

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 September 30, 2024

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number: 001-39991

SMARTRENT, INC.

(Exact name of Registrant as specified in its charter)

Delaware

(State or Other Jurisdiction of
Incorporation or Organization)

8665 E. Hartford Drive, Suite 200
Scottsdale, Arizona

(Address of Principal Executive Offices)

85-4218526

(I.R.S. Employer Identification No.)

85255

(Zip Code)

(844) 479-1555

(Registrant's Telephone Number)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class
Class A Common Stock, \$0.0001 par value

Trading Symbol(s)
SMRT

Name of each exchange on which registered
The New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

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 every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐
Non-accelerated filer ☐

Accelerated filer ☒
Smaller reporting company ☐
Emerging growth company ☒

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

As of November 4, 2024, there were 192,569,289 shares of the registrant's Class A Common Stock outstanding, par value \$0.0001 per share.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q ("Report") contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended ("Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended ("Exchange Act") that express our opinions, expectations, beliefs, plans, objectives, assumptions or projections regarding future events or future results and therefore are, or may be deemed to be, "forward-looking statements." Words such as "believe," "may," "will," "estimate," "continue," "anticipate," "intend," "expect," "could," "would," "project," "plan," "potentially," "preliminary," "likely," "aim" and similar expressions, and the negatives of these expressions, are intended to identify forward-looking statements. Forward-looking statements appear in a number of places throughout this Report and include statements regarding our intentions, beliefs, or current expectations concerning, among other things, our results of operations, financial condition, liquidity, prospects, growth, strategies, and the markets in which we operate. Forward-looking statements contained in this Report include statements about:

- our future financial performance, including our expectations regarding revenue, cost of revenue, operating expenses, capital expenditures, cash flows, and ability to achieve profitability;
- our future operational performance, including our expectations regarding Annual Recurring Revenue, Average Revenue per Unit, Customer Churn, Net Revenue Retention, Bookings, the number of Units Deployed, New Units Deployed, Units Shipped, and Units Booked;
- the impact of macroeconomic conditions and geopolitical events on our business;
- the sufficiency of our cash, cash equivalents and investments to meet our liquidity needs;
- our expectations regarding our share repurchase program;
- our ability to achieve or maintain profitability;
- our ability to effectively manage our growth and future expenses;
- our investment strategy, business strategy and growth strategy, including the use of acquisitions to grow our business;
- the impact of our acquisitions and our ability to successfully integrate acquired businesses;
- management's plans, beliefs and objectives for future operations;
- our expectations about competition and our ability to compete effectively with new and existing competitors in new and existing markets and offerings;
- the impact of seasonal factors on our business;
- our ability to attract new customers, sell into new and existing markets, upsell customers, and develop new products;
- our ability to successfully expand in our existing markets and into new markets;
- our anticipated investments in sales and marketing and research and development;
- our recent leadership changes;
- our expectations related to our agreement with ADI Global Distribution;
- our ability to maintain our brand;
- our ability to manage our supply chain;
- our ability to maintain the security and availability of our platform and products;
- potential harm caused by significant disruptions of service, or the actual or perceived failure of our products to prevent security incidents;
- our ability to prevent serious errors or defects across, and to otherwise maintain the interrupted operation of our network;
- our ability to maintain, protect and enhance our intellectual property;
- our expectations of the impact of, and our ability to comply with existing, modified or new laws and regulations applicable to our business;
- our ability to correctly estimate our tax obligations; and
- our ability to successfully defend litigation brought against us.

The foregoing list may not contain all of the forward-looking statements made in this Report.

You should not rely on forward-looking statements as predictions of future events. We have based these forward-looking statements largely on our current expectations and projections about future events and trends that we believe may affect our financial condition, results of operations and business strategy. We cannot assure you that the events and circumstances reflected in the forward-looking statements will occur. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements.

These forward-looking statements are subject to a number of risks, uncertainties, and assumptions, including those described in Part II, Item 1A "Risk Factors" of this Report and in Part I, Item 1A "Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2023, filed on March 5, 2024. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the effect of all 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 we may make. In light of these risks, uncertainties, and assumptions, the future events and trends discussed in this Report may not occur and actual results could differ materially from those anticipated or implied in the forward-looking statements.

The forward-looking statements made in this Report relate only to events as of the date on which the statements were made. Except as required by law, we undertake no obligation to update any forward-looking statements for any reason after the date of this Report or to conform these statements to actual results or to changes in our expectations. You should read this Report and the documents that we reference in this Report and have filed as exhibits to this Report with the understanding that our actual future results, levels of activity, performance and achievements may be materially different from what we expect. We qualify all of our forward-looking statements by these cautionary statements.

Investors and others should note that we may announce material business and financial information to our investors using our investor relations website (investors.smartrent.com), SEC filings, webcasts, press releases, and conference calls. We use these mediums to communicate with investors and the general public about our company, our products and services, and other issues. It is possible that the information that we make available may be deemed to be material information. We therefore encourage investors, the media and others interested in our company to review the information that we post on our investor relations website.

SmartRent, the SmartRent logo and other trade names, trademarks or service marks of SmartRent appearing in this Report are the property of SmartRent. Trade names, trademarks and service marks of other companies appearing in this Report are the property of their respective holders.

Unless the context indicates otherwise, the terms "SmartRent," the "Company," "we," "us," and "our" as used in this Report refer to SmartRent, Inc., a Delaware corporation, and its subsidiaries taken as a whole.

PART I. Financial Information

Item 1 - Financial Statements (Unaudited)

SMARTRENT, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(in thousands, except per share amounts)

	As of	
	September 30, 2024	December 31, 2023
ASSETS		
Current assets		
Cash and cash equivalents	\$ 163,403	\$ 215,214
Restricted cash, current portion	247	495
Accounts receivable, net	63,013	61,903
Inventory	35,948	41,575
Deferred cost of revenue, current portion	10,158	11,794
Prepaid expenses and other current assets	12,217	9,359
Total current assets	284,986	340,340
Property and equipment, net	1,357	1,400
Deferred cost of revenue	4,713	11,251
Goodwill	117,268	117,268
Intangible assets, net	24,343	27,249
Other long-term assets	15,926	12,248
Total assets	<u>\$ 448,593</u>	<u>\$ 509,756</u>
LIABILITIES, CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 9,535	\$ 15,076
Accrued expenses and other current liabilities	26,574	24,976
Deferred revenue, current portion	49,861	77,257
Total current liabilities	85,970	117,309
Deferred revenue	50,111	45,903
Other long-term liabilities	7,371	4,096
Total liabilities	143,452	167,308
Commitments and contingencies (Note 12)		
Convertible preferred stock, \$0.0001 par value; 50,000 shares authorized as of September 30, 2024 and December 31, 2023; no shares of preferred stock issued and outstanding as of September 30, 2024 and December 31, 2023	-	-
Stockholders' equity		
Class A common stock, \$0.0001 par value; 500,000 shares authorized as of September 30, 2024 and December 31, 2023, respectively; 192,971 and 203,327 shares issued and outstanding as of September 30, 2024 and December 31, 2023, respectively	19	20
Additional paid-in capital	636,418	628,156
Accumulated deficit	(331,345)	(285,512)
Accumulated other comprehensive loss	49	(216)
Total stockholders' equity	305,141	342,448
Total liabilities, convertible preferred stock and stockholders' equity	<u>\$ 448,593</u>	<u>\$ 509,756</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

SMARTRENT, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Unaudited)
(in thousands, except per share amounts)

	For the three months ended September 30,		For the nine months ended September 30,	
	2024	2023	2024	2023
Revenue				
Hardware	\$ 18,707	\$ 35,631	\$ 72,460	\$ 100,744
Professional services	3,308	5,962	12,582	28,781
	18,495	16,511	54,475	47,060
Hosted services				
Total revenue	40,510	58,104	139,517	176,585
Cost of revenue				
Hardware	13,843	27,556	48,845	82,118
Professional services	6,840	11,130	22,157	44,573
Hosted services	6,370	5,887	18,330	17,365
Total cost of revenue	27,053	44,573	89,332	144,056
Operating expense				
Research and development	6,596	7,573	22,442	21,340
Sales and marketing	4,444	4,636	13,714	14,626
General and administrative	14,154	11,269	42,843	33,891
Total operating expense	25,194	23,478	78,999	69,857
Loss from operations	(11,737)	(9,947)	(28,814)	(37,328)
Interest income, net	2,019	2,233	6,718	6,064
Other income (expense), net	(187)	(42)	7	(45)
Loss before income taxes	(9,905)	(7,756)	(22,089)	(31,309)
Income tax expense (benefit)	18	(33)	131	(22)
Net loss	<u>\$ (9,923)</u>	<u>\$ (7,723)</u>	<u>\$ (22,220)</u>	<u>\$ (31,287)</u>
Other comprehensive loss				
Foreign currency translation adjustment	270	(188)	265	(93)
Comprehensive loss	<u>\$ (9,653)</u>	<u>\$ (7,911)</u>	<u>\$ (21,955)</u>	<u>\$ (31,380)</u>
Net loss per common share				
Basic and diluted	<u>\$ (0.05)</u>	<u>\$ (0.04)</u>	<u>\$ (0.11)</u>	<u>\$ (0.16)</u>
Weighted-average number of shares used in computing net loss per share				
Basic and diluted	<u>198,731</u>	<u>201,584</u>	<u>201,391</u>	<u>199,858</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

SMARTRENT, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)
(in thousands)

	Convertible Preferred Stock		Class A Common Stock					Accumul ated other compreh ensive (loss) income	Total Stockhold ers' Equity
	Shares	Amount (Par Value \$0.0001)	Shares	Amount (Par Value \$0.0001)	Additional Paid In Capital	Accumulate d Deficit			
Balance, December 31, 2023	-	\$ -	203,327	\$ 20	\$ 628,156	\$ (285,512)	\$ (216)	\$ 342,448	
Stock-based compensation	-	-	-	-	3,281	-	-	3,281	
Issuance of Class A common stock upon vesting of equity awards	-	-	775	-	-	-	-	-	
Tax withholdings related to net share settlement of equity awards	-	-	(291)	-	(898)	-	-	(898)	
Exercise of options	-	-	192	-	2	-	-	2	
Net settlement related to exercise of options	-	-	(31)	-	-	-	-	-	
ESPP purchases	-	-	134	-	337	-	-	337	
Repurchases of Class A common stock	-	-	(1,595)	-	-	(4,397)	-	(4,397)	
Net loss	-	-	-	-	-	(7,692)	-	(7,692)	
Other comprehensive income	-	-	-	-	-	-	6	6	
Balance, March 31, 2024	-	-	202,511	20	630,878	(297,601)	(210)	333,087	
Stock-based compensation	-	-	-	-	3,284	-	-	3,284	
Issuance of common stock upon vesting of equity awards	-	-	568	-	-	-	-	-	
Tax withholdings related to net share settlement of equity awards	-	-	(145)	-	(369)	-	-	(369)	
Repurchases of Class A common stock	-	-	(765)	-	-	(2,003)	-	(2,003)	
Net loss	-	-	-	-	-	(4,605)	-	(4,605)	
Other comprehensive loss	-	-	-	-	-	-	(11)	(11)	
Balance, June 30, 2024	-	-	202,169	20	633,793	(304,209)	(221)	329,383	
Stock-based compensation	-	-	-	-	2,958	-	-	2,958	
Issuance of common stock upon vesting of equity awards	-	-	669	-	-	-	-	-	
Tax withholdings related to net share settlement of equity awards	-	-	(259)	-	(582)	-	-	(582)	
Exercise of options	-	-	-	-	-	-	-	-	
Net settlement related to exercise of options	-	-	-	-	-	-	-	-	
ESPP purchases	-	-	159	-	249	-	-	249	
Repurchases of Class A common stock	-	-	(9,767)	(1)	-	(17,213)	-	(17,214)	
Net Loss	-	-	-	-	-	(9,923)	-	(9,923)	
Other comprehensive income	-	-	-	-	-	-	270	270	
Balance, September 30, 2024	-	\$ -	192,971	\$ 19	\$ 636,418	\$ (331,345)	\$ 49	\$ 305,141	

SMARTRENT, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)
(in thousands)

	Convertible Preferred Stock		(in thousands)						
			Class A Common Stock						
	Shares	Amount (Par Value \$0.0001)	Shares	Amount (Par Value \$0.0001)	Additional Paid In Capital	Accumulated Deficit	Accumulated other comprehensive (loss) income	Total Stockholders' Equity	
Balance, December 31, 2022	-	\$ -	198,525	\$ 20	\$ 615,281	\$ (250,925)	\$ (176)	\$ 364,200	
Stock-based compensation			-	-	3,680	-	-	3,680	
Issuance of Class A common stock upon vesting of equity awards	-	-	751	-	-	-	-	-	
Tax withholdings related to net share settlement of equity awards	-	-	(246)	-	(661)	-	-	(661)	
Exercise of options	-	-	151	-	71	-	-	71	
ESPP purchases	-	-	176	-	438	-	-	438	
Net loss	-	-	-	-	-	(13,215)	-	(13,215)	
Other comprehensive income							104	104	
Balance, March 31, 2023	-	-	199,357	20	618,809	(264,140)	(72)	354,617	
Stock-based compensation	-	-	-	-	3,276	-	-	3,276	
Tax withholdings related to net share settlement of equity awards	-	-	(140)	-	(424)	-	-	(424)	
Issuance of common stock upon vesting of equity awards	-	-	652	-	-	-	-	-	
Exercise of options	-	-	200	-	94	-	-	94	
Net loss	-	-	-	-	-	(10,349)	-	(10,349)	
Other comprehensive loss	-	-	-	-	-	-	(9)	(9)	
				20					
Balance, June 30, 2023	-	-	200,069		621,755	(274,489)	(81)	347,205	
Stock-based compensation	-	-	-	-	3,273	-	-	3,273	
Tax withholdings related to net share settlement of equity awards	-	-	(126)	-	(421)	-	-	(421)	
Issuance of common stock upon vesting of equity awards			481	-	-	-	-	-	
Common stock warrants issued to customers as consideration	-	-	-	-	-	-	-	-	
Exercise of options	-	-	2,662	-	735	-	-	735	
Net settlement related to exercise of options	-	-	(148)	-	-	-	-	-	
ESPP purchases	-	-	138	-	371	-	-	371	
Net loss	-	-	-	-	-	(7,723)	-	(7,723)	
Other comprehensive loss	-	-	-	-	-	-	(188)	(188)	
Balance, September 30, 2023	-	\$ -	203,076	\$ 20	\$ 625,713	\$ (282,212)	\$ (269)	\$ 343,252	

See accompanying Notes to Condensed Consolidated Financial Statements.

SMARTRENT, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(in thousands)

	For the nine months ended September 30,	
	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (22,220)	\$ (31,287)
Adjustments to reconcile net loss to net cash used by operating activities		
Depreciation and amortization	4,730	3,991
Impairment of investment in non-affiliate	2,250	-
Provision for warranty expense	(837)	-
Non-cash lease expense	1,079	733
Stock-based compensation related to acquisition	-	109
Stock-based compensation	9,523	10,120
Compensation expense related to acquisition	-	1,913
Change in fair value of earnout related to acquisition	140	225
Non-cash interest expense	107	103
Provision for excess and obsolete inventory	2,697	1,780
Provision for expected credit losses	804	39
Non-cash legal expense (Note 12 "Commitments and Contingencies")	7,255	-
Change in operating assets and liabilities		
Accounts receivable	(1,739)	(1,142)
Inventory	(2,020)	26,423
Deferred cost of revenue	8,175	9,928
Prepaid expenses and other assets	4,474	537
Accounts payable	(5,581)	(9,338)
Accrued expenses and other liabilities	(5,338)	(12,299)
Deferred revenue	(23,189)	(2,378)
Lease liabilities	(1,208)	(823)
Net cash used in operating activities	(20,898)	(1,366)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(524)	(116)
Capitalized software costs	(4,501)	(3,197)
Net cash used in investing activities	(5,025)	(3,313)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments for repurchases of Class A common stock	(23,462)	-
Proceeds from options exercise	2	899
Proceeds from ESPP purchases	586	809
Taxes paid related to net share settlements of stock-based compensation awards	(1,849)	(1,506)
Payment of earnout related to acquisition	(1,530)	(1,702)
Net cash used in financing activities	(26,253)	(1,500)
Effect of exchange rate changes on cash and cash equivalents	117	(40)
Net decrease in cash, cash equivalents, and restricted cash	(52,059)	(6,219)
Cash, cash equivalents, and restricted cash - beginning of period	215,709	217,713
Cash, cash equivalents, and restricted cash - end of period	<u>\$ 163,650</u>	<u>\$ 211,494</u>
Reconciliation of cash, cash equivalents, and restricted cash to the consolidated balance sheets		
Cash and cash equivalents	\$ 163,403	\$ 211,000
Restricted cash, current portion	247	247
Restricted cash, included in other long-term assets	-	247
Total cash, cash equivalents, and restricted cash	<u>\$ 163,650</u>	<u>\$ 211,494</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

SMARTRENT, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED
(Unaudited)
(in thousands)

	For the nine months ended September 30,	
	2024	2023
Supplemental disclosure of cash flow information		
Interest paid	\$ 182	\$ 60
Cash paid for income taxes	\$ 165	\$ 78
Schedule of non-cash investing and financing activities		
Right-of-use ("ROU") assets obtained in exchange for new lease liabilities	\$ 6,235	\$ -
Accrued property and equipment at period end	\$ 83	\$ 9
Stock repurchases excise tax charged to equity	\$ 151	\$ -

See accompanying Notes to Condensed Consolidated Financial Statements.

SMARTRENT, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(in thousands, except per share amounts)

NOTE 1. DESCRIPTION OF BUSINESS

SmartRent, Inc., and its wholly owned subsidiaries (collectively, the "Company"), is an enterprise real estate technology company that provides comprehensive management software and applications designed for property owners, managers and residents. Its suite of products and services, which includes both smart building hardware and cloud-based software-as-a-service ("SaaS") solutions, provides seamless visibility and control over real estate assets. The Company's solutions can help lower operating costs, increase revenue, mitigate operational friction and protect assets for owners and operators, while providing a differentiated, elevated living experience for residents. The Company is headquartered in Scottsdale, Arizona.

The Company, formerly known as Fifth Wall Acquisition Corp. I ("FWAA"), was originally incorporated in Delaware on November 23, 2020, as a special purpose acquisition company formed for the purpose of effecting a merger, capital stock exchange, asset acquisition, stock purchase, reorganization, or other similar business combination with one or more target businesses. On February 9, 2021, the Company consummated its initial public offering, following which its shares began trading on the Nasdaq National Market. On April 21, 2021, FWAA entered into an Agreement and Plan of Merger (as amended, the "Merger Agreement") with SmartRent.com, Inc. ("Legacy SmartRent") and Einstein Merger Corp. I, a wholly owned subsidiary of FWAA. On August 24, 2021, the transactions contemplated by the Merger Agreement (the "Business Combination") were consummated. In connection with the closing of the Business Combination, FWAA changed its name to SmartRent, Inc. and its shares began trading on the New York Stock Exchange under the symbol "SMRT." As a result of the Business Combination, SmartRent, Inc. became the owner, directly or indirectly, of all the equity interests of Legacy SmartRent and its subsidiaries.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Unaudited Interim Financial Information

The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and include the consolidated accounts of the Company and its wholly owned subsidiaries. All intercompany transactions and balances have been eliminated upon consolidation. The Condensed Consolidated Balance Sheet at December 31, 2023 has been derived from the audited consolidated financial statements as of December 31, 2023, as presented in the Company's Annual Report on Form 10-K for the year ended December 31, 2023, which was filed with the SEC on March 5, 2024. Certain notes and other information have been condensed or omitted from the interim financial statements presented herein. The financial data and other information disclosed in these Notes to Condensed Consolidated Financial Statements related to the three and nine months ended September 30, 2024 and 2023 are unaudited. The unaudited interim financial statements have been prepared on the same basis as the annual consolidated financial statements and, in the opinion of management, reflect all adjustments, which are of a normal recurring nature, necessary for a fair statement of the Company's financial condition and results of operations and cash flows for the interim period presented. The results for the three and nine months ended September 30, 2024 are not necessarily indicative of the results to be expected for the full year ending December 31, 2024 or any future period.

