



IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

ALARM.COM HOLDINGS, INC.,)
)
 Plaintiff,)
) C.A. No. 2017-
 v.)
)
 ABS CAPITAL PARTNERS INC, ABS)
 PARTNERS V, LLC, ABS PARTNERS)
 VII, LLC, and RALPH TERKOWITZ,)
)
 Defendants.)

VERIFIED COMPLAINT FOR INJUNCTIVE RELIEF

Plaintiff Alarm.com Holdings, Inc. (“Alarm.com Holdings” or “Plaintiff”), by and through its undersigned counsel, for its Verified Complaint for Injunctive Relief alleges, upon knowledge with respect to its acts and upon information and belief as to other matters, as follows:

NATURE OF THE ACTION

1. Plaintiff brings this Action to enjoin ABS CAPITAL PARTNERS INC., ABS PARTNERS V, LLC, and ABS PARTNERS VII, LLC (collectively, “ABS”) and RALPH TERKOWITZ (collectively, “Defendants”) from breaching their fiduciary duties to Plaintiff and misappropriating both trade secrets and confidential information, by improperly disclosing Plaintiff’s confidential information and trade secrets to its competitors.

2. Alarm.com was founded in 2000 and was a successful, fast-growing business in 2009 when ABS acquired an equity stake in the company. ABS has made a fortune off this investment and has earned over 15 times its investment during the last eight years. For most of that time, ABS and Terkowitz had a front row seat watching Alarm.com's executives grow its business successfully. Indeed, Terkowitz was on the board and was thus privy to the most sensitive confidential information at Alarm.com, including its research and development plans, key customer relationships, pricing information, and its overall strategy. Terkowitz learned everything there was to know about Alarm.com's trade secrets and confidential information and had full access to the playbook that Alarm.com used to operate and grow its business.

3. Terkowitz left the Alarm.com board last year. He and ABS now seek to leverage Alarm.com's proprietary information for the benefit of a competitor in which ABS is poised to invest. This is a shocking betrayal of trust. Terkowitz was entrusted with Alarm.com's most crucial confidential information. And rather than safeguarding that information, he seeks to further enrich himself and his firm at the expense of Alarm.com by gifting this information to a direct competitor of Alarm.com in which he is planning to invest.

4. The Defendants' actions violate the very heartland of fiduciary duties that board members and controlling shareholders owe to the companies they serve

and own. Their actions also run afoul of bedrock prohibitions against the misappropriation of trade secrets and confidential information. And, of course, their actions threaten Alarm.com with the disclosure of their trade secrets and confidential information—which constitutes, under these circumstances, nearly *per se* irreparable harm.

5. To remedy these flagrant violations of Delaware law, Plaintiff seeks, among other relief, an injunction precluding Defendants from misusing, misappropriating, and improperly disclosing Plaintiff’s confidential information and trade secrets.

THE PARTIES

6. Plaintiff Alarm.com Holdings, Inc. is a corporation formed under the laws of Delaware with its principal place of business at 8281 Greensboro Drive, Tysons, Virginia 22101. Plaintiff’s operating subsidiary Alarm.com Incorporated is an innovator in home security and smart home technology with numerous patented technologies brought to market. “Alarm.com” collectively refers to Alarm.com Holdings, Inc. and Alarm.com Incorporated.

7. Upon information and belief, Defendant ABS Capital Partners Inc. is a corporation formed under the laws of Delaware with a principal place of business at 400 East Pratt Street, Suite 910, Baltimore, Maryland 21202. ABS is a private

equity and venture capital firm that does business under the name ABS Capital Partners.

8. Upon information and belief, Defendant ABS Partners V, LLC is a limited liability company formed under the laws of Delaware with a principal place of business at 400 East Pratt Street, Suite 910, Baltimore, Maryland 21202. ABS Partners V, LLC is a private equity and venture capital firm that does business under the name ABS Capital Partners.

9. Upon information and belief, Defendant ABS Partners VII, LLC is a limited liability company formed under the laws of Delaware with a principal place of business at 400 East Pratt Street, Suite 910, Baltimore, Maryland 21202. ABS Partners VII, LLC is a private equity and venture capital firm that does business under the name ABS Capital Partners.

