, respectively.

Capital Leases – The Company also leases certain equipment under capital leases with expiration dates through August 2016. On an ongoing basis, the Company enters into vehicle lease agreements under a Fleet Lease Agreement. The lease agreements are typically 36 month leases for each vehicle and the average remaining life for the fleet is 26 months as of June 30, 2014. As of June 30, 2014 and December 31, 2013, the capital lease obligation balance was $12.2 million and $10.5 million, respectively.

NOTE 14 – 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 related parties as of both June 30, 2014 and December 31, 2013, amounted to approximately $0.3 million. As of June 30, 2014 and December 31, 2013, this amount was fully reserved.

Prepaid expenses and other current assets at June 30, 2014 and December 31, 2013 included a receivable for $0.1 million and $0.3 million, respectively, from certain members of management in regards to their personal use of the corporate jet.

The Company incurred additional expenses of $0.4 million and $0.2 million during the three months ended June 30, 2014 and 2013, respectively, and $1.2 million and $0.3 million during the six months ended June 30, 2014 and 2013, 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, 2014 and December 31, 2013, included a payable to Vivint Gives Back for $0.2 million and $1.1 million, respectively. In addition, transactions with Solar, as described in Note 4, are considered to be related party transactions.

On November 16, 2012, the Company entered into a support and services agreement with Blackstone Management Partners L.L.C. (“BMP”), an affiliate of Blackstone. Under the support and services agreement, the Company engaged 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 $1.0 million and $0.7 million during the three months ended June 30, 2014 and 2013, respectively, and approximately $1.7 million and $1.6 million during the six months ended June 30, 2014 and 2013, respectively.

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 Surviving Company be obligated to pay more than $1.5 million during any calendar year.

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

NOTE 15 – SEGMENT REPORTING

Prior to the 2GIG Sale on April 1, 2013, the Company conducted business through two operating segments, Vivint and 2GIG. These segments were managed and evaluated separately by management due to the differences in their products and services. The primary source of revenue for the Vivint segment is generated through monitoring services provided to subscribers, in accordance with their subscriber contracts. The primary source of revenue for the 2GIG segment was through the sale of electronic security and automation systems to security dealers and distributors, including Vivint. Fees and expenses charged by 2GIG to Vivint, related to intercompany purchases, were eliminated in consolidation.

For the three months ended June 30, 2014 and 2013 and the six months ended June 30, 2014, the Company conducted business through one operating segment, Vivint. The following table presents a summary of revenue, costs and expenses for the six months ended June 30, 2013 and assets as of June 30, 2013 (in thousands):

	Vivint	2GIG	Eliminations	Consolidated Total
Revenues	$ 221,187	$ 60,220	$ (42,713)	$ 238,694
All other costs and expenses	251,129	52,200	(32,914)	270,415
(Loss) income from operations	$ (29,942)	$ 8,020	$ (9,799)	$ (31,721)
Intangible assets, including goodwill	$ 1,754,104	$ -	$ -	$ 1,754,104
Total assets	$ 2,260,977	$ -	$ -	$ 2,260,977

NOTE 16 – EMPLOYEE BENEFIT PLANS

Beginning March 1, 2010, Vivint and 2GIG offered eligible employees the opportunity to defer a percentage of their earned income into company-sponsored 401(k) plans. 2GIG made matching contributions to the plan in the amount of $36,000 for the six months ended June 30, 2013. No matching contributions were made to the plans for the three or six months ended June 30, 2014 or the three months ended June 30, 2013.

NOTE 17 – GUARANTOR AND NON-GUARANTOR SUPPLEMENTAL FINANCIAL INFORMATION

The Senior Secured Notes due 2019 and the Senior Notes due 2020 were issued by APX. The Senior Secured Notes due 2019 and the Senior Notes due 2020 are fully and unconditionally guaranteed, jointly and severally by APX Group Holdings, Inc. (“Parent Guarantor”) 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, 2014 and December 31, 2013 and for the three and six months ended June 30, 2014 and 2013. The unaudited condensed consolidating financial information reflects the investments of Holdings in the Guarantor Subsidiaries and the Non-Guarantor Subsidiaries using the equity method of accounting.

Supplemental Condensed Consolidating Balance Sheet
June 30, 2014
(In thousands)
(unaudited)

	Parent	APX Group, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets						
Current assets	$ -	$ 70,084	$ 171,666	$ 24,598	$ (37,667)	$ 228,681
Property and equipment, net	-	-	44,149	692	-	44,841
Subscriber acquisition costs, net	-	-	398,635	41,424	-	440,059
Deferred financing costs, net	-	54,952	-	-	-	54,952
Investment in subsidiaries	377,700	2,025,166	-	-	(2,402,866)	-
Intercompany receivable	-	-	55,627	-	(55,627)	-
Intangible assets, net	-	-	703,245	69,418	-	772,663
Goodwill	-	-	804,545	32,157	-	836,702
Restricted cash	-	-	14,214	-	-	14,214
Long-term investments and other assets	-	-	32,494	19	-	32,513
Total Assets	$ 377,700	$ 2,150,202	$ 2,224,575	$ 168,308	$ (2,496,160)	$ 2,424,625
Liabilities and Stockholders' Equity						
Current liabilities	$ -	$ 10,972	$ 213,513	$ 47,681	$ (37,667)	$ 234,499
Intercompany payable	-	-	-	55,627	(55,627)	-
Notes payable and revolving line of credit, net of current portion	-	1,761,636	-	-	-	1,761,636
Liability-contracts sold, net of current portion	-	-	1,824	-	-	1,824
Capital lease obligations, net of current portion	-	-	7,857	12	-	7,869
Deferred revenue, net of current portion	-	-	23,634	2,650	-	26,284
Other long-term obligations	-	-	5,313	365	-	5,678
Deferred income tax liability	-	(106)	242	8,999	-	9,135
Total equity	377,700	377,700	1,972,192	52,974	(2,402,866)	377,700
Total liabilities and stockholders' equity	$ 377,700	$ 2,150,202	$ 2,224,575	$ 168,308	$ (2,496,160)	$ 2,424,625

Supplemental Condensed Consolidating Balance Sheet
December 31, 2013
(In thousands)
(unaudited)

	Parent	APX Group, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets						
Current assets	$ -	$ 249,209	$ 89,768	$ 7,163	$ (24,137)	$ 322,003
Property and equipment, net	-	-	35,218	600	-	35,818
Subscriber acquisition costs, net	-	-	262,064	26,252	-	288,316
Deferred financing costs, net	-	59,375	-	-	-	59,375
Investment in subsidiaries	490,243	1,953,465	-	-	(2,443,708)	-
Intercompany receivable	-	-	44,658	-	(44,658)	-
Intangible assets, net	-	-	764,296	76,418	-	840,714
Goodwill	-	-	804,041	32,277	-	836,318
Restricted cash	-	-	14,214	-	-	14,214
Long-term investments and other assets	-	(302)	27,954	24	-	27,676
Total Assets	$ 490,243	$ 2,261,747	$ 2,042,213	$ 142,734	$ (2,512,503)	$ 2,424,434
Liabilities and Stockholders' Equity						
Current liabilities	$ -	$ 9,561	$ 117,544	$ 31,254	$ (24,137)	$ 134,222
Intercompany payable	-	-	-	44,658	(44,658)	-
Notes payable and revolving line of credit, net of current portion	-	1,762,049	-	-	-	1,762,049
Capital lease obligations, net of current portion	-	-	6,268	-	-	6,268
Deferred revenue, net of current portion	-	-	16,676	1,857	-	18,533
Other long-term obligations	-	-	3,559	346	-	3,905
Deferred income tax liability	-	(106)	289	9,031	-	9,214
Total equity	490,243	490,243	1,897,877	55,588	(2,443,708)	490,243
Total liabilities and stockholders' equity	$ 490,243	$ 2,261,747	$ 2,042,213	$ 142,734	$ (2,512,503)	$ 2,424,434

Condensed Consolidating Statements of Operations and Comprehensive (Loss) Income
For the Three Months Ended June 30, 2014
(In thousands)
(unaudited)

	Parent	APX Group, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues	$ -	$ -	$ 127,146	$ 7,852	$ (799)	$ 134,199
Costs and expenses	-	-	155,369	10,075	(799)	164,645
Loss from operations	-	-	(28,223)	(2,223)	-	(30,446)
Loss from subsidiaries	(66,271)	(30,932)	-	-	97,203	-
Other (expense) income, net	-	(35,305)	149	68	-	(35,088)
Loss before income tax expenses	(66,271)	(66,237)	(28,074)	(2,155)	97,203	(65,534)
Income tax expense	-	34	14	689	-	737
Net loss	$ (66,271)	$ (66,271)	$ (28,088)	$ (2,844)	$ 97,203	$ (66,271)
Other comprehensive loss, net of tax effects:						
Net loss	$ (66,271)	$ (66,271)	$ (28,088)	$ (2,844)	$ 97,203	$ (66,271)
Foreign currency translation adjustment	-	4,676	2,769	1,908	(4,676)	4,677
Total other comprehensive income	-	4,676	2,769	1,908	(4,676)	4,677
Comprehensive loss	$ (66,271)	$ (61,595)	$ (25,319)	$ (936)	$ 92,527	$ (61,594)

Condensed Consolidating Statements of Operations and Comprehensive Loss
For the Three Months Ended June 30, 2013
(In thousands)
(unaudited)

	Parent	APX Group, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues	$ -	$ -	$ 107,797	$ 7,216	$ (761)	$ 114,252
Costs and expenses	-	-	131,100	7,642	(761)	137,981
Loss from operations	-	-	(23,303)	(426)	-	(23,729)
Loss from subsidiaries	(21,527)	(41,002)	-	-	62,529	-
Other expense, net	60,000	19,475	233	(17)	(60,000)	19,691
Income (loss) before income tax expenses	38,473	(21,527)	(23,070)	(443)	2,529	(4,038)
Income tax expense (benefit)	-	-	17,569	(80)	-	17,489
Net income (loss)	$ 38,473	$ (21,527)	$ (40,639)	$ (363)	$ 2,529	$ (21,527)
Other comprehensive income (loss), net of tax effects:						
Net income (loss)	$ 38,473	$ (21,527)	$ (40,639)	$ (363)	$ 2,529	$ (21,527)
Foreign currency translation adjustment	-	(4,368)	(2,367)	(2,001)	4,368	(4,368)
Total other comprehensive loss	-	(4,368)	(2,367)	(2,001)	4,368	(4,368)
Comprehensive income (loss)	$ 38,473	$ (25,895)	$ (43,006)	$ (2,364)	$ 6,897	$ (25,895)

Condensed Consolidating Statements of Operations and Comprehensive (Loss) Income
For the Six Months Ended June 30, 2014
(In thousands)
(unaudited)

	Parent	APX Group, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues	$ -	$ -	$ 249,488	$ 16,458	$ (1,593)	$ 264,353
Costs and expenses	-	-	290,679	17,942	(1,593)	307,028
Loss from operations	-	-	(41,191)	(1,484)	-	(42,675)
Loss from subsidiaries	(113,551)	(42,945)	-	-	156,496	-
Other (expense) income, net	-	(70,572)	659	(18)	-	(69,931)
Loss before income tax expenses	(113,551)	(113,517)	(40,532)	(1,502)	156,496	(112,606)
Income tax expense	-	34	40	871	-	945
Net loss	$ (113,551)	$ (113,551)	$ (40,572)	$ (2,373)	$ 156,496	$ (113,551)
Other comprehensive (loss) income, net of tax effects:						
Net loss	$ (113,551)	$ (113,551)	$ (40,572)	$ (2,373)	$ 156,496	$ (113,551)
Foreign currency translation adjustment	-	105	345	(240)	(105)	105
Total other comprehensive income (loss) loss	-	105	345	(240)	(105)	105
Comprehensive loss	$ (113,551)	$ (113,446)	$ (40,227)	$ (2,613)	$ 156,391	$ (113,446)

Condensed Consolidating Statements of Operations and Comprehensive Loss
For the Six Months Ended June 30, 2013
(In thousands)
(unaudited)

	Parent	APX Group, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues	$ -	$ -	$ 227,328	$ 12,885	$ (1,519)	$ 238,694
Costs and expenses	-	-	257,203	14,731	(1,519)	270,415
Loss from operations	-	-	(29,875)	(1,846)	-	(31,721)
Loss from subsidiaries	(52,436)	(46,230)	-	-	98,666	-
Other expense, net	60,000	(6,206)	(23)	(23)	(60,000)	(6,252)
Income (loss) before income tax expenses	7,564	(52,436)	(29,898)	(1,869)	38,666	(37,973)
Income tax expense (benefit)	-	-	14,933	(470)	-	14,463
Net income (loss)	$ 7,564	$ (52,436)	$ (44,831)	$ (1,399)	$ 38,666	$ (52,436)
Other comprehensive income (loss), net of tax effects:						
Net income (loss)	$ 7,564	$ (52,436)	$ (44,831)	$ (1,399)	$ 38,666	$ (52,436)
Foreign currency translation adjustment	-	(6,987)	(3,722)	(3,265)	6,987	(6,987)
Total other comprehensive loss	-	(6,987)	(3,722)	(3,265)	6,987	(6,987)
Comprehensive income (loss)	$ 7,564	$ (59,423)	$ (48,553)	$ (4,664)	$ 45,653	$ (59,423)

Supplemental Condensed Consolidating Statements of Cash Flows
For the Six Months Ended June 30, 2014
(In thousands)
(unaudited)

	Parent	APX Group, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities:						
Net cash (used in) provided by operating activities	$ -	$ (413)	$ 14,750	$ 20,754	$ -	$ 35,091
Cash flows from investing activities:						
Subscriber contract costs	-	-	(157,770)	(16,797)	-	(174,567)
Capital expenditures	-	-	(11,869)	(188)	-	(12,057)
Investment in subsidiary	-	(177,897)	-	-	177,897	-
Acquisition of intangible assets	-	-	(6,127)	-	-	(6,127)
Net cash used in acquisition	-	-	(3,500)	-	-	(3,500)
Investment in marketable securities	-	(60,000)	-	-	-	(60,000)
Investment in convertible note	-	-	(3,000)	-	-	(3,000)
Other assets	-	-	(40)	5		(35)
Net cash used in investing activities	-	(237,897)	(182,306)	(16,980)	177,897	(259,286)
Cash flows from financing activities:						
Proceeds from issuance of notes	-	-	-	-	-	-
Intercompany receivable	-	-	(10,969)	-	10,969	-
Intercompany payable	-	-	177,897	10,969	(188,866)	-
Proceeds from contract sales	-	-	2,261	-	-	2,261
Change in restricted cash	-	-	161	-	-	161
Repayments of capital lease obligations	-	-	(3,056)	(1)	-	(3,057)
Deferred financing costs	-	(572)	-	-	-	(572)
Net cash (used in) provided by financing activities	-	(572)	166,294	10,968	(177,897)	(1,207)
Effect of exchange rate changes on cash	-	-	-	458	-	458
Net (decrease) increase in cash	-	(238,882)	(1,262)	15,200	-	(224,944)
Cash:						
Beginning of period	-	248,908	8,291	4,706	-	261,905
End of period	$ -	$ 10,026	$ 7,029	$ 19,906	$ -	$ 36,961

Supplemental Condensed Consolidating Statements of Cash Flows
For the Six Months Ended June 30, 2013
(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	$ 60,000	$ (38)	$ 22,606	$ 20,505	$ (60,000)	$ 43,073
Cash flows from investing activities:						
Subscriber contract costs	-	-	(142,134)	(14,608)	-	(156,742)
Capital expenditures	-	-	(3,756)	(25)	-	(3,781)
Proceeds from the sale of subsidiary	-	143,262	-	-	-	143,262
Investment in subsidiary	-	(136,649)	-	-	136,649	-
Proceeds from the sale of capital assets	-	-	9	-	-	9
Net cash used in acquisition	-	-	(4,272)	-	-	(4,272)
Other assets	-	-	(5,660)	-	-	(5,660)
Net cash provided by (used in) investing activities	-	6,613	(155,813)	(14,633)	136,649	(27,184)
Cash flows from financing activities:						
Proceeds from note payable	-	203,500	-	-	-	203,500
Intercompany receivable	-	-	(2,522)	-	2,522	-
Intercompany payable	-	-	136,649	2,522	(139,171)	-
Repayments of revolving line of credit	-	(50,500)	-	-	-	(50,500)
Borrowings from revolving line of credit	-	22,500	-	-	-	22,500
Repayments of capital lease obligations	-	-	(3,881)	-	-	(3,881)
Deferred financing costs		(4,749)	-	-	-	(4,749)
Payment of dividends	(60,000)	(60,000)	-	-	60,000	(60,000)
Net cash (used in) provided by financing activities	(60,000)	110,751	130,246	2,522	(76,649)	106,870
Effect of exchange rate changes on cash	-	-	-	(19)	-	(19)
Net increase in cash	-	117,326	(2,961)	8,375	-	122,740
Cash:						
Beginning of period	-	399	4,188	3503	-	8,090
End of period	$ -	$ 117,725	$ 1,227	$ 11,878	$ -	$ 130,830

NOTE 18 – SUBSEQUENT EVENT

On July 1, 2014, APX Group, Inc. issued an additional $100.0 million of 2020 notes. In connection with the issuance, Blackstone Advisory Partners L.P. participated as one of the initial purchasers of the 2020 notes and received approximately $0.1 million in fees at the time of closing.

In connection with the issuance of the notes, the Company entered into an Exchange and Registration Rights Agreement, dated July 1, 2014, with the original purchasers of the notes.

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 our 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, 2013. 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 this Quarterly Report. 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.

