

LogMeIn, Inc.
Form 10-Q
July 27, 2016
Table of Contents

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2016

OR

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

For the transition period from _____ to _____

Commission file number: 001-34391

LOGMEIN, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

20-1515952
(I.R.S. Employer
Identification No.)

320 Summer Street
Boston, Massachusetts
(Address of principal executive offices)

02210
(Zip Code)
781-638-9050

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Edgar Filing: LogMeIn, Inc. - Form 10-Q

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

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of July 22, 2016, there were 25,306,647 shares of the registrant's Common Stock, par value \$0.01 per share, outstanding.

Table of Contents

LOGMEIN, INC.

INDEX

	PAGE NUMBER
<u>PART I. FINANCIAL INFORMATION</u>	
ITEM 1: Financial Statements (unaudited)	
<u>Condensed Consolidated Balance Sheets</u>	3
<u>Condensed Consolidated Statements of Operations</u>	4
<u>Condensed Consolidated Statements of Comprehensive Income</u>	5
<u>Condensed Consolidated Statements of Cash Flows</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7
<u>ITEM 2: Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	21
<u>ITEM 3: Quantitative and Qualitative Disclosures about Market Risk</u>	33
<u>ITEM 4: Controls and Procedures</u>	34
<u>PART II. OTHER INFORMATION</u>	
<u>ITEM 1: Legal Proceedings</u>	35
<u>ITEM 1A: Risk Factors</u>	35
<u>ITEM 2: Unregistered Sales of Equity Securities and Use of Proceeds</u>	54
<u>ITEM 6: Exhibits</u>	54
<u>Signatures</u>	55

Table of Contents**LogMeIn, Inc.****Condensed Consolidated Balance Sheets****(In thousands, except per share data)**

	December 31, 2015	June 30, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 123,143	\$ 139,882
Marketable securities	85,284	85,515
Accounts receivable (net of allowance for doubtful accounts of \$274 and \$271 as of December 31, 2015 and June 30, 2016, respectively)	16,011	14,536
Prepaid expenses and other current assets	11,997	14,260
Total current assets	236,435	254,193
Property and equipment, net	21,711	26,088
Restricted cash	2,467	2,504
Intangibles, net	71,590	66,297
Goodwill	117,545	117,545
Other assets	5,753	5,091
Deferred tax assets	198	196
Total assets	\$ 455,699	\$ 471,914
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 10,327	\$ 12,333
Accrued liabilities	31,674	33,072
Deferred revenue, current portion	134,297	161,830
Total current liabilities	176,298	207,235
Long-term debt	60,000	45,000
Deferred revenue, net of current portion	2,692	2,061
Deferred tax liabilities	5,812	5,872
Other long-term liabilities	3,086	6,675
Total liabilities	247,888	266,843
Commitments and contingencies (Note 10)		
Preferred stock, \$0.01 par value 5,000 shares authorized, 0 shares outstanding as of December 31, 2015 and June 30, 2016		
Equity:		
Common stock, \$0.01 par value - 75,000 shares authorized as of December 31, 2015 and June 30, 2016; 27,540 and 28,105 shares issued as of December 31, 2015	275	281

Edgar Filing: LogMeIn, Inc. - Form 10-Q

and June 30, 2016, respectively; 25,130 and 25,324 outstanding as of December 31, 2015 and June 30, 2016, respectively		
Additional paid-in capital	276,793	292,048
Retained earnings	21,074	22,507
Accumulated other comprehensive loss	(5,216)	(5,313)
Treasury stock, at cost - 2,410 and 2,781 shares as of December 31, 2015 and June 30, 2016, respectively	(85,115)	(104,452)
Total equity	207,811	205,071
Total liabilities and equity	\$ 455,699	\$ 471,914

See notes to condensed consolidated financial statements.