Foreign Currency

SmartRent, Inc.'s functional and reporting currency is United States Dollars ("USD") and its foreign subsidiaries have a functional currency other than USD. Financial position and results of operations of the Company's international subsidiaries are measured using local currencies as the functional currency. Assets and liabilities of these operations are translated at the exchange rates in effect at the end of each reporting period. The Company's international subsidiaries' statements of operations accounts are translated at the weighted-average rates of exchange prevailing during each reporting period. Translation adjustments arising from the use of differing currency exchange rates from period to period are included in accumulated other comprehensive loss in stockholders' equity. Gains and losses on foreign currency exchange transactions, as well as translation gains or losses on transactions denominated in currencies other than an entity's functional currency, are reflected in the Condensed Consolidated Statements of Operations and Comprehensive Loss.

SMARTRENT, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(in thousands, except per share amounts)

Liquidity

The accompanying financial statements have been prepared assuming the Company will continue as a going concern, which contemplates the realization of assets and liabilities and commitments in the normal course of business. Management believes that currently available resources will provide sufficient funds to enable the Company to meet its obligations for at least one year past the issuance date of these financial statements. The Company may need to raise additional capital through equity or debt financing to fund future operations until it generates positive operating cash flows. There can be no assurance that such additional equity or debt financing will be available on terms acceptable to the Company, or at all.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenue and expense during the reporting period. These estimates made by management include valuing the Company's inventories on hand, allowance for expected credit losses, intangible assets, earnout liabilities, warranty liabilities, stand-alone selling price of items sold, and certain assumptions used in the valuation of equity awards, including the estimated fair value of common stock warrants, and assumptions used to estimate the fair value of stock-based compensation expense. Actual results could differ materially from those estimates.

Net Loss Per Share Attributable to Common Stockholders

The Company follows the two-class method to include the dilutive effect of securities that participated in dividends, if and when declared, when computing net income per common share. The two-class method determines net income per common share for each class of common stock and participating securities according to dividends, if and when declared or accumulated and participation rights in undistributed earnings. The two-class method requires income available to common stockholders for the period to be allocated between common stock and participating securities based upon their respective rights to receive dividends as if all income for the period had been distributed. The anti-dilutive effect of potentially dilutive securities is excluded from the computation of net loss per share because inclusion of such potentially dilutive shares on an as-converted basis would have been anti-dilutive.

The Company considers any unvested common shares subject to repurchase to be participating securities because holders of such shares have non-forfeitable dividend rights in the event a dividend is paid on common stock. The holders of unvested shares of common stock subject to repurchase do not have a contractual obligation to share in losses.

Basic net loss per share attributable to common stockholders is calculated by dividing the net loss attributable to common stockholders by the weighted-average number of shares of common stock outstanding during the period, adjusted for outstanding shares that are subject to repurchase and any shares issuable by the exercise of warrants for nominal consideration.

Diluted net loss per share is computed by giving effect to all potentially dilutive securities outstanding for the period using the treasury stock method or the if-converted method based on the nature of such securities. For periods in which the Company reports a net loss, the diluted net loss per common share attributable to common stockholders is the same as basic net loss per common share attributable to common stockholders, because inclusion of such potentially dilutive shares on an as-converted basis would have been anti-dilutive.

Cash and Cash Equivalents

The Company considers financial instruments with an original maturity of three months or less to be cash and cash equivalents. The Company maintains cash and cash equivalents at multiple financial institutions, and, at times, these balances exceed federally insurable limits. As a result, there is a concentration of credit risk related to amounts on deposit. The Company believes any risks are mitigated through the size and security of the financial institution at which its cash balances are held.

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Restricted Cash

The Company considers cash to be restricted when withdrawal or general use is legally restricted. The Company reports the current portion of restricted cash as a separate item in the Condensed Consolidated Balance Sheets and the non-current portion is a component of other long-term assets in the Condensed Consolidated Balance Sheets. The Company determines current or non-current classification based on the expected duration of the restriction.

Accounts Receivable, net

Accounts receivable consist of balances due from customers resulting from the sale of hardware, professional services and Hosted Services. Accounts receivable are recorded at invoiced amounts, are non-interest bearing and are presented net of the associated allowance for expected credit losses on the Condensed Consolidated Balance Sheets. The allowance for expected credit losses totaled \$2,165 and \$1,361 as of September 30, 2024, and December 31, 2023, respectively. The provision for expected credit losses is recorded in general and administrative expenses in the accompanying Condensed Consolidated Statements of Operations and Comprehensive Loss. There was no provision for expected credit losses for the three months ended September 30, 2024. The provision for expected credit losses totaled \$39 for the three months ended September 30, 2023. The provision for expected credit losses totaled \$804 and \$39 for the nine months ended September 30, 2024 and 2023, respectively. The Company evaluates the collectability of the accounts receivable balances and has determined the allowance for expected credit losses based on a combination of factors, which include the nature of the relationship and the prior collection experience the Company has with the account and an evaluation for current and projected economic conditions as of the Condensed Consolidated Balance Sheets date. Accounts receivable determined to be uncollectible are charged against the allowance for expected credit losses. Actual collections of accounts receivable could differ from management's estimates.

Significant Customers

A significant customer represents 10% or more of the Company's total revenue or net accounts receivable balance at each respective Condensed Consolidated Balance Sheet date. Revenue as a percentage of total revenue and accounts receivable as a percentage of total accounts receivable for each significant customer follows.

	Accounts Receivable As of		Revenue For the three months ended		Revenue For the nine months ended	
	September 30, 2024	December 31, 2023	September 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
Customer A	14%	18%	*	20%	*	15%
Customer B	*	13%	*	*	*	*
Customer C	14%	*	10%	*	15%	*
Customer D	20%	*	*	*	12%	*
Customer E	*	*	57%	*	26%	*

* Total less than 10% for the respective period

Inventory

Inventories, which are comprised of smart home equipment and components, are stated at the lower of cost or net realizable value with cost determined under the first-in, first-out method. The Company adjusts the inventory balance based on anticipated obsolescence, usage and historical write-offs.

In August 2023, the Company entered into a Product Sales Agreement (the "Agreement") with ADI Global Distribution ("ADI"), pursuant to which, ADI agreed to serve as the Company's non-exclusive hardware fulfillment partner throughout the United States, Canada, and Puerto Rico. The Company is subject to certain buy-back provisions relating to the transferred inventory. As of September 30, 2024 and December 31, 2023, the Company recorded \$1,623 and \$851 in connection with the buy-back provision, which is recorded in other current liabilities on the Condensed Consolidated Balance Sheets.

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Goodwill

Goodwill represents the excess of cost over net assets of the Company's completed business combinations. The Company tests for potential impairment of goodwill on an annual basis as of September 30 to determine if the carrying value is less than the fair value. The Company will conduct additional tests between annual tests if there are indications of potential goodwill impairment. During the three months ended September 30, 2024, the Company conducted an interim test as of July 31, 2024 following the departure of the Company's former Chief Executive Officer ("CEO"). The Company concluded that goodwill was not impaired as of July 31, 2024. No goodwill impairment has been recorded as of September 30, 2024 and December 31, 2023.

Intangible Assets

The Company recorded intangible assets with finite lives, including customer relationships and developed technology, as a result of acquisitions made in prior years. Intangible assets are amortized on a straight-line basis based on their estimated useful lives. The estimated useful life of these intangible assets are as follows.

	Estimated useful life (in years)
Trade name	5
Customer relationships	10 - 13
Developed technology	1 - 7

Warranty Allowance

The Company provides its customers with limited-service warranties associated with product replacement and related services. The warranty typically lasts one year following the installation of the product. The estimated warranty costs, which are expensed at the time of sale and included in hardware cost of revenue, are based on the results of product testing, industry and historical trends and warranty claim rates incurred and are adjusted for identified current or anticipated future trends as appropriate. Actual warranty claim costs could differ from these estimates. For the three months ended September 30, 2024 and 2023, warranty expense included in cost of hardware revenue was \$(693) and \$850, respectively. The negative warranty expense during the three months ended September 30, 2024 was primarily attributable to the Company's release of an \$864 accrual related to the replacement of deficient batteries as disclosed in the paragraph below. For the nine months ended September 30, 2024 and 2023, warranty expense included in cost of hardware revenue was \$(650) and \$1,390, respectively. As of September 30, 2024, and December 31, 2023, the Company's warranty allowance was \$638 and \$2,215, respectively, and is recorded in other current liabilities on the Condensed Consolidated Balance Sheets.

During the year ended December 31, 2020, the Company identified a deficiency with batteries contained in certain hardware sold and has included an estimate of the expected cost to remove these batteries, which were acquired from one supplier, in its warranty allowance. During the three months ended September 30, 2024, the Company determined the battery replacements were complete and released the remaining warranty accrual of \$864 related to the battery deficiency. As of September 30, 2024, there is no amount in the Company's warranty allowance related to the remaining cost of replacement for this identified battery deficiency. As of December 31, 2023, \$864 is included in the Company's warranty allowance related to the remaining cost of replacement for this identified battery deficiency.

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During the year ended December 31, 2023, the Company identified a deficiency with the firmware and sensor accuracy of certain hardware sold and has included an estimate of the expected cost to update the related firmware and hardware. As of December 31, 2023, \$410 is included in the Company's warranty allowance related to the remaining cost to perform the firmware and hardware updates. As of September 30, 2024, there is no amount in the Company's warranty allowance related to the remaining cost to perform the firmware and hardware updates.

Fair Value of Financial Instruments

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 three or nine months ended September 30, 2024 or 2023. 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.

Revenue Recognition

The Company derives its revenue primarily from sales of systems that consist of hardware devices, professional services and Hosted Services to assist property owners and property managers with visibility and control over assets, while providing all-in-one home control offerings for residents. Revenue is recorded when control of these products and services is transferred to the customer in an amount that reflects the consideration the Company expects to be entitled to receive in exchange for those products and services.

The Company may enter into contracts that contain multiple distinct performance obligations. The transaction price for a typical arrangement includes the price for: smart home hardware devices, professional services, and a subscription for use of the Company's software ("Hosted Services"). Included in these contracts are centrally connected devices ("Hub Devices"), which integrate the Company's enterprise software with third party smart devices. Historically, the Company only sold non-distinct Hub Devices which only functioned with a subscription to its software ("non-distinct Hub Devices"). During the year ended December 31, 2022, the Company began shipping Hub Devices with features that function independently from its software subscription ("distinct Hub Devices"). Non-distinct Hub Devices are recognized as a single performance obligation with the Company's software in Hosted Services revenue, while distinct Hub Devices are recognized as a separate performance obligation in hardware revenue. When distinct Hub Devices are included in a contract, the Hosted Services performance obligation is comprised of only the Company's software.

The Company considers delivery for each of the hardware, professional services and Hosted Services to be separate performance obligations. The hardware performance obligation includes the delivery of smart home hardware and distinct Hub Devices. The professional services performance obligation includes the services to install the hardware. The Hosted Services performance obligation provides a subscription that allows the customer access to software during the contracted-use term when the promised service is provided to the customer. Also included in the hosted service performance obligation are non-distinct Hub Devices that only function with a subscription to the Company's software.

Payments are received by the Company by credit card, check or automated clearing house payments and payment terms are determined by individual contracts and generally range from due upon receipt to net 30 days. Taxes collected from customers and remitted to governmental authorities are not included in reported revenue. Payments received from customers in advance of revenue recognition are reported as deferred revenue. The Company has elected the following practical expedients following the adoption of ASC 606:

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•Shipping and handling costs: the Company elected to account for shipping and handling activities that occur after the customer has obtained control of a good as fulfillment activities (i.e., an expense) rather than as a promised service and are recorded as hardware cost of revenue. Amounts billed for shipping and handling fees are recorded as revenue.

•Sales tax collected from customers: the Company elected to exclude from the measurement of transaction price all taxes assessed by a government authority that are both imposed on and concurrent with a specific revenue-producing transaction and collected by us from a customer.

•Measurement of the transaction price: the Company applies the practical expedient that allows for inclusion of the future auto-renewals in the initial measurement of the transaction price. The Company only applies these steps when it is probable that it will collect the consideration to which it is entitled in exchange for the goods or services it transfers to a customer.

•Significant financing component: the Company elected not to adjust the promised amount of consideration for the effects of a significant financing component when the period between the transfer of promised goods or services and when the customer pays for the goods or services will be one year or less.

Timing of Revenue Recognition is as follows.

•*Hardware Revenue*

Hardware revenue results from the direct sale to customers of hardware smart home devices, which devices generally consist of a distinct Hub Device, door locks, thermostats, sensors, and light switches. These hardware devices provide features that function independently without subscription to the Company's software, and the performance obligation for hardware revenue is considered satisfied, and revenue is recognized at a point in time when the hardware device is shipped to the customer. The Company generally provides a one-year warranty period on hardware devices that are delivered and installed. The cost of the warranty is recorded as a component of cost of hardware revenue.

•*Professional Services Revenue*

Professional services revenue results from installing smart home hardware devices, which does not result in significant customization of the product and is generally performed over a period from two to four weeks. Installations can be performed by the Company's employees, contracted out to a third-party with the Company's employees managing the engagement, or the customer can perform the installation themselves. The Company's professional services contracts are generally arranged on a fixed price basis, and revenue is recognized over the period in which the installations are completed.

•*Hosted Services Revenue*

Hosted Services revenue primarily consists of monthly subscription revenue generated from fees that provide customers access to one or more of the Company's software applications including access controls, asset monitoring and related services, and our Community WiFi solution, which provides communities with a private, device-dedicated WiFi network. These subscription arrangements have contractual terms ranging from one month to eight years and include recurring fixed plan subscription fees. Arrangements with customers do not provide the customer with the right to take possession of the Company's software at any time. Customers are granted continuous access to the services over the contractual period. Accordingly, fees collected for subscription services are recognized on a straight-line basis over the contract term beginning on the date the subscription service is made available to the customer. Variable consideration is immaterial.

Also included in Hosted Services revenue are non-distinct Hub Devices. The Company considers those devices and hosting services subscription a single performance obligation and therefore defers the recognition of revenue for those devices upon shipment to the customer. The revenue is then amortized over its average service life. When a non-distinct Hub Device is included in a contract that does not require a long-term service commitment, the customer obtains a material right to renew the service because purchasing a new device is not required upon renewal. If a contract contains a material right, proceeds are allocated to the material right and recognized over the period of benefit, which is generally four years.

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Cost of Revenue

Cost of revenue consists primarily of direct costs of products and services together with the indirect cost of estimated warranty expense and customer care and support over the life of the service arrangement.

•*Hardware*

Cost of hardware revenue consists primarily of direct costs of products, such as the distinct Hub Device, hardware devices, supplies purchased from third-party providers, and shipping costs, together with indirect costs related to warehouse facilities (including depreciation and amortization of capitalized assets and right-of-use assets), infrastructure costs, personnel-related costs associated with the procurement and distribution of products and warranty expenses together with the indirect cost of customer care and support.

•*Professional Services*

Cost of professional services revenue consists primarily of direct costs related to personnel-related expenses for installation and supervision of installation services, general contractor expenses and travel expenses associated with the installation of products and indirect costs that are also primarily personnel-related expenses in connection with training of and ongoing support for customers and residents.

•*Hosted Services*

Cost of Hosted Services revenue consists primarily of the amortization of the direct costs of non-distinct Hub Devices, consistent with the revenue recognition period noted above in "Hosted Services Revenue", and infrastructure costs associated with providing software applications together with the indirect cost of customer care and support over the life of the service arrangement.

Deferred Cost of Revenue

Deferred cost of revenue includes all direct costs included in cost of revenue for Hosted Services and non-distinct Hub Devices that have been deferred to future periods.

Stock-Based Compensation

Our stock-based compensation consists of stock options and restricted stock units ("RSUs") granted to our employees and directors during the periods presented. Stock-based awards are measured based on the grant date fair value. We estimate the fair value of stock option awards on the grant date using the Black-Scholes option-pricing model. The fair value of RSUs is based on the grant date fair value of the stock price. The fair value of these awards is recognized as compensation expense on a straight-line basis over the requisite service period in which the awards are expected to vest. Forfeitures are recognized as they occur by reversing previously recognized compensation expense.

The Black-Scholes model considers several variables and assumptions in estimating the fair value of stock-based awards. These variables include the per share fair value of the underlying common stock, exercise price, expected term, risk-free interest rate, expected annual dividend yield, and the expected stock price volatility over the expected term and forfeitures, which are recognized as they occur. For all stock options granted, we calculated the expected term using the simplified method for "plain vanilla" stock option awards.

The grant date fair value is also utilized with respect to RSUs with performance and service conditions to vest. For RSUs with a performance condition, based on a liquidity event, as well as a service condition to vest, no compensation expense is recognized until the performance condition has been satisfied. Subsequent to the liquidity event, compensation expense is recognized to the extent the requisite service period has been completed and compensation expense thereafter is recognized on an accelerated attribution method. Under the accelerated attribution method, compensation expense is recognized over the remaining requisite service period for each service condition tranche as though each tranche is, in substance, a separate award. In August 2021, the Company completed the merger with FWAA, which met the liquidity event vesting condition and triggered the recognition of compensation expense for RSUs for which the time-based vesting condition had been satisfied or partially satisfied.

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Research and Development

These expenses relate to the research and development of new products and services and enhancements to the Company's existing product offerings. The Company accounts for the cost of research and development by capitalizing qualifying costs, which are incurred during the product development stage, and amortizing those costs over the product's estimated useful life, which generally ranges from three to five years depending on the type of application. The Company expenses preliminary evaluation costs as they are incurred before the product development stage, as well as post development implementation and operation costs, such as training, maintenance and minor upgrades. During the three months ended September 30, 2024 and 2023, the Company capitalized \$3,209 and \$822, respectively, of research and development costs in other long-term assets on the Condensed Consolidated Balance Sheets. During the nine months ended September 30, 2024 and 2023, the Company capitalized \$5,864 and \$3,037, respectively, of research and development costs in other long-term assets on the Condensed Consolidated Balance Sheets. As of September 30, 2024, the Company had capitalized \$12,928 of research and development costs in other long-term assets on the Condensed Consolidated Balance Sheets, of which \$10,822 remained to be amortized. As of December 31, 2023, the Company had capitalized \$7,064 of research and development costs in other long-term assets on the Condensed Consolidated Balance Sheets, of which \$6,163 remains to be amortized.

Advertising

Advertising costs are expensed as incurred and recorded as a component of sales and marketing expense. The Company incurred \$191 of advertising expenses for the three months ended September 30, 2024. There were no such advertising expenses recorded for the three months ended September 30, 2023. The Company incurred \$423 and \$268 of advertising expenses for the nine months ended September 30, 2024 and 2023, respectively.