Non-GAAP Financial Measures

This Quarterly Report on Form 10-Q includes Adjusted EBITDA, which is a supplemental measure that is not required by, or presented in accordance with, accounting principles generally accepted in the United States ("GAAP"). It is not a measurement of our financial performance under GAAP and should not be considered as an alternative to net income or any other measure derived in accordance with GAAP or as an alternative to cash flows from operating activities as a measure of our liquidity. We define "Adjusted EBITDA" 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 and certain unusual, non-cash, non-recurring and other items permitted in certain covenant calculations under the indentures governing our existing senior secured notes and our existing senior unsecured 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. We believe that Adjusted EBITDA provides useful information about flexibility under our covenants to investors, lenders, financial analysts and rating agencies since these groups have historically used EBITDA-related measures in our industry, along with other measures, to estimate the value of a company, to make informed investment decisions, and to evaluate a company's ability to meet its debt service requirements. Adjusted EBITDA eliminates the effect of non-cash depreciation of tangible assets and amortization of intangible assets, much of which results from acquisitions accounted for under the purchase method of accounting. Adjusted EBITDA also eliminates the effects of interest rates and changes in capitalization which management believes may not necessarily be indicative of a company's underlying operating performance. Adjusted EBITDA is also used by us to measure covenant compliance under the indentures governing our existing senior secured notes and our existing senior unsecured notes and the credit agreement governing our revolving credit facility.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Financial Resources" for a reconciliation of Adjusted EBITDA to net loss, as we believe net loss is the most comparable financial measure calculated in accordance with GAAP. Adjusted EBITDA should be considered in addition to and not as a substitute for, or superior to, financial measures presented in accordance with GAAP.

Business Overview

We are one of the largest residential security solutions companies and one of the largest and fastest-growing home automation services providers in North America. In February 2013, we were recognized by Forbes magazine as one of America's Most Promising Companies. Our fully integrated and remotely accessible residential services platform offers subscribers a suite of products and services that includes interactive security, life-safety, energy management and home automation. We utilize a scalable direct-to-home sales model to originate a majority of our new subscribers, which allows us control over our net subscriber acquisition costs. We have built a high-quality subscriber portfolio, with an average credit score of 717, as of June 30, 2014, through our underwriting criteria and compensation structure. Unlike many of our competitors, who generally focus on either subscriber origination or servicing, we originate, install, service and monitor our entire subscriber base, which allows us to control the overall subscriber experience. We seek to deliver a quality subscriber experience with a combination of innovative development of new 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. Utilizing this model, we have built a portfolio of approximately 851,000 subscribers, as of June 30, 2014. Approximately 96% and 95% of our revenues during the three months ended June 30, 2014 and 2013, respectively, and 96% and 88% during the six months ended June 30, 2014 and 2013, respectively, consisted of contractually committed recurring revenues, which have historically resulted in consistent and predictable operating results.

Recent Transactions

On April 1, 2013, we completed the sale of 2GIG Technologies, Inc. and its subsidiary ("2GIG") to Nortek, Inc. (the "2GIG Sale"). Pursuant to the terms of the 2GIG Sale, Nortek acquired all of the outstanding common stock of 2GIG for aggregate cash consideration of approximately $148.9 million. In connection with the 2GIG Sale, we retained sole ownership of the intellectual property and exclusive rights with respect to the next generation of our control panels and certain peripheral equipment. We expect this proprietary equipment will be a critical component of our future service offerings. In addition, we entered into a five-year supply agreement with 2GIG, pursuant to which they will be the exclusive provider of our control panel requirements, subject to certain exceptions as provided in the supply agreement. A portion of the net proceeds from the 2GIG Sale were used to temporarily repay $44.0 million of outstanding borrowings under our revolving credit facility. The terms of the indentures governing the notes and the credit agreement governing our revolving credit facility permit us, subject to certain conditions, to distribute all or a portion of the net proceeds from the 2GIG Sale to our stockholders. In May 2013, we distributed $60.0 million of such proceeds to our stockholders. Subject to the applicable conditions, we may distribute the remaining proceeds in the future. Our results of operations include the results of 2GIG through the date of the 2GIG Sale.

In May and December 2013, we issued and sold an additional $200.0 million and $250.0 million, respectively, aggregate principal amount of 8.75% senior notes due 2020. On July 1, 2014, we issued and sold an additional $100.0 million aggregate principal amount of 8.75% senior notes due 2020.

Basis of Presentation

The unaudited condensed consolidated financial statements for the three and six months ended June 30, 2014 and 2013, respectively, present the financial position and results of operations of APX Group Holdings, Inc. and its wholly-owned subsidiaries. We have historically conducted business through our Vivint and 2GIG operating segments. On April 1, 2013, we completed the sale of 2GIG to Nortek. See "—Recent Transactions." Therefore, 2GIG is excluded from our operating results, beginning on the date of the 2GIG Sale. The results of our 2GIG operating segment include the results of 2GIG Technologies, Inc., which was our consolidated subsidiary until its sale to Nortek.

Historically, a substantial majority of 2GIG's revenues were generated from Vivint through (i) sales of its security systems; and (ii) fees billed to Vivint associated with a third-party monitoring platform. Sales to Vivint represented approximately 71% of 2GIG's revenues on a stand-alone basis from January 1, 2013 through the date of the 2GIG Sale. The results of 2GIG's operations discussed in this Quarterly Report on Form 10-Q exclude intercompany activity with Vivint, as these transactions were eliminated in consolidation.

The term "attrition" as used in this quarterly report on Form 10-Q refers to the aggregate number of cancelled subscribers during a period divided by the monthly weighted average number of total subscribers for such period. Subscribers are considered cancelled when they terminate in accordance with the terms of their contract, are terminated by us or if payment from such subscribers is deemed uncollectible (120 days past due). Sales of contracts to third parties and certain subscriber residential moves are excluded from the attrition calculation. The term "net subscriber acquisition costs" as used in this quarterly report on Form 10-Q refers to the gross costs to generate and install a subscriber net of any fees collected at the time of the contract signing. The term "RMR" is the recurring monthly revenue billed to a subscriber. The term "total RMR" is the aggregate RMR billed to all subscribers. The term "total subscribers" is the aggregate number of our active subscribers at the end of a given period. The term "average RMR per subscriber" is the total RMR divided by the total subscribers. This is also commonly referred to as Average Revenue per User, or "ARPU." The term "average RMR per new subscriber" is the aggregate RMR for new subscribers originated during a period divided by the number of new subscribers originated during such period.

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 21% of total new subscriber additions in the twelve months ended June 30, 2014, as compared to 23% of total new subscribers in the twelve months ended June 30, 2013. Although new subscribers generated through inside sales decreased as a percentage of our total new subscriber additions during the twelve months ended June 30, 2014 compared to the same period ended June 30, 2013, over time we expect the number of subscribers originated through inside sales to increase, resulting from increased advertising and expansion of our direct-sales calling centers.

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 Advanced Home 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. Attrition is defined as the aggregate number of cancelled subscribers during a period divided by the monthly weighted average number of total subscribers for such period. Subscribers are considered cancelled when they terminate in accordance with the terms of their contract, are terminated by us, or if payment from such subscribers is deemed uncollectible (120 days past due). Sales of contracts to third parties and certain subscriber moves are excluded from the attrition calculation.

Our ability to increase subscribers depends on a number of factors, both external and internal. External factors include the overall macroeconomic environment 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 effectiveness of our subscriber acquisition activities in both our direct-to-home and inside sales channels. For example, during 2014 we introduced alternative awareness and demand generation strategies using broad media sources in a limited number of markets throughout the U.S. in an effort to reach additional consumers and increase sales leads.

Internal factors include our ability to recruit, train and retain personnel, along with the level of investment in sales and marketing efforts. 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. As a result, we expect to increase our investment in advertising in the markets we serve, in an effort to generate greater awareness of the Vivint brand. 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 energy management, security plus and home automation, 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 and in 2014, we began offering identity protection services. These service offerings leverage our existing direct-to-home selling model for the generation of new subscribers. During the six months ended June 30, 2014, approximately 68% 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 $61.60 for the six months ended June 30, 2014, an increase of 38%.

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 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 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 subscriber data for Vivint for the twelve months ended June 30, 2014 and year the ended December 31, 2013:

	Twelve Months Ended June 30, 2014	Year Ended December 31, 2013
Beginning balance of subscribers	754,304	671,818
Net new additions	208,447	219,034
Subscriber contracts sold	(2,185)	-
Attrition	(109,437)	(95,352)
Ending balance of subscribers	851,129	795,500
Monthly average subscribers	799,989	743,544
Attrition rate	13.7%	12.8%

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, 2014, reflect the effect of the 2008 60-month and the 2010 42-month pools reaching the end of their initial contract terms. We believe this trend in cancellation at the end of the initial contract term is comparable to other companies within our industry.

How We Generate Revenue

Vivint

Our primary source of revenue is generated through monitoring 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. Monitoring revenues accounted for 96% and 95% of total revenues for the three months ended June 30, 2014 and 2013, respectively, and 96% and 95% for the six months ended June 30, 2014 and 2013, respectively.

Monitoring revenue. Monitoring 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 the subscriber contracts for. We generally realize higher RMR for our Home Automation, Energy Management and Security Plus service packages than our Home Security 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 monitoring 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. The revenue associated with these fees is deferred and recognized using a 150% declining balance method over 12 years and converts to a straight-line methodology when the resulting revenue recognition is greater than that from the accelerated method for the remaining estimated life.

2GIG

2GIG's primary source of revenue was generated through the sale of electronic home security and automation products to dealers and distributors throughout North America. The remainder of the revenue was earned from monthly recurring service fees. System sales, which are included in service and other sales revenue on our consolidated statements of operations, accounted for approximately 14% of total consolidated revenues from January 1, 2013 through the date of the 2GIG Sale. Product sales accounted for approximately 92% of 2GIG's total revenues on a stand-alone basis from January 1, 2013 through the date of the 2GIG Sale.

Service and other sales revenue . Net sales revenue from distribution of the 2GIG products was recognized when title to the products transferred to the customer, which occurred upon shipment from our third-party logistics provider's facility to the customer. Invoicing occurred at the time of shipment and in certain cases, included freight costs based on specific vendor contracts.

Recurring services revenue . Net recurring services revenue was based on back-end services for all panels sold to distributors and direct-sell dealers and subsequently placed in service in end-user locations. The back-end services are provided by Alarm.com, an independent platform services provider. 2GIG received a fixed monthly amount from Alarm.com for each of our systems installed with customers that used the Alarm.com platform.

Costs and Expenses

Vivint

Operating expenses. Operating expenses primarily consists of labor associated with monitoring and servicing subscribers and labor and equipment expenses related to field service. 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 technicians 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, 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 a sublease agreement, we sublease corporate office space and provide certain other administrative services to Vivint Solar, Inc. ("Solar") and charge Solar the costs associated with this sublease agreement (See Note 4).

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.

2GIG

Operating expenses. 2GIG did not directly manufacture, assemble, warehouse or ship any of the products it sold. Its products were produced by contract manufacturers, and warehoused and fulfilled through third-party logistics providers. Operating expenses primarily consisted of cost of goods sold, freight charges, royalty fees on licensed technology, warehouse expenses, and fulfillment service fees charged by its logistics providers.

General and administrative expenses. General and administrative expenses consisted largely of finance, research and development ("R&D"), including third-party engineering costs, legal, operations, sales commissions, and executive management costs. 2GIG's personnel-related costs were included in general and administrative expense.

Depreciation and amortization. Depreciation and amortization consisted of depreciation of property and equipment.

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 subscribers at the end of a given period.

Total Recurring Monthly Revenue

Total RMR is the aggregate RMR billed to all subscribers. This revenue is earned for Home Automation, Energy Management, Security Plus and Home Security service offerings.

Average RMR per Subscriber

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

Results of operations

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(in thousands)			
Revenue				
Vivint	$ 134,199	$ 114,252	$ 264,353	$ 221,187
2GIG	-	-	-	17,507
Total revenue	134,199	114,252	264,353	238,694
Costs and expenses				
Vivint	164,645	137,981	307,028	251,129
2GIG	-	-	-	19,286
Total costs and expenses	164,645	137,981	307,028	270,415
Loss from continuing operations				
Vivint	(30,446)	(23,729)	(42,675)	(29,942)
2GIG	-	-	-	(1,779)
Total loss from continuing operations	(30,446)	(23,729)	(42,675)	(31,721)
Other expenses (income)	35,088	(19,691)	69,931	6,252
Loss before taxes	(65,534)	(4,038)	(112,606)	(37,973)
Income tax expense	737	17,489	945	14,463
Net loss	$ (66,271)	$ (21,527)	$ (113,551)	$ (52,436)
Key operating metrics (1)				
Total Subscribers, as of June 30 (thousands)	851.1	754.3		
Total RMR (thousands) (end of period)	$ 45,826	$ 39,314		
Average RMR per Subscriber	$ 53.84	$ 52.12		

(1) Reflects Vivint metrics only, excluding the wireless internet business, as of the end of the periods presented

Three Months Ended June 30, 2014 Compared to the Three Months Ended June 30, 2013 – Vivint

Revenues

The following table provides the significant components of our revenue for the three month period ended June 30, 2014 and the three month period ended June 30, 2013:

	Three Months Ended June 30,		
	2014	2013	% Change
Monitoring revenue	$ 128,602	$ 108,646	18%
Service and other sales revenue	4,719	5,322	(11)
Activation fees	878	284	NM
Total revenues	$ 134,199	$ 114,252	17%

Total revenues increased $20.0 million, or 17%, for the three months ended June 30, 2014 as compared to the three months ended June 30, 2013, primarily due to the growth in monitoring revenue, which increased $20.0 million, or 18%. This increase resulted from $16.4 million of fees from the net addition of approximately 97,000 subscribers at June 30, 2014 compared to June 30, 2013 and a $5.3 million increase from continued growth in the percentage of our subscribers contracting for new products and service packages, partially offset by a $1.8 million increase in refunds and credits during the period.

Service and other sales revenue decreased $0.6 million, or 11%, for the three months ended June 30, 2014 as compared to the three months ended June 30, 2013. This decrease was primarily due to a decrease in upgrade revenue of $1.2 million related to subscriber service upgrades and purchases of additional equipment, offset in part by an increase in other revenue of $0.7 million.

The revenue associated with activation fees is deferred upon billing and recognized over the estimated life of the subscriber relationship. There was deemed to be no fair value associated with deferred activation fee revenues at the time of our acquisition by an investor group led by affiliates of our sponsor, The Blackstone Group L.P. (the "Sponsor") on November 16, 2012 (the "Acquisition"). Thus, revenues recognized related to activation fees increased $0.6 million, or 209%, for the three months ended June 30, 2014 as compared to the three months ended June 30, 2013, primarily due to the increase in the number of subscribers from whom we have collected activation fees since the date of the Acquisition.

Costs and Expenses

	Three Months Ended June 30,		
	2014	2013	% Change
Operating expenses	$ 47,216	$ 38,435	23%
Selling expenses	28,739	28,298	2
General and administrative	35,326	24,910	42
Depreciation and amortization	53,364	46,338	15
Total costs and expenses	$ 164,645	$ 137,981	19%

Operating expenses increased $8.9 million, or 23%, for the three months ended June 30, 2014 as compared to the three months ended June 30, 2013, primarily to support the growth in our subscriber base. This increase was principally comprised of $6.3 million in personnel costs within our monitoring, customer support and field service functions and a $2.9 million increase in cellular communications fees related to our monitoring services.

Selling expenses, excluding amortization of capitalized subscriber acquisition costs, increased $0.4 million, or 2%, for the three months ended June 30, 2014 as compared to the three months ended June 30, 2013, primarily due to a $2.4 million increase in facility, administrative and information technology costs, offset by a $0.6 million decrease in advertising costs and a $1.7 million decrease in personnel costs.

General and administrative expenses increased $10.4 million, or 42%, for the three months ended June 30, 2014 as compared to the three months ended June 30, 2013, partly due to a $2.9 million increase in personnel costs, primarily related to information technologies, research and development and management staffing to support the expected growth of the business and our wireless internet initiative. The increase was also due to a $1.8 million increase in the provision for doubtful accounts, primarily related to the growth in our accounts receivable, a $1.5 million increase in advertising costs, a $1.0 million increase in information technology costs, $0.9 million increase in other third-party contracted services, and a $0.4 million increase in facility costs, all to support the growth in our business. In addition, in connection with the facility fire described in Note 10 of the accompanying condensed consolidated financial statements, we incurred an estimated $1.0 million of fire related losses, net of probable insurance recoveries.

Depreciation and amortization increased $7.0 million, or 15%, for the three months ended June 30, 2014 as compared to the three months ended June 30, 2013. The increase was primarily due to increased amortization of subscriber contract costs.

Other Expenses, net

	Three Months Ended June 30,		
	2014	2013	% Change
Interest expense	$ 35,712	$ 27,381	30%
Interest income	(572)	(396)	44
Other income, net	(52)	(33)	58
Gain on 2GIG Sale	-	(46,643)	(100)
Total other expenses, net	$ 35,088	$ (19,691)	(278)%

Interest expense increased $8.3 million, or 30%, for the three months ended June, 2014, as compared with the three months ended June, 2013, due to a higher principal balance on our debt. During the three months ended June 30, 2013, we realized a gain of $46.6 million as a result of the 2GIG Sale. See Note 3 of our unaudited Condensed Consolidated Financial Statements for additional information.

Income Taxes

	Three Months Ended June 30,		
	2014	2013	% Change
Income tax expense	$ 737	$ 17,489	(96)%

Income tax expense decreased $16.8 million, or 96%, for the three months ended June 30, 2014 as compared with the three months ended June 30, 2013. After the 2GIG Sale on April 1, 2013, we were in a net deferred tax asset position, which required the application of a full valuation allowance against this deferred tax asset, resulting in income tax expense for the three months ended June 30, 2013. Our tax expense during the three months ended June 30, 2014 was primarily due to an increase in tax expense associated with our Canadian operations.