Table of Contents**LogMeIn, Inc.****Condensed Consolidated Statements of Operations****(In thousands, except per share data)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2016	2015	2016
Revenue	\$ 64,834	\$ 83,266	\$ 125,943	\$ 163,000
Cost of revenue	8,535	11,436	16,517	22,636
Gross profit	56,299	71,830	109,426	140,364
Operating expenses				
Research and development	10,256	14,046	19,379	29,410
Sales and marketing	34,604	41,663	68,990	83,905
General and administrative	8,608	11,404	15,314	21,656
Legal settlements			3,600	
Amortization of acquired intangibles	282	1,357	558	2,740
Total operating expenses	53,750	68,470	107,841	137,711
Income from operations	2,549	3,360	1,585	2,653
Interest income	179	186	353	369
Interest expense	(114)	(367)	(151)	(759)
Other income (expense)	258	(92)	1,520	(496)
Income before income taxes	2,872	3,087	3,307	1,767
Provision for income taxes	(484)	(581)	(547)	(334)
Net income	\$ 2,388	\$ 2,506	\$ 2,760	\$ 1,433
Net income per share:				
Basic	\$ 0.10	\$ 0.10	\$ 0.11	\$ 0.06
Diluted	\$ 0.09	\$ 0.10	\$ 0.11	\$ 0.06
Weighted average shares outstanding:				
Basic	24,703	25,135	24,620	25,144
Diluted	25,673	25,828	25,615	25,841

See notes to condensed consolidated financial statements.

Table of Contents**LogMeIn, Inc.****Condensed Consolidated Statements of Comprehensive Income****(In thousands)**

	Three Months Ended June 30		Six Months Ended June 30,	
	2015	2016	2015	2016
Net income	\$ 2,388	\$ 2,506	\$ 2,760	\$ 1,433
Other comprehensive (loss) gain:				
Net unrealized (losses) gains on marketable securities, (net of tax benefit of \$8 and tax provision of \$12 for the three months ended June 30, 2015 and 2016; and net of tax provision of \$57 and \$60 for the six months ended June 30, 2015 and 2016)	(15)	21	99	105
Net translation gains (losses)	231	(644)	(1,301)	(202)
Total other comprehensive gain (loss)	216	(623)	(1,202)	(97)
Comprehensive income	\$ 2,604	\$ 1,883	\$ 1,558	\$ 1,336

See notes to condensed consolidated financial statements.

Table of Contents**LogMeIn, Inc.****Condensed Consolidated Statements of Cash Flows****(In thousands)**

	Six Months Ended June 30,	
	2015	2016
Cash flows from operating activities		
Net income	\$ 2,760	\$ 1,433
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,934	10,704
Amortization of premium on investments	137	257
Change in fair value of contingent consideration liability	3	502
Amortization of debt issuance costs	78	144
Provision for bad debts	38	26
Stock-based compensation	12,567	18,328
Other, net	(17)	(3)
Changes in assets and liabilities:		
Accounts receivable	3,494	1,562
Prepaid expenses and other current assets	(2,491)	(2,306)
Other assets	207	949
Accounts payable	4,381	2,523
Accrued liabilities	(3,772)	342
Deferred revenue	34,341	26,073
Other long-term liabilities	905	3,460
Net cash provided by operating activities	58,565	63,994
Cash flows from investing activities		
Purchases of marketable securities	(57,170)	(31,573)
Proceeds from sale or disposal or maturity of marketable securities	57,000	31,250
Purchases of property and equipment	(6,569)	(8,812)
Intangible asset additions	(1,884)	(715)
Cash paid for acquisition		(61)
Increase in restricted cash and deposits	(51)	(31)
Net cash used in investing activities	(8,674)	(9,942)
Cash flows from financing activities		
Repayments of borrowings under credit facility		(15,000)
Proceeds from issuance of common stock upon option exercises	12,284	5,404
Payments of withholding taxes in connection with restricted stock unit vesting	(6,885)	(8,617)
Payment of debt issuance costs	(774)	(349)
Payment of contingent consideration	(226)	
Purchase of treasury stock	(14,732)	(19,337)

Net cash used in financing activities	(10,333)	(37,899)
Effect of exchange rate changes on cash and cash equivalents	(4,376)	586
Net increase in cash and cash equivalents	35,182	16,739
Cash and cash equivalents, beginning of period	100,960	123,143
Cash and cash equivalents, end of period	\$ 136,142	\$ 139,882

Supplemental disclosure of cash flow information

Cash paid for interest	\$ 2	\$ 547
Cash paid for income taxes	\$ 1,094	\$ 127
Noncash investing and financing activities		
Acquisition of property and equipment through capital lease	\$	\$ 178
Purchases of property and equipment included in accounts payable and accrued liabilities	\$ 1,221	\$ 3,219
Fair value of contingent consideration in connection with acquisition included in accrued liabilities and other long term liabilities	\$ 26	\$ 2,530
Debt issuance costs included in accounts payable and accrued liabilities	\$ 215	\$
Receivable for proceeds from issuance of common stock upon option exercises	\$	\$ 148

See notes to condensed consolidated financial statements.