Segments

The Company has one operating segment and one reportable segment. Its chief operating decision maker, a management committee comprised of current executives (the "Management Committee"), reviews financial information on a consolidated basis for purposes of allocating resources and evaluating financial performance. The Company's principal operations are in the United States and the Company's long-lived assets are located primarily within the United States. The Company held \$8,538 and \$8,280 of assets outside the United States as of September 30, 2024, and December 31, 2023, respectively.

Recent Accounting Guidance

Recent Accounting Guidance Not Yet Adopted

In November 2023, the Financial Standards Accounting Board (FASB) issued Accounting Standards Update (ASU) No. 2023-07 - Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures. This ASU updates the annual and interim disclosure requirements for reportable segments, primarily through enhanced disclosures about significant segment expenses. ASU 2023-07 is effective for annual periods beginning after December 15, 2023, and for interim periods beginning after December 15, 2024. Early adoption is also permitted. The Company expects this ASU to only impact its disclosures with no impacts to results of operations, cash flows or financial condition.

In December 2023, the FASB issued ASU No. 2023-09 - Income Taxes (Topics 740): Improvements to Income Tax Disclosures. This ASU requires the expansion of disclosure requirements for income taxes, specifically related to the rate reconciliation and income taxes paid. ASU 2023-09 is effective for annual periods after December 15, 2024. Early adoption is also permitted for annual financial statements that have not yet been issued or made available for issuance. The Company is currently evaluating the effect that the updated standard will have on the consolidated financial statement disclosures.

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Recently Adopted Accounting Guidance

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments—Credit Losses (Topic 326)" which modifies the measurement of expected credit losses of certain financial instruments. This update is effective for fiscal years beginning after December 15, 2022 and must be applied using a modified-retrospective approach, with early adoption permitted. The requirement to disclose credit quality indicators by year or origination is not applicable to trade receivables due in one year or less that result from revenue transactions within the scope of ASC 606. The Company adopted ASU 2016-13 effective January 1, 2023 using the modified-retrospective approach. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

NOTE 3. FAIR VALUE MEASUREMENTS AND FAIR VALUE OF INSTRUMENTS

The following tables display the carrying values and fair values of financial instruments.

		September 30, 2024			As of December 31, 2023		
		Carrying Value	Unrealized Losses	Fair Value	Carrying Value	Unrealized Losses	Fair Value
Assets on the Consolidated Balance Sheets							
Cash and cash equivalents	Level 1	\$ 163,403	\$ -	\$ 163,403	\$ 215,214	\$ -	\$ 215,214
Restricted cash	Level 1	247	-	247	495	-	495
Total		<u>\$ 163,650</u>	<u>\$ -</u>	<u>\$ 163,650</u>	<u>\$ 215,709</u>	<u>\$ -</u>	<u>\$ 215,709</u>

The Company reports the current portion of restricted cash as a separate item in the Condensed Consolidated Balance Sheets and the non-current portion is a component of other long-term assets in the Condensed Consolidated Balance Sheets.

		September 30, 2024		As of December 31, 2023	
		Carrying Value	Fair Value	Carrying Value	Fair Value
Liabilities on the Consolidated Balance Sheets					
Acquisition earnout payment	Level 3	\$ 2,860	\$ 2,860	\$ 4,250	\$ 4,250
Total liabilities		<u>\$ 2,860</u>	<u>\$ 2,860</u>	<u>\$ 4,250</u>	<u>\$ 4,250</u>

In December 2021, the Company purchased all of the outstanding equity interests of iQueue, LLC ("iQueue"). The Company reports the current portion of the acquisition earnout payment as a component of other current liabilities in the Condensed Consolidated Balance Sheets and the non-current portion is a component of other long-term liabilities on the Condensed Consolidated Balance Sheets. Earnout payments related to acquisitions are measured at fair value each reporting period using Level 3 unobservable inputs. The changes in the fair value of the Company's Level 3 liabilities for the nine months ended September 30, 2024 and year ended December 31, 2023 are as follows.

	September 30, 2024		As of December 31, 2023	
Balance at beginning of period	\$	4,250	\$	5,540
Payment of earnout in connection with the iQueue acquisition		(1,530)		(1,702)
Change in fair value of earnout		140		412
Balance at end of period	<u>\$</u>	<u>2,860</u>	<u>\$</u>	<u>4,250</u>

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The fair value of the earnout payment is measured on a recurring basis at each reporting date. The following inputs and assumptions were used in the Monte Carlo simulation model to estimate the fair value of the earnout payment as of September 30, 2024 and December 31, 2023. During the nine months ended September 30, 2024, the Company determined there was a \$140 increase in the fair value of the earnout, primarily due to a decreased payment term as the Company is nine months closer to the payout date. During the nine months ended September 30, 2023, there was a \$225 increase in the fair value of the earnout, primarily due to a decreased payment term as the Company approached the payment date. The Company recorded these adjustments in general and administrative expense on the Condensed Consolidated Statement of Operations and Comprehensive Loss. The following table sets forth the weighted-average assumptions used to estimate the fair value of the earnout payment as of September 30, 2024 and December 31, 2023.

	As of	
	September 30, 2024	December 31, 2023
Discount Rate	11.90 %	10.50 %
Volatility	40.00 %	42.00 %

NOTE 4. REVENUE AND DEFERRED REVENUE

Disaggregation of Revenue

In the following tables, revenue is disaggregated by primary geographical market, type of revenue, and SmartRent Solution.

	For the three months ended September 30,		For the nine months ended September 30,	
	2024	2023	2024	2023
Revenue by geography				
United States	\$ 40,030	\$ 58,056	\$ 138,183	\$ 175,616
International	480	48	1,334	969
Total revenue	<u>\$ 40,510</u>	<u>\$ 58,104</u>	<u>\$ 139,517</u>	<u>\$ 176,585</u>

	For the three months ended September 30,		For the nine months ended September 30,	
	2024	2023	2024	2023
Revenue by type				
Hardware	\$ 18,707	\$ 35,631	\$ 72,460	\$ 100,744
Professional services	3,308	5,962	12,582	28,781
Hosted services	18,495	16,511	54,475	47,060
Total revenue	<u>\$ 40,510</u>	<u>\$ 58,104</u>	<u>\$ 139,517</u>	<u>\$ 176,585</u>

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For the three months ended September 30,									For the nine months ended September 30,							
2024				2023					2024				2023			
(dollars in thousands)									(dollars in thousands)							
SmartRent Solutions	Hardware	Professional Services	Hosted Services	Total 2024	Hardware	Professional Services	Hosted Services	Total 2023	Hardware	Professional Services	Hosted Services	Total 2024	Hardware	Professional Services	Hosted Services	Total 2023
Smart Communities Solutions																
Smart Apartments	\$ 16,569	\$ 2,387	\$ 14,445	\$ 33,401	\$ 33,107	\$ 4,939	\$ 12,738	\$ 50,784	\$ 66,119	\$ 9,558	\$ 42,661	\$ 118,338	\$ 96,104	\$ 24,739	\$ 36,417	\$ 157,260
Access Control	1,034	415	477	1,926	1,302	758	281	2,341	2,920	1,935	1,217	6,072	3,039	2,916	595	6,550
Community WiFi	146	300	181	627	37	125	200	362	291	537	521	1,349	110	917	499	1,526
Other	963	206	575	1,744	1,185	140	378	1,703	3,136	607	1,504	5,247	1,502	209	1,033	2,744
Smart Operations Solutions	(5)	-	2,817	2,812	-	-	2,914	2,914	(6)	(55)	8,572	8,511	(11)	-	8,516	8,505
Total Revenue	\$ 18,707	\$ 3,308	\$ 18,495	\$ 40,510	\$ 35,631	\$ 5,962	\$ 16,511	\$ 58,104	\$ 72,460	\$ 12,582	\$ 54,475	\$ 139,517	\$ 100,744	\$ 28,781	\$ 47,060	\$ 176,585

Remaining Performance Obligations

Advance payments received from customers are recorded as deferred revenue and are recognized upon the completion of related performance obligations over the period of service. Advance payments for non-distinct Hub Devices were recorded as deferred revenue and recognized over their average in-service life. Advance payments received from customers for subscription services are recorded as deferred revenue and recognized over the term of the subscription. A summary of the change in deferred revenue is as follows.

	For the nine months ended September 30,	
	2024	2023
Deferred revenue balance as of January 1	\$ 123,159	\$ 139,948
Revenue recognized from balance of deferred revenue at the beginning of the period	(8,656)	(14,505)
Revenue deferred during the period	7,075	19,593
Revenue recognized from revenue originated and deferred during the period	(2,010)	(2,067)
Deferred revenue balance as of March 31	119,568	142,969
Revenue recognized from balance of deferred revenue at the beginning of the period	(8,914)	(11,896)
Revenue deferred during the period	4,244	16,954
Revenue recognized from revenue originated and deferred during the period	(3,040)	(5,191)
Deferred revenue balance as of June 30	111,858	142,836
Revenue recognized from balance of deferred revenue at the beginning of the period	(16,269)	(12,096)
Revenue deferred during the period	10,825	12,286
Revenue recognized from revenue originated and deferred during the period	(6,442)	(5,447)
Deferred revenue balance as of September 30	<u>\$ 99,972</u>	<u>\$ 137,579</u>

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As of September 30, 2024, the Company expects to recognize 63% of its total deferred revenue within the next 12 months, 11% of its total deferred revenue between 13 and 36 months, 22% between 37 and 60 months, and the remainder is expected to be recognized beyond five years. Contracts may contain termination for convenience provisions that allow the Company, customer, or both parties the ability to terminate for convenience, either at any time or upon providing a specified notice period, without a substantive termination penalty. Included in deferred revenue as of September 30, 2024 and 2023 are \$21,875 and \$39,816, respectively, of prepaid fees related to contracts with termination for convenience provisions which are refundable at the request of the customer. Based on the Company's historical experience, customers do not typically exercise their termination for convenience rights. Deferred cost of revenue includes all direct costs included in cost of revenue that have been deferred to future periods.

NOTE 5. OTHER BALANCE SHEET INFORMATION

Inventory consisted of the following.

	As of	
	September 30, 2024	December 31, 2023
Finished Goods	\$ 35,563	\$ 41,206
Raw Materials	385	369
Total inventory	<u>\$ 35,948</u>	<u>\$ 41,575</u>

The Company writes-down inventory for any excess or obsolete inventories or when the Company believes the net realizable value of inventories is less than the carrying value. During the three months ended September 30, 2024 and 2023 the Company recorded write-downs of \$2,596, primarily due to technology changes and new product introductions resulting in certain obsolete inventory during the quarter, and \$1,857, respectively. During the nine months ended September 30, 2024 and 2023, the Company recorded write-downs of \$2,767 and \$2,130, respectively.

Prepaid expenses and other current assets consisted of the following.

	As of	
	September 30, 2024	December 31, 2023
Prepaid expenses	\$ 7,157	\$ 7,144
Other current assets	5,060	2,215
Total prepaid expenses and other current assets	<u>\$ 12,217</u>	<u>\$ 9,359</u>

During the three months ended September 30, 2024, the Company recorded \$3,534 in other current assets related to a lease for its new headquarters in Phoenix, AZ. See Note 12. "Commitments and Contingencies" - Lease Commitments.

Property and equipment, net consisted of the following.

	As of	
	September 30, 2024	December 31, 2023
Computer hardware	\$ 2,469	\$ 2,242
Leasehold improvements	736	717
Warehouse and other equipment	845	748
Furniture and fixtures	366	146
Property and equipment	4,416	3,853
Less: Accumulated depreciation	(3,059)	(2,453)
Total property and equipment, net	<u>\$ 1,357</u>	<u>\$ 1,400</u>

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Depreciation and amortization expense on all property, plant and equipment was \$229 and \$182 during the three months ended September 30, 2024 and 2023, respectively. Depreciation and amortization expense on all property, plant and equipment was \$606 and \$582 during the nine months ended September 30, 2024 and 2023, respectively.

Intangible assets, net consisted of the following.

	As of			As of		
	September 30, 2024			December 31, 2023		
	Gross	Accumulat ed Amortizati on	Net	Gross	Accumulat ed Amortiza tion	Net
Customer relationships	\$ 22,990	\$ (5,668)	\$ 17,322	\$ 22,990	\$ (4,001)	\$ 18,989
Developed technology	10,600	(4,015)	6,585	10,600	(2,911)	7,689
Trade name	900	(464)	436	900	(329)	571
Total intangible assets, net	<u>\$ 34,490</u>	<u>\$ (10,147)</u>	<u>\$ 24,343</u>	<u>\$ 34,490</u>	<u>\$ (7,241)</u>	<u>\$ 27,249</u>

Amortization expense on all intangible assets was \$969 and \$968 for the three months ended September 30, 2024 and 2023, respectively. Amortization expense on all intangible assets was \$2,906 and \$2,906 for the nine months ended September 30, 2024 and 2023, respectively. Total future amortization for finite-lived intangible assets is estimated as follows.

	Amortization Expense
2024 - Remaining	\$ 968
2025	3,873
2026	3,873
2027	3,734
2028	3,693
Thereafter	8,202
Total	<u>\$ 24,343</u>

Other long-term assets consisted of the following.

	As of	
	September 30, 2024	December 31, 2023
Capitalized software costs, net	\$ 8,834	\$ 5,632
Investment in non-affiliate	-	2,250
Operating lease - ROU asset, net	4,172	2,550
Other long-term assets	2,920	1,816
Total other long-term assets	<u>\$ 15,926</u>	<u>\$ 12,248</u>

Amortization expense for capitalized software costs was \$407 and \$228 for the three months ended September 30, 2024 and 2023, respectively. Amortization expense for capitalized software costs was \$1,118 and \$483 for the nine months ended September 30, 2024 and 2023, respectively.

During the three months ended September 30, 2024, the Company recorded \$2,701 of other long-term assets related to a lease for its new headquarters in Phoenix, AZ. See Note 12. "Commitments and Contingencies" - Lease Commitments.

In December 2023, the Company invested \$2,250 in a non-affiliated, privately held entity, under a Simple Agreement for Future Equity ("SAFE") agreement. The non-affiliated entity provides support and consultation for consumers looking to manage and upgrade the technology within their home. The Company's investment in the SAFE is recorded using the cost method of accounting and is included under other long-term assets on the Condensed Consolidated Balance Sheets, as it is not readily convertible into cash. During the three months ended June 30, 2024, the Company identified factors indicative of impairment and recorded an impairment charge of \$2,250 in general and administrative expenses on the Condensed Consolidated Statements of Operations and Comprehensive Loss. During the year ended December 31, 2023, the Company did not identify any factors indicative of impairment.

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Accrued expenses and other current liabilities consisted of the following.

		As of	
		September 30, 2024	December 31, 2023
Accrued expenses	\$	12,609	\$ 6,674
Accrued compensation costs		7,278	10,272
Warranty allowance		638	2,215
Other		6,049	5,815
Total accrued expenses and other current liabilities	\$	<u>26,574</u>	<u>\$ 24,976</u>

Other long-term liabilities consisted of the following.

		September 30, 2024	December 31, 2023
Lease liability, noncurrent	\$	7,311	\$ 1,311
Other long-term liabilities		60	2,785
Total other long-term liabilities	\$	<u>7,371</u>	<u>\$ 4,096</u>

During the three months ended September 30, 2024, the Company recorded \$6,131 in other long-term liabilities related to the lease for its new headquarters in Phoenix, AZ. See Note 12. "Commitments and Contingencies" - Lease Commitments.

NOTE 6. DEBT

Term Loan and Revolving Line of Credit Facility

In December 2021, the Company entered into a \$75,000 Senior Revolving Facility with a five-year term (the "Senior Revolving Facility"). The Senior Revolving Facility includes a letter of credit sub-facility in the aggregate availability of \$10,000 as a sublimit of the Senior Revolving Facility, and a swingline sub-facility in the aggregate availability of \$10,000 as a sublimit of the Senior Revolving Facility. Proceeds from the Senior Revolving Facility are to be used for general corporate purposes. Amounts borrowed under the Senior Revolving Facility may be repaid and, prior to the Senior Revolving Facility maturity date, reborrowed. The Senior Revolving Facility terminates on the Senior Revolving Facility maturity date in December 2026, when the principal amount of all advances, the unpaid interest thereon, and all other obligations relating to the Senior Revolving Facility shall be immediately due and payable. The Company has yet to draw on the Senior Revolving Facility as of September 30, 2024. The Company accounted for the cancellation of its previous revolving facility and the issuance of the Senior Revolving Facility as an exchange with the same creditor. As a result, all costs related to entering into the Senior Revolving Facility that are allowed to be deferred are recorded as a deferred asset and included in other assets on the Condensed Consolidated Balance Sheets. These costs totaled \$688 and will be amortized ratably over the five-year term of the Senior Revolving Facility. For the three months ended September 30, 2024 and 2023, the Company recorded \$35 and \$34, respectively, of amortization expense in connection with these costs, as a component of interest expense on the Condensed Consolidated Statements of Operations and Comprehensive Loss. For the nine months ended September 30, 2024 and 2023, the Company recorded \$107 and \$103, respectively, of amortization expense in connection with these costs, as a component of interest expense on the Condensed Consolidated Statements of Operations and Comprehensive Loss.

Interest rates for draws upon the Senior Revolving Facility are determined by whether the Company elects a secured overnight financing rate loan ("SOFR Loan") or alternate base rate loan ("ABR Loan"). For SOFR Loans, the interest rate is based upon the forward-looking term rate based on SOFR as published by the CME Group Benchmark Administration Limited (CBA) plus 0.10%, subject to a floor of 0.00%, plus an applicable margin. For ABR Loans, the interest rate is based upon the highest of (i) the Prime Rate, (ii) the Federal Funds Effective Rate plus 0.50%, or (iii) 3.25%, plus an applicable margin. As of September 30, 2024, the applicable margins for SOFR Loans and ABR Loans under the Senior Revolving Facility were 1.75% and (0.50%), respectively.

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In addition to paying interest on the outstanding principal balance under the Senior Revolving Facility, the Company is required to pay a facility fee to the lender in respect of the unused commitments thereunder. The facility fee rate is based on the daily unused amount of the Senior Revolving Facility and is one fourth of one percent (0.25%) per annum based on the unused facility amount. During the three months ended September 30, 2024 and 2023, the facility fee totaled \$47 and \$47, respectively. During the nine months ended September 30, 2024 and 2023, the facility fee totaled \$134 and \$141, respectively.

The Senior Revolving Facility contains certain customary affirmative and negative covenants and events of default. Such covenants will, among other things, restrict, subject to certain exceptions, the Company's ability to (i) engage in certain mergers or consolidations, (ii) sell, lease or transfer all or substantially all of the Company's assets, (iii) engage in certain transactions with affiliates, (iv) make changes in the nature of the Company's business and its subsidiaries, and (v) incur additional indebtedness that is secured on a *pari passu* basis with the Senior Revolving Facility.

The Senior Revolving Facility also requires the Company, on a consolidated basis with its subsidiaries, to maintain a minimum cash balance. If the minimum cash balance is not maintained, the Company is required to maintain a minimum liquidity ratio. If an event of default occurs, the lender is entitled to take various actions, including the acceleration of amounts due under the Senior Revolving Facility and all actions permitted to be taken by a secured creditor. As of September 30, 2024, and through the date these consolidated financial statements were issued, the Company believes it was in compliance with all financial covenants.

The Senior Revolving Facility is collateralized by first priority or equivalent security interests in substantially all the property, rights, and assets of the Company.

As of September 30, 2024 and December 31, 2023, there was no outstanding principal amount under the Senior Revolving Facility.