10. Upon information and belief, Defendant Ralph Terkowitz is a managing member of ABS and has a work address of 400 East Pratt Street, Suite 910, Baltimore, Maryland 21202.

FACTS

The Creation of Alarm.com

11. Alarm.com is a pioneer in the smart home industry and offers its leading cloud-based security and automation platform through thousands of service providers across the United States. End users can interact with the platform

through their smartphone, tablet, PC and smart watch among other methods.

Alarm.com also designs and sells related hardware for the smart home, such as cellular communicators, smart thermostats, and video cameras.

12. Alarm.com Incorporated was originally founded as a business unit of MicroStrategy Incorporated (“MicroStrategy”) in 2000. In 2003, the business was incorporated with MicroStrategy as the majority owner.

ABS Invests in Alarm.com

13. In 2009, Alarm.com Holdings was established by ABS. Alarm.com Holdings then acquired Alarm.com Incorporated from MicroStrategy.

14. After the transaction, ABS owned 80% of Alarm.com Holdings, Inc.

15. As part of their due diligence into the transaction, Mr. Terkowitz and other ABS personnel spoke to many of Alarm.com’s major customers and business partners. ABS also obtained a complete copy of the Alarm.com source code, which constitutes a confidential trade secret of Alarm.com.

16. ABS is not a passive investor. Instead, it takes an active role in the companies in which it invests, marketing itself as a “guiding partner” for those companies.

17. For example, on its website, ABS boasts that the companies it invests in will “find [at ABS] a dedicated team (many former C-level executives themselves) eager to work with CEOs focused on doing what’s best – and most

impactful – for the next stage in growth. We focus on helping face the dreams and realities associated with helming a company beyond its initial growth spurt; we’ve faced these things ourselves.”

18. ABS also claims on its website that it “deliver[s] years of personal experience in the same fields where we invest most: business and tech-enabled services and health care.”

19. On its LinkedIn page, ABS states that it “actively partner[s] with CEOs to tackle the challenges of rapid expansion and create significant long-term value.”

ABS’s and Mr. Terkowitz’s Involvement at Alarm.com

20. Consistent with ABS’s investment strategy and a Shareholders’ Agreement including Alarm.com Holdings and ABS entities, dated March 6, 2009 (the “2009 Shareholders’ Agreement”), Mr. Terkowitz and other ABS personnel became actively involved in Alarm.com’s business.

21. Under the 2009 Shareholders’ Agreement, ABS had the right to designate three of the five members of Alarm.com’s Board of Directors. Pursuant to the Shareholders’ Agreement, Mr. Terkowitz was one of the initial ABS designees and the initial Chairman of the Board.

22. In his capacity as director and Chairman of the Board, Alarm.com necessarily trusted Mr. Terkowitz with its confidential information. This trust also

extended to ABS during the time period that Mr. Terkowitz and other ABS designees served as directors of Alarm.com Holdings.

23. Mr. Terkowitz regularly attended meetings of Plaintiff's Board of Directors where he learned Alarm.com's most sensitive confidential information and trade secrets, including but not limited to business strategies, future product plans, nonpublic financial performance details, proprietary software architecture, litigation assessments and competitive analyses.

24. In his capacity as director and Chairman, Mr. Terkowitz was also involved in most if not all major business decisions for Alarm.com, including its business model, go to market strategy, litigation, marketing, and pricing. Mr. Terkowitz was also briefed on many of Alarm.com's strategies, and, as a director, participated in full briefings on, and had to approve, all major business decisions.

25. Mr. Terkowitz also had conversations with Steve Trundle, Alarm.com's CEO, where Mr. Trundle communicated to Mr. Terkowitz Alarm.com's business strategy, trade secrets, and confidential information. Mr. Trundle also consulted frequently with Mr. Terkowitz on sensitive, confidential issues regarding Alarm.com's business, including Alarm.com's trade secrets.

26. In 2012, Alarm.com Holdings engaged in a restructuring whereby a second series of preferred stock was issued and purchased by new investors.