Table of Contents**LogMeIn, Inc.****Notes to Condensed Consolidated Financial Statements****1. Nature of the Business**

LogMeIn, Inc. (the Company) provides a portfolio of cloud-based service offerings which make it possible for people and businesses to simply and securely connect to their workplace, colleagues and customers. The Company's product line includes AppGuru, BoldChat®, Cubby, join.me®, LastPass®, LogMeIn Pro®, LogMeIn® Central, LogMeIn Rescue®, LogMeIn® Rescue+Mobile, LogMeIn Backup®, LogMeIn for iOS, LogMeIn Hamachi®, Meldium, Xively and RemotelyAnywhere®. The Company is headquartered in Boston, Massachusetts with wholly-owned subsidiaries located in Australia, Bermuda, Brazil, Hungary, India, Ireland, Japan, the Netherlands and the United Kingdom.

2. Summary of Significant Accounting Policies

Principles of Consolidation The accompanying condensed consolidated financial statements include the results of operations of the Company and its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation. The Company has prepared the accompanying condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP).

Unaudited Interim Condensed Consolidated Financial Statements The accompanying condensed consolidated financial statements and the related interim information contained within the notes to the condensed consolidated financial statements are unaudited and have been prepared in accordance with GAAP and applicable rules and regulations of the Securities and Exchange Commission for interim financial information. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. The accompanying unaudited condensed consolidated financial statements should be read along with the Company's audited financial statements included in the Company's Annual Report on Form 10-K, filed with the Securities and Exchange Commission on February 19, 2016. The unaudited interim condensed consolidated financial statements have been prepared on the same basis as the audited financial statements and in the opinion of management, reflect all adjustments, consisting of normal and recurring adjustments, necessary for the fair presentation of the Company's financial position, results of operations and cash flows for the interim periods presented. The results for the interim periods presented are not necessarily indicative of future results. The Company considers events or transactions that occur after the balance sheet date but before the financial statements are issued to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure.

Use of Estimates The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make estimates 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 and the reported amounts of revenue and expenses during the reporting period. By their nature, estimates are subject to an inherent degree of uncertainty. Actual results could differ from those estimates.

Marketable Securities The Company's marketable securities are classified as available-for-sale and are carried at fair value with the unrealized gains and losses, net of tax, reported as a component of accumulated other comprehensive loss in equity. Realized gains and losses and declines in value judged to be other than temporary are included as a component of earnings based on the specific identification method. Fair value is determined based on quoted market prices. At December 31, 2015 and June 30, 2016, marketable securities consisted of U.S. government agency securities and corporate bonds that have remaining maturities within two years and have an aggregate amortized cost of \$85.3 million and \$85.4 million, respectively. The securities have an aggregate fair value of \$85.3 million and

\$85.5 million, including \$10,000 and \$133,000 of unrealized gains and \$53,000 and \$11,000 of unrealized losses, at December 31, 2015 and June 30, 2016, respectively.

Revenue Recognition The Company derives revenue primarily from subscription fees related to its premium subscription software services and to a lesser extent, the delivery of professional services, primarily related to its Internet of Things business. Revenues are reported net of applicable sales and use tax, value-added tax and other transaction taxes imposed on the related transaction.

Revenue from the Company's premium services is recognized on a daily basis over the subscription term as the services are delivered, provided that there is persuasive evidence of an arrangement, the fee is fixed or determinable and collectability is deemed reasonably assured. Subscription periods range from monthly to ten years, but are generally one year in duration. The Company's software cannot be run on another entity's hardware and customers do not have the right to take possession of the software and use it on their own or another entity's hardware.