NOTE 7. CONVERTIBLE PREFERRED STOCK AND EQUITY

Preferred Stock

The Company is authorized to issue 50,000 shares of \$0.0001 par value preferred stock. As of September 30, 2024, there are no preferred stock issued or outstanding.

Warrants

As of September 30, 2024, warrants issued as consideration to certain customers to purchase 3,663 shares of Class A Common Stock at \$0.01 per share were no longer outstanding. The vesting of the warrants was dependent on the number of installed units, as defined by the warrant agreements, purchased by the customer with certain measurement periods which expired in February 2024. The fair value of the vested warrants was recorded as additional paid-in capital and contra-revenue on the accompanying Condensed Consolidated Balance Sheets and Condensed Consolidated Statements of Operations and Comprehensive Loss, respectively. Based on the count of installed units as of February 2024, the number of warrants to vest is zero and as of December 31, 2023, the Company removed \$193 from additional paid-in-capital and contra-revenue on the accompanying Condensed Consolidated Balance Sheets and Condensed Consolidated Statements of Operations and Comprehensive Loss. There was no contra-revenue recorded related to these warrants during the three or nine months ended September 30, 2024 and 2023.

Stock Repurchase Program

In March 2024, our Board of Directors ("Board") authorized a stock repurchase program pursuant to which we may repurchase up to \$50,000 of our Class A common stock. Repurchases under the program may be made from time to time through open market purchases or through privately negotiated transactions subject to market conditions, applicable legal requirements and other relevant factors. The repurchase program does not obligate us to acquire any particular amount of our Class A common stock and may be suspended at any time at our discretion. The timing and number of shares repurchased will depend on a variety of factors, including the stock price, business and market conditions, corporate and regulatory requirements, alternative investment opportunities, acquisition opportunities, and other factors.

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During the three months ended September 30, 2024, the Company repurchased and subsequently retired 9,767 shares of our Class A common stock under the stock repurchase program at an average price of \$1.75 per share for a total of \$17,081. During the nine months ended September 30, 2024, the Company repurchased and subsequently retired 12,127 shares of our Class A common stock under the stock repurchase program at an average price of \$1.93 per share for a total of \$23,462. The Company has elected to record the amount paid to repurchase the shares in excess of the par value entirely to accumulated deficit. As of September 30, 2024, approximately \$26,660 remained available for stock repurchases pursuant to our stock repurchase program.

NOTE 8. STOCK-BASED COMPENSATION

2018 Stock Plan

Legacy SmartRent's board of directors adopted, and its stockholders approved, the SmartRent.com, Inc. 2018 Stock Plan (the "2018 Stock Plan"), effective March 2018. The purpose of the 2018 Stock Plan was to advance the interests of Legacy SmartRent and its stockholders by providing an incentive to attract, retain and reward persons performing services for Legacy SmartRent and by motivating such persons to contribute to the growth and profitability of Legacy SmartRent. The 2018 Stock Plan sought to achieve this purpose by providing awards in the form of stock options and restricted stock purchase rights. Awards granted as stock options under the 2018 Stock Plan generally expire no later than ten years from the date of grant and become vested and exercisable over a four-year period. All options are subject to certain provisions that may impact these vesting schedules.

Amendment to the 2018 Stock Plan

In April 2021, the board of directors of Legacy SmartRent executed a unanimous written consent to provide an additional incentive to certain employees of Legacy SmartRent by amending the 2018 Stock Plan to allow for the issuance of RSUs and granted a total of 1,533 RSUs to certain employees which vest over four years. The estimated fair value for each RSU issued was approximately \$21.55 per share and the total stock-based compensation expense to be amortized over the vesting period is \$33,033. Effective upon the Business Combination in August 2021, the 2018 Stock Plan was replaced by the 2021 Plan. The 2018 Stock Plan continues to govern the terms and conditions of the outstanding awards previously granted thereunder. No new awards will be granted out of the 2018 Stock Plan.

2021 Equity Incentive Plan

In connection with the Business Combination, the Board approved and implemented the SmartRent, Inc. 2021 Plan (the "2021 Plan"). The purpose of the 2021 Plan is to enhance the Company's ability to attract, retain and motivate persons who make, or are expected to make, important contributions to the Company by providing these individuals with equity ownership opportunities and equity-linked compensation opportunities.

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The 2021 Plan authorizes the administrator of the 2021 Plan (generally, the Board or its compensation committee) to provide incentive compensation in the form of stock options, restricted stock and stock units, performance shares and units, other stock-based awards and cash-based awards. Under the 2021 Plan, the Company is authorized to issue up to 15,500 shares of Class A common stock. On May 14, 2024, the Company's stockholders approved the 2021 Plan, as amended and restated, which increased the number of shares reserved for issuance thereunder by 8,900 shares of Class A common stock. The Company is authorized to issue up to a total of 24,400 shares of Class A common stock under the 2021 Plan, as amended and restated. Non-employee board member RSUs generally will vest either over one year or three years, subject to the recipient's continued service through the applicable vesting date or dates. The RSUs and options granted to employees are generally subject to a four-year vesting schedule and all vesting generally shall be subject to the recipient's continued service with the Company or its subsidiaries through the applicable vesting dates.

The table below summarizes the activity pursuant to the 2021 Plan, for the nine months ended September 30, 2024, and the shares available for future issuances as of September 30, 2024.

	Shares Available for Future Issuance
Shares available as of December 31, 2023	8,310
Stock options issued, net	(2,527)
RSUs issued, net	(1,352)
Shares available as of March 31, 2024	4,431
Additions to the plan	8,900
RSUs issued, net	(335)
Shares available as of June 30, 2024	12,996
Stock options forfeited	1,550
RSUs forfeited, net	578
Shares available as of September 30, 2024	<u>15,124</u>

The table below summarizes the activity related to stock options, pursuant to the 2018 Stock Plan and 2021 Plan, for the nine months ended September 30, 2024.

		Options Outstanding		
	Number of Options	Weighted-Average Exercise Price (\$ per share)	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value
December 31, 2023	9,158	\$ 1.21	6.81	\$ 18,112
Granted	2,527	\$ 3.36		
Exercised	(192)	\$ 0.47		
March 31, 2024	11,493	\$ 1.70	7.30	\$ 13,504
Forfeited	(347)	\$ 2.96		
June 30, 2024	11,146	\$ 1.66	7.09	\$ 11,646
Forfeited	(1,028)	\$ 3.17		
September 30, 2024	<u>10,118</u>	\$ 1.50	6.63	\$ 7,512
Exercisable options as of September 30, 2024	<u>8,166</u>	\$ 1.11	6.07	\$ 7,512

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During the three months ended September 30, 2024 and 2023, stock-based compensation expense of \$162 and \$431, respectively, was recognized in connection with the outstanding options. During the nine months ended September 30, 2024 and 2023, stock-based compensation expense of \$1,528 and \$1,231, respectively, was recognized in connection with the outstanding options. As of September 30, 2024, there is \$3,502 of unrecognized compensation expense related to stock options, which is expected to be recognized over a weighted-average period of 3.0 years.

The table below summarizes the activity related to RSUs, pursuant to the 2018 Plan and 2021 Plan, for the nine months ended September 30, 2024.

	Restricted Stock Units	
	Number of Restricted Stock Units	Weighted Average Grant Date Fair Value (per share)
December 31, 2023	4,461	\$ 4.24
Granted	1,747	\$ 3.32
Vested or distributed	(776)	\$ 3.89
Forfeited	(579)	\$ 3.69
March 31, 2024	4,853	\$ 4.04
Granted	369	\$ 2.70
Vested or distributed	(567)	\$ 4.43
Forfeited	(181)	\$ 4.06
June 30, 2024	4,474	\$ 3.88
Granted	2,109	\$ 1.69
Vested or distributed	(669)	\$ 6.45
Forfeited	(219)	\$ 2.85
September 30, 2024	<u>5,695</u>	\$ 2.80

No right to any Class A Common Stock is earned or accrued until such time that vesting occurs, nor does the grant of the RSU award confer any right to continue vesting or employment or other service. Compensation expense associated with the unvested RSUs is recognized on a straight-line basis over the vesting period.

During the three months ended September 30, 2024 and 2023, stock-based compensation expense of \$2,793 and \$2,698, respectively, was recognized in connection with the vesting of all RSUs. During the nine months ended September 30, 2024 and 2023, stock-based compensation expense of \$7,935 and \$8,690, respectively, was recognized in connection with the vesting of all RSUs. As of September 30, 2024, there is \$13,832 of unrecognized compensation expense related to restricted stock units, which is expected to be recognized over a weighted-average period of 2.2 years.

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Employee Stock Purchase Plan

The Company has the ability to initially issue up to 2,000 shares of Class A Common Stock under the ESPP, subject to annual increases effective as of January 1, 2022, and each subsequent January 1 through and including January 1, 2030, in an amount equal to the smallest of (i) 1% of the number of shares of the Class A Common Stock outstanding as of the immediately preceding December 31, (ii) 2,000 shares or (iii) such amount, if any, as the Board may determine.

The ESPP allows employees to purchase shares of the Company's Class A Common Stock approximately every six months at a per share purchase price equal to 85 percent of the quoted market price of a share of the Company's Class A Common Stock on (i) the first day of the offering period or (ii) the applicable purchase date of such offering period, whichever quoted market price is lower. During the three months ended September 30, 2024 and 2023, stock-based compensation expense of \$3 and \$144, respectively, was recognized in connection with the ESPP. During the nine months ended September 30, 2024 and 2023, stock-based compensation expense of \$60 and \$199, respectively, was recognized in connection with the ESPP.

The table below summarizes the activity related to the ESPP for the nine months ended September 30, 2024.

ESPP Activity	Shares Available for Sale
December 31, 2023	5,402
Annual additions to the plan	2,000
Shares purchased	(134)
March 31, 2024	7,268
<no activity in Q2'24>	-
June 30, 2024	7,268
Shares purchased	(159)
September 30, 2024	<u>7,109</u>

Stock-Based Compensation

During the nine months ended September 30, 2024 and 2023, there were options granted covering 2,527 and 3,299 shares, respectively. During the three months ended September 30, 2023, there were options granted covering 229 shares. During the three months ended September 30, 2024, there were no options granted. The fair value of stock option grants is estimated by the Company on the date of grant using the Black Scholes option pricing model with the following weighted-average assumptions for the nine months ended September 30, 2024 and 2023.

The Company recorded stock-based compensation expense as follows.

	For the nine months ended September 30, 2024	2023
Risk free interest	4.09%	3.55%- 4.32%
Dividend yield	0.00%	0.00%
Expected volatility	75.00%	75.00%
Expected life (years)	6.25	6.08 - 6.25

	For the three months ended September 30, 2024	2023	For the nine months ended September 30, 2024	2023
Cost of revenue	\$ 286	\$ 252	\$ 876	\$ 756
Research and development	972	902	2,886	2,792
Sales and marketing	201	155	497	573
General and administrative	1,499	1,964	5,264	6,108
Total	<u>\$ 2,958</u>	<u>\$ 3,273</u>	<u>\$ 9,523</u>	<u>\$ 10,229</u>

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In July 2024, the Company announced the departure of Lucas Haldeman, the Company's Chief Executive Officer and Chairman of the Company's Board effective July 29, 2024. The Company and Mr. Haldeman entered into a Separation Agreement and Release (the "Separation Agreement"). The Separation Agreement provides that, in exchange for Mr. Haldeman executing a release of claims in favor of the Company and its affiliates, complying with restrictive covenants (including a non-compete), resigning from the Board and agreeing to other terms of the Separation Agreement, Mr. Haldeman will receive accelerated vesting of any unvested equity awards (excluding performance based awards) that would have vested had Mr. Haldeman remained employed during the eighteen-month period immediately following the separation date. Pursuant to the Separation Agreement, 1,359 stock options and 342 shares of restricted stock units were accelerated to vest on July 29, 2024. The Company accounted for the modification of existing awards as a Type III modification under ASC 718, Compensation—Stock Compensation and during the three months ended September 30, 2024, the Company recognized \$820 and \$449 related to the acceleration of Mr. Haldeman's RSU and stock option awards, respectively.

During the nine months ended September 30, 2023, stock-based compensation expense of \$109 was recognized for 844 shares granted in connection with the Company's February 2020 acquisition of a foreign supplier and are recorded as a component of general and administrative expense. There was no such stock-based compensation expense recording during the nine months ended September 30, 2024 or the three months ended September 30, 2024 and 2023.

NOTE 9. INCOME TAXES

The Company's effective tax rate (ETR) from continuing operations was (0.18%) and 0.43% for the three months ended September 30, 2024 and 2023, respectively. The Company's effective tax rate (ETR) from continuing operations was (0.59%) and 0.07% for the nine months ended September 30, 2024 and 2023, respectively. The Company's ETR during the three and nine months ended September 30, 2024 differed from the federal statutory rate of 21% primarily due to changes in valuation allowance and foreign and state taxes.

The income tax expense on the Consolidated Statement of Operations and Comprehensive Loss is primarily related to the state and foreign taxes offset by a change in the valuation allowance. The Company established a full valuation allowance for net deferred U.S. federal and state tax assets, including net operating loss carryforwards. The Company expects to maintain this valuation allowance until it becomes more likely than not that the benefit of the federal and state deferred tax assets will be realized in future periods if it reports taxable income. The Company believes that it has established an adequate allowance for uncertain tax positions, although it can provide no assurance that the final outcome of these matters will not be materially different. To the extent that the final outcome of these matters is different than the amounts recorded, such differences will affect the provision for income taxes in the period in which such determination is made.

NOTE 10. NET LOSS PER SHARE

The following potentially dilutive shares were excluded from the computation of diluted net loss per share attributable to common stockholders for the periods presented because inclusion of the shares on an as-converted basis would have been anti-dilutive.

	For the three months ended September 30,		For the nine months ended September 30,	
	2024	2023	2024	2023
Common stock options and restricted stock units	15,814	14,328	15,814	14,328
Common stock warrants	-	3,664	-	3,664
Total	<u>15,814</u>	<u>17,992</u>	<u>15,814</u>	<u>17,992</u>

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NOTE 11. RELATED-PARTY TRANSACTIONS

A member of the Board served on the board of directors of a SmartRent customer until June 2024. There was no related party relationship during the three months ended September 30, 2024. For the three months ended September 30, 2023, the Company earned revenue from this customer of \$1,497. For the six months ended June 30, 2024, the Company earned revenue from this customer of \$1,298. There was no related party relationship beyond June 30, 2024. For the nine months ended September 30, 2023, the Company earned revenue from this customer of \$2,985. As of December 31, 2023, the Company had receivables due from this customer of \$1,352. There was no related party relationship as of September 30, 2024. All business dealings with the customer were entered into in the ordinary course of business and the arrangements are on terms no more favorable than terms that would be available to unaffiliated third parties under the same or similar circumstances.

NOTE 12. COMMITMENTS AND CONTINGENCIES

Lease Commitments

From time to time, the Company enters into lease agreements with third parties for purposes of obtaining office and warehouse space. These leases are accounted for as operating leases and have remaining lease terms of 5 months to 8.01 years. If an optional renewal is reasonably certain to be exercised at lease commencement, the lease term will include the optional period for purposes of measuring the initial ROU asset and lease liability. In addition to monthly rent payments, the Company reimburses the lessors for its share of operating expenses as defined in the leases. Such amounts are not included in the measurement of the lease liability but are recognized as a variable lease expense when incurred. The leases do not include any restrictions or covenants that had to be accounted for under the lease guidance. During the three months ended September 30, 2024, the Company entered into a new office lease and recorded \$2,701 of ROU assets and \$3,534 of other receivables along with a lease liability of \$6,235.

Lease agreements entered into by the Company do not specify an implicit borrowing rate, however we utilize an incremental borrowing rate based on the lease term on a collateralized basis. ROU assets and lease liabilities are recognized based on the present value of lease payments over the lease term at commencement date. The Company's weighted average discount rate was 5.97% at September 30, 2024 and the weighted-average lease term was 6.7 years at September 30, 2024.

During the three and nine months ended September 30, 2024, the Company had no finance leases.

Annual base rental commitments associated with these leases, excluding operating expense reimbursements, month-to-month lease payments and other related fees and expenses during the remaining lease terms are as follows.

	Operating Leases
Remaining 2024	\$ 367
2025	1,018
2026	1,620
2027	1,311
2028 and thereafter	5,595
Total lease payments	9,911
Imputed interest	(2,039)
Total lease liability	7,872
Less: Lease liability, current portion	561
Lease liability, noncurrent	<u>\$ 7,311</u>

The Company had \$4,172 and \$2,550 of ROU assets, net of related amortization, related to its lease liabilities at September 30, 2024 and December 31, 2023, respectively, and are included in other long-term assets on the Consolidated Balance Sheets. The noncurrent portion of the Company's lease liability is included in other long-term liabilities on the Consolidated Balance Sheets. The current portion of the Company's lease liability is included in other current liabilities on the Consolidated Balance Sheets.

SMARTRENT, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(in thousands, except per share amounts)

For the three months ended September 30, 2024 and 2023, cash paid for amounts included in the measurement of operating lease liabilities was \$367 and \$442, respectively. For the nine months ended September 30, 2024 and 2023, cash paid for amounts included in the measurement of operating lease liabilities was \$1,204 and \$1,319, respectively.

Legal Matters

The Company is subject to various legal proceedings and claims that arise in the ordinary course of its business. Liabilities are accrued when it is believed that it is both probable that a liability has been incurred and that the Company can reasonably estimate the amount of the potential loss. The Company does not believe that the outcome of these proceedings or matters will have a material effect on the consolidated financial statements.

In April 2020, the Company entered into an agreement with a supplier, as further amended in March 2021 (the "Supplier Agreement"), to purchase minimum volumes of certain products through August 2022. Due to significant failure rates and other defects, the Company ceased ordering product from this supplier as of December 2020. Despite the Company's requests, the supplier indicated they are not willing to refund the Company for the malfunctioning products previously purchased, and therefore, the Company filed a complaint against the supplier on March 22, 2022 in the Superior Court for the State of California, County of Santa Clara (the "Court"). On July 26, 2022, the supplier filed a cross-complaint against the Company for breach of contract and other allegations. In April 2024, the Company made a substantive offer to return the product inventory (valued at \$4,955) to the supplier and pay a portion of the supplier's costs and fees. As of March 31, 2024, the Company recorded a legal accrual of \$5,300 within general and administrative expenses on the Condensed Consolidated Statements of Operations and Comprehensive Loss and accrued expenses and other current liabilities on the Consolidated Balance Sheets. The final settlement agreement was signed in June 2024. As of June 30, 2024, the \$5,000 legal accrual was recorded in accrued expenses and other current liabilities and the related product inventory was recorded in other current assets. In July 2024, the inventory was returned to the supplier and the Court granted the parties' Request for Dismissal of the action with prejudice.

In April 2023, a collective action was filed against the Company in Federal Court in Georgia (the "Federal Court") by two former employees alleging failure to pay overtime wages in violation of the Fair Labor Standards Act ("FLSA"). The plaintiffs claim they were improperly classified as exempt employees under the FLSA and thus should have been entitled to overtime pay. Limited discovery was conducted in 2023, and Plaintiffs moved for conditional certification of a collective class in July 2023, which was granted on March 31, 2024. Notice was issued to potential class members, who had until July 15, 2024, to opt into the lawsuit. In October 2024, the parties engaged in a private mediation and agreed to settle the matter for a total amount of \$1,500, inclusive of all Plaintiffs' attorneys' fees and costs and related releases, subject to a written agreement and the Federal Court's approval. As of September 30, 2024, the Company recorded a legal accrual of \$1,500 related to this matter within general and administrative expenses on the Condensed Consolidated Statements of Operations and Comprehensive Loss and accrued expenses and other current liabilities on the Consolidated Balance Sheets.