27. Under the Amended and Restated Stockholders' Agreement, dated July 11, 2012, Alarm.com Holdings' Board of Directors was increased to seven members. ABS retained the right to appoint two directors by itself and gained the right to appoint two additional directors upon agreement with other stockholders. As with the 2009 Shareholders' Agreement, Mr. Terkowitz was required to be the initial Chairman of the Board.

28. In 2015, Plaintiff held an initial public offering and its stock began trading on the NASDAQ exchange. The 2012 Shareholders' Agreement expired upon the IPO and ABS's preferred stock was converted into common stock. Mr. Terkowitz remained on the board of Alarm.com Holdings and served on various committees, including the audit committee and chairing the compensation committee until he resigned in August 2016. ABS still owns shares of Alarm.com Holdings through multiple investment vehicles.

ABS's and Mr. Terkowitz's Knowledge of Alarm.com's Confidential Information

29. As a result of his position as a director, and ABS's position as controlling shareholder (with the right to designate directors), Mr. Terkowitz and ABS had intimate knowledge of Alarm.com's confidential and sensitive business information and trade secrets, including strategy, customers and financials. If a competitor of Alarm.com learned or benefited from that information, Alarm.com's

ability to compete in the marketplace, and its relationships with current and future customers, would be severely damaged.

30. Defendant ABS also had knowledge of Alarm.com's confidential information and trade secrets through Mr. Terkowitz, as well as other ABS personnel who served as directors of Alarm.com Holdings for certain time periods or who reviewed confidential Alarm.com information on behalf of ABS.

31. Defendants are under a duty to safeguard confidential Alarm.com information and trade secrets that they acquired by virtue of their roles as fiduciaries of Plaintiff and, importantly, must do more than just safeguard such information. They must not use Alarm.com's confidential information to compete with Alarm.com. This duty is ongoing.

ABS Looks to Compete with Alarm.com

32. On August 9, 2017, Alarm.com learned that ABS had reached an agreement to acquire a controlling interest in two companies in the smart home industry— Resolution Products, Inc. (“Resolution Products”) and ipDatatel, LLC (“ipDatatel”). ipDatatel is a direct competitor in Alarm.com's distribution channel. Like Alarm.com, ipDatatel makes a cellular communicator that enables remote monitoring and control of devices in a home through a smartphone app. Resolution Products makes hardware for alarm systems, including cellular modules, control panels and sensors.

33. On information and belief, upon closing, ABS intends to use its ownership of these two companies to advance its own smart home offering, in competition with Alarm.com (the “ipDatatel Venture”).

34. Based on its prior experience with ABS and ABS’s investment strategy, Alarm.com believes that Mr. Terkowitz played and will continue to play a major role in the ipDatatel Venture. ABS and Mr. Terkowitz will almost certainly take on the same active role in the ipDatatel Venture that they did upon their initial investment in Alarm.com.

35. Defendants’ knowledge of Alarm.com’s most sensitive confidential information and trade secrets is so extensive, and the information is so directly applicable to ipDatatel’s and the ipDatatel Venture’s business, that they could not reasonably avoid using it in the process of evaluating and structuring the ipDatatel Venture. Indeed, ABS actively markets its “years of personal experience in the same fields” as a benefit to the companies in which ABS invests.

36. The harm to Alarm.com is particularly heightened given that the ipDatatel Venture will be in the same stage as Alarm.com was in 2009. Therefore, ABS and Mr. Terkowitz will be able to use Alarm.com’s confidential information and trade secrets to shorten the ipDatatel Venture’s growth time. The growth and development Alarm.com achieved in six years, would, with the benefit of Plaintiff’s confidential information, likely take the ipDatatel Venture far less time

to achieve. This accelerated growth means the ipDatatel Venture will be able to compete quicker and better with Alarm.com than it would have without the benefit of Plaintiff's confidential information.

37. The danger to Alarm.com is not limited to Mr. Terkowitz and ABS explicitly using Alarm.com's confidential information and trade secrets. Plaintiff's confidential information and trade secrets also include knowledge about what does not work and the pitfalls and setbacks to avoid. Mr. Terkowitz and ABS are unlikely to try business strategies at the ipDatatel Venture that they know did not work at Alarm.com, once again accelerating and benefiting ipDatatel Venture's growth.