Table of Contents

The Company's multi-element arrangements typically include subscription and professional services, which may include development services. The Company evaluates each element within the arrangement to determine if they can be accounted for as separate units of accounting. If the delivered item or items have value to the customer on a standalone basis, either because they are sold separately by any vendor or the customer could resell the delivered item or items on a standalone basis, the Company has determined that the deliverables within these arrangements qualify for treatment as separate units of accounting. Accordingly, the Company recognizes revenue for each delivered item or items as a separate earnings process commencing when all of the significant performance obligations have been performed and when all of the revenue recognition criteria have been met. Professional services revenue recognized as a separate earnings process under multi-element arrangements has been immaterial to date.

In cases where the Company has determined that the delivered items within its multi-element arrangements do not have value to the customer on a stand-alone basis, the arrangement is accounted for as a single unit of accounting and the related consideration is recognized ratably over the estimated customer life, commencing when all of the significant performance obligations have been delivered and when all of the revenue recognition criteria have been met. Revenue from multi-element arrangements accounted for as a single unit of accounting which do not have value to the customer has been immaterial to date.

Concentrations of Credit Risk and Significant Customers The Company's principal credit risk relates to its cash, cash equivalents, marketable securities, restricted cash and accounts receivable. Cash, cash equivalents and restricted cash are deposited primarily with financial institutions that management believes to be of high-credit quality and custody of its marketable securities is with an accredited financial institution. To manage accounts receivable credit risk, the Company regularly evaluates the creditworthiness of its customers and maintains allowances for potential credit losses. To date, losses resulting from uncollected receivables have not exceeded management's expectations.

For the three and six months ended June 30, 2015 and 2016, no customers accounted for more than 10% of revenue. As of December 31, 2015 and June 30, 2016, no customers accounted for more than 10% of accounts receivable.

Goodwill Goodwill is the excess of the acquisition price over the fair value of the tangible and identifiable intangible net assets acquired. The Company does not amortize goodwill, but performs an impairment test of goodwill annually or whenever events and circumstances indicate that the carrying amount of goodwill may exceed its fair value. The Company operates as a single operating segment with one reporting unit and consequently evaluates goodwill for impairment based on an evaluation of the fair value of the Company as a whole. As of December 31, 2015, the fair value of the Company as a whole significantly exceeded the carrying amount of the Company. Through June 30, 2016, no impairments have occurred.

Long-Lived Assets and Intangible Assets The Company records intangible assets at their respective estimated fair values at the date of acquisition. Intangible assets are being amortized based upon the pattern in which their economic benefit will be realized, or if this pattern cannot be reliably determined, using the straight-line method over their estimated useful lives, which range up to eleven years.

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets, including intangible assets, may not be recoverable. When such events occur, the Company compares the carrying amounts of the assets to their undiscounted expected future cash flows. If this comparison indicates that there is impairment, the amount of the impairment is calculated as the difference between the carrying value and fair value. Through June 30, 2016, the Company recorded no material impairments.

Foreign Currency Translation The functional currency of operations outside the United States of America is deemed to be the currency of the local country, unless otherwise determined that the United States dollar would serve

as a more appropriate functional currency given the economic operations of the entity. Accordingly, the assets and liabilities of the Company's foreign subsidiaries are translated into United States dollars using the period-end exchange rate and income and expense items are translated using the average exchange rate during the period. Cumulative translation adjustments are reflected as a separate component of equity. Foreign currency transaction gains and losses are charged to operations. The Company had foreign currency gains of \$0.3 million and \$1.5 million for the three and six months ended June 30, 2015, respectively, and foreign currency losses of \$0.1 million and \$0.5 million for the three and six months ended June 30, 2016, respectively, included in other income (expense), net in the condensed consolidated statements of operations.

Stock-Based Compensation The Company values all stock-based compensation, including grants of stock options and restricted stock units, at fair value on the date of grant and recognizes the expense over the requisite service period, which is generally the vesting period of the award, for those awards expected to vest, on a straight-line basis. The Company uses the with-or-without method to determine when it will realize excess tax benefits from stock-based compensation. Under this method, the Company will realize these excess tax benefits only after it realizes the tax benefits of net operating losses from operations.

Table of Contents

Income Taxes Deferred income taxes are provided for the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes and operating loss carry-forwards and credits using enacted tax rates expected to be in effect in the years in which the differences are expected to reverse. At each balance sheet date, the Company assesses the likelihood that deferred tax assets will be realized and recognizes a valuation allowance if it is more likely than not that some portion of the deferred tax assets will not be realized. This assessment requires judgment as to the likelihood and amounts of future taxable income by tax jurisdiction.