The Company regularly reviews outstanding legal claims, actions and enforcement matters, if any exist, to determine if accruals for expected negative outcomes of such matters are probable and can be reasonably estimated. The Company evaluates any such outstanding matters based on management's best judgment after consultation with counsel. There is no assurance that the Company's accruals for loss contingencies will not need to be adjusted in the future. The amount of such adjustment could significantly exceed the accruals the Company has recorded. As of September 30, 2024, an accrual of \$1,500 was included within accrued expenses and other current liabilities related to the legal matters discussed above. The Company had no such accruals as of December 31, 2023.

NOTE 13. SUBSEQUENT EVENTS

In connection with the preparation of the accompanying consolidated financial statements, the Company has evaluated events and transactions occurring after September 30, 2024 and through November 6, 2024, the date these financial statements were issued, for potential recognition or disclosure and has determined that there are no additional items to disclose except as disclosed below.

In October 2024, 1,998 shares of the Company's Class A Common Stock were issued to certain employees related to vested RSUs and exercised options.

SMARTRENT, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(in thousands, except per share amounts)

In October and November 2024, the Company repurchased and retired 2,400 shares of our Class A common stock under the stock repurchase program at an average price of \$1.72 per share for a total of \$4,130. The following table summarizes the share repurchase activity for October and November 2024.

<u>Period</u>	<u>Total Number of Shares Purchased ⁽¹⁾</u>	<u>Average Price Paid Per Share ⁽²⁾</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽¹⁾</u>	<u>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs ⁽¹⁾</u>
(in thousands, except per share amounts)				
October 1 - October 31, 2024	2,300	\$ 1.72	2,300	\$ 22,728
November 1, 2024	100	\$ 1.75	100	\$ 22,554
Total	<u>2,400</u>		<u>2,400</u>	

(1) In March 2024, our Board authorized the repurchase of up to \$50,000 of our Class A common stock. Repurchases under the program can be made through open market transactions, privately negotiated transactions and other means in compliance with applicable federal securities laws, including through Rule 10b5-1 plans. We have discretion in determining the conditions under which shares may be repurchased from time to time. The repurchase program does not have an expiration date and may be suspended at any time at our discretion. Refer to Note 7 — Convertible Preferred Stock and Equity in Part I, Item 1, of this Report for additional information related to share repurchases.

(2) Average price paid per share includes costs associated with the repurchases.

Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the consolidated financial statements and related notes included herein and the consolidated financial statements and notes thereto for the year ended December 31, 2023 contained in our Annual Report on Form 10-K filed with the SEC.

This discussion may contain forward-looking statements based upon our current expectations that involve risks and uncertainties. Please refer to the section titled "Cautionary Note Regarding Forward-Looking Statements".

Overview

We are an enterprise real estate technology company that provides a comprehensive management platform designed for property owners, managers and residents. Our suite of products and services, which includes both smart building hardware and cloud-based SaaS solutions, provides seamless visibility and control over real estate assets. Our platform can lower operating costs, increase revenues, mitigate operational friction and protect assets for owners and operators, while providing a differentiated, elevated living experience for residents.

Through a Hub Device, we enable the integration of our platform with third-party smart devices, our own hardware devices and other technology interfaces. We use an open-architecture, brand-agnostic approach that allows owners, operators, and residents to manage their smart home systems through a single connected interface. Our Smart Community solutions include (i) smart apartments and homes, (ii) access control for buildings, common areas, and rental units, (iii) community and resident WiFi, and other solutions such as, asset protection and monitoring, parking management and self-guided tours. Our Smart Operations solutions include work order management, the automation of leasing and resident call handling, audit management, and the automation of the inspection process. We also have a professional services team that provides customers with training, installation, and support services.

SmartRent is a category leader in the enterprise smart home solutions industry. As of September 30, 2024, we had 787,038 Units Deployed (as defined below) and over 600 customers, including many of the largest multifamily residential owners in the United States. As of that date, we believe our customers owned an aggregate of approximately 7.3 million rental units. This represents approximately 17% of the United States market for institutionally owned multifamily rental units and single-family rental homes. In addition to multifamily residential owners, our customers include some of the leading homebuilders, single-family rental homeowners, and iBuyers in the United States.

Our Business Model

We generate revenue primarily from sales of smart home systems which enable property owners and property managers to have visibility and control over assets, while providing all-in-one home control offerings for residents. The majority of our revenue is generated from the direct sale to our customers of hardware smart home devices, which devices generally consist of a Hub Device, door-locks, thermostats, sensors, and light switches. We also generate professional services revenue from installing smart home hardware devices and hosted services revenue from monthly subscription revenue earned from the fees collected from customers to provide access to one or more of our software applications ("Hosted Services") including access controls, asset monitoring, WiFi, and related services. Subscription arrangements have contractual terms ranging from one month to eight years; the majority of our recurring revenue contracts range from one month to one year and our median recurring revenue contract term is one year.

Key Factors Affecting Our Performance

We believe that our success is dependent on many factors, including those further discussed below. Our operating results and cash flows are dependent upon a number of opportunities, challenges and other factors, including our ability to grow our customer base in a cost-effective manner, expand our hardware and hosted service offerings to generate increased revenue per Unit Deployed (as defined below), and provide high quality hardware products and hosted service applications to maximize revenue and improve the leverage of our business model. While these areas represent opportunities for us, they also represent challenges and risks that we must successfully address in order to operate our business.

Active Supply Chain Management

We continue to experience improvements in the challenges related to the global supply chain. In prior periods, the increased demand for electronics as a result of the COVID-19 pandemic, U.S. trade relations with China and certain other factors in recent periods led to a global shortage of semiconductors, including Z-wave chips, which are a central component of our Hub Devices. Due to this shortage in prior periods, we experienced Hub Device production delays, which affected our ability to meet scheduled installations and facilitate customer upgrades to our higher-margin Hub Devices. We also experienced shortages and shipment delays related to components for Access Control and made-to-order specialty locks.

The incremental improvements in the global supply chain are evidenced by our reduction of backlogged Units Deployed for Access Control and made-to-order locks. We believe that this positive trend will continue through the current year.

Investing in Research and Development

Our performance is significantly dependent on the investments we make in research and development, including our ability to attract and retain highly skilled research and development personnel. We must continually develop and introduce innovative new software services and hardware products, and integrate with third-party products and services, mobile applications and other new offerings.

New Products, Features and Functionality

We are evolving our business into a more diverse platform with new products, features and functionality that enhance the value of our smart home operating system. We have introduced a number of SaaS product enhancements and features, including Answer Automation and Work Management solutions, that streamline property management operations. We have also introduced Community WiFi, which provides communities with a private, device-dedicated WiFi network to power Hub Devices and other in-home smart devices, and Smart Package Room, which is a smart package management solution that transforms package visibility, reduces labor demands, optimizes storage space and enhances resident satisfaction. Our Smart Operations Solutions enhance our overall platform offering and customer value proposition by providing a comprehensive one-stop platform that broadens our support of property operations, enhancing the experience for residents, property owners and managers. We offer an open-API architecture that enables a myriad of third-party partner integrations, resulting in a multi-functional platform that enhances property management workflow efficiencies, empowers teams to get more done, elevates resident interactions, and improves resident living experiences. In the future, we intend to continue to release new products and solutions and enhance our existing products and solutions, and we expect that our operating results will be impacted by these releases.

Category Adoption and Market Growth

Our future growth depends in part on the continued consumer adoption of hardware and software products which improve the resident experience and the growth of this market. We need to deliver solutions that enhance the resident experience and deliver value to our customers, rental property owners and operators, as well as homebuilders and developers, by providing products and solutions designed to enhance visibility and control over assets while providing additional revenue opportunities.

Recent Developments

On July 30, 2024, the Company announced the departure of Lucas Haldeman, the Company's Chief Executive Officer and Chairman of the Company's board of directors, effective July 29, 2024. As part of the transition, Mr. Haldeman resigned as a member of the board of directors, effective July 29, 2024. The Company has appointed Daryl Stemm, the Company's Chief Financial Officer, as the Company's Interim Principal Executive Officer, effective as of July 29, 2024. John Dorman, the Board's lead independent director, has been appointed Chairman of the Board, and the Board has formed a Management Committee of current executives to guide the Company through the transition period. The Board has initiated a search to identify the next CEO of SmartRent and is working with a leading executive search firm to assist in the process of identifying and evaluating candidates.

Basis of Presentation

The condensed consolidated financial statements and accompanying notes included elsewhere in this Report are prepared in accordance with GAAP.

Key Metrics

We regularly monitor a number of operating metrics in order to evaluate our operating performance, identify trends affecting our business, formulate business plans, measure our progress and make strategic decisions. Our key metrics are not based on any standardized industry methodology and are not necessarily calculated in the same manner or comparable to similarly titled measures presented by other companies. Similarly, our key metrics may differ from estimates published by third parties or from similarly titled metrics of our competitors due to differences in methodology. The numbers that we use to calculate our key metrics are based on internal data. While these numbers are based on what we believe to be reasonable judgments and estimates for the applicable period of measurement, there are inherent challenges in measuring usage of our SaaS platform. We regularly review and may adjust our processes for calculating our internal metrics to improve their accuracy.

Units Deployed and New Units Deployed

We define Units Deployed as the aggregate number of Hub Devices that have been installed (including customer self-installations) and have an active subscription as of a stated measurement date. We utilize the Units Deployed metric to assess the health of our business and measure the trajectory of our growth. We define New Units Deployed as the aggregate number of Hub Devices that were installed (including customer self-installations) and resulted in a new active subscription during a stated measurement period. Although our revenue is primarily driven by New Units Deployed and the number of Units Deployed, due to the expansion of our products and services that don't require a Hub Device, and Hub Device upgrades that do not result in net new active subscriptions, the correlation between New Units Deployed and revenue is not as strong as it was historically.

Although the correlation has decreased, New Units Deployed is still an indicator of our ability to acquire new customers and expand our relationships with our current customers. As of September 30, 2024 and 2023, we had an aggregate of 787,038 and 682,632 Units Deployed, respectively. For the three months ended September 30, 2024 and 2023, we had 15,168 and 32,308 New Units Deployed, respectively. For the nine months ended September 30, 2024 and 2023, we had 67,347 and 135,436 New Units Deployed, respectively.

Units Shipped

We define Units Shipped as the aggregate number of Hub Devices that have been shipped to customers during a stated measurement period. Units Shipped is used to assess the trajectory of our growth and is an indicator of our ability to acquire new customers and expand our relationships with our current customers. However, we caution that Units Shipped also includes Hub Devices for upgrades and out of warranty replacements and may not be an indicator of New Units Deployed in future periods. For the three months ended September 30, 2024 and 2023, we had 44,763 and 62,585 Units Shipped, respectively. For the nine months ended September 30, 2024 and 2023, we had 145,287 and 176,760 Units Shipped, respectively.

Units Booked

We define Units Booked as the aggregate number of Hub Device units subject to binding orders executed during a stated measurement period that will result in a New Unit Deployed. We utilize the concept of Units Booked to measure estimated near-term resource demand and the resulting approximate range of post-delivery revenue that we will earn and record. Units Booked represent binding orders only. For the three months ended September 30, 2024 and 2023 there were 17,048 and 46,272 Units Booked, respectively. For the nine months ended September 30, 2024 and 2023 there were 101,029 and 131,347 Units Booked, respectively. For the three and nine months ended September 30, 2024, ARR (as defined below) related to Units Booked was \$1,991 and \$7,301, respectively.

Bookings

We define Bookings as the contract value of hardware, professional services, and the first year of ARR for binding orders executed during a stated measurement period. We utilize Bookings to measure revenue expected to be earned in future periods from orders contracted during the current period. For the three months ended September 30, 2024 and 2023, Bookings were \$19,582 and \$49,661, respectively. For the nine months ended September 30, 2024 and 2023, Bookings were \$103,864 and \$118,505, respectively.

Annual Recurring Revenue

We define Annual Recurring Revenue ("ARR") as the annualized value of our SaaS revenue earned in the current quarter, which we calculate by taking the total amount of SaaS revenue in the current quarter and multiplying that amount by four. We believe that ARR growth demonstrates our ability to acquire new customers and to maintain and expand our relationships with existing customers. More specifically, we monitor our ARR to assess the general health and trajectory of our Hosted Services business. As of September 30, 2024 and 2023, ARR was approximately \$53.2 million and \$43.3 million, respectively.

Hardware Average Revenue per Unit ("ARPU"), Professional Services ARPU, SaaS ARPU, and Units Booked SaaS ARPU

We define Hardware ARPU as total hardware revenue during a given period divided by the total Units Shipped during the same period. Hardware ARPU is used to evaluate the effectiveness of our hardware pricing and assess our ability to market and sell our hardware offerings. For the three months ended September 30, 2024 and 2023, Hardware ARPU was \$418 and \$569, respectively. For the nine months ended September 30, 2024 and 2023, Hardware ARPU was \$499 and \$570, respectively.

We define Professional Services ARPU as total professional services revenue during a given period divided by the total New Units Deployed, excluding customer self-installations, during the same period. Professional Services ARPU is used to assess our ability to effectively price our installation services. For the three months ended September 30, 2024 and 2023, Professional Services ARPU was \$443 and \$253, respectively. For the nine months ended September 30, 2024 and 2023, Professional Services ARPU was \$310 and \$255, respectively.

We define SaaS ARPU as total SaaS revenue during a given period divided by the average aggregate Units Deployed in the same period. Average aggregate Units Deployed is calculated as the Units Deployed as of the current period plus the Units Deployed as of the previous period divided by two. SaaS ARPU is used to evaluate the effectiveness of our SaaS pricing and assess our ability to market and sell our various software solutions. For the three months ended September 30, 2024 and 2023, SaaS ARPU was \$5.70 and \$5.41, respectively. For the nine months ended September 30, 2024 and 2023, SaaS ARPU was \$5.61 and \$5.33, respectively.

We define Units Booked SaaS ARPU as the first year ARR for binding orders executed during the stated measurement period divided by the total Units Booked in the same period. Units Booked SaaS ARPU is used to evaluate the effectiveness of our SaaS pricing and assess our ability to market and sell our various software solutions for orders executed during the period.

For the three months ended September 30, 2024 and 2023, Units Booked SaaS ARPU was \$9.73 and \$9.04, respectively. For the nine months ended September 30, 2024 and 2023, Units Booked SaaS ARPU was \$9.48 and \$7.19, respectively.

Customer Churn

We define Customer Churn as cancelled deployed units during the measurement period divided by Units Deployed as of the beginning of the measurement period. Cancelled deployed units are the previously deployed units that have been cancelled during the same measurement period in which a customer cancels all product subscriptions. Our Hosted Services growth is driven by our ability to retain our customers and minimize Customer Churn. Our Customer Churn for our Smart Communities Solutions is 0.01% for the three months ended September 30, 2024 and 2023. Our Customer Churn for our Smart Communities Solutions is 0.06% for the nine months ended September 30, 2024 compared to 0.02% for the nine months ended September 30, 2023.

Net Revenue Retention

We define Net Revenue Retention as SaaS revenue at the end of the current period related to properties which had SaaS revenue at the end of the same period in the prior year, divided by SaaS revenue at the end of the same period in the prior year for those same properties. Net Revenue Retention includes additions to revenue from price increases on existing products, and additions of new products at existing properties, offset by any reductions in revenue caused by cancellations or downgrades. Net Revenue Retention was 101% as of September 30, 2024.

Components of Results of Operations

Revenue

We generate revenue primarily from sales of systems that consist of hardware devices, professional installation services and Hosted Services enabling property owners and property managers to have visibility and control over assets, while providing all-in-one home control offerings for residents. We record revenue as earned when control of these products and services is transferred to the customer in an amount that reflects the consideration we expect to collect for those products and services. The table below summarizes our revenue by solution.

For the three months ended September 30, 2024										For the nine months ended September 30, 2024									
(dollars in thousands)										(dollars in thousands)									
SmartRent Solutions	Hardware	Professional Service	Hosted Service	Total 2024	Hardware	Professional Service	Hosted Service	Total 2023		Hardware	Professional Service	Hosted Service	Total 2024	Hardware	Professional Service	Hosted Service	Total 2023		
Smart Communities Solutions																			
Smart Apartments	\$ 16,569	\$ 2,387	\$ 14,445	\$ 33,401	\$ 33,107	\$ 4,939	\$ 12,738	\$ 50,784		\$ 66,119	\$ 9,558	\$ 42,661	\$ 118,338	\$ 96,104	\$ 24,739	\$ 36,417	\$ 157,260		
Access Control	1,034	415	477	1,926	1,302	758	281	2,341		2,920	1,935	1,217	6,072	3,039	2,916	595	6,550		
Community WiFi	146	300	181	627	37	125	200	362		291	537	521	1,349	110	917	499	1,526		
Other	963	206	575	1,744	1,185	140	378	1,703		3,136	607	1,504	5,247	1,502	209	1,033	2,744		
Smart Operations Solutions	(5)	-	2,817	2,812	-	-	2,914	2,914		(6)	(55)	8,572	8,511	(11)	-	8,516	8,505		
Total Revenue	\$ 18,707	\$ 3,308	\$ 18,495	\$ 40,510	\$ 35,631	\$ 5,962	\$ 16,511	\$ 58,104		\$ 72,460	\$ 12,582	\$ 54,475	\$ 139,517	\$ 100,744	\$ 28,781	\$ 47,060	\$ 176,585		

Hardware Revenue

We generate revenue from the direct sale to our customers of hardware smart home devices, which devices generally consist of a Hub Device, door-locks, thermostats, sensors, and light switches. These hardware devices provide features that function independently without subscription to our software, and the performance obligation for hardware revenue is considered satisfied and revenue is recognized at a point in time when the hardware device is shipped to the customer. Certain Hub Devices do not function independently without the subscription, and therefore, the revenue is recognized in Hosted Services revenue. We generally provide a one-year warranty period on hardware devices that are delivered and installed. We record the cost of the warranty as a component of cost of hardware revenue.

Professional Services Revenue

We generate professional services revenue from installing smart home hardware devices, which does not result in significant customization of the installed products and is generally performed over a period ranging from two to four weeks. Installations can be performed by our employees, can be contracted out to a third party with our employees managing the engagement, or can be performed by the customer. Professional services contracts are generally performed on a fixed-price basis and revenue is recognized over the period in which installations are completed.

Hosted Services Revenue

Hosted Services primarily consist of monthly subscription revenue earned from the fees collected from customers to provide access to one or more of our software applications including access controls, asset monitoring and related services. These subscription arrangements have contractual terms ranging from one month to eight years and include recurring fixed plan subscription fees. The majority of our recurring revenue contracts range from one month to one year and our median recurring revenue contract term is one year. Our arrangements do not provide the customer with the right to take possession of our software at any time. Customers are granted continuous access to the services over the contractual period. Accordingly, fees collected for subscription services are recognized on a straight-line basis over the contract term beginning on the date the subscription service is made available to the customer.

We sell certain Hub Devices, which only function with the subscription to our software applications and related hosting services. We consider those devices and hosting services subscription as a single performance obligation, and therefore we defer the recognition of revenue for those devices that are sold with application subscriptions. The estimated average in-service life of those devices is four years. When a Hub Device without independent functionality is included in a contract that does not require a long-term service commitment, the customer obtains a material right to renew the service because purchasing a new device is not required upon renewal. If a contract contains a material right, proceeds are allocated to the material right and recognized over the period of benefit, which is generally four years.