Six Months Ended June 30, 2014 Compared to the Six Months Ended June 30, 2013 – Vivint

Revenues

The following table provides the significant components of our revenue for the six month period ended June 30, 2014 and the six month period ended June 30, 2013:

	Six Months Ended June 30,		
	2014	2013	% Change
Monitoring revenue	$ 253,156	$ 210,566	20%
Service and other sales revenue	9,553	10,257	(7)
Activation fees	1,644	364	352
Total revenues	$ 264,353	$ 221,187	20%

Total revenues increased $43.2 million, or 20%, for the six months ended June 30, 2014 as compared to the six months ended June 30, 2013, primarily due to the growth in monitoring revenue, which increased $42.6 million, or 20%. This increase resulted from $34.7 million of fees from the net addition of approximately 97,000 subscribers at June 30, 2014 compared to June 30, 2013 and a $10.7 million increase from continued growth in the percentage of our subscribers contracting for new products and service packages, partially offset by a $2.9 million increase in refunds and credits during the period.

Service and other sales revenue decreased $0.7 million, or 7%, for the six months ended June 30, 2014 as compared to the six months ended June 30, 2013. This decrease was primarily due to a decrease in upgrade revenue related to subscriber service upgrades and purchases of additional equipment.

The revenue associated with activation fees is deferred upon billing and recognized over the estimated life of the subscriber relationship. There was deemed to be no fair value associated with deferred activation fee revenues at the time of the Acquisition. Thus, revenues recognized related to activation fees increased $1.3 million, or 352%, for the six months ended June 30, 2014 as compared to the six months ended June 30, 2013, primarily due to the increase in the number of subscribers from whom we have collected activation fees since the date of the Acquisition.

Costs and Expenses

	Six Months Ended June 30,		
	2014	**2013**	**% Change**
Operating expenses	$ 88,533	$ 72,461	22%
Selling expenses	54,318	48,906	11
General and administrative	60,461	39,768	52
Depreciation and amortization	103,716	89,994	15
Total costs and expenses	$ 307,028	$ 251,129	22%

Operating expenses increased $16.1 million, or 22%, for the six months ended June 30, 2014 as compared to the six months ended June 30, 2013, primarily to support the growth in our subscriber base. This increase was principally comprised of $10.5 million in personnel costs within our monitoring, customer support and field service functions and a $3.8 million increase in cellular communications fees related to our monitoring services. In addition, we recognized a loss on impairment of $1.4 million associated with our CMS technology (See Note 8 to our accompanying unaudited condensed consolidated financial statements).

Selling expenses, excluding amortization of capitalized subscriber acquisition costs, increased $5.4 million, or 11%, for the six months ended June 30, 2014 as compared to the six months ended June 30, 2013, primarily due to a $4.4 million increase in facility, administrative and information technology costs and a $0.9 million increase in advertising costs, all to support the expected increase in our subscriber contract originations.

General and administrative expenses increased $20.7 million, or 52%, for the six months ended June 30, 2014 as compared to the six months ended June 30, 2013, partly due to a $11.6 million increase in personnel costs, primarily related to information technologies, research and development and management staffing to support the expected growth of the business and our wireless internet initiative. The increase was also due to a $1.9 million increase in the provision for doubtful accounts, primarily related to the growth in our accounts receivable, a $1.6 million increase in advertising costs, a $0.9 million increase in facility costs, a $0.7 million increase in insurance premiums and property taxes, and a $0.5 million increase in other third-party contracted services, all to support the growth in our business. In addition, in connection with the facility fire described in Note 10 of the accompanying condensed consolidated financial statements, we incurred an estimated $2.6 million of fire related losses, net of probable insurance recoveries.

Depreciation and amortization increased $13.7 million, or 15%, for the six months ended June 30, 2014 as compared to the six months ended June 30, 2013. The increase was primarily due to increased amortization of subscriber contract costs.

Six Months Ended June 30, 2014 Compared to the Six Months Ended June 30, 2013 – 2GIG

All intercompany revenue and expenses between Vivint and 2GIG have been eliminated in consolidation and from the amounts presented below.

	Six Months Ended June 30,		
	2014	2013	% Change
Total revenue	$ -	$ 17,507	NM
Operating expenses	-	11,667	NM
General and administrative	-	5,481	NM
Other expenses	-	2,138	NM
Loss from operations	$ -	$ (1,779)	NM

2GIG is no longer included in our results of operations, from the date of the 2GIG Sale.

Six Months Ended June 30, 2014 Compared to the Six Months Ended June 30, 2013 – Consolidated

Other Expenses, net

	Six Months Ended June 30,		
	2014	2013	% Change
Interest expense	$ 71,352	$ 53,254	34%
Interest income	(1,124)	(676)	66
Other (income) expenses, net	(297)	317	(194)
Gain on 2GIG Sale	-	(46,643)	(100)
Total other expenses, net	$ 69,931	$ 6,252	1,019%

Interest expense increased $18.1 million, or 34%, for the six months ended June 30, 2014, as compared with the six months ended June 30, 2013, due to a higher principal balance on our debt. Other income for the six months ended June 30, 2014 was $0.3 million, primarily attributable to gains on the sale and disposal of assets. Other expense of $0.3 million for the six months ended June 30, 2013, was primarily due to losses on the sale and disposal of assets. During the six months ended June 30, 2013, we realized a gain of $46.6 million as a result of the 2GIG Sale. See Note 3 of our unaudited Condensed Consolidated Financial Statements for additional information.

Income Taxes

	Six Months Ended June 30,		
	2014	2013	% Change
Income tax expense	$ 945	$ 14,463	(93)%

Income tax expense decreased $13.5 million, or 93%, for the six months ended June 30, 2014 as compared with the six months ended June 30, 2013. After the 2GIG Sale on April 1, 2013, we were in a net deferred tax asset position, which required the application of a full valuation allowance against this deferred tax asset, resulting in income tax expense for the six months ended June 30, 2013. Our tax expense during the six months ended June 30, 2014 was primarily due to an increase in tax expense associated with our Canadian operations.

Liquidity and Capital Resources

Our primary source of liquidity has historically been cash from operations, proceeds from the issuance of debt securities and borrowing availability under our revolving credit facility. As of June 30, 2014, we had $37.0 million of cash, $60.1 million of short-term investments maturing in July 2014 and $197.0 million of availability under our revolving credit facility (after giving effect to $3.0 million of letters of credit outstanding). On July 1, 2014, we issued and sold an additional $100.0 million of 8.75% senior notes due 2020.

Cash Flow and Liquidity Analysis

Significant factors influencing our liquidity position include cash flows generated from monitoring and other fees received from the subscribers we service and the level of investment in capitalized subscriber acquisition costs. 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 and the portion of subscriber acquisition costs that are expensed and general and administrative costs. We have historically generated, and expect to continue generating, positive cash flows from operating activities. 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.

The 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 (dollars in thousands):

	Six Months Ended June 30,		
	2014	2013	% Change
Net cash provided by operating activities	$ 35,091	$ 43,073	(19)%
Net cash used in investing activities	(259,286)	(27,184)	854
Net cash (used in) provided by financing activities	(1,207)	106,870	(101)

Cash Flows from Operating Activities

We generally reinvest the cash flows from operating activities into our business, primarily to maintain and grow our subscriber base and to expand our infrastructure to support this growth and enhance our existing, and 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, 2014, net cash provided by operating activities was $35.1 million. This cash was primarily generated from a net loss of $113.6 million, adjusted for $109.2 million in non-cash amortization, depreciation and stock-based compensation, a $37.6 million increase in accrued expenses and other liabilities, primarily related to an increase in accrued payroll and commissions, and a $57.8 million increase in accounts payable, primarily related to purchases of inventory. This was partially offset by a $52.2 million increase in inventories due to the seasonality of our inventory purchases and usage related to our direct-to-home sales channel.

For the six months ended June 30, 2013, net cash provided by operating activities was $43.1 million. This cash was primarily generated from a net loss of $52.4 million, adjusted for $97.0 million in non-cash amortization, depreciation and stock-based compensation expenses, a $45.0 million increase in accrued expenses and other liabilities and a $16.3 million increase in fees paid by subscribers in advance of when the associated revenue is recognized. This was partially offset by a $25.9 million increase in inventories due to the seasonality of our inventory purchases and usage.

Cash Flows from Investing Activities

Historically, our investing activities have primarily consisted of capitalized subscriber acquisition costs, 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, 2014 and 2013, net cash used in investing activities was $259.3 million and $27.2 million, respectively. For the six months ended June 30, 2014, our cash used in investing activities primarily consisted of capitalized subscriber acquisition costs of $174.6 million, investments in certificates of deposit of $60.0 million, capital expenditures of $12.1 million, and the acquisition of certain patents and other intangible assets of $6.1 million. For the six months ended June 30, 2013, cash used in investing activities primarily consisted of $156.7 million of capitalized subscriber acquisition costs, partially offset by $143.3 million of proceeds from the 2GIG Sale.

Cash Flows from Financing Activities

Historically, our cash flows from financing activities were primarily to fund the portion of upfront costs associated with generating new subscribers that are not covered through our operating cash flows.

For the six months ended June 30, 2014, net cash used in financing activities was $1.2 million, consisting primarily of $3.1 million of repayments under our capital lease obligations, partially offset by $2.3 million of proceeds from contract sales. For the six months ended June 30, 2013, our net cash provided by financing activities was from the issuance of $203.5 million of senior unsecured notes payable, $22.5 million of borrowings from our revolving line of credit, partially offset by $60.0 million of payments of dividends and $50.5 million of repayments of our revolving line of credit.

Long-Term Debt

We are a highly leveraged company with significant debt service requirements. As of June 30, 2014, we had approximately $1.8 billion of total debt outstanding, consisting of $925.0 million of 6.375% senior secured notes due 2019 (the “outstanding 2019 notes”), $830.0 million of 8.75% senior notes due 2020 (the “outstanding 2020 notes”) and no borrowings under the revolving credit facility. On July 1, 2014, we issued and sold an additional $100.0 million of 8.75% senior notes due 2020.

Revolving Credit Facility

On November 16, 2012, we entered into a $200.0 million senior secured revolving credit facility, with a five year maturity, of which $197.0 million was undrawn and available as of June 30, 2014 (after giving effect to $3.0 million of outstanding letters of credit). 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 unterminated portion of the existing tranche continuing to accrue interest at the original higher rate.

Borrowings under the 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 repriced tranche is currently 2.0% per annum and (b) under the former tranche is currently 3.0% and (2)(a) the applicable margin for LIBOR rate-based borrowings (a) under the repriced tranche is currently 3.0% per annum and (b) under the former tranche 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 consolidated first lien net leverage ratio at the end of each fiscal quarter, commencing with delivery of our consolidated financial statements for the first full fiscal quarter ending after the closing date.

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 consolidated first lien net leverage ratio) 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.

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, commencing June 1, 2013.

We may, at our option, redeem at any time and from time to time prior to December 1, 2015, some or all of the 2019 notes at 100% of their principal amount thereof plus accrued and unpaid interest to the redemption date plus a "make-whole premium." Prior to December 1, 2015, during any 12 month period, we also may, at our option, redeem at any time and from time to time up to 10% of the aggregate principal amount of the issued 2019 notes at a price equal to 103% of the principal amount thereof, plus accrued and unpaid interest. 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. In addition, on or prior to December 1, 2015, we may, at our option, redeem up to 35% of the aggregate principal amount of the 2019 notes with the proceeds from certain equity offerings at 106.37%, plus accrued and unpaid interest to the date of redemption.

2020 Notes

On November 16, 2012, we issued $380.0 million of outstanding 2020 notes. Interest on the outstanding 2020 notes is payable semi-annually in arrears on each June 1 and December 1, commencing June 1, 2013. During the year ended December 31, 2013, we issued an additional $450.0 million of outstanding 2020 notes under the indenture dated as of November 16, 2012. In July 2014, we issued an additional $100.0 million of 8.75% senior notes due 2020.

We may, at our option, redeem at any time and from time to time prior to December 1, 2015, some or all of the 2020 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, 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. In addition, on or prior to December 1, 2015, we may, at our option, redeem up to 35% of the aggregate principal amount of the 2020 notes with the proceeds from certain equity offerings at 108.75%, plus accrued and unpaid interest to the date of redemption.

Guarantees and Security

All of our obligations under the revolving credit facility, the 2019 notes and the 2020 notes are guaranteed by APX Group Holdings, Inc. ("Parent Guarantor") 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 16 of our unaudited condensed 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 and the 2019 notes are secured by a security interest in (i) substantially all of the present and future tangible and intangible assets of APX Group, Inc., exclusive of its subsidiaries (the "Issuer"), 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 the Issuer 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 the Issuer, each of its subsidiary guarantors and each restricted subsidiary of the Issuer and its subsidiary guarantors, in each case other than excluded assets and subject to the limitations and exclusions provided in the applicable collateral documents.

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 $150.0 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 the Issuer;
- 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, 2014, 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.

As market conditions warrant, we and our major equity holders, including the Sponsor and its affiliates, may from time to time, seek to repurchase debt securities that we have issued or loans that we have borrowed, including the notes and borrowings under our revolving credit facility, in privately negotiated or open market transactions, by tender offer or otherwise.

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.

"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 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 before non-controlling interests to Adjusted EBITDA (in thousands):

	Three Months Ended June 30, 2014	Six Months Ended June 30, 2014	Twelve Months Ended June 30, 2014
Net loss	$ (66,271)	$ (113,551)	$ (185,628)
Interest expense, net	35,140	70,228	130,633
Other income, net	(52)	(297)	(913)
Income tax expense (benefit)	737	945	(9,926)
Depreciation and amortization (1)	40,445	80,477	166,503
Amortization of capitalized creation costs	12,919	23,238	40,586
Non-capitalized subscriber acquisition costs (2)	33,855	60,731	109,173
Non-cash compensation (3)	458	903	2,129
Other adjustments (4)	11,403	23,858	51,551
Adjusted EBITDA	$ 68,634	$ 146,532	$ 304,108

(1) Excludes loan amortization costs that are included in interest expense.
(2) 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.
(3) Reflects non-cash compensation costs related to employee and director stock and stock option plans.
(4) Other adjustments represent primarily the following items (in thousands):

	Three Months Ended June 30, 2014	Six Months Ended June 30, 2014	Twelve Months Ended June 30, 2014
Product development (a)	$ 3,150	$ 6,988	$ 14,460
Purchase accounting deferred revenue fair value adjustment (b)	1,352	2,757	5,783
Subcontracted monitoring agreement (c)	1,100	2,225	3,303
Non-operating legal and professional fees	1,085	1,119	2,908
Fire related losses, net of probable insurance recoveries (d)	1,001	2,659	2,659
Information technology implementation (e)	824	2,134	3,364
Monitoring fee (f)	770	1,445	2,795
Start-up of new strategic initiatives (g)	465	832	3,493
CMS technology impairment loss (h)	-	1,351	1,351
Non-cash contingent liabilities	-	-	6,500
All other adjustments	1,656	2,348	4,935
Total other adjustments	$ 11,403	$ 23,858	$ 51,551

(a) Costs related to the development of future products and services, including associated software.
(b) Add back revenue reduction directly related to purchase accounting deferred revenue adjustments.
(c) Run-rate savings from committed future reductions in subcontract monitoring fees.
(d) Fire relates losses, net of insurance recoveries of $3.0 million considered probable at June 30, 2014. (See Note 10 to the accompanying unaudited condensed consolidated financial statements).
(e) Costs related to the implementation of new information technologies.
(f) Blackstone Management Partners L.L.C monitoring fee (See Note 14 to the accompanying unaudited condensed consolidated financial statements).
(g) Costs related to the start-up of potential new service offerings and sales channels.
(h) CMS technology impairment loss (See Note 8 to the accompanying unaudited condensed consolidated financial statements).

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 technicians. 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, 2014, our total capital lease obligations were $12.2 million, of which $4.3 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. 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.

Critical Accounting Estimates

In preparing our unaudited Condensed Consolidated Financial Statements, we make assumptions, judgments and estimates that can have a significant impact on our revenue, income (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 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 unaudited Condensed Consolidated Financial Statements.

Revenue Recognition

We recognize revenue principally on three types of transactions: (i) monitoring, which includes RMR, (ii) service and other sales, which includes non-recurring service fees charged to our subscribers provided on contracts, contract fulfillment revenues and sales of products that are not part of our service offerings, and (iii) activation fees on the subscriber contracts, which are amortized over the estimated life of the subscriber relationship.

Monitoring 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. RMR is recognized monthly as services are provided in accordance with the rates set forth in our subscriber contracts. Costs of providing ongoing monitoring services are expensed in the period incurred.

Any services included in service and other sales revenue are recognized upon provision of the applicable services. Revenue from 2GIG product sales was recognized when title passed to the customer, which was generally upon shipment from the warehouse of our third-party logistics provider. Revenue generated by Vivint from the sale of products that are not part of the service offerings is recognized upon installation. Contract fulfillment revenue represents fees received from subscribers at the time of, or subsequent to, the in-term termination of their contract. This revenue is recognized when payment is received from the subscriber.

Activation fees are typically charged upon the generation of a new subscriber. This revenue is deferred and recognized over a pattern that reflects the estimated life of a subscriber relationship.

Revenue from the sale of subscriber contracts to third parties is recognized when ownership of the contracts has transferred to the purchaser. Any unamortized deferred revenue and costs related to contract sales are recognized at that time of the sale.

Subscriber Acquisition Costs

A portion of the direct costs of acquiring new subscribers, primarily sales commissions, equipment, and installation costs, are deferred and recognized over a pattern that reflects the estimated life of the subscriber relationships. We amortize these costs using a 150% declining balance method over 12 years and convert to a straight-line methodology when the resulting amortization charge is greater than that from the accelerated method for the remaining estimated life. We evaluate attrition on a periodic basis, utilizing observed attrition rates for our subscriber contracts and industry information and, when necessary, make adjustments to the estimated life of the subscriber relationship and amortization method.