COUNT I
(Breach of Fiduciary Duty Against All Defendants)

38. Plaintiff realleges and incorporates by reference herein paragraphs 1-37 of this Complaint.

39. Mr. Terkowitz served as a Director of Plaintiff from 2009 until his resignation in August 2016. By virtue of this position, Mr. Terkowitz owed fiduciary duties, including the duty of loyalty, the duty of good faith and the duty of confidentiality to Plaintiff.

40. Defendant ABS was the principal investor in Plaintiff at the time of the 2009 spin-off, and held a majority of shares in Plaintiff until 2012. By virtue

of its majority ownership, ABS owed fiduciary duties, including the duty of loyalty, the duty of good faith and the duty of confidentiality to Plaintiff.

41. Defendants violated their fiduciary duties by using Alarm.com confidential information, which Defendants learned in their capacity as fiduciaries, to establish a competing venture with Plaintiff.

42. Plaintiff has been harmed to the extent its confidential information has been disclosed to ipDatatel, Resolution Products and/or the ipDatatel Venture.

43. Plaintiff will be harmed if the ipDatatel Venture is permitted to operate under the control of Defendant ABS and if Defendant Terkowitz is permitted to serve as a director, or in a similar capacity, in the ipDatatel Venture.

44. Plaintiff has no adequate remedy at law.

COUNT II
(Aiding and Abetting Breach of Fiduciary Duty Against All Defendants)

45. Plaintiff realleges and incorporates by reference herein paragraphs 1-44 of this Complaint.

46. Defendant Terkowitz breached his fiduciary duties to Plaintiff through his involvement in evaluating and negotiating ABS's planned transaction with ipDatatel and Resolution Products.

47. Defendant ABS knew Defendant Terkowitz was a Director of Plaintiff and had acquired Plaintiff's confidential information through that relationship.

48. To the extent Defendant Terkowitz serves as a director, or in a similar capacity, for the ipDatatel Venture, it will be at the appointment and instruction of ABS.

49. Defendant ABS knowingly participated in Defendant Terkowitz's breach of his fiduciary duties and knowingly aided and abetted them.

50. Defendant ABS breached its fiduciary duties to Plaintiff through its involvement in evaluating and negotiating its planned transaction with ipDatatel and Resolution Products.

51. Defendant Terkowitz knew Defendant ABS was a majority shareholder of Plaintiff and had acquired Plaintiff's confidential information through that relationship.

52. To the extent Defendant ABS discloses Alarm.com's confidential information it will be through, in part, the actions of its managing member Defendant Terkowitz.

53. Defendant Terkowitz knowingly participated in Defendant ABS's breach of his fiduciary duties and knowingly aided and abetted them.

54. Plaintiff has been harmed to the extent its confidential information has been disclosed to ipDatatel, Resolution Products and/or the ipDatatel Venture.

55. Plaintiff will be harmed if the ipDatatel Venture is permitted to operate under the control of Defendant ABS and if Defendant Terkowitz is permitted to serve as a director in the ipDatatel venture.

56. Plaintiff has no adequate remedy at law.

COUNT III
(Misappropriation of Trade Secrets Under Delaware Uniform Trade Secrets Act Against All Defendants)

57. Plaintiff realleges and incorporates by reference herein paragraphs 1-56 of this Complaint.

58. Alarm.com owns trade secrets that derive independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use.

59. Alarm.com's trade secrets have significant value, resulting from significant investment of time and resources.

60. Alarm.com has made, and continues to make, efforts that are reasonable under the circumstances to maintain the secrecy of its trade secrets. For example, Alarm.com requires nondisclosure agreements whenever discussing with third parties any confidential information including products, pricing, roadmap, and software architecture. Additionally, Alarm.com requires confidentiality provisions in its sixteen-thousand-plus agreements with customers, distributors,

manufacturers, and third-party vendors. Alarm.com also has a company policy and culture whereby all employees and officers are told and understand that Alarm.com's trade secrets and confidential information are not to be disclosed without observing strict measures to protect secrecy and confidentiality.