Cost of Revenue

Cost of revenue consists primarily of direct costs of products and services together with the indirect cost of estimated warranty expense and customer care and support over the life of the service arrangement. We expect the cost of revenue to increase in absolute dollars in future periods. We record any change to cost of job performance and job conditions in the period during which the revision is identified.

Hardware

Cost of hardware revenue consists primarily of direct costs of products, Hub Devices, hardware devices and supplies purchased from third-party providers, shipping costs, warehouse facility (including depreciation and amortization of capitalized assets and right-of-use assets) and infrastructure costs, personnel-related costs associated with the procurement and distribution of our products and estimated warranty expenses together with the indirect cost of customer care and support. We expect an increase in cost of hardware revenue in absolute dollars in future periods.

In 2019, the U.S. administration imposed significant changes to U.S. trade policy with respect to China. Tariffs have subjected certain SmartRent products manufactured overseas to additional import duties. The amount of the import tariff has changed numerous times based on action by the U.S. administration. We continue to monitor the change in tariffs. If tariffs are increased, such actions may increase our cost of hardware revenue and reduce our hardware revenue margins in the future.

Professional Services

Cost of professional services revenue consists primarily of direct costs related to personnel-related expenses for installation and supervision of installation services, general contractor expenses and travel expenses associated with installation of our products, and indirect costs that are also primarily personnel-related expenses in connection with training of and ongoing support for customers and residents.

Hosted Services

Cost of Hosted Services revenue consists primarily of the amortization of the direct costs of certain Hub Devices consistent with the revenue recognition period noted above in "Hosted Services Revenue" and infrastructure costs associated with providing our software applications together with the indirect cost of customer care and support over the life of the service arrangement. In future periods, we expect the cost of Hosted Services revenue to increase in absolute dollars at a rate that is lower than the corresponding increase in Hosted Services revenue.

Operating Expenses

Research and Development

Research and development expenses consist primarily of personnel-related costs directly associated with our research and development activities. Our research and development efforts are focused on enhancing and developing additional functionality for our existing products and on new product development. We account for the cost of research and development by capitalizing qualifying costs, which are incurred during the product development stage, and amortizing those costs over the product's estimated useful life, which generally ranges from three to five years depending on the type of application. Costs incurred and capitalized during the product development stage generally include the costs of software configuration, coding, and testing. Such costs primarily include payroll and payroll-related expenses for employees directly involved in the product development. We expense preliminary evaluation costs as they are incurred before technological feasibility is achieved, as well as post development implementation and operation costs, such as training, maintenance and minor upgrades. We begin amortizing capitalized costs when a project is ready for its intended use, and we periodically reassess the estimated useful life of a project considering the effects of obsolescence, technology, competition and other economic factors which may result in a shorter remaining life. We believe our research and development costs will increase in absolute dollars as we increase our investment in product development to broaden the capabilities of our solutions and introduce new products and features - in particular as we enhance our WiFi offering.

Sales and Marketing Expenses

Our sales and marketing expenses consist of costs directly associated with our sales and marketing activities, which primarily include personnel-related costs, sales commissions, marketing programs, trade shows, and promotional materials. Our sales and marketing expenses may increase over time as we hire additional sales and marketing personnel, increase our marketing activities, grow our operations, and continue to build brand awareness.

General and Administrative Expenses

General and administrative expenses consist primarily of personnel-related costs associated with our general and administrative organization, professional fees for legal, accounting and other consulting services, office facility, insurance, information technology costs, and expenses incurred as a result of operating as a public company, including expenses related to compliance with the rules and regulations of the SEC and stock exchange listing requirements, additional insurance expense, investor relations activities and other administrative and professional services. We may also increase the size of our general and administrative staff in order to support the growth of our business but at a rate that is lower than the corresponding increase in total revenue.

Other Income/Expenses

Other income/expenses consist primarily of interest income, net of interest expense, foreign currency transaction gains and losses, and other income related to the operations of foreign subsidiaries. Interest expense is recorded in connection with our various debt facilities. Foreign currency transaction gains and losses relate to the impact of transactions denominated in a foreign currency other than the U.S. dollar. If we continue to expand our international operations, our exposure to fluctuations in foreign currencies has increased, which we expect to continue.

Provision for Income Taxes

The income tax expense on the Condensed Consolidated Statement of Operations and Comprehensive Loss is primarily related to the federal, state, and foreign taxes offset by a change in the valuation allowance. The Company established a full valuation allowance for net deferred U.S. federal and state tax assets, including net operating loss carryforwards. The Company expects to maintain this valuation allowance until it becomes more likely than not that the benefit of the federal and state deferred tax assets will be realized in future periods if it reports taxable income. The Company believes that it has established an adequate allowance for uncertain tax positions, although it can provide no assurance that the final outcome of these matters will not be materially different. To the extent that the final outcome of these matters is different than the amounts recorded, such differences will affect the provision for income taxes in the period in which such determination is made.

Results of Operations for the Three and Nine Months Ended September 30, 2024 and 2023

The results of operations presented below should be reviewed together with the condensed consolidated financial statements and notes included elsewhere in this Report. The following table summarizes our historical consolidated results of operations data for the periods presented. The period-to-period comparison of operating results is not necessarily indicative of results for future periods. All dollars are in thousands unless otherwise stated.

	Three months ended September 30,		Change \$	Change %	Nine months ended September 30,		2024 vs 2023 Change	
	2024	2023			2024	2023	\$	%
	(dollars in thousands)				(dollars in thousands)			
Revenue								
Hardware	\$ 18,707	\$ 35,631	\$ (16,924)	(47)%	\$ 72,460	\$ 100,744	\$ (28,284)	(28)%
Professional services	3,308	5,962	(2,654)	(45)%	12,582	28,781	(16,199)	(56)%
Hosted services	18,495	16,511	1,984	12%	54,475	47,060	7,415	16%
Total revenue	40,510	58,104	(17,594)	(30)%	139,517	176,585	(37,068)	(21)%
Cost of revenue								
Hardware	13,843	27,556	(13,713)	(50)%	48,845	82,118	(33,273)	(41)%
Professional services	6,840	11,130	(4,290)	(39)%	22,157	44,573	(22,416)	(50)%
Hosted services	6,370	5,887	483	8%	18,330	17,365	965	6%
Total cost of revenue	27,053	44,573	(17,520)	(39)%	89,332	144,056	(54,724)	(38)%
Operating expense								
Research and development	6,596	7,573	(977)	(13)%	22,442	21,340	1,102	5%
Sales and marketing	4,444	4,636	(192)	(4)%	13,714	14,626	(912)	(6)%
General and administrative	14,154	11,269	2,885	26%	42,843	33,891	8,952	26%
Total operating expenses	25,194	23,478	1,716	7%	78,999	69,857	9,142	13%
Loss from operations	(11,737)	(9,947)	(1,790)	(18)%	(28,814)	(37,328)	8,514	23%
Other income (expense)								
Interest income, net	2,019	2,233	(214)	(10)%	6,718	6,064	654	11%
Other income (expense), net	(187)	(42)	(145)	(345)%	7	(45)	52	116%
Loss before income taxes	(9,905)	(7,756)	(2,149)	(28)%	(22,089)	(31,309)	9,220	29%
Income tax expense (benefit)	18	(33)	51	(155)%	131	(22)	153	(695)%
Net Loss	<u>\$ (9,923)</u>	<u>\$ (7,723)</u>	<u>\$ (2,200)</u>	<u>(28)%</u>	<u>\$ (22,220)</u>	<u>\$ (31,287)</u>	<u>\$ 9,067</u>	<u>29%</u>

Comparison of the three and nine months ended September 30, 2024 and 2023

Revenue

	Three months ended September 30,		Change \$	Change %	Nine months ended September 30,		Change \$	Change %
	2024	2023			2024	2023		
	(dollars in thousands)				(dollars in thousands)			
Revenue								
Hardware	\$ 18,707	\$ 35,631	\$ (16,924)	(47)%	\$ 72,460	\$ 100,744	\$ (28,284)	(28)%
Professional services	3,308	5,962	(2,654)	(45)%	12,582	28,781	(16,199)	(56)%
Hosted services	18,495	16,511	1,984	12%	54,475	47,060	7,415	16%
Total revenue	<u>\$ 40,510</u>	<u>\$ 58,104</u>	<u>\$ (17,594)</u>	<u>(30)%</u>	<u>\$ 139,517</u>	<u>\$ 176,585</u>	<u>\$ (37,068)</u>	<u>(21)%</u>

Total revenue decreased by \$17.6 million, or 30%, to \$40.5 million for the three months ended September 30, 2024, from \$58.1 million for the three months ended September 30, 2023. The decrease was primarily driven by a \$17.4 million decrease in revenue related to our Smart Apartments solution. The decrease in revenue resulted primarily from a 53% decrease in New Units Deployed to 15,168 units for the three months ended September 30, 2024 from 32,308 units for the three months ended September 30, 2023 and a 28% decrease in Units Shipped to 44,763 for the three months ended September 30, 2024 from 62,585 for the three months ended September 30, 2023, partially offset by a 15% increase in the number of cumulative active subscriptions for our Hosted Services during the three months ended September 30, 2024 compared to the three months ended September 30, 2023. Overall decreases in New Units Deployed and Units Shipped are primarily attributable to our customers' decisions to defer capital expenditures, driven by broader macroeconomic conditions. In addition, changes in leadership and the structure of our sales organization have impacted sales and overall volumes.

Total revenue decreased by \$37.1 million, or 21%, to \$139.5 million for the nine months ended September 30, 2024, from \$176.6 million for the nine months ended September 30, 2023. The decrease was primarily driven by a \$38.9 million decrease in revenue related to our Smart Apartments solution. The decrease in revenue resulted primarily from a 50% decrease in New Units Deployed to 67,347 units for the nine months ended September 30, 2024 from 135,436 units for the nine months ended September 30, 2023 and a 18% decrease in Units Shipped to 145,287 for the nine months ended September 30, 2024 from 176,760 for the nine months ended September 30, 2023, partially offset by a 15% increase in the number of cumulative active subscriptions for our Hosted Services during the nine months ended September 30, 2024 compared to the nine months ended September 30, 2023. Overall decreases in New Units Deployed and Units Shipped are primarily attributable to our customers' decisions to defer capital expenditures, driven by broader macroeconomic conditions. In addition, changes in leadership and the structure of our sales organization have impacted sales and overall volumes.

	Three months ended September 30,			Nine months ended September 30,		
	2024	2023	Change %	2024	2023	Change %
Hardware						
Hardware Units Shipped	44,763	62,585	(28)%	145,287	176,760	(18)%
Hardware ARPU	\$ 418	\$ 569	(27)%	\$ 499	\$ 570	(12)%
Professional Services						
New Units Deployed	15,168	32,308	(53)%	67,347	135,436	(50)%
Professional services ARPU	\$ 443	\$ 253	75 %	\$ 310	\$ 255	22 %
Hosted Services						
Units Deployed	787,038	682,632	15 %	787,038	682,632	15 %
Average aggregate units deployed	779,454	666,478	17 %	753,365	614,914	23 %
SaaS ARPU	\$ 5.70	\$ 5.41	5 %	\$ 5.61	\$ 5.33	5 %
Bookings						
Units Booked	17,048	46,272	(63)%	101,029	85,075	19 %
Bookings (in thousands)	\$ 19,582	\$ 49,661	(61)%	\$ 103,864	\$ 118,505	(12)%
Units Booked SaaS ARPU	\$ 9.73	\$ 9.04	8 %	\$ 9.48	\$ 7.19	32 %

Hardware revenue decreased by \$16.9 million, or 47%, to \$18.7 million for the three months ended September 30, 2024, from \$35.6 million for the three months ended September 30, 2023. This decrease in hardware revenue was driven by a decrease in revenue related to our Smart Apartments Solutions and primarily resulted from a 28% decrease in Units Shipped to 44,763 for the three months ended September 30, 2024 from 62,585 for the three months ended September 30, 2023.

Hardware revenue decreased by approximately \$28.2 million, or 28%, to \$72.5 million for the nine months ended September 30, 2024, from \$100.7 million for the nine months ended September 30, 2023. This decrease in hardware revenue was driven by a decrease in revenue related to our Smart Apartments Solutions and resulted from a 18% decrease in Units Shipped to 145,287 for the nine months ended September 30, 2024 from 176,760 for the nine months ended September 30, 2023, and a Hardware ARPU decrease of 12% to \$499 for the 2024 period from \$570 for the 2023 period. The Hardware ARPU decrease was primarily attributable to a change in product mix which was more heavily weighted to our Alloy SmartHome hardware. The impact of the decrease in hardware revenue was mitigated by an increase in hardware gross margin, primarily driven by the product mix change in the current period.

Professional services revenue decreased by \$2.7 million, or 45%, to \$3.3 million for three months ended September 30, 2024, from \$6.0 million for the three months ended September 30, 2023. Of the \$2.7 million decrease, \$2.6 million was driven by our Smart Apartments Solution. New Units Deployed decreased by 53% to 15,168 units for the three months ended September 30, 2024 from 32,308 units for the three months ended September 30, 2023. This was partially offset by an increase in Professional services ARPU of 75% to \$443 for the three months ended September 30, 2024 from \$253 for the three months ended September 30, 2023. The increase in ARPU is primarily attributable to professional services that generate revenue but do not result in a New Unit Deployed such as Access Control and WiFi. During the three months ended September 30, 2024, these services generated \$1.5 million of revenue, or 45% of total professional services revenue, compared to \$0.9 million of revenue, or 15% of total professional services revenue during the three months ended September 30, 2023.

Professional services revenue decreased by \$16.2 million, or 56%, to \$12.6 million for nine months ended September 30, 2024, from \$28.8 million for the nine months ended September 30, 2023. Of the \$16.2 million decrease, \$15.2 million was driven by our Smart Apartments solution. New Units Deployed decreased by 50% to 67,347 units for the nine months ended September 30, 2024 from 135,436 units for the nine months ended September 30, 2023. This was partially offset by an increase in Professional services ARPU of 22% to \$310 for the nine months ended September 30, 2024 from \$255 for the nine months ended September 30, 2023.

Hosted Services revenue increased by \$2.0 million, or 12%, to \$18.5 million for the three months ended September 30, 2024, from \$16.5 million for the three months ended September 30, 2023. Of the \$18.5 million revenue in 2024, \$13.3 million is related to SaaS revenue and \$5.2 million is related to hub amortization. Revenue increased from SaaS by \$2.5 million and decreased from hub amortization by \$0.5 million from the three months ended September 30, 2023 to the three months ended September 30, 2024. The increase of Hosted Services revenue resulted primarily from a 15% increase in the aggregate number of Units Deployed, primarily of our Smart Apartment solution, from 682,632 units at September 30, 2023 to 787,038 units at September 30, 2024 and an increase in SaaS ARPU of 5% to \$5.70 for the three months ended September 30, 2024 from \$5.41 for the three months ended September 30, 2023.

Hosted Services revenue increased by \$7.4 million, or 16%, to \$54.5 million for the nine months ended September 30, 2024, from approximately \$47.1 million for the nine months ended September 30, 2023. Of the \$54.5 million revenue in 2024, \$38.0 million is related to SaaS revenue and \$16.5 million is related to hub amortization. Revenue decreased from hub amortization by \$1.1 million and increased from SaaS by \$8.5 million from the nine months ended September 30, 2023 to the nine months ended September 30, 2024. The increase of Hosted Services revenue resulted primarily from a 15% increase in the aggregate number of Units Deployed, primarily of our Smart Apartment solution, from 682,632 units at September 30, 2023 to 787,038 units at September 30, 2024 and an increase in SaaS ARPU of 5% to \$5.61 for the nine months ended September 30, 2024 from \$5.33 for the nine months ended September 30, 2023.

We don't expect to deploy any more non-distinct Hub Devices, thus, the revenue contribution from hub amortization should continue to decrease in future periods until the non-distinct Hub Devices are fully amortized. The table below shows the expected revenue contribution from hub amortization.

		For the years ended December 31,								
2024 ⁽¹⁾		2025		2026		2027		2028		
		<u>(dollars in thousands)</u>								
Revenue contribution from hub amortization										
Q1	\$	6,043	\$	3,702	\$	1,898	\$	149	\$	4
Q2		5,215		3,573		1,396		49		4
Q3		5,177		3,155		848		17		1
Q4		3,902		2,436		389		7		-
Total	\$	20,337	\$	12,866	\$	4,531	\$	222	\$	9

(1) Q1, Q2, and Q3 2024 amounts are actuals

Cost of Revenue

	Three months ended September 30,		Change		Change		Nine months ended September 30,		Change		Change	
	2024	2023	\$	%	\$	%	2024	2023	\$	%	\$	%
	(dollars in thousands)						(dollars in thousands)					
Cost of revenue												
Hardware	\$ 13,843	\$ 27,556	\$ (13,713)	(50)%			\$ 48,845	\$ 82,118	\$ (33,273)	(41)%		
Professional services	6,840	11,130	(4,290)	(39)%			22,157	44,573	(22,416)	(50)%		
Hosted services	6,370	5,887	483	8%			18,330	17,365	965	6%		
Total cost of revenue	\$ 27,053	\$ 44,573	\$ (17,520)	(39)%			\$ 89,332	\$ 144,056	\$ (54,724)	(38)%		

Total cost of revenue decreased by \$17.5 million, or 39%, to \$27.1 million for the three months ended September 30, 2024, from \$44.6 million for the three months ended September 30, 2023. The decrease in cost of revenue resulted primarily from a 53% decrease in New Units Deployed and a 28% decrease in Units Shipped of our Smart Apartment solution hardware devices.

Total cost of revenue decreased by \$54.7 million, or 38%, to \$89.4 million for the nine months ended September 30, 2024, from \$144.1 million for the nine months ended September 30, 2023. The decrease in cost of revenue resulted primarily from a favorable product mix of our hardware devices (more heavily weighted to Alloy SmartHome hardware), a 50% decrease in New Units Deployed and a 18% decrease in Units Shipped of our Smart Apartment solution hardware devices.

Hardware cost of revenue decreased by approximately \$13.8 million, or 50%, to \$13.8 million for the three months ended September 30, 2024, from \$27.6 million for the three months ended September 30, 2023. This decrease in hardware cost of revenue was primarily attributable to a favorable product mix, resulting in improved hardware gross margin compared to the prior period, and a 28% decrease in Units Shipped.

Hardware cost of revenue decreased by \$33.3 million, or 41%, to \$48.8 million for the nine months ended September 30, 2024, from \$82.1 million for the nine months ended September 30, 2023. This decrease in hardware cost of revenue was primarily attributable to a favorable product mix, resulting in improved hardware gross margin compared to the prior period, and a 18% decrease in Units Shipped.

Professional services cost of revenue decreased by \$4.3 million, or 39%, to \$6.8 million for the three months ended September 30, 2024, from \$11.1 million for the three months ended September 30, 2023. The decrease in professional services cost of revenue is primarily attributable to a decrease of approximately \$2.6 million in third-party direct labor costs due to a 53% decrease in New Units Deployed, and a decrease of \$1.6 million in personnel-related costs, and related travel. Additionally, we have invested in technology initiatives to allow our teams to be more efficient and furthered our collaboration with third-party partners to augment our professional services resulting in improved professional services gross margin compared to the previous period. We believe we will continue to improve efficiency in future periods.