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 consist 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. Subscriber acquisition costs are largely correlated to the number of new subscribers originated.

Accounts Receivable

Accounts receivables consist primarily of amounts due from subscribers for RMR services. 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 approximately $4.5 million and $1.9 million at June 30, 2014 and December 31, 2013, respectively. We estimate this allowance based on historical collection rates, attrition rates, and contractual obligations underlying the sale of the subscriber contracts to third parties. As of June 30, 2014 and December 31, 2013, 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 $4.8 million and $3.0 million for the three months ended June 30, 2014 and 2013, respectively, and $7.3 million and $5.4 million for the six months ended June 30, 2014 and 2013, 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 $772.7 million at June 30, 2014. Goodwill represents the excess of cost over the fair value of net assets acquired and was $836.7 million at June 30, 2014.

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.

We conduct a goodwill impairment analysis annually in our fourth fiscal quarter, 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 evaluating 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, 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 basis 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 issued authoritative guidance which clarifies the principles used to recognize revenue for all entities. The new guidance requires companies to recognize revenue when it transfers goods or services to a customer in an amount that reflects the consideration to which a company expects to be entitled. The guidance is effective for annual and interim periods beginning after December 15, 2016. The guidance allows for either a "full retrospective" adoption or a "modified retrospective" adoption, however early adoption is not permitted. We are currently evaluating the impact the adoption of this guidance will have on our consolidated financial statements.

In February 2013, the FASB issued authoritative guidance which expands the disclosure requirements for amounts reclassified out of accumulated other comprehensive income ("AOCI"). The guidance requires an entity to provide information about the amounts reclassified out of AOCI by component and present, either on the face of the income statement or in the notes to financial statements, significant amounts reclassified out of AOCI by the respective line items of net income but only if the amount reclassified is required under GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts, an entity is required to cross-reference to other disclosures required under GAAP that provide additional detail about those amounts. This guidance does not change the current requirements for reporting net income or OCI in financial statements. The guidance became effective for us in the first quarter of fiscal year 2014. The adoption of this guidance did not have a material impact on our financial position, results of operations or cash flows.

In July 2013, the FASB issued authoritative guidance which amends the guidance related to the presentation of unrecognized tax benefits and allows for the reduction of a deferred tax asset for a net operating loss carryforward whenever the net operating loss carryforward or tax credit carryforward would be available to reduce the additional taxable income or tax due if the tax position is disallowed. This guidance became effective for us for annual and interim periods beginning in fiscal year 2014. The adoption of this guidance did not have a material impact on our financial position, results of operations or cash flows.

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-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, if interest rates related to our revolving credit facility increase by 1% due to normal market conditions, our interest expense will increase by approximately $2.0 million per annum.

We had no borrowings under the revolving credit facility as of June 30, 2014.

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. We do not use derivative financial instruments to hedge investments in foreign subsidiaries since such investments are long-term in nature.

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. 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, 2014, 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 to accomplish their objectives at the reasonable assurance level.

Internal Control Over Financial Reporting

Internal Control Procedures

During the year ended December 31, 2013, we implemented a company employee service portal. Functionality within this portal calculates certain expense items related to employee payroll. Additionally, during the six months ended June 30, 2014, we implemented Customer Service, Customer Billing and Inventory systems. During the remainder of the year we will continue to enhance these systems and continue to improve and enhance supporting internal controls. We believe the systems, as implemented, and our current system of internal control over financial reporting continue to provide reasonable assurance our financial reporting is accurate and our established policies are followed.

Because of its inherent limitations, internal control over financial reporting, including disclosure controls, may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Changes in Internal Control Over Financial Reporting

Except as described above, 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, 2014 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 aggregate, have a material adverse effect on our financial condition or results of operations. See Note 13 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, 2013 (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 99.2 of this report, which includes disclosures publicly filed and/or provided to the Blackstone Group L.P., an affiliate of our major shareholders, by Travelport Limited which may be considered the Company's affiliate.

ITEM 6. EXHIBITS

Exhibits

		Incorporated by Reference				
Exhibit Number	**Exhibit Title**	**Form**	**File No.**	**Exhibit No.**	**Filing Date**	**Provided Herewith**
10.1	Employment Agreement, dated as of August 7, 2014, between APX Group, Inc. and Alex Dunn					X
10.2	Employment Agreement, dated as of August 7, 2014, between APX Group, Inc. and Todd Pedersen					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	Stock Purchase Agreement, dated as of February 13, 2013, by and among Nortek, Inc. and APX Group, Inc.	8-K of Nortek Inc.	001-34697	2.1	4/1/13	
99.2	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 8, 2014 By: /S/ TODD PEDERSEN

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

Date: August 8, 2014 By: /S/ MARK DAVIES

Mark Davies
Chief Financial Officer
(Principal Financial Officer)

Exhibit 10.1

EMPLOYMENT AGREEMENT
(Alex Dunn)

EMPLOYMENT AGREEMENT (the " Agreement ") dated August 7, 2014 by and between APX Group, Inc., a Delaware corporation (the " Company ") and Alex Dunn (" Executive ").

WHEREAS, the Company is an indirect, wholly owned subsidiary of 313 Acquisition, LLC, a Delaware limited liability company ("Parent");

WHEREAS, the Executive and Parent entered into an Employment Agreement dated as of November 16, 2012 (the "Prior Agreement"), pursuant to which the Executive serves as an employee of the Company and/or one or more of its subsidiaries;

WHEREAS, the Company desires to assume all existing obligations of Parent under the Prior Agreement, and for one or more of its subsidiaries to continue to employ Executive and Executive desires to continue to be employed in such capacities, on the terms set forth in this Agreement as of the date hereof; and

WHEREAS, Parent, the Company and Executive desire to enter into this Agreement embodying the terms of such employment which shall, effective as of the date hereof, replace and supersede the Prior Agreement;

NOW, THEREFORE, in consideration of the premises and mutual covenants herein and for other good and valuable consideration, the parties agree as follows:

1. Term of Employment . Subject to the provisions of Section 5 of this Agreement, Executive shall continue to be employed by the Company and/or one or more of its subsidiaries through on November 16, 2017 (the " Employment Term ") on the terms and subject to the conditions set forth in this Agreement; provided , however , the Employment Term shall be automatically extended for an additional one-year period commencing on November 16, 2017 and, thereafter, on each such successive anniversary thereafter (each an " Extension Date "), unless the Company or Executive provides the other party hereto at least 90 days prior written notice before the next Extension Date that the Employment Term shall not be so extended. Parent hereby assigns to the Company, and the Company hereby assumes, all existing obligations of Parent under the Prior Agreement.

2. Position, Duties and Authority .

(a) During the Employment Term, Executive shall serve as the Company's President. In such position, Executive shall have such duties, functions, responsibilities and authority as shall be determined from time to time by the Chief Executive Officer of the Company (the " CEO ") and be consistent with the duties, functions, responsibilities and authority of an individual in Executive's position at a portfolio company of a private equity firm. Executive shall report directly to the CEO. If requested by the Board of Directors of the Company (the " Board "), Executive shall also serve as a member of the Board without additional compensation.

(b) Executive will devote substantially all of Executive's business time and reasonable best efforts to the operation and oversight of the Company's businesses and performance of Executive's duties hereunder (excluding periods of vacation and sick leave) and will not engage in any other business activities that could conflict with his duties or services to the Company; provided that nothing herein shall preclude Executive, subject to obtaining consent of the Board (not to be unreasonably withheld), from (i) accepting appointment to or continuing to serve on any board of directors or trustees of any business corporation, and (ii) serving as an officer or director or otherwise participating in non-profit educational, welfare, social, religious and civil organizations. The parties agree that consent shall be deemed obtained with respect to Executive's service on the board of governors of Salt Lake Chamber, and the boards of directors of the Utah Valley Chamber and OneGreatFamily.com.

3. Compensation .

(a) Base Salary . During the Employment Term, the Company shall pay Executive a base salary (" Base Salary ") at the annual rate of $500,000, payable in regular installments in accordance with the Company's usual payment practices. Executive's Base Salary shall be subject to annual review and subject to increase, if any, as may be determined from time to time in the sole discretion of the Board, but in no event shall the Company be entitled to reduce Executive's Base Salary.

(b) Annual Bonus . During the Employment Term, Executive shall be eligible to earn an annual bonus award (an " Annual Bonus ") with a target amount equal to 100% of Executive's Base Salary at the end of the performance period (the " Annual Target Bonus "). Each Annual Bonus shall be determined based on the achievement of performance objectives and targets (including the level of achievement required for Executive to earn the threshold, target and high performance objectives) established by the Board for the applicable year, as set forth below.

% Attainment of Performance Targets	**Multiple of Base Salary**
Less than 90%	0
90%	0.5x
100%	1.0x
110%	2.0x
130% or greater	2.5x

To the extent actual performance falls between the levels of attainment set forth above, the actual Annual Bonus shall be calculated using straight line interpolation between such levels. For the avoidance of doubt, in no event will the actual Annual Bonus payable in respect of any performance period be greater than 2.5x the Base Salary at the end of the applicable performance period. The Annual Bonus, if any, shall be paid to Executive within two and one-half months after the end of the applicable fiscal year. Except as provided in Section 5, no Annual Bonus shall be payable in respect of any fiscal year in which Executive's employment is terminated.

4. Benefits .

(a) General . During the Employment Term, Executive shall be entitled to participate in the Company's employee benefit, fringe and perquisite plans, practices, policies and arrangements as in effect from time to time (collectively, " Employee Benefits "), on generally the same terms and conditions as each of the Employee Benefits are made available to other senior executives of the Company (other than with respect to annual bonuses, incentive plans and severance plans (as well as any other terms and conditions specifically determined under this Agreement), the benefits for each which shall be determined instead in accordance with this Agreement); provided that Executive shall be entitled to no less than four (4) weeks' vacation per calendar year.

(b) Reimbursement of Business Expenses . During the Employment Term, the Company shall reimburse Executive for reasonable and necessary business expenses incurred by Executive in the performance of Executive's duties hereunder in accordance with its then prevailing policy for senior executives (which shall include appropriate itemization and substantiation of expenses incurred).

(c) Fringe Benefits . Executive shall be entitled to reasonable access, for personal use, to the Company's airplane. All personal use shall be subject to reimbursement by Executive of amounts determined under a reasonable cost allocation methodology consistent with IRS guidelines to avoid imputed income to Executive, and the Company shall pay Executive $300,000 per year in monthly installments in arrears, subject to all applicable taxes and withholdings, for the purpose of reimbursing the Company for the costs to Executive of any such personal use. The Company shall engage a financial advisor to provide customary financial advice to Executive and to manage Executive's personal investments, provided that the annual compensation to such advisor to provide such services to Executive and the Company's Chief Executive Officer, in the aggregate, shall not exceed $250,000 annually.

5. Termination .

(a) The Employment Term and Executive's employment hereunder may be terminated by either party at any time and for any reason, subject to the notice and cure provisions set forth below. Notwithstanding any other provision of this Agreement, the provisions of this Section 5 shall exclusively govern Executive's rights upon termination of employment with the Company and its affiliates.

(b) By the Company for Cause or by Executive other than as a result of Good Reason.

(i) The Employment Term and Executive's employment hereunder may be terminated by the Company for Cause and shall terminate automatically upon the effective date of Executive's resignation other than as a result of Good Reason (as defined in Section 5(d)(i)).

(ii) *Definition of Cause* . For purposes of this Agreement, "Cause" shall mean (A) Executive's continued failure substantially to perform Executive's employment duties (other than as a result of total or partial incapacity due to physical or mental illness) for a period of 10 days following written notice by the Company to Executive of such failure, (B) dishonesty in the performance of Executive's employment duties that is materially injurious to the Company, (C) an act or acts on Executive's part constituting (x) a felony charge under the laws of the United States or any state thereof or (y) a misdemeanor charge involving moral turpitude, (D) Executive's willful malfeasance or willful misconduct in connection with Executive's employment duties which causes substantial injury to the financial condition or business reputation of the Company or any of its subsidiaries or affiliates or (E) the Executive's material breach of any of the covenants set forth in Section 6 (other than any action taken in good faith and in a manner not opposed to the best interests of the Company, and which is promptly remedied by Executive upon notice by the Board); provided that none of the foregoing events shall constitute Cause unless Executive fails to cure such event and remedy any adverse or injurious consequences arising from such events within 30 days after receipt from the Company of written notice of the event which constitutes Cause (except that no cure or remedy period shall be provided if the event or such consequences are not capable of being cured and remedied).

(iii) If Executive's employment is terminated by the Company for Cause, Executive shall be entitled to receive:

(A) no later than 10 days following the date of termination, the Base Salary through the date of termination;

(B) any Annual Bonus earned, but unpaid, as of the date of termination for the immediately preceding fiscal year, paid in accordance with Section 3(b) (except to the extent payment is otherwise deferred pursuant to any applicable deferred compensation arrangement with the Company, in which case such payment shall be made in accordance with the terms and conditions of such deferred compensation arrangement);

(C) reimbursement, within 60 days following receipt by the Company of Executive's claim for such reimbursement (including appropriate supporting documentation), for any unreimbursed business expenses properly incurred by Executive in accordance with Company policy prior to Executive's termination; provided that such claims for such reimbursement are submitted to the Company within 90 days following the date of Executive's termination of employment; and

(D) such Employee Benefits, if any, as to which Executive may be entitled under the tax qualified employee benefit plans of the Company, payable in accordance with the terms and conditions of such tax qualified employee benefit plans (the amounts described in clauses (A) through (D) hereof being referred to as the " Accrued Rights ").

For the avoidance of doubt, in any legal proceeding to determine whether grounds for Cause existed on any date that the Company took action on the basis of the existence of Cause, the Company shall bear the burden of demonstrating grounds for Cause existed on such date. Following such termination of Executive's employment by the Company for Cause, except as set forth in this Section 5(b)(iii), Executive shall have no further rights to any compensation or any other benefits under this Agreement.

(iv) If Executive resigns other than as a result of Good Reason, provided that Executive will be required to give the Company at least 60 days advance written notice of any resignation of Executive's employment (other than as a result of Good Reason), Executive shall be entitled to receive the Accrued Rights. Following such resignation by Executive other than as a result of Good Reason, except as set forth in this Section 5(b)(iv), Executive shall have no further rights to any compensation or any other benefits under this Agreement.

(c) Disability or Death .

(i) *Disability*. During any period that Executive fails to perform his duties hereunder as a result of incapacity due to physical or mental illness or injury (the " Disability Period "), Executive shall continue to receive his full Base Salary set forth in Section 3(a) until his employment is terminated pursuant to Section 5(a). For purposes of this Agreement, " Disability " shall mean Executive's inability to perform, with or without reasonable accommodation, Executive's duties under this Agreement due to a physical or mental illness or injury for a period of six consecutive months or for an aggregate of 12 months in any consecutive 24-month period. Any question as to the existence of the Disability of Executive as to which Executive and the Company cannot agree shall be determined in writing by a qualified independent physician mutually acceptable to Executive and the Company. If Executive and the Company cannot agree as to a qualified independent physician, each shall appoint such a physician and those two physicians shall select a third physician who shall make such determination in writing. The determination of Disability made in writing to the Company and Executive shall be final and conclusive for all purposes of this Agreement.

(ii) Upon termination of Executive's employment hereunder for either Disability or death, Executive or Executive's estate, survivors or beneficiaries (as the case may be) shall be entitled to receive:

(A) the Accrued Rights;

(B) no later than 10 days following the date of termination, a pro rata portion of the Annual Target Bonus payable for the fiscal year in which such termination occurs, based on a fraction, the numerator of which is the number of days during the fiscal year up to and including the date of termination of Executive's employment and the denominator of which is the number of days in such fiscal year (the " Pro-Rated Bonus ");

(C) a cash payment representing the COBRA costs of providing health and welfare benefits for Executive and Executive's dependents under the plans in which Executive was participating on the date of the applicable "COBRA qualifying event" for two years (the " COBRA Payment "); and

(D) death or disability benefits under any applicable plans and programs of the Company in accordance with the terms and provisions of such plans and programs.

(d) By the Company Without Cause or Resignation by Executive as a Result of Good Reason.

(i) " Good Reason " shall be deemed to exist upon the occurrence of (A) a material reduction in Executive's base salary; (B) a material diminution in Executive's title or Executive's duties, authority and responsibilities measured in the aggregate; (C) the relocation of Executive's primary office location to a location that is more than 75 miles from Executive's primary office location, in each case without Executive's prior written consent; or (D) the Company's material breach of any of the provisions of this Agreement; provided that none of the foregoing events shall constitute Good Reason unless the Company fails to cure such event within 30 days after receipt from Executive of written notice of the event which constitutes Good Reason; and provided , further , that "Good Reason" shall cease to exist for an event on the 60th day following the later of its occurrence or Executive's knowledge thereof, unless Executive has given the Company written notice thereof prior to such date.

(ii) If Executive's employment is terminated by the Company without Cause (other than by reason of death or Disability) or Executive resigns as a result of Good Reason, Executive shall be entitled to receive:

(A) the Accrued Rights;

(B) the Pro-Rated Bonus;

(C) subject to Executive's continued compliance with Section 6 and material compliance with Section 7 hereof, and the execution and non-revocation of the Release (as defined below), a lump-sum cash payment within 55 days after such termination and effectiveness of the Release equal to the sum of (x) 200% of Executive's Base Salary as of the date immediately prior to Executive's termination of employment and (y) 200% of the actual Annual Bonus paid in respect of the immediately preceding fiscal year (or, if such termination occurs prior to the first date on which an Annual Bonus would have been paid had any payment been due, the Target Annual Bonus for the immediately preceding fiscal year), and (z) the COBRA Payment.