61. Alarm.com's trade secrets include Alarm.com's source code for its proprietary firmware and software applications, as well as proprietary details about its software architecture; business strategies including its product roadmap, future functionality, and go-to-market strategy; future product plans; pricing, rebates, and pricing methodologies; financial models; nonpublic financial performance details; market and competitor assessments and forecasts; customer lists, preferences, and purchasing patterns; end-user preferences, activity patterns, and data concerning end-user system usage; customer relationship details; and litigation assessments. Defendants are also in possession of another valuable trade secret belonging to Alarm.com: the playbook for operating and growing this type of business. By virtue of his position on the board of Alarm.com, Defendant Terkowitz learned precisely how Alarm.com implemented its growth strategy, including, but not limited to, Alarm.com's development of key customer relationships, the identity of key customers, the challenges in maintaining those customer relationships, the economic arrangements between Alarm.com and its biggest customers, and the technology necessary to maintain and grow a business in this industry.

62. Alarm.com's trade secrets described above were trade secrets at the time that Defendants learned of them and misappropriated them.

63. Alarm.com communicated its trade secrets to Defendants.

64. In connection with their planned new venture, Defendants either have disclosed or used, or plan to disclose or use Alarm.com's trade secrets without Alarm.com's express or implied consent.

65. At the time Defendants disclosed, used, or planned to disclose or use Alarm.com's trade secrets, Defendants knew or had reason to know that they acquired the trade secrets under circumstances giving rise to a duty to maintain their secrecy or limit their use, or from or through a person who owed a duty to Alarm.com to maintain their secrecy and limit their use.

66. By partnering with ipDatatel and Resolution Products to compete with Alarm.com, Defendants will inevitably impart their knowledge of Alarm.com's trade secrets to ipDatatel, Resolution Products and/or the ipDatatel Venture.

67. Plaintiffs have been harmed to the extent their trade secrets have been disclosed or used, or will be disclosed or used, to ipDatatel, Resolution Products and/or the ipDatatel Venture.

68. Defendants, ipDatatel, Resolution Products and the ipDatatel Venture have been unjustly enriched or will be by the misappropriation.

69. Defendants' trade secret misappropriation has caused and continues to cause Alarm.com irreparable harm that cannot be fully redressed through damages alone. An injunction as set forth herein is necessary to provide Alarm.com with complete relief.

COUNT IV
(Common Law Misappropriation of Confidential Information Against All Defendants)

70. Plaintiff realleges and incorporates by reference herein paragraphs 1-69 of this Complaint.

71. Alarm.com has a property interest in its confidential information in its source code for its proprietary software programs, its business strategies, future product plans, pricing methodologies, financial models, nonpublic financial performance details, market assessments, customer lists, customer relationship details, litigation assessments and competitive analyses, and playbook for operating and growing this type of business.

72. Defendants wrongfully exerted dominion over the confidential information by disclosing that confidential information to ipDatatel and Resolution Products.

73. Defendants will wrongfully exert dominion over the confidential information by operating and directing the new joint venture based on their knowledge of that confidential information.

74. Plaintiff has been harmed to the extent Defendants have misappropriated its confidential information.

75. Plaintiff will be harmed to the extent Defendants will misappropriate its confidential information.

76. Unless Defendants are restrained and enjoined by this Court, Defendants' actions will continue to cause irreparable harm and injury to Plaintiff, justifying an injunction as set forth herein.

PRAYER FOR RELIEF

WHEREFORE, Plaintiff demands judgment against Defendants as follows:

A. Finding that Defendants breached their fiduciary duties to Plaintiff by misusing confidential information acquired from Plaintiff.

B. Finding that Defendants misappropriated Plaintiffs' trade secrets and confidential information.

C. Preliminarily and permanently enjoining Defendants from using Plaintiff's confidential information or trade secrets to compete with Alarm.com.

D. Preliminarily and permanently enjoining Defendant ABS from executing the planned transaction with ipDatatel and Resolution Products.

E. Preliminarily and permanently enjoining Defendant Terkowitz from serving as a Director of the planned new business combination.

F. Awarding Plaintiff attorneys' fees, cost and disbursement incurred as a result of this action; and

G. Granting Plaintiff such other and further relief as the Court deems just and proper.

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Dated: August 14, 2017
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