Professional services cost of revenue decreased by \$22.4 million, or 50%, to \$22.2 million for the nine months ended September 30, 2024, from \$44.6 million for the nine months ended September 30, 2023. The decrease in professional services cost of revenue is primarily attributable to a decrease of approximately \$17.3 million in third-party direct labor costs due to a 50% decrease in New Units Deployed, and a decrease of \$4.1 million in personnel-related costs, and related travel. Additionally, we have invested in technology initiatives to allow our teams to be more efficient and furthered our collaboration with third-party partners to augment our professional services resulting in improved professional services gross margin compared to the previous period. We believe we will continue to improve efficiency in future periods.

Hosted Services cost of revenue increased by \$0.5 million, or 8%, to \$6.4 million for the three months ended September 30, 2024, from \$5.9 million for the three months ended September 30, 2023. The increase resulted from a 15% increase in the aggregate number of Units Deployed and the resulting increase in the number of active subscriptions for our software service applications partially offset by a \$0.4 million decrease in hub amortization.

Hosted Services cost of revenue increased by approximately \$0.9 million, or 6%, to \$18.3 million for the nine months ended September 30, 2024, from \$17.4 million for the nine months ended September 30, 2023. The increase resulted from a 15% increase in the aggregate number of Units Deployed and the resulting increase in the number of active subscriptions for our software service applications and an increase in personnel-related costs of \$0.6 million, partially offset by a \$1.1 million decrease in hub amortization. Our Hosted Services gross margin improved when compared to the same period in the prior year primarily driven by economies of scale related to our SaaS products. Additionally, Hosted Services attributable to hub amortization, which has a lower margin than our SaaS products, continues to represent a smaller portion of our Hosted Services cost of revenue.

Operating Expenses

	Three months ended September 30,		Change	Change	Nine months ended September 30,		Change	Change
	2024	2023	\$	%	2024	2023	\$	%
	(dollars in thousands)				(dollars in thousands)			
Research and development	\$ 6,596	\$ 7,573	\$ (977)	(13)%	\$ 22,442	\$ 21,340	\$ 1,102	5%
Sales and marketing	4,444	4,636	(192)	(4)%	13,714	14,626	(912)	(6)%
General and administrative	14,154	11,269	2,885	26%	42,843	33,891	8,952	26%

Research and development expenses decreased by \$1.0 million, or 13%, to approximately \$6.6 million for the three months ended September 30, 2024, from \$7.6 million for the three months ended September 30, 2023, resulting primarily from a decrease of approximately \$1.1 million in personnel-related expenses.

Research and development expenses increased by \$1.1 million, or 5%, to approximately \$22.4 million for the nine months ended September 30, 2024, from \$21.3 million for the nine months ended September 30, 2023, primarily related to an increase of \$1.1 million in personnel-related expenses. The increase was primarily related to the employee retention credits recorded in the nine months ended September 30, 2023, which were refundable employment tax credits provided by The Coronavirus Aid, Relief, and Economic Security Act. These employment tax credits did not recur during the nine months ended September 30, 2024. We believe our research and development costs will increase in absolute dollars as we increase our investment in product development to enhance the capabilities of our solutions and introduce new products and features.

Sales and marketing expenses decreased by \$0.2 million, or 4%, to \$4.4 million for the three months ended September 30, 2024 from \$4.6 million for the three months ended September 30, 2023, resulting primarily from a decrease in personnel-related expenses. We believe our sales and marketing expenses will increase in future periods as we invest in building a scalable sales team, beginning with our new Chief Revenue Officer ("CRO"), Natalie Cariola.

Sales and marketing expenses decreased by \$0.9 million, or 6%, to \$13.7 million for the nine months ended September 30, 2024 from \$14.6 million for the nine months ended September 30, 2023, resulting primarily from a decrease of approximately \$1.0 million in personnel-related expenses. We believe our sales and marketing expenses will increase in future periods as we invest in building a scalable sales team, beginning with our new CRO, Natalie Cariola.

For the three months ended September 30, 2024, general and administrative expenses increased by \$2.9 million, or 26%, to \$14.2 million, from \$11.3 million for the three months ended September 30, 2023, resulting primarily from \$2.8 million of severance and related expenses attributable to the departure of our former CEO.

For the nine months ended September 30, 2024, general and administrative expenses increased by \$9.0 million, or 26%, to \$42.8 million, from \$33.9 million for the nine months ended September 30, 2023, resulting primarily from a \$9.7 million increase in third-party consultants. This was largely driven by a \$5.3 million legal accrual recorded as of June 30, 2024, in which the Company agreed to settle a dispute with a supplier by returning \$5.0 million of inventory and paying a portion of the supplier's costs and fees. Additionally, we incurred \$2.8 million of severance and related expenses attributable to the departure of our former CEO.

Other Income

	Three months ended September 30,				Nine months ended September 30,			
	2024	2023	Change \$	Change %	2024	2023	Change \$	Change %
	(dollars in thousands)				(dollars in thousands)			
Interest income, net	\$ 2,019	\$ 2,233	\$ (214)	(10)%	\$ 6,718	\$ 6,064	\$ 654	11%
Other income (expense), net	(187)	(42)	(145)	(345)%	7	(45)	52	116%

Interest income, net decreased by \$0.2 million to \$2.0 million for the three months ended September 30, 2024, from \$2.2 million for the three months ended September 30, 2023. The decrease in net interest income for both periods is primarily attributable to interest earned on interest-bearing cash balances.

Interest income, net increased by approximately \$0.6 million to \$6.7 million for the nine months ended September 30, 2024, from \$6.1 million for the nine months ended September 30, 2023. The increase in net interest income for both periods is primarily attributable to interest earned on interest-bearing cash balances.

Income Taxes

	Three months ended September 30,		Change		Nine months ended September 30,		Change	
	2024	2023	\$	%	2024	2023	\$	%
	(dollars in thousands)				(dollars in thousands)			
Loss before income taxes	\$ (9,905)	\$ (7,756)	\$ (2,149)	(28)%	\$ (22,089)	\$ (31,309)	\$ 9,220	29%
Income tax expense (benefit)	18	(33)	51	(155)%	131	(22)	153	(695)%

We provided a full valuation allowance on our net U.S. federal and state deferred tax assets as of September 30, 2024, and September 30, 2023. As of December 31, 2023, the Company has gross NOLs of \$204.6 million and \$193.4 million for federal and state income tax return purposes, respectively. Federal NOLs can be carried forward indefinitely, while State NOLs will expire between 2032 and 2043. The Company also has \$0.1 million of R&D credits available that expire in 2039.

The income tax expense is related to the federal, state, and foreign taxes offset by a change in the valuation allowance.

Non-GAAP Financial Measures

To supplement the condensed consolidated financial statements, which are prepared and presented in accordance with GAAP, we present EBITDA and Adjusted EBITDA, described below, as non-GAAP measures. We believe the presentation of both GAAP and non-GAAP financial measures provides investors with increased transparency into financial measures used by our management team and improves investors' understanding of our underlying operating performance and their ability to analyze our ongoing operating trends.

All historic non-GAAP financial measures have been reconciled with the most directly comparable GAAP financial measures - these non-GAAP financial measures are not intended to supersede or replace our GAAP results.

We define EBITDA as net income (loss) computed in accordance with GAAP before interest income, net, income tax expense (benefit) and depreciation and amortization.

We define Adjusted EBITDA as EBITDA before expenses related to non-recurring legal matters, stock-based compensation, impairment of investment in a non-affiliate, non-recurring warranty provisions, compensation expense in connection with acquisitions, other acquisition expenses, and other expenses caused by non-recurring, or unusual, events that are not indicative of our ongoing business.

Our management uses EBITDA and Adjusted EBITDA to assess our financial and operating performance, and we believe these measures are helpful to management and external users in understanding our performance. EBITDA and Adjusted EBITDA help management identify controllable cash expenses and make decisions designed to help us meet our identified financial and operational goals and to optimize our financial performance, while neutralizing the impact of some expenses included in our operating results caused by external influences over which management has little or no control and by non-recurring, or unusual, events that might otherwise mask trends in our performance. Accordingly, we believe these metrics measure our financial performance based on operational factors that management can impact in the short-term, namely our cost structure and expenses.

We believe that the presentation of EBITDA and Adjusted EBITDA provides information useful to investors in assessing our results of operations. The GAAP measure most directly comparable to EBITDA and Adjusted EBITDA is net income (loss). EBITDA and Adjusted EBITDA are not used as measures of our liquidity and should not be considered alternatives to net income (loss) or any other measure of financial performance presented in accordance with GAAP. Our EBITDA and Adjusted EBITDA may not be comparable to the EBITDA and Adjusted EBITDA of other companies due to the fact that not all companies use the same definitions of EBITDA and Adjusted EBITDA. Accordingly, there can be no assurance that our basis for computing these non-GAAP measures is comparable with that of other companies.

The following table presents a reconciliation of net loss (as determined in accordance with GAAP) to EBITDA and Adjusted EBITDA for each of the periods indicated.

	For the three months ended September 30,		For the nine months ended September 30,	
	2024	2023	2024	2023
	(dollars in thousands)		(dollars in thousands)	
Net loss	\$ (9,923)	\$ (7,723)	\$ (22,220)	\$ (31,287)
Interest income, net	(2,019)	(2,233)	(6,718)	(6,064)
Income tax expense (benefit)	18	(33)	131	(22)
Depreciation and amortization	1,644	1,395	4,730	3,991
EBITDA	(10,280)	(8,594)	(24,077)	(33,382)
Legal matter ⁽¹⁾	2,325	-	7,625	-
Stock-based compensation	1,653	3,273	8,218	10,229
Impairment of investment in non-affiliate	-	-	2,250	-
Non-recurring warranty provision	(522)	-	(59)	-
Compensation expense in connection with acquisitions	-	15	-	2,010
Other acquisition expenses	(4)	(23)	253	408
Other non-operating expenses ⁽²⁾	3,006	317	3,267	805
Adjusted EBITDA	<u>\$ (3,822)</u>	<u>\$ (5,012)</u>	<u>\$ (2,523)</u>	<u>\$ (19,930)</u>

(1) Refer to Note 12 "Commitments and Contingencies".

(2) Other non-operating expenses includes severance expense and amortization of capitalized software implementation costs.

Liquidity and Capital Resources

Sources of Liquidity

As of September 30, 2024, we had cash and cash equivalents of \$163.4 million, which were held for working capital and general corporate purposes. Our cash equivalents are comprised primarily of money market funds. To date, our principal sources of liquidity have been the net proceeds received as a result of the Business Combination, and payments collected from sales to our customers.

Debt Issuances

Following the maturity of our Revolving Facility (as defined below) in December 2021, we entered into a \$75.0 million senior secured revolving credit facility with a five-year term (the "Senior Revolving Facility"). Interest rates for draws upon the Senior Revolving Facility are determined by whether the Company elects a secured overnight financing rate loan ("SOFR Loan") or alternate base rate loan ("ABR Loan"). For SOFR Loans, the interest rate is based upon the forward-looking term rate based on SOFR as published by the CME Group Benchmark Administration Limited (CBA) plus 0.10%, subject to a floor of 0.00%, plus an applicable margin. For ABR Loans, the interest rate is based upon the highest of (i) the Prime Rate, (ii) the Federal Funds Effective Rate plus 0.50%, or (iii) 3.25%, plus an applicable margin. As of September 30, 2024, the applicable margins for SOFR Loans and ABR Loans under the Senior Revolving Facility were 1.75% and (0.50%), respectively. The Senior Revolving Facility is secured by substantially all of the Company's assets and guaranteed by each of the Company's material domestic subsidiaries.

We believe that our current cash, cash equivalents, available borrowing capacity under the Senior Revolving Facility, and cash raised in the Business Combination will be sufficient to fund our operations for at least the next 12 months beyond the issuance date of this Report. Our future capital requirements, however, will depend on many factors, including our sales volume, the expansion of sales and marketing activities, and market adoption of our new and enhanced products and features. We may in the future enter into arrangements to acquire or invest in complementary businesses, services, and technologies, including intellectual property rights. From time to time, we may seek to raise additional funds through equity and debt. If we are unable to raise additional capital when desired and on reasonable terms, our business, results of operations, and financial condition may be adversely affected.

Stock Repurchase Program

In March 2024, our board of directors authorized a stock repurchase program pursuant to which we may repurchase up to \$50 million of our Class A common stock. Repurchases under the program may be made from time to time through open market purchases or through privately negotiated transactions subject to market conditions, applicable legal requirements and other relevant factors. The repurchase program does not obligate us to acquire any particular amount of our Class A common stock and may be suspended at any time at our discretion. The timing and number of shares repurchased will depend on a variety of factors, including the stock price, business and market conditions, corporate and regulatory requirements, alternative investment opportunities, acquisition opportunities, and other factors.

During the three months ended September 30, 2024, we repurchased 9.8 million shares of our Class A common stock under the stock repurchase program at an average price of approximately \$1.75 per share for a total of \$17.1 million. During the nine months ended September 30, 2024, we repurchased 12.1 million shares of our Class A common stock under the stock repurchase program at an average price of approximately \$1.93 per share for a total of \$23.5 million. As of September 30, 2024, approximately \$26.7 million remained available for stock repurchases pursuant to our stock repurchase program.

Cash Flow Summary - Nine months ended September 30, 2024 and 2023

The following table summarizes our cash flows for the periods presented.

	2024	Nine months ended September 30, (dollars in thousands)	2023
Net cash provided by (used in)			
Operating activities	\$	(20,898)	\$ (1,366)
Investing activities		(5,025)	(3,313)
Financing activities		(26,253)	(1,500)

Operating Activities

For the nine months ended September 30, 2024, our operating activities used \$20.9 million in cash resulting primarily from our net loss of \$22.2 million and \$26.4 million used in changes in our operating assets and liabilities, partially offset by approximately \$27.7 million provided by non-cash expenses. Changes in our operating assets and liabilities primarily resulted from a \$23.2 million decrease in deferred revenue, a \$5.6 million decrease in accounts payable, and a \$5.3 million decrease in accrued expenses and other liabilities, partially offset by a \$8.2 million decrease in deferred cost of revenue. Non-cash expenses consisted primarily of stock-based compensation of \$9.5 million, non-cash legal expenses of \$7.3 million, primarily driven by \$5.0 million in which the Company agreed to settle a legal dispute with a supplier by returning \$5.0 million of inventory, depreciation and amortization of \$4.7 million, provision for excess and obsolete inventory of \$2.7 million and impairment of investment in non-affiliate of \$2.3 million.

For the nine months ended September 30, 2023, our operating activities used \$1.4 million in cash resulting primarily from our net loss of \$31.3 million partially offset by \$10.9 million provided by changes in our operating assets and liabilities and \$19.0 million provided by non-cash expenses. Changes in our operating assets and liabilities primarily resulted from a \$26.4 million decrease in inventory, a \$9.9 million decrease in deferred cost of revenue and a \$0.5 million decrease in prepaid expenses and other assets, partially offset by an \$12.3 million decrease in accrued expenses and other liabilities and a \$9.3 million decrease in accounts payable. Non-cash expenses consisted primarily of stock-based compensation of \$10.2 million, depreciation and amortization of \$4.0 million, compensation expense related to acquisitions of \$1.9 million, and provision for excess and obsolete inventory of \$1.8 million. Of the total cash used for our operating activities, \$6.0 million was attributable to payments related to the SightPlan acquisition. While the Agreement with ADI did not have a cash flow impact during the nine months ended September 30, 2023, we believe the Agreement will have a positive impact on cash flow in future periods.

Investing Activities

For the nine months ended September 30, 2024, we used \$5.0 million of cash from investing activities, resulting primarily from cash paid of \$4.5 million for capitalized internal-use software development costs and \$0.5 million for the purchase of property and equipment.

For the nine months ended September 30, 2023, we used \$3.3 million of cash for investing activities, resulting primarily from cash paid for capitalized internal-use software development costs.

Financing Activities

For the nine months ended September 30, 2024, our financing activities used \$26.3 million of cash, resulting primarily from \$23.5 million used for repurchases of Class A common stock, \$1.8 million used for taxes paid related to net share settlements of stock-based compensation awards and \$1.5 million used for earnout payments related to the iQuue acquisition.

For the nine months ended September 30, 2023, our financing activities used \$1.5 million of cash, resulting primarily from \$1.7 million used for earnout payments related to the iQuue acquisition.

Off-Balance Sheet Arrangements

We did not have any off-balance sheet arrangements as of September 30, 2024.

Critical Accounting Policies and Estimates

We prepare our consolidated financial statements in accordance with GAAP. The preparation of these consolidated financial statements requires us to make estimates, assumptions and judgments that can significantly impact the amounts we report as assets, liabilities, revenue, costs and expenses and the related disclosures. We base our estimates on historical experience and other assumptions that we believe are reasonable under the circumstances. Our actual results could differ significantly from these estimates under different assumptions and conditions. We believe that the accounting policies discussed below are critical to understanding our historical and future performance as these policies involve a greater degree of judgment and complexity.

Revenue Recognition

We derive revenue primarily from sales of systems that consist of hardware devices, professional installation services and Hosted Services to assist property owners and property managers with visibility and control over assets, while providing all-in-one home control offerings for residents. Revenue is recognized when control of these products and services are transferred to the customer in an amount that reflects the consideration we expect to be entitled to receive in exchange for those products and services.

Payments we receive by credit card, check, or automated clearing house payments, and payment terms are determined by individual contracts and range from due upon receipt to net 30 days. Taxes collected from customers and remitted to governmental authorities are not included in reported revenue. Payments received from customers in advance of revenue recognition are reported as deferred revenue.

We apply the practical expedient that allows for inclusion of the future auto-renewals in the initial measurement of the transaction price. We only apply these steps when it is probable that we will collect the consideration to which we are entitled in exchange for the goods or services it transfers to a customer.

Accounting for contracts recognized over time involves the use of various estimates of total contract revenue and costs. Due to uncertainties inherent in the estimation process, it is possible that estimates of costs to complete a performance obligation may be revised in the future as we observe the economic performance of our contracts. Changes in job performance, job conditions and estimated profitability may result in revision to our estimates of revenue and costs and are recognized in the period in which the revision is identified.

We may enter into contracts that contain multiple distinct performance obligations including hardware and Hosted Services. The hardware performance obligation includes the delivery of hardware, and the Hosted Services performance obligation allows the customer use of our software during the contracted-use term. The subscription for the software and certain Hub Devices combine as one performance obligation, and there is no support or ongoing subscription for other device hardware. We partner with several manufacturers to offer a range of compatible hardware options for its customers. We maintain control of the hardware purchased from manufacturers prior to it being transferred to the customer, and accordingly, SmartRent is considered the principal in these arrangements.

For each performance obligation identified, we estimate the standalone selling price, which represents the price at which we would sell the good or service separately. If the standalone selling price is not observable through past transactions, we estimate the standalone selling price, considering available information such as market conditions, historical pricing data, and internal pricing guidelines related to the performance obligations. We then allocate the transaction price among those obligations based on the estimation of the standalone selling price.

Inventory Valuation

Inventories are stated at the lower of cost or estimated net realizable value. Cost is computed under the first-in, first-out method. We adjust the inventory balance based on anticipated obsolescence, usage, and historical write-offs. Significant judgment is used in establishing our forecasts of future demand and obsolete material exposures. We consider marketability and product life cycle stage, product development plans, demand forecasts, historical revenue, and assumptions about future demand and market conditions in establishing our estimates. If the actual product demand is significantly lower than forecast, which may be caused by factors within and outside of our control, or if there were a higher incidence of inventory obsolescence because of rapidly changing technology and our customer requirements, we may be required to increase our inventory adjustment. A change in our estimates could have a significant impact on the value of our inventory and our results of operations.