(e) Release . Amounts payable to Executive under Sections 5(d)(ii)(B) and 5(d)(ii)(C) (collectively, the " Conditioned Benefits ") are subject to (i) Executive's execution and non-revocation of a release of claims, substantially in the form attached hereto as Exhibit I (the " Release "), within 60 days of the date of termination and (ii) the expiration of any revocation period contained in such Release. Further, to the extent that any of the Conditioned Benefits constitutes "nonqualified deferred compensation" for purposes of Section 409A of the Internal Revenue Code of 1986, as amended (the " Code "), any payment of any amount or provision of any benefit otherwise scheduled to occur prior to the sixtieth (60 th) day following the date of Executive's termination of employment hereunder, but for the condition on executing the Release as set forth herein, shall not be made until the first regularly scheduled payroll date following such sixtieth (60 th) day, after which any remaining Conditioned Benefits shall thereafter be provided to Executive according to the applicable schedule set forth herein.

(f) Expiration of Employment Term . Unless the parties otherwise agree in writing, continuation of Executive's employment with the Company following the expiration of the Employment Term shall be deemed an employment at-will and shall not be deemed to extend any of the provisions of this Agreement and Executive's employment may thereafter be terminated at will by either Executive or the Company; provided that the provisions of Sections 6, 7 and 8 of this Agreement shall survive any termination of this Agreement or Executive's termination of employment hereunder.

(g) Notice of Termination; Board/Committee Resignation . Any purported termination of employment by the Company or by Executive (other than due to Executive's death) pursuant to Section 5 of this Agreement shall be communicated by written Notice of Termination to the other party hereto. For purposes of this Agreement, a "Notice of Termination" shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of employment under the provision so indicated. Upon termination of Executive's employment for any reason, Executive agrees to resign, as of the date of such termination and to the extent applicable, from the Board (and any committees thereof) and the Board of Directors (and any committees thereof) of any of the Company's affiliates (except to the extent Executive is otherwise entitled pursuant to a separate contractual arrangement to continue to serve as a member of the Board).

6. Non-Competition; Non-Solicitation. Executive acknowledges and recognizes the highly competitive nature of the businesses of the Company and its affiliates and accordingly agrees as follows:

(a) Non-Competition .

(i) During Executive's employment hereunder and, for a period of two years following the date Executive ceases to be employed by the Company (the " Restricted Period "), Executive will not, whether on Executive's own behalf or on behalf of or in conjunction with any person, firm, partnership, joint venture, association, corporation or other business organization, entity or enterprise whatsoever (" Person "), directly or indirectly, solicit or assist in soliciting in competition with the Restricted Group in the Business, the business of any then current or prospective client or customer with whom Executive (or Executive's direct reports) had personal contact or dealings on behalf of the Company during the one-year period preceding Executive's termination of employment.

(ii) During the Restricted Period, Executive will not directly or indirectly:

(A) engage in the Business anywhere in the United States, or in any geographical area that is within 100 miles of any geographical area where the Restricted Group engages in the Business, including, for the avoidance of doubt, by entering into the employment of or rending any services to a Core Competitor, except where such employment or services do not relate in any manner to the Business;

(B) acquire a financial interest in, or otherwise become actively involved with, any Person engaged in the Business, directly or indirectly, as an individual, partner, shareholder, officer, director, principal, agent, trustee or consultant; or

(C) intentionally and adversely interfere with, or attempt to adversely interfere with, business relationships between the members of the Restricted Group and any of their clients, customers, suppliers, partners, members or investors.

(iii) Notwithstanding anything to the contrary in this Agreement, Executive may, directly or indirectly own, solely as an investment, securities of any Person engaged in a Business (including, without limitation, a Core Competitor) which are publicly traded on a national or regional stock exchange or on the over-the-counter market if Executive (i) is not a controlling person of, or a member of a group which controls, such person and (ii) does not, directly or indirectly, own 2% or more of any class of securities of such Person.

(b) Non-Solicitation . During Executive's employment hereunder and the Restricted Period, Executive will not, whether on Executive's own behalf or on behalf of or in conjunction with any Person, directly or indirectly:

(i) solicit or encourage any employee of the Restricted Group to leave the employment of the Restricted Group;

(ii) hire any executive-level employee who was employed by the Restricted Group as of the date of Executive's termination of employment with the Company or who left the employment of the Restricted Group coincident with, or within one year prior to or one year after, the date of Executive's termination of employment with the Company; or

(iii) encourage any material consultant of the Restricted Group to cease working with the Restricted Group.

(iv) For purposes of this Agreement:

(A) "Restricted Group" shall mean, collectively, Parent, the Company and their respective subsidiaries and, to the extent engaged in the Business, their respective Affiliates (including The Blackstone Group L.P. and its Affiliates).

(B) "Business" shall mean (1) origination, installation, or monitoring services related to residential or commercial security, life-safety, energy management or home automation services, (2) installation or servicing of residential or commercial solar panels or sale of electricity generated by solar panels, (3) design, engineering or manufacturing of technology or products related to residential or commercial security, life-safety, energy management or home automation services and/or (4) provision of wireless voice or data services, including internet, into the home.

(C) "Core Competitor" shall mean ADT Home Security/Broadview Security, Protection 1, Inc., Protect America, Inc., Stanley Security Solutions, Inc., Vector Security, Inc., Slomins, Inc., Monitronics International, Inc., Life Alert, Comcast Corporation, Time Warner Inc., AT&T Inc., Verizon Communications, Inc., DISH Network Corp., DIRECTV, Pinnacle and each of their respective Affiliates, and Sungevity, Inc., RPS, Sunrun Inc., Solar City, Clean Power Finance, SunPower Corporation, Corbin Solar Solutions LLC, Galkos Construction, Inc., and any of their respective current or future dealers.

(c) During the Restricted Period, Executive agrees not to make, or cause any other person to make, any communication that is intended to criticize or disparage, or has the effect of criticizing or disparaging, Parent or any of its affiliates, agents or advisors (or any of its or their respective employees, officers or directors (it being understood that comments made in Executive's good faith performance of his duties hereunder shall not be deemed disparaging or defamatory for purposes of this Agreement). During the Restricted Period, the Company shall instruct its executive officers and directors to refrain from intentionally making any public communication outside the ordinary course of such person's business that is intended to criticize or disparage, or has the effect of criticizing or disparaging, Executive. Nothing set forth herein shall be interpreted to prohibit either party from responding truthfully to incorrect public statements, making truthful statements when required by law, subpoena or court order and/or from responding to any inquiry by any regulatory or investigatory organization.

(d) It is expressly understood and agreed that although Executive and the Company consider the restrictions contained in this Section 6 to be reasonable, if a final judicial determination is made by a court of competent jurisdiction that the time or territory or any other restriction contained in this Section 6 is an unenforceable restriction against Executive, the provisions of this Agreement shall not be rendered void but shall be deemed amended to apply as to such maximum time and territory and to such maximum extent as such court may judicially determine or indicate to be enforceable. Alternatively, if any court of competent jurisdiction finds that any restriction contained in this Section 6 is unenforceable, and such restriction cannot be amended so as to make it enforceable, such finding shall not affect the enforceability of any of the other restrictions contained herein

(e) The period of time during which the provisions of this Section 6 shall be in effect shall be extended by the length of time during which Executive is in breach of the terms hereof as determined by any court of competent jurisdiction on the Company's application for injunctive relief.

(f) The provisions of this Section 6 shall survive the termination of Executive's employment for any reason, including but not limited to, any termination other than for Cause.

7. Confidentiality; Intellectual Property .

(a) Confidentiality .

(i) Executive will not at any time (whether during or after Executive's employment with the Company), (x) retain or use for the benefit, purposes or account of Executive or any other Person; or (y) disclose, divulge, reveal, communicate, share, transfer or provide access to any Person outside the Company (other than Executive's professional advisers who are bound by confidentiality obligations or otherwise in performance of Executive's duties under Executive's employment and pursuant to customary industry practice), any non-public, proprietary or confidential information – including, without limitation, trade secrets, know-how, research and development, software, databases, inventions, processes, formulae, technology, designs and other intellectual property, information concerning finances, investments, profits, pricing, costs, products, services, vendors, customers, clients, partners, investors, personnel, compensation, recruiting, training, advertising, sales, marketing, promotions, government and regulatory activities and approvals – concerning the past, current or future business, activities and operations of Parent, its subsidiaries or Affiliates and/or any third party that has disclosed or provided any of same to Parent, its subsidiaries, or Affiliates on a confidential basis (" Confidential Information ") without the prior written authorization of the Board.

(ii) "Confidential Information" shall not include any information that is (a) generally known to the industry or the public other than as a result of Executive's breach of this covenant; (b) made legitimately available to Executive by a third party without breach of any confidentiality obligation of which Executive has knowledge; or (c) required by law to be disclosed; provided that with respect to subsection (c) Executive shall give prompt written notice to the Company of such requirement, disclose no more information than is so required, and reasonably cooperate with any attempts by the Company to obtain a protective order or similar treatment.

(iii) Except as required by law, Executive will not disclose to anyone, other than Executive's family (it being understood that, in this Agreement, the term "family" refers to Executive, Executive's spouse, children, parents and spouse's parents) and advisors, the existence or contents of this Agreement; provided that Executive may disclose to any prospective future employer the provisions of Sections 6 and 7 of this Agreement. This Section 7(a)(iii) shall terminate if the Company publicly discloses a copy of this Agreement (or, if the Company publicly discloses summaries or excerpts of this Agreement, to the extent so disclosed).

(iv) Upon termination of Executive's employment with the Company for any reason, Executive shall (A) cease and not thereafter commence use of any Confidential Information or intellectual property (including without limitation, any patent, invention, copyright, trade secret, trademark, trade name, logo, domain name or other source indicator) owned or used by the Company, its subsidiaries or affiliates; and (B) immediately destroy, delete, or return to the Company, at the Company's option, all originals and copies in any form or medium (including memoranda, books, papers, plans, computer files, letters and other data) in Executive's possession or control (including any of the foregoing stored or located in Executive's office, home, laptop or other computer, whether or not Company property) that contain Confidential Information, except that Executive may retain only those portions of any personal notes, notebooks and diaries that do not contain any Confidential Information.

(b) Intellectual Property .

(i) If Executive creates, invents, designs, develops, contributes to or improves any works of authorship, inventions, intellectual property, materials, documents or other work product (including without limitation, research, reports, software, databases, systems, applications, presentations, textual works, content, or audiovisual materials) (" Works "), either alone or with third parties, at any time during Executive's employment by Parent or the Company and within the scope of such employment and/or with the use of any of Parent's or the Company's resources (" Company Works "), Executive shall promptly and fully disclose same to the Company and hereby irrevocably assigns, transfers and conveys, to the maximum extent permitted by applicable law, all of Executive's right, title, and interest therein (including rights under patent, industrial property, copyright, trademark, trade secret, unfair competition, other intellectual property laws, and related laws) to the Company to the extent ownership of any such rights does not vest originally in the Company. If Executive creates any written records (in the form of notes, sketches, drawings, or any other tangible form or media) of any Company Works, Executive will keep and maintain same. The records will be available to and remain the sole property and intellectual property of the Company at all times.

(ii) Executive shall take all requested actions and execute all requested documents (including any licenses or assignments required by a government contract) at the Company's expense (but without further remuneration) to assist the Company in validating, maintaining, protecting, enforcing, perfecting, recording, patenting or registering any of the Company's rights in the Company Works.

(iii) Executive shall not improperly use for the benefit of, bring to any premises of, divulge, disclose, communicate, reveal, transfer or provide access to, or share with the Company any confidential, proprietary or non-public information or intellectual property relating to a former employer or other third party without the prior written permission of such third party. Executive shall comply with all relevant policies and guidelines of the Company that are from time to time previously disclosed to Executive, including regarding the protection of Confidential Information and intellectual property and potential conflicts of interest.

(iv) The provisions of Section 7 hereof shall survive the termination of Executive's employment for any reason (except as otherwise set forth in Section 7(a)(iv) hereof).

8. Specific Performance . Executive acknowledges and agrees that the Company's remedies at law for a breach or threatened breach of any of the provisions of Section 6 and Section 7 of this Agreement would be inadequate and the Company would suffer irreparable damages as a result of such breach or threatened breach. In recognition of this fact, Executive agrees that, in the event of such a breach or threatened breach, in addition to any remedies at law, the Company, without posting any bond, shall be entitled, in addition to any other remedy available at law or equity, to cease making any payments or providing any benefit otherwise required by this Agreement and obtain equitable relief in the form of specific performance, temporary restraining order, temporary or permanent injunction or any other equitable remedy which may then be available. In addition, upon any breach of Section 6 or any material breach of Section 7 of this Agreement, Executive shall promptly return to the Company upon request all cash payments made to Executive pursuant to Section 5 (if any), less any amounts paid by Executive as taxes in respect of such payments (unless such taxes are actually recovered by Executive from the relevant governmental authority, in which case such tax amounts also shall be returned to the Company). Any determination under this Section 8 of whether Executive is in compliance with Section 6 hereof and material compliance with Section 7 hereof shall be determined based solely on the contractual provisions provided therein and the facts and circumstances of Executive's actions without regard to whether the Company could obtain an injunction or other relief under the law of any particular jurisdiction.

9. Miscellaneous .

(a) Indemnification; Directors' and Officers' Insurance . The Company shall indemnify and hold Executive harmless for all acts and omissions occurring during his employment with the Company or service as a member of the Board to the extent provided under the Company's charter, by-laws and applicable law, and shall promptly advance to Executive or Executive's heirs or representatives all damages, costs, liabilities, losses and expenses (including reasonable attorneys' fees and expenses) (collectively, " Expenses ") as a result of any claim, demand, request, investigation, dispute, controversy, threat, discovery request or request for testimony or information (collectively, a " Claim ") or any proceeding (whether civil, criminal, administrative or investigative), or any threatened Claim or proceeding (whether civil, criminal, administrative or investigative), against Executive that arises out of or relates to Executive's service as an officer, director or employee, as the case may be, of the Company, or Executive's service in any such capacity or similar capacity with an affiliate of the Company or other entity at the request of the Company, upon receipt by the Company of a written request with appropriate documentation of such Expenses, and an undertaking by Executive to repay the amount advanced if it shall ultimately be determined that Executive is not entitled to be indemnified by the Company against such Expenses. During the Employment Term and for a term of six years thereafter, the Company, or any successor to the Company, shall purchase and maintain, at its own expense, directors and officers liability insurance providing coverage for Executive in the same amount as for members of the Board.

(b) Governing Law . This Agreement shall be governed by and construed in accordance with the laws of the State of New York, without regard to conflicts of laws principles thereof.

(c) Jurisdiction; Venue . Except as otherwise provided in Section 8 in connection with equitable remedies, each of the parties hereto hereby irrevocably submits to the exclusive jurisdiction of any federal court sitting in the Southern District of New York or any state court in the First Judicial Department over any suit, action or proceeding arising out of or relating to this Agreement and each of the parties agrees that any action relating in any way to this Agreement must be commenced only in the courts of the State of New York, federal or state. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted or not prohibited by law, any objection which it may now or hereafter have to the laying of the venue of any such suit, action or proceeding brought in such a court and any claim that any such suit, action or proceeding brought in such a court has been brought in an inconvenient forum. Each of the parties hereto hereby irrevocably consents to the service of process in any suit, action or proceeding by sending the same by certified mail, return receipt requested, or by recognized overnight courier service, to the address of such party set forth in Section 9(j).

(d) Entire Agreement; Amendments . This Agreement (including, without limitation, the schedules and exhibits attached hereto) contains the entire understanding of the parties with respect to the employment of Executive by the Company, and supersedes all prior agreements and understandings (including verbal agreements) between Executive and the Company and/or its current or former affiliates regarding the terms and conditions of Executive's employment with the Company and/or its current or former affiliates, including, without limitation, the Prior Agreement. There are no restrictions, agreements, promises, warranties, covenants or undertakings between the parties with respect to the subject matter herein other than those expressly set forth herein. This Agreement (including, without limitation, the schedules and exhibits attached hereto) may not be altered, modified, or amended except by written instrument signed by the parties hereto.

(e) No Waiver . The failure of a party to insist upon strict adherence to any term of this Agreement on any occasion shall not be considered a waiver of such party's rights or deprive such party of the right thereafter to insist upon strict adherence to that term or any other term of this Agreement.

(f) Severability . In the event that any one or more of the provisions of this Agreement shall be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions of this Agreement shall not be affected thereby.

(g) Assignment . This Agreement, and all of Executive's rights and duties hereunder, shall not be assignable or delegable by Executive. Any purported assignment or delegation by Executive in violation of the foregoing shall be null and void *ab initio* and of no force and effect. This Agreement shall be assigned by the Company to a person or entity which is a successor in interest (" Successor ") to substantially all of the business operations of the Company. Upon such assignment, the rights and obligations of the Company hereunder shall become the rights and obligations of such affiliate or successor person or entity.

(h) Set Off; No Mitigation . Executive shall not be required to mitigate the amount of any payment provided for pursuant to this Agreement by seeking other employment, and such payments shall not be reduced by any compensation or benefits received from any subsequent employer or other endeavor. Any amounts due under Section 5 of this Agreement are considered reasonable by the Company and are not in the nature of a penalty.

(i) Compliance with Code Section 409A .

(i) The intent of the parties is that payments and benefits under this Agreement comply with or be exempt from Code Section 409A and, accordingly, to the maximum extent permitted, this Agreement shall be interpreted to be in compliance therewith. If any provision of this Agreement (or of any award of compensation, including equity compensation or benefits) would cause Executive to incur any additional tax or interest under Code Section 409A, the Company shall, after consulting with and receiving the approval of Executive, reform such provision in a manner intended to avoid the incurrence by Executive of any such additional tax or interest.

(ii) A termination of employment shall not be deemed to have occurred for purposes of any provision of this Agreement providing for the payment of any amounts or benefits that are considered nonqualified deferred compensation under Code Section 409A upon or following a termination of employment unless such termination is also a "separation from service" within the meaning of Code Section 409A, and, for purposes of any such provision of this Agreement, references to a "termination," "termination of employment" or like terms shall mean "separation from service." The determination of whether and when a separation from service has occurred for proposes of this Agreement shall be made in accordance with the presumptions set forth in Section 1.409A-1(h) of the Treasury Regulations.

(iii) Any provision of this Agreement to the contrary notwithstanding, if at the time of Executive's separation from service, the Company determines that Executive is a "specified employee," within the meaning of Code Section 409A, then to the extent any payment or benefit that Executive becomes entitled to under this Agreement on account of such separation from service would be considered nonqualified deferred compensation under Code Section 409A, such payment or benefit shall be paid or provided at the date which is the earlier of (i) six (6) months and one day after such separation from service and (ii) the date of Executive's death (the " Delay Period "). Upon the expiration of the Delay Period, all payments and benefits delayed pursuant to this Section 9(i) (whether they would have otherwise been payable in a single sum or in installments in the absence of such delay) shall be paid or provided to Executive in a lump-sum, and any remaining payments and benefits due under this Agreement shall be paid or provided in accordance with the normal payment dates specified for them herein.

(iv) Any reimbursements and in-kind benefits provided under this Agreement that constitute deferred compensation within the meaning of Code Section 409A shall be made or provided in accordance with the requirements of Code Section 409A, including that (A) in no event shall any fees, expenses or other amounts eligible to be reimbursed by the Company under this Agreement be paid later than the last day of the calendar year next following the calendar year in which the applicable fees, expenses or other amounts were incurred; (B) the amount of expenses eligible for reimbursement, or in-kind benefits that the Company is obligated to pay or provide, in any given calendar year shall not affect the expenses that the Company is obligated to reimburse, or the in-kind benefits that the Company is obligated to pay or provide, in any other calendar year, provided that the foregoing clause (B) shall not be violated with regard to expenses reimbursed under any arrangement covered by Section 105(b) of the Code solely because such expenses are subject to a limit related to the period the arrangement is in effect; and (C) Executive's right to have the Company pay or provide such reimbursements and in-kind benefits may not be liquidated or exchanged for any other benefit.

(v) For purposes of Code Section 409A, Executive's right to receive any installment payments shall be treated as a right to receive a series of separate and distinct payments. Whenever a payment under this Agreement specifies a payment period with reference to a number of days (for example, "payment shall be made within thirty (30) days following the date of termination"), the actual date of payment within the specified period shall be within the sole discretion of the Company. In no event may Executive, directly or indirectly, designate the calendar year of any payment to be made under this Agreement, to the extent such payment is subject to Code Section 409A.

(j) Notice . For the purpose of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when delivered by hand or overnight courier or three days after it has been mailed by United States registered mail, return receipt requested, postage prepaid, addressed to the respective addresses set forth below in this Agreement, or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notice of change of address shall be effective only upon receipt.

If to the Company:
c/o APX Group, Inc.
4931 North 300 West
Provo, Utah 84604
Attention: General Counsel

with a copy (which shall not constitute notice) to:

The Blackstone Group
345 Park Avenue
New York, New York 10154
Attention: Peter Wallace

and

Simpson Thacher & Bartlett LLP
425 Lexington Avenue,
New York, New York 10017
Attention: Gregory T. Grogan

If to Executive:

To the most recent address of Executive set forth in the personnel records of the Company.

(k) Executive Representation . Executive hereby represents to the Company that the execution and delivery of this Agreement by Executive and the Company and the performance by Executive of Executive's duties hereunder shall not constitute a breach of the terms of any employment agreement or other agreement or written policy to which Executive is a party or otherwise bound. Executive hereby further represents that he is not subject to any restrictions on his ability to solicit, hire or engage any employee or other service-provider. Executive agrees that the Company is relying on the foregoing representations in entering into this Agreement and related equity-based award agreements.

(l) Withholding Taxes . The Company may withhold from any amounts payable under this Agreement such Federal, state and local taxes as may be required to be withheld pursuant to any applicable law or regulation.

(m) Counterparts . This Agreement may be signed in counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the day and year first above written.

APX GROUP, INC.

/s/ Patrick Kelliher

By: Patrick Kelliher
Title: Chief Accounting Officer

EXECUTIVE

/s/ Alex Dunn

Alex Dunn

Solely for the purposes of Section 1 of the Agreement:

313 ACQUISITION LLC

/s/ Dale Gerard

By: Dale Gerard
Title: Vice President of Finance and Treasurer

Exhibit I

RELEASE AND WAIVER OF CLAIMS

This Release and Waiver of Claims (" Release ") is entered into and delivered to 313 Acquisition LLC (the " Company ") as of this [●] day of _____, 201[_], by Alex Dunn (the " Executive "). The Executive agrees as follows:

1. The employment relationship between the Executive and the Company and its subsidiaries and affiliates, as applicable, terminated on the [●] day of _____, 201[_] (the " Termination Date ") pursuant to Section [__] of the Employment Agreement between the Company and Executive dated August 7, 2014 (" Employment Agreement ").

2. In consideration of the payments, rights and benefits provided for in Sections 5(d)(ii)(B) and 5(d)(ii)(C) of the Employment Agreement (collectively, as applicable, the " Separation Terms ") and this Release, the sufficiency of which the Executive hereby acknowledges, the Executive, on behalf of himself and his agents, representatives, attorneys, administrators, heirs, executors and assigns (collectively, the " Employee Releasing Parties "), hereby releases and forever discharges the Company Released Parties (as defined below), from all claims, charges, causes of action, obligations, expenses, damages of any kind (including attorneys fees and costs actually incurred) or demands, in law or in equity, whether known or unknown, which may have existed or which may now exist from the beginning of time to the date of this Release, arising from or relating to Executive's employment or termination from employment with the Company or otherwise, including a release of any rights or claims the Executive may have under Title VII of the Civil Rights Act of 1964; the Civil Rights Act of 1991; the Age Discrimination in Employment Act of 1967, as amended (" ADEA "); the Older Workers Benefit Protection Act; the Americans with Disabilities Act of 1990; the Rehabilitation Act of 1973; the Family and Medical Leave Act of 1993; Section 1981 of the Civil Rights Act of 1866; Section 1985(3) of the Civil Rights Act of 1871; the Employee Retirement Income Security Act of 1974; the Fair Labor Standards Act; any other federal, state or local laws against discrimination; or any other federal, state, or local statute, regulation or common law relating to employment, wages, hours, or any other terms and conditions of employment. This includes a release by the Executive of any and all claims or rights arising under contract (whether written or oral, express or implied), covenant, public policy, tort or otherwise. For purposes hereof, "Company Released Parties" shall mean the Company and any of its past or present employees, agents, insurers, attorneys, administrators, officials, directors, shareholders, divisions, parents, members, subsidiaries, affiliates, predecessors, successors, employee benefit plans, and the sponsors, fiduciaries, or administrators of the Company's employee benefit plans.

3. The Executive acknowledges that the Executive is waiving and releasing rights that the Executive may have under the ADEA and other federal, state and local statutes contract and the common law and that this Release is knowing and voluntary. The Executive and the Company agree that this Release does not apply to any rights or claims that may arise after the date of execution by Executive of this Release. The Executive acknowledges that the consideration given for this Release is in addition to anything of value to which the Executive is already entitled. The Executive further acknowledges that the Executive has been advised by this writing that: (i) the Executive should consult with an attorney prior to executing this Release; (ii) the Executive has up to twenty-one (21) days within which to consider this Release, although the Executive may, at the Executive's discretion, sign and return this Release at an earlier time, in which case the Executive waives all rights to the balance of this twenty-one (21) day review period; and (iii) for a period of 7 days following the execution of this Release in duplicate originals, the Executive may revoke this Release in a writing delivered to the Chairman of the Board of Directors of the Company, and this Release shall not become effective or enforceable until the revocation period has expired.

4. This Release does not release the Company Released Parties from (i) any obligations due to the Executive under the Separation Terms, (ii) any rights Executive has to indemnification by the Company and to directors and officers liability insurance coverage, (iii) any vested rights the Executive has under the Company's employee pension benefit and group healthcare benefit plans as a result of Executive's actual service with the Company, (iv) any fully vested and nonforfeitable rights of the Executive as a shareholder or member of the Company or its affiliates, (v) any rights of the Executive pursuant to any equity or incentive award agreement with the Company, or (vi) any rights which cannot be waived by an employee under applicable law .

5. The Executive represents and warrants that he has not filed any action, complaint, charge, grievance, arbitration or similar proceeding against the Company Released Parties .

6. This Release is not an admission by the Company Released Parties or the Employee Releasing Parties of any wrongdoing, liability or violation of law.

7. The Executive shall continue to be bound by the restrictive covenants contained in the Employment Agreement.

8. This Release shall be governed by and construed in accordance with the laws of the State of New York, without reference to the principles of conflict of laws.

9. Each of the sections contained in this Release shall be enforceable independently of every other section in this Release, and the invalidity or unenforceability of any section shall not invalidate or render unenforceable any other section contained in this Release.

10. **The Executive acknowledges that the Executive has carefully read and understands this Release, that the Executive has the right to consult an attorney with respect to its provisions and that this Release has been entered into knowingly and voluntarily. The Executive acknowledges that no representation, statement, promise, inducement, threat or suggestion has been made by any of the Company Released Parties to influence the Executive to sign this Release except such statements as are expressly set forth herein or in the Employment Agreement.**

Executive has executed this Release as of the day and year first written above.

EXECUTIVE

Alex Dunn

Exhibit 10.2

EMPLOYMENT AGREEMENT
(Todd Pedersen)

EMPLOYMENT AGREEMENT (the " Agreement ") dated August 7, 2014 by and between APX Group, Inc., a Delaware corporation (the " Company ") and Todd Pedersen (" Executive ").

WHEREAS, the Company is an indirect, wholly owned subsidiary of 313 Acquisition, LLC, a Delaware limited liability company (" Parent ");

WHEREAS, the Executive and Parent entered into an Employment Agreement dated as of November 16, 2012 (the " Prior Agreement "), pursuant to which the Executive serves as an employee of the Company and/or one or more of its subsidiaries;

WHEREAS, the Company desires to assume all existing obligations of Parent under the Prior Agreement, and for one or more of its subsidiaries to continue to employ Executive and Executive desires to continue to be employed in such capacities, on the terms set forth in this Agreement as of the date hereof; and

WHEREAS, Parent, the Company and Executive desire to enter into this Agreement embodying the terms of such employment which shall, effective as of the date hereof, replace and supersede the Prior Agreement;

NOW, THEREFORE, in consideration of the premises and mutual covenants herein and for other good and valuable consideration, the parties agree as follows:

1. Term of Employment . Subject to the provisions of Section 5 of this Agreement, Executive shall continue to be employed by the Company and/or one or more of its subsidiaries through on November 16, 2017 (the " Employment Term ") on the terms and subject to the conditions set forth in this Agreement; provided , however , the Employment Term shall be automatically extended for an additional one-year period commencing on November 16, 2017 and, thereafter, on each such successive anniversary thereafter (each an " Extension Date "), unless the Company or Executive provides the other party hereto at least 90 days prior written notice before the next Extension Date that the Employment Term shall not be so extended. Parent hereby assigns to the Company, and the Company hereby assumes, all existing obligations of Parent under the Prior Agreement.

2. Position, Duties and Authority .

(a) During the Employment Term, Executive shall serve as the Company's Chief Executive Officer. In such position, Executive shall have such duties, functions, responsibilities and authority as shall be determined from time to time by the Board of Directors of the Company (the " Board ") and be consistent with the duties, functions, responsibilities and authority of an individual in Executive's position at a portfolio company of a private equity firm. Executive shall report directly to the Board. If requested by the Board, Executive shall also serve as a member of the Board without additional compensation.

(b) Executive will devote substantially all of Executive's business time and reasonable best efforts to the operation and oversight of the Company's businesses and performance of Executive's duties hereunder (excluding periods of vacation and sick leave) and will not engage in any other business activities that could conflict with his duties or services to the Company; provided that nothing herein shall preclude Executive, subject to obtaining consent of the Board (not to be unreasonably withheld), from (i) accepting appointment to or continuing to serve on any board of directors or trustees of any business corporation, and (ii) serving as an officer or director or otherwise participating in non-profit educational, welfare, social, religious and civil organizations. The parties agree that consent shall be deemed obtained with respect to Executive's service on the board of directors Intermountain Health Care.

3. Compensation .

(a) Base Salary . During the Employment Term, the Company shall pay Executive a base salary (" Base Salary ") at the annual rate of $500,000, payable in regular installments in accordance with the Company's usual payment practices. Executive's Base Salary shall be subject to annual review and subject to increase, if any, as may be determined from time to time in the sole discretion of the Board, but in no event shall the Company be entitled to reduce Executive's Base Salary.

(b) Annual Bonus . During the Employment Term, Executive shall be eligible to earn an annual bonus award (an " Annual Bonus ") with a target amount equal to 100% of Executive's Base Salary at the end of the performance period (the " Annual Target Bonus "). Each Annual Bonus shall be determined based on the achievement of performance objectives and targets (including the level of achievement required for Executive to earn the threshold, target and high performance objectives) established by the Board for the applicable year, as set forth below.

% Attainment of Performance Targets	**Multiple of Base Salary**
Less than 90%	0
90%	0.5x
100%	1.0x
110%	2.0x
130% or greater	2.5x

To the extent actual performance falls between the levels of attainment set forth above, the actual Annual Bonus shall be calculated using straight line interpolation between such levels. For the avoidance of doubt, in no event will the actual Annual Bonus payable in respect of any performance period be greater than 2.5x the Base Salary at the end of the applicable performance period. The Annual Bonus, if any, shall be paid to Executive within two and one-half months after the end of the applicable fiscal year. Except as provided in Section 5, no Annual Bonus shall be payable in respect of any fiscal year in which Executive's employment is terminated.

4. Benefits .

(a) General . During the Employment Term, Executive shall be entitled to participate in the Company's employee benefit, fringe and perquisite plans, practices, policies and arrangements as in effect from time to time (collectively, " Employee Benefits "), on generally the same terms and conditions as each of the Employee Benefits are made available to other senior executives of the Company (other than with respect to annual bonuses, incentive plans and severance plans (as well as any other terms and conditions specifically determined under this Agreement), the benefits for each which shall be determined instead in accordance with this Agreement); provided that Executive shall be entitled to no less than four (4) weeks' vacation per calendar year.

(b) Reimbursement of Business Expenses . During the Employment Term, the Company shall reimburse Executive for reasonable and necessary business expenses incurred by Executive in the performance of Executive's duties hereunder in accordance with its then prevailing policy for senior executives (which shall include appropriate itemization and substantiation of expenses incurred).

(c) Fringe Benefits . Executive shall be entitled to reasonable access, for personal use, to the Company's airplane. All personal use shall be subject to reimbursement by Executive of amounts determined under a reasonable cost allocation methodology consistent with IRS guidelines to avoid imputed income to Executive, and the Company shall pay Executive $300,000 per year in monthly installments in arrears, subject to all applicable taxes and withholdings, for the purpose of reimbursing the Company for the costs to Executive of any such personal use. The Company shall engage a financial advisor to provide customary financial advice to Executive and to manage Executive's personal investments, provided that the annual compensation to such advisor to provide such services to Executive and the Company's President, in the aggregate, shall not exceed $250,000 annually.

5. Termination .

(a) The Employment Term and Executive's employment hereunder may be terminated by either party at any time and for any reason, subject to the notice and cure provisions set forth below. Notwithstanding any other provision of this Agreement, the provisions of this Section 5 shall exclusively govern Executive's rights upon termination of employment with the Company and its affiliates.

(b) By the Company for Cause or by Executive other than as a result of Good Reason.

(i) The Employment Term and Executive's employment hereunder may be terminated by the Company for Cause and shall terminate automatically upon the effective date of Executive's resignation other than as a result of Good Reason (as defined in Section 5(d)(i)).

(ii) *Definition of Cause* . For purposes of this Agreement, "Cause" shall mean (A) Executive's continued failure substantially to perform Executive's employment duties (other than as a result of total or partial incapacity due to physical or mental illness) for a period of 10 days following written notice by the Company to Executive of such failure, (B) dishonesty in the performance of Executive's employment duties that is materially injurious to the Company, (C) an act or acts on Executive's part constituting (x) a felony charge under the laws of the United States or any state thereof or (y) a misdemeanor charge involving moral turpitude, (D) Executive's willful malfeasance or willful misconduct in connection with Executive's employment duties which causes substantial injury to the financial condition or business reputation of the Company or any of its subsidiaries or affiliates or (E) the Executive's material breach of any of the covenants set forth in Section 6 (other than any action taken in good faith and in a manner not opposed to the best interests of the Company, and which is promptly remedied by Executive upon notice by the Board); provided that none of the foregoing events shall constitute Cause unless Executive fails to cure such event and remedy any adverse or injurious consequences arising from such events within 30 days after receipt from the Company of written notice of the event which constitutes Cause (except that no cure or remedy period shall be provided if the event or such consequences are not capable of being cured and remedied).

(iii) If Executive's employment is terminated by the Company for Cause, Executive shall be entitled to receive:

(A) no later than 10 days following the date of termination, the Base Salary through the date of termination;

(B) any Annual Bonus earned, but unpaid, as of the date of termination for the immediately preceding fiscal year, paid in accordance with Section 3(b) (except to the extent payment is otherwise deferred pursuant to any applicable deferred compensation arrangement with the Company, in which case such payment shall be made in accordance with the terms and conditions of such deferred compensation arrangement);

(C) reimbursement, within 60 days following receipt by the Company of Executive's claim for such reimbursement (including appropriate supporting documentation), for any unreimbursed business expenses properly incurred by Executive in accordance with Company policy prior to Executive's termination; provided that such claims for such reimbursement are submitted to the Company within 90 days following the date of Executive's termination of employment; and

(D) such Employee Benefits, if any, as to which Executive may be entitled under the tax qualified employee benefit plans of the Company, payable in accordance with the terms and conditions of such tax qualified employee benefit plans (the amounts described in clauses (A) through (D) hereof being referred to as the " Accrued Rights ").