Stock-Based Compensation

Our stock-based compensation relates to stock options and restricted stock units ("RSUs") granted to our employees and directors. Stock-based awards are measured based on the grant date fair value. We estimate the fair value of stock option awards on the grant date using the Black-Scholes option-pricing model. The fair value of RSUs is based on the grant date fair value of the stock price. The fair value of these awards is recognized as compensation expense on a straight-line basis over the requisite service period in which the awards are expected to vest. Forfeitures are recognized as they occur by reversing previously recognized compensation expense.

The Black-Scholes model considers several variables and assumptions in estimating the fair value of stock-based awards. These variables include the per share fair value of the underlying common stock, exercise price, expected term, risk-free interest rate, expected annual dividend yield, the expected stock price volatility over the expected term and forfeitures, which are recognized as they occur. For all stock options granted, we calculated the expected term using the simplified method for "plain vanilla" stock option awards.

The grant date fair value is also utilized with respect to RSUs with performance and service conditions to vest. For RSUs with a performance condition, based on a liquidity event, as well as a service condition to vest, no compensation expense is recognized until the performance condition has been satisfied. Subsequent to the liquidity event, compensation expense is recognized to the extent the requisite service period has been completed and compensation expense thereafter is recognized on an accelerated attribution method. Under the accelerated attribution method, compensation expense is recognized over the remaining requisite service period for each service condition tranche as though each tranche is, in substance, a separate award. In August 2021, the Company completed the merger with FWAA, which met the liquidity event vesting condition and triggered the recognition of compensation expense for RSUs for which the time-based vesting condition had been satisfied or partially satisfied.

Emerging Growth Company Status

Section 102(b)(1) of the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act") exempts "emerging growth companies" as defined in Section 2(A) of the Securities Act of 1933, as amended, from being required to comply with new or revised financial accounting standards until private companies are required to comply with the new or revised financial accounting standards. The JOBS Act provides that a company can choose not to take advantage of the extended transition period and comply with the requirements that apply to non-emerging growth companies, and any such election to not take advantage of the extended transition period is irrevocable. We are an "emerging growth company" and have elected to take advantage of the benefits of this extended transition period.

We will use this extended transition period for complying with new or revised accounting standards that have different effective dates for public business entities and non-public business entities until the earlier of the date we (a) are no longer an emerging growth company or (b) affirmatively and irrevocably opt out of the extended transition period provided in the JOBS Act. The extended transition period exemptions afforded by our emerging growth company status may make it difficult or impossible to compare our financial results with the financial results of another public company that is either not an emerging growth company or is an emerging growth company that has chosen not to take advantage of this exemption because of the potential differences in accounting standards used.

We will remain an "emerging growth company" under the JOBS Act until the earliest of (a) the first fiscal year following the fifth anniversary of the initial public offering by FWAA, which closed on February 9, 2021, (b) the last date of our fiscal year in which we have total annual gross revenue of at least \$1.235 billion, (c) the last date of our fiscal year in which we are deemed to be a "large accelerated filer" under the rules of the SEC with at least \$700.0 million of outstanding securities held by non-affiliates or (d) the date on which we have issued more than \$1.0 billion in non-convertible debt securities during the previous three years.

Recent Accounting Pronouncements

See Note 2, "Significant Accounting Policies" - Recent Accounting Guidance for more information.

Item 3 - Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risks in the ordinary course of our business. Market risk represents the risk of loss that may impact our financial condition due to adverse changes in financial market prices and rates. Our market risk exposure is primarily the result of fluctuations in interest rates and foreign currency exchange rates.

We do not believe that inflation has had a material effect, to date, on our business, results of operations or financial condition. Nonetheless, if our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs. Our inability or failure to do so could harm our business, results of operations or financial condition.

Interest Rate Fluctuation Risk

As of September 30, 2024, we had cash, cash equivalents, and restricted cash of approximately \$163.7 million, which consisted primarily of institutional money market funds, which carries a degree of interest rate risk. A hypothetical 10% change in interest rates would increase our annual interest income by \$16.4 million, or decrease our annual interest income by \$6.7 million, based on our cash position as of September 30, 2024.

Foreign Currency Exchange Rate Risk

Our results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates. Substantially all of our revenue is generated in U.S. dollars. Our expenses are generally denominated in the currencies of the jurisdictions in which we conduct our operations, which are primarily in the United States and to a lesser extent in Croatia and other international markets. Our results of operations and cash flows are, therefore, subject to fluctuations due to changes in foreign currency exchange rates and may be adversely affected in the future due to changes in foreign currency exchange rates. The effect of a hypothetical 10% change in foreign currency exchange rates applicable to our business would not have a material impact on our historical consolidated financial statements. To date, we have not engaged in any hedging strategies. As our international operations grow, we will continue to reassess our approach to manage our risk relating to fluctuations in currency rates.

Item 4 - Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Interim Principal Executive Officer and Principal Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) at the end of the period covered by this Report and, based on such evaluation, have concluded that our disclosure controls and procedures were effective as of September 30, 2024, at the reasonable assurance level to ensure that the information required to be disclosed by us in this Report was (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and regulations and (ii) accumulated and communicated to our management, including our Interim Principal Executive Officer and Principal Financial Officer, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the nine months ended September 30, 2024, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. Other Information

Item 1 – Legal Proceedings

From time to time, we are subject to various claims, charges and litigation matters that arise in the ordinary course of business. We believe these actions are a normal incident of the nature and kind of business in which we are engaged. While it is not feasible to predict the outcome of these matters with certainty, we do not believe that any asserted or unasserted legal claims or proceedings, individually or in the aggregate, will have a material adverse effect on our business, financial condition, results of operations or prospects.

Item 1A – Risk Factors

We are subject to various risks and uncertainties in the course of our business. For a discussion of risks and uncertainties relating to our business, please see the section titled "Risk Factors" in our Annual Report on 10-K filed with the SEC on March 5, 2024. Other than the risk factor below, there have been no material changes from the risk factors disclosed therein. We may disclose changes to such risk factors or disclose additional risk factors from time to time in our future SEC filings.

We may not successfully manage the transition of leadership associated with the departure of our Chief Executive Officer, which could have an adverse impact on us.

On July 29, 2024, Lucas Haldeman ended his tenure as the Company's Chief Executive Officer and Chairman of the Board. In connection with Mr. Haldeman's departure, Daryl Stemm, our Chief Financial Officer, was appointed as our Interim Principal Executive Officer, and John Dorman, a current member of our board of directors, was appointed Chairman of the Board. The Company has also formed a Management Committee to guide the Company through the transition period until a new Chief Executive Officer is appointed. Our success will depend, in part, on our management of the transition to our Management Committee and our Interim Principal Executive Officer, the effectiveness of our Management Committee and our Interim Principal Executive Officer, our search for, transition to and integration of a permanent successor Chief Executive Officer, and the effectiveness of the permanent successor, if appointed. There can be no assurance that we will be successful in finding a suitable permanent successor or that we will be able to do so in a timely manner. The Chief Executive Officer position is critical to executing on and achieving our vision, strategic direction, culture, and products. The leadership transition may create uncertainty among employees, suppliers and customers, divert resources and management attention, and impact public or market perception, our stock price or our performance, any of which could negatively impact our ability to operate effectively which could have an adverse impact on our business and results of operations.

Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following table summarizes the share repurchase activity for the three months ended September 30, 2024.

<u>Period</u>	<u>Total Number of Shares Purchased ⁽¹⁾</u>	<u>Average Price Paid Per Share ⁽²⁾</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽¹⁾</u>	<u>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs ⁽¹⁾</u>
(in thousands, except per share amounts)				
July 1 - July 31, 2024	842	\$ 2.39	842	\$ 41,643
August 1 - August 31, 2024	4,600	\$ 1.65	4,600	\$ 34,085
September 1 - September 30, 2024	4,325	\$ 1.73	4,325	\$ 26,659
Total	<u>9,767</u>		<u>9,767</u>	

(1) In March 2024, our board of directors authorized the repurchase of up to \$50,000,000 of our Class A common stock. Repurchases under the program can be made through open market transactions, privately negotiated transactions and other means in compliance with applicable federal securities laws, including through Rule 10b5-1 plans. We have discretion in determining the conditions under which shares may be repurchased from time to time. The repurchase program does not have an expiration date and may be suspended at any time at our discretion. Refer to Note 7 — Convertible Preferred Stock and Equity in Part I, Item 1, of this Report for additional information related to share repurchases.

(2) Average price paid per share includes costs associated with the repurchases.

Item 3 – Defaults Upon Senior Securities

None.

Item 4 – Mine Safety Disclosures

Not Applicable.

Item 5 – Other Information

Securities Trading Plans of Directors and Executive Officers

During the three months ended September 30, 2024, none of our directors or executive officers adopted, modified or terminated any “Rule 10b5-1 trading arrangement” or a “non-Rule 10b5-1 trading arrangement” (each as defined in Item 408 of Regulation S-K).

Item 6 - Exhibits

The following exhibits are filed as part of, or incorporated by reference into, this Quarterly Report on Form 10-Q.

Exhibit	Exhibit Description	Incorporated by Reference		
		Form	Exhibit	Filing Date
3.1	Third Amended and Restated Certificate of Incorporation.	8-K	3.1	August 30, 2021
3.2	Amended and Restated Bylaws.	8-K	3.2	August 30, 2021
10.1†	SmartRent, Inc. Non-Employee Director Compensation Policy (filed herewith).			
10.2†	Severance Agreement and Release between SmartRent, Inc. and Lucas Haldeman, dated July 29, 2024.	10-Q	10.3	August 7, 2024
31.1	Certification of Interim Principal Executive Officer as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).			
31.2	Certification of Principal Financial Officer as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).			
32.1*	Certification of Interim Principal Executive Officer and Principal Financial Officer as adopted pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).			
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.			
101.SCH	Inline XBRL Taxonomy Extension Schema with Embedded Linkbase Documents.			
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).1			

* The certifications attached as Exhibit 32.1 and Exhibit 32.2 that accompany this Report are deemed furnished and not filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of SmartRent, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Report, irrespective of any general incorporation language contained in such filing.

† Indicates a management contract or any compensatory plan, contract or arrangement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, on this 6th day of November 2024.

SmartRent, Inc.

By: /s/ Daryl Stemm

Daryl Stemm
Interim Principal Executive Officer and Chief Financial Officer
(Principal Executive, Financial and Accounting Officer)

SMARTRENT, INC.
AMENDED AND RESTATED NON-EMPLOYEE DIRECTOR COMPENSATION POLICY

Last updated August 26, 2024

SmartRent, Inc., a Delaware corporation (the “**Company**”), believes that the granting of cash and equity compensation to the members of its Board of Directors (the “**Board**,” and members of the Board, the “**Directors**”) represents an effective tool to attract, retain and reward Directors who are not employees of the Company (the “**Non-Employee Directors**”). This Non-Employee Director Compensation Policy (this “**Policy**”) is intended to formalize the Company’s policy regarding cash compensation and grants of equity to its Non-Employee Directors. Unless otherwise defined herein, capitalized terms used in this Policy will have the meaning given such term in the Company’s 2021 Equity Incentive Plan (the “**Plan**”). Each Non-Employee Director will be solely responsible for any tax obligations incurred by such Non-Employee Director as a result of the cash payments paid and equity awards granted to such Non-Employee Director under this Policy.

1.ANNUAL CASH COMPENSATION

Annual Cash Retainer

Each Non-Employee Director will be paid an annual cash retainer of \$80,000. There are no per-meeting attendance fees for attending Board or shareholder meetings.

Additional Committee, Board Chair and Lead Director Annual Cash Retainer

Each Non-Employee Director who serves as the chair of the Board, the lead independent director or a chairman of a committee of the Board will be paid additional annual cash fees as follows:

Board Chair:	\$75,000, except as provided below
Lead Independent Director:	\$20,000
Audit Committee Chair:	\$20,000
Compensation Committee Chair:	\$15,000
Nominating and Corporate Governance Committee Chair:	\$10,000

Notwithstanding the annual cash fee amount for the Board Chair set forth above, the cash fee for services provided in such role for the Company’s third and fourth fiscal quarters of 2024 instead (and not in addition to) will be \$93,750 per fiscal quarter (subject to any proration for partial quarter service, as described below).

Each Non-Employee Director who serves as a non-Chair member of a committee of the Board will be paid additional annual cash fees as follows:

Audit Committee Member:	\$10,000
Compensation Committee Member:	\$7,500
Nominating and Corporate Governance Committee Member:	\$5,000

All cash compensation will be paid quarterly, subject to continued service, on each February 15th, May 15th, August 15th, and November 15th, and all cash compensation described above is subject to proration for periods of service less than a full quarter or full year in length, as applicable.

The Board in its discretion may change and otherwise revise the terms of the cash compensation granted under this Policy, including, without limitation, the amount of cash compensation to be paid, on or after the date the Board determines to make any such change or revision.

2.EQUITY COMPENSATION

Non-Employee Directors will be entitled to receive all types of Awards (excluding Incentive Stock Options) under the Plan (or the applicable equity plan in place at the time of grant). All grants of Awards to Non-Employee Directors pursuant to Section 2 of this Policy will be automatic and nondiscretionary, except as otherwise provided herein, and will be made in accordance with the following provisions and subject to Sections 4.3 and 13 of the Plan.

Each Non-Employee Director will be granted an Award (an "**Annual Award**") on the date of the Company's annual meeting of stockholders each calendar year (unless the Board determines to award them on a different date), beginning with the 2022 annual meeting of stockholders; provided that any Non-Employee Director who is not continuing as a Director following such annual meeting of stockholders will not receive an Annual Award with respect to such meeting. The Annual Award will have an estimated fair value, using valuation methodologies deemed appropriate by the Compensation Committee of the Board or the Board from time to time, in light of commercial considerations deemed necessary to fulfill the goals set forth in this Policy and to align directors with stockholder interests ("**Value**"), equal to \$150,000, with any resulting fractional share of Stock rounded down to the nearest whole share. The Annual Award will be comprised of Restricted Stock Units which will vest in full upon the earlier of (i) the first anniversary of the vesting start date or (ii) the date immediately prior to the Company's next annual meeting of stockholders, subject to the Non-Employee Director's continued Service through such vesting date.

On and after May 28, 2024, each individual who first becomes a Non-Employee Director on a date other than the date of an annual meeting of stockholders of the Company will be granted an Award (an "**Initial Award**"), with a Value equal to the product of (a) \$150,000, multiplied by (b) a fraction obtained by dividing (i) the number of days during the

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period beginning on the date the individual first becomes a Non-Employee Director through the one-year anniversary of the date of the Company's then most recently held annual meeting of stockholders (such anniversary date, the "**Anniversary Date**"), by (ii) 365, with any resulting fractional share of Stock rounded down to the nearest whole share. If an individual was a member of the Board and also an Employee, becoming a Non-Employee Director due to termination of employment will not entitle the Non-Employee Director to an Initial Award. The Initial Award will be comprised of Restricted Stock Units which will vest in full upon the earlier of (x) the Anniversary Date, or (y) the date immediately prior to the Company's next annual meeting of stockholders, subject to the Non-Employee Director's continued Service through such vesting date. The Initial Award will be granted automatically on the first Trading Day on or after the date on which such individual first becomes a Non-Employee Director. For purposes of this Policy, "**Trading Day**" refers to a day on which both (1) the primary stock exchange, national market system, or other trading platform, as applicable, upon which Stock is listed is open for trading, and (2) shares of Stock are traded during regular trading hours on such exchange, system or platform for such day.

In the event of a Change in Control, each Non-Employee Director will fully vest in his or her Initial Award and/or each Annual Award provided that the Non-Employee Director continues to provide Service through such date.

Each Initial Award and Annual Award will be granted under and subject to the terms and conditions of the Plan and the applicable form of award agreement previously approved by the Board or its Compensation Committee, as applicable, for use thereunder.

3. TRAVEL EXPENSES

Each Non-Employee Director's reasonable, customary and documented travel expenses to Board meetings will be reimbursed by the Company.

4. ADDITIONAL PROVISIONS

All provisions of the Plan not inconsistent with this Policy will apply to Awards granted to Non-Employee Directors.

5. ADJUSTMENTS

In the event that any dividend or other distribution (whether in the form of cash, Stock, other securities or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Stock or other securities of the Company or other change in the corporate structure of the Company affecting the Stock occurs, the Board, in order to prevent diminution or enlargement of the benefits or potential benefits intended to be made available under this Policy, will adjust the number of shares of Stock issuable pursuant to Awards granted under this Policy.

6. LIMITATIONS

No Non-Employee Director may be issued in any fiscal year cash payments (including the fees under Section 1 above) and Awards (including Awards under Section 2

above) with aggregate value greater than \$600,000, increased to \$750,000 in the fiscal year of his or her initial service as a Non-Employee Director. Any Awards or other compensation granted to an individual for his or her services as an employee, or for his or her services as a consultant other than a Non-Employee Director, will be excluded for purposes of the limitations under this Section 6.

7.SECTION 409A

In no event will cash compensation or expense reimbursement payments under this Policy be paid after the later of (a) the fifteenth (15th) day of the third (3rd) month following the end of the Company's taxable year in which the compensation is earned or expenses are incurred, as applicable, or (b) the fifteenth (15th) day of the third (3rd) month following the end of the calendar year in which the compensation is earned or expenses are incurred, as applicable, in compliance with the "short-term deferral" exception under Section 409A of the Internal Revenue Code of 1986, as amended, and the final regulations and guidance thereunder, as may be amended from time to time (together, "**Section 409A**"). It is the intent of this Policy that this Policy and all payments hereunder be exempt from or otherwise comply with the requirements of Section 409A so that none of the compensation to be provided hereunder will be subject to the additional tax imposed under Section 409A, and any ambiguities or ambiguous terms herein will be interpreted to be so exempt or comply. In no event will the Company reimburse a Non-Employee Director for any taxes imposed or other costs incurred as a result of Section 409A.

8.REVISIONS

The Board or any committee designated by the Board may amend, alter, suspend or terminate this Policy at any time and for any reason. No amendment, alteration, suspension or termination of this Policy will materially impair the rights of a Non-Employee Director with respect to compensation that already has been paid or awarded, unless otherwise mutually agreed between the Non-Employee Director and the Company. Termination of this Policy will not affect the Board's or the Compensation Committee's ability to exercise the powers granted to it under the Plan with respect to Awards granted under the Plan pursuant to this Policy prior to the date of such termination.

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO RULES 13a-14(a) AND 15d-14(a), UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Daryl Stemm, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of SmartRent, Inc. for the period ended September 30, 2024;
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(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) 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: November 6, 2024

/s/ DARYL STEMM
Daryl Stemm
Interim Principal Executive Officer
(Principal Executive Officer)

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO RULES 13a-14(a) AND 15d-14(a), UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Daryl Stemm, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of SmartRent, Inc. for the period ended September 30, 2024;
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(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) 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: November 6, 2024

/s/ DARYL STEMM
Daryl Stemm
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

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

In connection with the Quarterly Report of SmartRent, Inc. (the "Company") on Form 10-Q for the quarterly period ended September 30, 2024, as filed with the Securities and Exchange Commission (the "Report"), I, Daryl Stemm, Interim Principal Executive Officer and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

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

Date: November 6, 2024

/s/ DARYL STEMM
Daryl Stemm
Interim Principal Executive Officer and Chief Financial Officer
(Principal Executive, Financial and Accounting Officer)