For the avoidance of doubt, in any legal proceeding to determine whether grounds for Cause existed on any date that the Company took action on the basis of the existence of Cause, the Company shall bear the burden of demonstrating grounds for Cause existed on such date.

Following such termination of Executive's employment by the Company for Cause, except as set forth in this Section 5(b)(iii), Executive shall have no further rights to any compensation or any other benefits under this Agreement.

(iv) If Executive resigns other than as a result of Good Reason, provided that Executive will be required to give the Company at least 60 days advance written notice of any resignation of Executive's employment (other than as a result of Good Reason), Executive shall be entitled to receive the Accrued Rights. Following such resignation by Executive other than as a result of Good Reason, except as set forth in this Section 5(b)(iv), Executive shall have no further rights to any compensation or any other benefits under this Agreement.

(c) Disability or Death .

(i) *Disability*. During any period that Executive fails to perform his duties hereunder as a result of incapacity due to physical or mental illness or injury (the " Disability Period "), Executive shall continue to receive his full Base Salary set forth in Section 3(a) until his employment is terminated pursuant to Section 5(a). For purposes of this Agreement, " Disability " shall mean Executive's inability to perform, with or without reasonable accommodation, Executive's duties under this Agreement due to a physical or mental illness or injury for a period of six consecutive months or for an aggregate of 12 months in any consecutive 24-month period. Any question as to the existence of the Disability of Executive as to which Executive and the Company cannot agree shall be determined in writing by a qualified independent physician mutually acceptable to Executive and the Company. If Executive and the Company cannot agree as to a qualified independent physician, each shall appoint such a physician and those two physicians shall select a third physician who shall make such determination in writing. The determination of Disability made in writing to the Company and Executive shall be final and conclusive for all purposes of this Agreement.

(ii) Upon termination of Executive's employment hereunder for either Disability or death, Executive or Executive's estate, survivors or beneficiaries (as the case may be) shall be entitled to receive:

(A) the Accrued Rights;

(B) no later than 10 days following the date of termination, a pro rata portion of the Annual Target Bonus payable for the fiscal year in which such termination occurs, based on a fraction, the numerator of which is the number of days during the fiscal year up to and including the date of termination of Executive's employment and the denominator of which is the number of days in such fiscal year (the " Pro-Rated Bonus ");

(C) a cash payment representing the COBRA costs of providing health and welfare benefits for Executive and Executive's dependents under the plans in which Executive was participating on the date of the applicable "COBRA qualifying event" for two years (the " COBRA Payment "); and

(D) death or disability benefits under any applicable plans and programs of the Company in accordance with the terms and provisions of such plans and programs.

(d) By the Company Without Cause or Resignation by Executive as a Result of Good Reason.

(i) " Good Reason " shall be deemed to exist upon the occurrence of (A) a material reduction in Executive's base salary; (B) a material diminution in Executive's title or Executive's duties, authority and responsibilities measured in the aggregate; (C) the relocation of Executive's primary office location to a location that is more than 75 miles from Executive's primary office location, in each case without Executive's prior written consent; (D) the Company's material breach of any of the provisions of this Agreement; or (E) notwithstanding the provisions of the Securityholders Agreement, as of November 16, 2012 by and among Parent and the signatories thereto, Executive's removal from the Board by the Board of Parent or its stockholders; provided that none of the foregoing events shall constitute Good Reason unless the Company fails to cure such event within 30 days after receipt from Executive of written notice of the event which constitutes Good Reason; and provided , further , that "Good Reason" shall cease to exist for an event on the 60th day following the later of its occurrence or Executive's knowledge thereof, unless Executive has given the Company written notice thereof prior to such date.

(ii) If Executive's employment is terminated by the Company without Cause (other than by reason of death or Disability) or Executive resigns as a result of Good Reason, Executive shall be entitled to receive:

(A) the Accrued Rights;

(B) the Pro-Rated Bonus;

(C) subject to Executive's continued compliance with Section 6 and material compliance with Section 7 hereof, and the execution and non-revocation of the Release (as defined below), a lump-sum cash payment within 55 days after such termination and effectiveness of the Release equal to the sum of (x) 200% of Executive's Base Salary as of the date immediately prior to Executive's termination of employment and (y) 200% of the actual Annual Bonus paid in respect of the immediately preceding fiscal year (or, if such termination occurs prior to the first date on which an Annual Bonus would have been paid had any payment been due, the Target Annual Bonus for the immediately preceding fiscal year), and (z) the COBRA Payment.

(e) Release . Amounts payable to Executive under Sections 5(d)(ii)(B) and 5(d)(ii)(C) (collectively, the " Conditioned Benefits ") are subject to (i) Executive's execution and non-revocation of a release of claims, substantially in the form attached hereto as Exhibit I (the " Release "), within 60 days of the date of termination and (ii) the expiration of any revocation period contained in such Release. Further, to the extent that any of the Conditioned Benefits constitutes "nonqualified deferred compensation" for purposes of Section 409A of the Internal Revenue Code of 1986, as amended (the " Code "), any payment of any amount or provision of any benefit otherwise scheduled to occur prior to the sixtieth (60 th) day following the date of Executive's termination of employment hereunder, but for the condition on executing the Release as set forth herein, shall not be made until the first regularly scheduled payroll date following such sixtieth (60 th) day, after which any remaining Conditioned Benefits shall thereafter be provided to Executive according to the applicable schedule set forth herein.

(f) Expiration of Employment Term . Unless the parties otherwise agree in writing, continuation of Executive's employment with the Company following the expiration of the Employment Term shall be deemed an employment at-will and shall not be deemed to extend any of the provisions of this Agreement and Executive's employment may thereafter be terminated at will by either Executive or the Company; provided that the provisions of Sections 6, 7 and 8 of this Agreement shall survive any termination of this Agreement or Executive's termination of employment hereunder.

(g) Notice of Termination; Board/Committee Resignation . Any purported termination of employment by the Company or by Executive (other than due to Executive's death) pursuant to Section 5 of this Agreement shall be communicated by written Notice of Termination to the other party hereto. For purposes of this Agreement, a "Notice of Termination" shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of employment under the provision so indicated. Upon termination of Executive's employment for any reason, Executive agrees to resign, as of the date of such termination and to the extent applicable, from the Board (and any committees thereof) and the Board of Directors (and any committees thereof) of any of the Company's affiliates (except to the extent Executive is otherwise entitled pursuant to a separate contractual arrangement to continue to serve as a member of the Board).

6. Non-Competition; Non-Solicitation . Executive acknowledges and recognizes the highly competitive nature of the businesses of the Company and its affiliates and accordingly agrees as follows:

(a) Non-Competition .

(i) During Executive's employment hereunder and, for a period of two years following the date Executive ceases to be employed by the Company (the " Restricted Period "), Executive will not, whether on Executive's own behalf or on behalf of or in conjunction with any person, firm, partnership, joint venture, association, corporation or other business organization, entity or enterprise whatsoever (" Person "), directly or indirectly, solicit or assist in soliciting in competition with the Restricted Group in the Business, the business of any then current or prospective client or customer with whom Executive (or Executive's direct reports) had personal contact or dealings on behalf of the Company during the one-year period preceding Executive's termination of employment.

(ii) During the Restricted Period, Executive will not directly or indirectly:

(A) engage in the Business anywhere in the United States, or in any geographical area that is within 100 miles of any geographical area where the Restricted Group engages in the Business, including, for the avoidance of doubt, by entering into the employment of or rending any services to a Core Competitor, except where such employment or services do not relate in any manner to the Business;

(B) acquire a financial interest in, or otherwise become actively involved with, any Person engaged in the Business, directly or indirectly, as an individual, partner, shareholder, officer, director, principal, agent, trustee or consultant; or

(C) intentionally and adversely interfere with, or attempt to adversely interfere with, business relationships between the members of the Restricted Group and any of their clients, customers, suppliers, partners, members or investors.

(iii) Notwithstanding anything to the contrary in this Agreement, Executive may, directly or indirectly own, solely as an investment, securities of any Person engaged in a Business (including, without limitation, a Core Competitor) which are publicly traded on a national or regional stock exchange or on the over-the-counter market if Executive (i) is not a controlling person of, or a member of a group which controls, such person and (ii) does not, directly or indirectly, own 2% or more of any class of securities of such Person.

(b) Non-Solicitation . During Executive's employment hereunder and the Restricted Period, Executive will not, whether on Executive's own behalf or on behalf of or in conjunction with any Person, directly or indirectly:

(i) solicit or encourage any employee of the Restricted Group to leave the employment of the Restricted Group;

(ii) hire any executive-level employee who was employed by the Restricted Group as of the date of Executive's termination of employment with the Company or who left the employment of the Restricted Group coincident with, or within one year prior to or one year after, the date of Executive's termination of employment with the Company; or

(iii) encourage any material consultant of the Restricted Group to cease working with the Restricted Group.

(iv) For purposes of this Agreement:

(A) "Restricted Group" shall mean, collectively, Parent, the Company and their respective subsidiaries and, to the extent engaged in the Business, their respective Affiliates (including The Blackstone Group L.P. and its Affiliates).

(B) "Business" shall mean (1) origination, installation, or monitoring services related to residential or commercial security, life-safety, energy management or home automation services, (2) installation or servicing of residential or commercial solar panels or sale of electricity generated by solar panels, (3) design, engineering or manufacturing of technology or products related to residential or commercial security, life-safety, energy management or home automation services and/or (4) provision of wireless voice or data services, including internet, into the home.

(C) "Core Competitor" shall mean ADT Home Security/Broadview Security, Protection 1, Inc., Protect America, Inc., Stanley Security Solutions, Inc., Vector Security, Inc., Slomins, Inc., Monitronics International, Inc., Life Alert, Comcast Corporation, Time Warner Inc., AT&T Inc., Verizon Communications, Inc., DISH Network Corp., DIRECTV, Pinnacle and each of their respective Affiliates, and Sungevity, Inc., RPS, Sunrun Inc., Solar City, Clean Power Finance, SunPower Corporation, Corbin Solar Solutions LLC, Galkos Construction, Inc., and any of their respective current or future dealers.

(c) During the Restricted Period, Executive agrees not to make, or cause any other person to make, any communication that is intended to criticize or disparage, or has the effect of criticizing or disparaging, Parent or any of its affiliates, agents or advisors (or any of its or their respective employees, officers or directors (it being understood that comments made in Executive's good faith performance of his duties hereunder shall not be deemed disparaging or defamatory for purposes of this Agreement). During the Restricted Period, the Company shall instruct its executive officers and directors to refrain from intentionally making any public communication outside the ordinary course of such person's business that is intended to criticize or disparage, or has the effect of criticizing or disparaging, Executive. Nothing set forth herein shall be interpreted to prohibit either party from responding truthfully to incorrect public statements, making truthful statements when required by law, subpoena or court order and/or from responding to any inquiry by any regulatory or investigatory organization.

(d) It is expressly understood and agreed that although Executive and the Company consider the restrictions contained in this Section 6 to be reasonable, if a final judicial determination is made by a court of competent jurisdiction that the time or territory or any other restriction contained in this Section 6 is an unenforceable restriction against Executive, the provisions of this Agreement shall not be rendered void but shall be deemed amended to apply as to such maximum time and territory and to such maximum extent as such court may judicially determine or indicate to be enforceable. Alternatively, if any court of competent jurisdiction finds that any restriction contained in this Section 6 is unenforceable, and such restriction cannot be amended so as to make it enforceable, such finding shall not affect the enforceability of any of the other restrictions contained herein

(e) The period of time during which the provisions of this Section 6 shall be in effect shall be extended by the length of time during which Executive is in breach of the terms hereof as determined by any court of competent jurisdiction on the Company's application for injunctive relief.

(f) The provisions of this Section 6 shall survive the termination of Executive's employment for any reason, including but not limited to, any termination other than for Cause.

7. Confidentiality; Intellectual Property .

(a) Confidentiality .

(i) Executive will not at any time (whether during or after Executive's employment with the Company), (x) retain or use for the benefit, purposes or account of Executive or any other Person; or (y) disclose, divulge, reveal, communicate, share, transfer or provide access to any Person outside the Company (other than Executive's professional advisers who are bound by confidentiality obligations or otherwise in performance of Executive's duties under Executive's employment and pursuant to customary industry practice), any non-public, proprietary or confidential information – including, without limitation, trade secrets, know-how, research and development, software, databases, inventions, processes, formulae, technology, designs and other intellectual property, information concerning finances, investments, profits, pricing, costs, products, services, vendors, customers, clients, partners, investors, personnel, compensation, recruiting, training, advertising, sales, marketing, promotions, government and regulatory activities and approvals – concerning the past, current or future business, activities and operations of Parent, its subsidiaries or Affiliates and/or any third party that has disclosed or provided any of same to Parent, its subsidiaries or Affiliates on a confidential basis (" Confidential Information ") without the prior written authorization of the Board.

(ii) "Confidential Information" shall not include any information that is (a) generally known to the industry or the public other than as a result of Executive's breach of this covenant; (b) made legitimately available to Executive by a third party without breach of any confidentiality obligation of which Executive has knowledge; or (c) required by law to be disclosed; provided that with respect to subsection (c) Executive shall give prompt written notice to the Company of such requirement, disclose no more information than is so required, and reasonably cooperate with any attempts by the Company to obtain a protective order or similar treatment.

(iii) Except as required by law, Executive will not disclose to anyone, other than Executive's family (it being understood that, in this Agreement, the term "family" refers to Executive, Executive's spouse, children, parents and spouse's parents) and advisors, the existence or contents of this Agreement; provided that Executive may disclose to any prospective future employer the provisions of Sections 6 and 7 of this Agreement. This Section 7(a)(iii) shall terminate if the Company publicly discloses a copy of this Agreement (or, if the Company publicly discloses summaries or excerpts of this Agreement, to the extent so disclosed).

(iv) Upon termination of Executive's employment with the Company for any reason, Executive shall (A) cease and not thereafter commence use of any Confidential Information or intellectual property (including without limitation, any patent, invention, copyright, trade secret, trademark, trade name, logo, domain name or other source indicator) owned or used by the Company, its subsidiaries or affiliates; and (B) immediately destroy, delete, or return to the Company, at the Company's option, all originals and copies in any form or medium (including memoranda, books, papers, plans, computer files, letters and other data) in Executive's possession or control (including any of the foregoing stored or located in Executive's office, home, laptop or other computer, whether or not Company property) that contain Confidential Information, except that Executive may retain only those portions of any personal notes, notebooks and diaries that do not contain any Confidential Information.

(b) Intellectual Property .

(i) If Executive creates, invents, designs, develops, contributes to or improves any works of authorship, inventions, intellectual property, materials, documents or other work product (including without limitation, research, reports, software, databases, systems, applications, presentations, textual works, content, or audiovisual materials) (" Works "), either alone or with third parties, at any time during Executive's employment by Parent or the Company and within the scope of such employment and/or with the use of any of Parent's or the Company's resources (" Company Works "), Executive shall promptly and fully disclose same to the Company and hereby irrevocably assigns, transfers and conveys, to the maximum extent permitted by applicable law, all of Executive's right, title, and interest therein (including rights under patent, industrial property, copyright, trademark, trade secret, unfair competition, other intellectual property laws, and related laws) to the Company to the extent ownership of any such rights does not vest originally in the Company. If Executive creates any written records (in the form of notes, sketches, drawings, or any other tangible form or media) of any Company Works, Executive will keep and maintain same. The records will be available to and remain the sole property and intellectual property of the Company at all times.

(ii) Executive hereby irrevocably assigns, transfers and conveys to the Company all of his right, title and interest in (including rights under patent, industrial property, copyright, trademark, trade secret, unfair competition, other intellectual property laws, and related laws) any Works created, invented, designed, developed, contributed to or improved by Executive, either alone or with third parties at any time on or prior to November 16, 2012 to the extent such Works are (A) used in or relate to the past, present or future businesses of the Company and/or (B) associated with wireless data or voice products or services, including any high-speed wireless internet projects, products or services (all of the foregoing, collectively, " Prior Works "). It is expressly understood and agreed that although Executive and the Company consider this Agreement to be valuable and sufficient consideration for the above assignments, if a final judicial determination is made by a court of competent jurisdiction that (A) any such assignment is unenforceable against Executive, the provisions of this Section 7 shall not be rendered void but shall be deemed amended to apply as to such maximum assignment of rights as such court may judicially determine or indicate to be enforceable, or (B) any Work or any aspect thereof cannot be so assigned, Executive hereby grants to the Company a worldwide, fully paid-up, royalty-free, perpetual, irrevocable, transferable and sublicensable license to use such Work in connection with the past, present and future businesses of the Company.

(iii) Executive shall take all requested actions and execute all requested documents (including any licenses or assignments required by a government contract) at the Company's expense (but without further remuneration) to assist the Company in validating, maintaining, protecting, enforcing, perfecting, recording, patenting or registering any of the Company's rights in the Company Works and the Prior Works. If Executive is unwilling or unable for any reason to sign any document for this purpose, then Executive hereby irrevocably designates and appoints the Company and its duly authorized officers and agents as Executive's agent and attorney in fact, such appointment to be a right coupled with an interest and non-revocable, to act for and on Executive's behalf and stead to execute any documents and to do all other lawfully permitted acts in connection with the foregoing.

(iv) Executive shall not improperly use for the benefit of, bring to any premises of, divulge, disclose, communicate, reveal, transfer or provide access to, or share with the Company any confidential, proprietary or non-public information or intellectual property relating to a former employer or other third party without the prior written permission of such third party. Executive shall comply with all relevant policies and guidelines of the Company that are from time to time previously disclosed to Executive, including regarding the protection of Confidential Information and intellectual property and potential conflicts of interest.

(v) The provisions of Section 7 hereof shall survive the termination of Executive's employment for any reason (except as otherwise set forth in Section 7(a)(iv) hereof).

8. Specific Performance . Executive acknowledges and agrees that the Company's remedies at law for a breach or threatened breach of any of the provisions of Section 6 and Section 7 of this Agreement would be inadequate and the Company would suffer irreparable damages as a result of such breach or threatened breach. In recognition of this fact, Executive agrees that, in the event of such a breach or threatened breach, in addition to any remedies at law, the Company, without posting any bond, shall be entitled, in addition to any other remedy available at law or equity, to cease making any payments or providing any benefit otherwise required by this Agreement and obtain equitable relief in the form of specific performance, temporary restraining order, temporary or permanent injunction or any other equitable remedy which may then be available. In addition, upon any breach of Section 6 or any material breach of Section 7 of this Agreement, Executive shall promptly return to the Company upon request all cash payments made to Executive pursuant to Section 5 (if any), less any amounts paid by Executive as taxes in respect of such payments (unless such taxes are actually recovered by Executive from the relevant governmental authority, in which case such tax amounts also shall be returned to the Company). Any determination under this Section 8 of whether Executive is in compliance with Section 6 hereof and material compliance with Section 7 hereof shall be determined based solely on the contractual provisions provided therein and the facts and circumstances of Executive's actions without regard to whether the Company could obtain an injunction or other relief under the law of any particular jurisdiction.

9. Miscellaneous .

(a) Indemnification; Directors' and Officers' Insurance . The Company shall indemnify and hold Executive harmless for all acts and omissions occurring during his employment with the Company or service as a member of the Board to the extent provided under the Company's charter, by-laws and applicable law, and shall promptly advance to Executive or Executive's heirs or representatives all damages, costs, liabilities, losses and expenses (including reasonable attorneys' fees and expenses) (collectively, " Expenses ") as a result of any claim, demand, request, investigation, dispute, controversy, threat, discovery request or request for testimony or information (collectively, a " Claim ") or any proceeding (whether civil, criminal, administrative or investigative), or any threatened Claim or proceeding (whether civil, criminal, administrative or investigative), against Executive that arises out of or relates to Executive's service as an officer, director or employee, as the case may be, of the Company, or Executive's service in any such capacity or similar capacity with an affiliate of the Company or other entity at the request of the Company, upon receipt by the Company of a written request with appropriate documentation of such Expenses, and an undertaking by Executive to repay the amount advanced if it shall ultimately be determined that Executive is not entitled to be indemnified by the Company against such Expenses. During the Employment Term and for a term of six years thereafter, the Company, or any successor to the Company, shall purchase and maintain, at its own expense, directors and officers liability insurance providing coverage for Executive in the same amount as for members of the Board.

(b) Governing Law . This Agreement shall be governed by and construed in accordance with the laws of the State of New York, without regard to conflicts of laws principles thereof.

(c) Jurisdiction; Venue . Except as otherwise provided in Section 8 in connection with equitable remedies, each of the parties hereto hereby irrevocably submits to the exclusive jurisdiction of any federal court sitting in the Southern District of New York or any state court in the First Judicial Department over any suit, action or proceeding arising out of or relating to this Agreement and each of the parties agrees that any action relating in any way to this Agreement must be commenced only in the courts of the State of New York, federal or state. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted or not prohibited by law, any objection which it may now or hereafter have to the laying of the venue of any such suit, action or proceeding brought in such a court and any claim that any such suit, action or proceeding brought in such a court has been brought in an inconvenient forum. Each of the parties hereto hereby irrevocably consents to the service of process in any suit, action or proceeding by sending the same by certified mail, return receipt requested, or by recognized overnight courier service, to the address of such party set forth in Section 9(j).

(d) Entire Agreement; Amendments . This Agreement (including, without limitation, the schedules and exhibits attached hereto) contains the entire understanding of the parties with respect to the employment of Executive by the Company, and supersedes all prior agreements and understandings (including verbal agreements) between Executive and the Company and/or its current or former affiliates regarding the terms and conditions of Executive's employment with the Company and/or its current or former affiliates, including, without limitation, the Prior Agreement. There are no restrictions, agreements, promises, warranties, covenants or undertakings between the parties with respect to the subject matter herein other than those expressly set forth herein. This Agreement (including, without limitation, the schedules and exhibits attached hereto) may not be altered, modified, or amended except by written instrument signed by the parties hereto.

(e) No Waiver . The failure of a party to insist upon strict adherence to any term of this Agreement on any occasion shall not be considered a waiver of such party's rights or deprive such party of the right thereafter to insist upon strict adherence to that term or any other term of this Agreement.

(f) Severability . In the event that any one or more of the provisions of this Agreement shall be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions of this Agreement shall not be affected thereby.

(g) Assignment . This Agreement, and all of Executive's rights and duties hereunder, shall not be assignable or delegable by Executive. Any purported assignment or delegation by Executive in violation of the foregoing shall be null and void *ab initio* and of no force and effect. This Agreement shall be assigned by the Company to a person or entity which is a successor in interest (" Successor ") to substantially all of the business operations of the Company. Upon such assignment, the rights and obligations of the Company hereunder shall become the rights and obligations of such affiliate or successor person or entity.

(h) Set Off; No Mitigation . Executive shall not be required to mitigate the amount of any payment provided for pursuant to this Agreement by seeking other employment, and such payments shall not be reduced by any compensation or benefits received from any subsequent employer or other endeavor. Any amounts due under Section 5 of this Agreement are considered reasonable by the Company and are not in the nature of a penalty.

(i) Compliance with Code Section 409A .

(i) The intent of the parties is that payments and benefits under this Agreement comply with or be exempt from Code Section 409A and, accordingly, to the maximum extent permitted, this Agreement shall be interpreted to be in compliance therewith. If any provision of this Agreement (or of any award of compensation, including equity compensation or benefits) would cause Executive to incur any additional tax or interest under Code Section 409A, the Company shall, after consulting with and receiving the approval of Executive, reform such provision in a manner intended to avoid the incurrence by Executive of any such additional tax or interest.

(ii) A termination of employment shall not be deemed to have occurred for purposes of any provision of this Agreement providing for the payment of any amounts or benefits that are considered nonqualified deferred compensation under Code Section 409A upon or following a termination of employment unless such termination is also a "separation from service" within the meaning of Code Section 409A, and, for purposes of any such provision of this Agreement, references to a "termination," "termination of employment" or like terms shall mean "separation from service." The determination of whether and when a separation from service has occurred for proposes of this Agreement shall be made in accordance with the presumptions set forth in Section 1.409A-1(h) of the Treasury Regulations.

(iii) Any provision of this Agreement to the contrary notwithstanding, if at the time of Executive's separation from service, the Company determines that Executive is a "specified employee," within the meaning of Code Section 409A, then to the extent any payment or benefit that Executive becomes entitled to under this Agreement on account of such separation from service would be considered nonqualified deferred compensation under Code Section 409A, such payment or benefit shall be paid or provided at the date which is the earlier of (i) six (6) months and one day after such separation from service and (ii) the date of Executive's death (the " Delay Period "). Upon the expiration of the Delay Period, all payments and benefits delayed pursuant to this Section 9(i) (whether they would have otherwise been payable in a single sum or in installments in the absence of such delay) shall be paid or provided to Executive in a lump-sum, and any remaining payments and benefits due under this Agreement shall be paid or provided in accordance with the normal payment dates specified for them herein.

(iv) Any reimbursements and in-kind benefits provided under this Agreement that constitute deferred compensation within the meaning of Code Section 409A shall be made or provided in accordance with the requirements of Code Section 409A, including that (A) in no event shall any fees, expenses or other amounts eligible to be reimbursed by the Company under this Agreement be paid later than the last day of the calendar year next following the calendar year in which the applicable fees, expenses or other amounts were incurred; (B) the amount of expenses eligible for reimbursement, or in-kind benefits that the Company is obligated to pay or provide, in any given calendar year shall not affect the expenses that the Company is obligated to reimburse, or the in-kind benefits that the Company is obligated to pay or provide, in any other calendar year, provided that the foregoing clause (B) shall not be violated with regard to expenses reimbursed under any arrangement covered by Section 105(b) of the Code solely because such expenses are subject to a limit related to the period the arrangement is in effect; and (C) Executive's right to have the Company pay or provide such reimbursements and in-kind benefits may not be liquidated or exchanged for any other benefit.

(v) For purposes of Code Section 409A, Executive's right to receive any installment payments shall be treated as a right to receive a series of separate and distinct payments. Whenever a payment under this Agreement specifies a payment period with reference to a number of days (for example, "payment shall be made within thirty (30) days following the date of termination"), the actual date of payment within the specified period shall be within the sole discretion of the Company. In no event may Executive, directly or indirectly, designate the calendar year of any payment to be made under this Agreement, to the extent such payment is subject to Code Section 409A.

(j) Notice . For the purpose of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when delivered by hand or overnight courier or three days after it has been mailed by United States registered mail, return receipt requested, postage prepaid, addressed to the respective addresses set forth below in this Agreement, or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notice of change of address shall be effective only upon receipt.

If to the Company:

c/o APX Group, Inc.
4931 North 300 West
Provo, Utah 84604
Attention: General Counsel

with a copy (which shall not constitute notice) to:

The Blackstone Group
345 Park Avenue
New York, New York 10154
Attention: Peter Wallace

and

Simpson Thacher & Bartlett LLP
425 Lexington Avenue,
New York, New York 10017
Attention: Gregory T. Grogan

If to Executive:

To the most recent address of Executive set forth in the personnel records of the Company.

(k) Executive Representation . Executive hereby represents to the Company that the execution and delivery of this Agreement by Executive and the Company and the performance by Executive of Executive's duties hereunder shall not constitute a breach of the terms of any employment agreement or other agreement or written policy to which Executive is a party or otherwise bound. Executive hereby further represents that he is not subject to any restrictions on his ability to solicit, hire or engage any employee or other service-provider. Executive agrees that the Company is relying on the foregoing representations in entering into this Agreement and related equity-based award agreements.

(l) Withholding Taxes . The Company may withhold from any amounts payable under this Agreement such Federal, state and local taxes as may be required to be withheld pursuant to any applicable law or regulation.

(m) Counterparts . This Agreement may be signed in counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the day and year first above written.

APX GROUP, INC.

/s/ Patrick Kelliher
By: Patrick Kelliher
Title: Chief Accounting Officer

EXECUTIVE

/s/ Todd Pedersen
Todd Pedersen

Solely for the purposes of Section 1 of the Agreement:

313 ACQUISITION LLC

/s/ Dale Gerard
By: Dale Gerard
Title: Vice President of Finance and Treasurer

Exhibit I

RELEASE AND WAIVER OF CLAIMS

This Release and Waiver of Claims (" Release ") is entered into and delivered to APX Group, Inc. (the " Company ") as of this [ ] day of _, 201 [_], by Todd Pedersen (the " Executive "). The Executive agrees as follows:

1. The employment relationship between the Executive and the Company and its subsidiaries and affiliates, as applicable, terminated on the [●] day of _____, 201[_] (the " Termination Date ") pursuant to Section [__] of the Employment Agreement between the Company and Executive dated August 7, 2014 (" Employment Agreement ").

2. In consideration of the payments, rights and benefits provided for in Sections 5(d)(ii)(B) and 5(d)(ii)(C) of the Employment Agreement (collectively, as applicable, the " Separation Terms ") and this Release, the sufficiency of which the Executive hereby acknowledges, the Executive, on behalf of himself and his agents, representatives, attorneys, administrators, heirs, executors and assigns (collectively, the " Employee Releasing Parties "), hereby releases and forever discharges the Company Released Parties (as defined below), from all claims, charges, causes of action, obligations, expenses, damages of any kind (including attorneys fees and costs actually incurred) or demands, in law or in equity, whether known or unknown, which may have existed or which may now exist from the beginning of time to the date of this Release, arising from or relating to Executive's employment or termination from employment with the Company or otherwise, including a release of any rights or claims the Executive may have under Title VII of the Civil Rights Act of 1964; the Civil Rights Act of 1991; the Age Discrimination in Employment Act of 1967, as amended (" ADEA "); the Older Workers Benefit Protection Act; the Americans with Disabilities Act of 1990; the Rehabilitation Act of 1973; the Family and Medical Leave Act of 1993; Section 1981 of the Civil Rights Act of 1866; Section 1985(3) of the Civil Rights Act of 1871; the Employee Retirement Income Security Act of 1974; the Fair Labor Standards Act; any other federal, state or local laws against discrimination; or any other federal, state, or local statute, regulation or common law relating to employment, wages, hours, or any other terms and conditions of employment. This includes a release by the Executive of any and all claims or rights arising under contract (whether written or oral, express or implied), covenant, public policy, tort or otherwise. For purposes hereof, "Company Released Parties" shall mean the Company and any of its past or present employees, agents, insurers, attorneys, administrators, officials, directors, shareholders, divisions, parents, members, subsidiaries, affiliates, predecessors, successors, employee benefit plans, and the sponsors, fiduciaries, or administrators of the Company's employee benefit plans.

3. The Executive acknowledges that the Executive is waiving and releasing rights that the Executive may have under the ADEA and other federal, state and local statutes contract and the common law and that this Release is knowing and voluntary. The Executive and the Company agree that this Release does not apply to any rights or claims that may arise after the date of execution by Executive of this Release. The Executive acknowledges that the consideration given for this Release is in addition to anything of value to which the Executive is already entitled. The Executive further acknowledges that the Executive has been advised by this writing that: (i) the Executive should consult with an attorney prior to executing this Release; (ii) the Executive has up to twenty-one (21) days within which to consider this Release, although the Executive may, at the Executive's discretion, sign and return this Release at an earlier time, in which case the Executive waives all rights to the balance of this twenty-one (21) day review period; and (iii) for a period of 7 days following the execution of this Release in duplicate originals, the Executive may revoke this Release in a writing delivered to the Chairman of the Board of Directors of the Company, and this Release shall not become effective or enforceable until the revocation period has expired.

4. This Release does not release the Company Released Parties from (i) any obligations due to the Executive under the Separation Terms, (ii) any rights Executive has to indemnification by the Company and to directors and officers liability insurance coverage, (iii) any vested rights the Executive has under the Company's employee pension benefit and group healthcare benefit plans as a result of Executive's actual service with the Company, (iv) any fully vested and nonforfeitable rights of the Executive as a shareholder or member of the Company or its affiliates, (v) any rights of the Executive pursuant to any equity or incentive award agreement with the Company, or (vi) any rights which cannot be waived by an employee under applicable law .

5. The Executive represents and warrants that he has not filed any action, complaint, charge, grievance, arbitration or similar proceeding against the Company Released Parties .

6. This Release is not an admission by the Company Released Parties or the Employee Releasing Parties of any wrongdoing, liability or violation of law.

7. The Executive shall continue to be bound by the restrictive covenants contained in the Employment Agreement.

8. This Release shall be governed by and construed in accordance with the laws of the State of New York, without reference to the principles of conflict of laws.

9. Each of the sections contained in this Release shall be enforceable independently of every other section in this Release, and the invalidity or unenforceability of any section shall not invalidate or render unenforceable any other section contained in this Release.

10. **The Executive acknowledges that the Executive has carefully read and understands this Release, that the Executive has the right to consult an attorney with respect to its provisions and that this Release has been entered into knowingly and voluntarily. The Executive acknowledges that no representation, statement, promise, inducement, threat or suggestion has been made by any of the Company Released Parties to influence the Executive to sign this Release except such statements as are expressly set forth herein or in the Employment Agreement.**

Executive has executed this Release as of the day and year first written above.

EXECUTIVE

_____

Todd Pedersen

Exhibit 31.1

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, 2014 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)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2014

/s/ Todd Pedersen
Todd Pedersen
Chief Executive Officer and Director
(Principal Executive Officer)

Exhibit 31.2

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, 2014 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)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2014

/s/ Mark Davies
Mark Davies
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

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, 2014 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 8, 2014

/s/ Todd Pedersen
Todd Pedersen
Chief Executive Officer and Director
(Principal Executive Officer)

Exhibit 32.2

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, 2014 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 8, 2014

/s/ Mark Davies
Mark Davie s
Chief Financial Officer
(Principal Financial Officer)

Exhibit 99.2

Section 13(r) Disclosure

The disclosure with respect to the fiscal quarters ended March 31, 2014 and June 30, 2014 reproduced below was included in Travelport Limited's quarterly reports on Form 10-Q for the quarterly periods ended March 31, 2014 and June 30, 2014, respectively, filed with the Securities and Exchange Commission (the "SEC") in accordance with Section 13(r) of the Securities Exchange Act of 1934, as amended. Travelport Limited may be considered an affiliate of Blackstone, and therefore an affiliate of APX Group Holdings, Inc. We did not independently verify or participate in the preparation of these disclosures.

Travelport Limited included the following disclosure in its Form 10-Q for the fiscal quarter ended March 31, 2014 :

Travelport Limited, which may be considered our affiliate, included the disclosure reproduced below in its Form 10-Q for the fiscal quarter ended March 31, 2014. We have not independently verified or participated in the preparation of this disclosure.

"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 GDS 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, 2014 were approximately $181,000 and $125,000, respectively."

Travelport Limited included the following disclosure in its Form 10-Q for the fiscal quarter ended June 30, 2014 :

Travelport Limited, which may be considered our affiliate, included the disclosure reproduced below in its Form 10-Q for the fiscal quarter ended June 30, 2014. We have not independently verified or participated in the preparation of this disclosure.

"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 GDS 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 June 30, 2014 were approximately $161,000 and $117,000, respectively."