The Company evaluates its uncertain tax positions based on a determination of whether and how much of a tax benefit taken by the Company in its tax filings is more likely than not to be realized. Potential interest and penalties associated with any uncertain tax positions are recorded as a component of income tax expense. As of December 31, 2015 and June 30, 2016, the Company has provided a liability for \$0.9 million and \$1.1 million, respectively, for uncertain tax positions. These uncertain tax positions would impact the Company's effective tax rate if recognized.

Segment Data Operating segments are identified as components of an enterprise for which separate discrete financial information is available for evaluation by the chief operating decision-maker or decision making group when making decisions regarding resource allocation and assessing performance. The Company, whose management uses consolidated financial information in determining how to allocate resources and assess performance, has determined that it operates in one segment.

The Company's revenue by geography (based on customer address) is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2016	2015	2016
Revenues:				
United States	\$ 45,844	\$ 59,476	\$ 88,473	\$ 116,727
United Kingdom	5,124	6,523	10,009	12,709
International all other	13,866	17,267	27,461	33,564
Total revenue	\$ 64,834	\$ 83,266	\$ 125,943	\$ 163,000

The Company's revenue by service cloud (product grouping) is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2016	2015	2016
Revenues:				
Collaboration cloud	\$ 21,055	\$ 28,849	\$ 40,218	\$ 55,597
Identity and Access Management cloud	21,802	29,292	41,999	57,744
Service and Support cloud	21,206	24,451	42,420	48,362
Other	771	674	1,306	1,297
Total revenue	\$ 64,834	\$ 83,266	\$ 125,943	\$ 163,000

Guarantees and Indemnification Obligations As permitted under Delaware law, the Company has agreements whereby the Company indemnifies certain of its officers and directors for certain events or occurrences while the officer or director is, or was, serving at the Company's request in such capacity. The term of the indemnification period is for the officer's or director's lifetime. As permitted under Delaware law, the Company also has similar indemnification obligations under its certificate of incorporation and by-laws. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited; however, the Company has director's and officer's insurance coverage that the Company believes limits its exposure and enables it to recover a portion of any future amounts paid.

In the ordinary course of business, the Company enters into agreements with certain customers that contractually obligate the Company to provide indemnifications of varying scope and terms with respect to certain matters including, but not limited to, losses arising out of the breach of such agreements, from the services provided by the Company or claims alleging that the Company's products infringe third-party patents, copyrights, or trademarks. The term of these indemnification obligations is generally perpetual. The maximum potential amount of future payments the Company could be required to make under these indemnification obligations is, in many cases, unlimited. Through June 30, 2016, the Company has not experienced any losses related to these indemnification obligations.

Table of Contents

Net Income Per Share Basic net income per share is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted net income per share is computed by dividing net income by the sum of the weighted average number of common shares outstanding during the period and the weighted average number of potential common shares outstanding from the assumed exercise of stock options and the vesting of restricted stock units.

The Company excluded the following options to purchase common shares and restricted stock units from the computation of diluted net income per share because they had an anti-dilutive impact (in thousands):

	Three Months Ended June 30, Six Months Ended June 30,			
	2015	2016	2015	2016
Options to purchase common shares			26	
Restricted stock units	473	337	489	429
Total options and restricted stock units	473	337	515	429

Basic and diluted net income per share was calculated as follows (in thousands, except per share data):

	Three months ended June 30, Six months ended June 30,			
	2015	2016	2015	2016
Basic:				
Net income	\$ 2,388	\$ 2,506	\$ 2,760	\$ 1,433
Weighted average common shares outstanding, basic	24,703	25,135	24,620	25,144
Net income per share, basic	\$ 0.10	\$ 0.10	\$ 0.11	\$ 0.06
Diluted:				
Net income	\$ 2,388	\$ 2,506	\$ 2,760	\$ 1,433
Weighted average common shares outstanding	24,703	25,135	24,620	25,144
Add: Common stock equivalents	970	693	995	697
Weighted average common shares outstanding, diluted	25,673	25,828	25,615	25,841
Net income per share, diluted	\$ 0.09	\$ 0.10	\$ 0.11	\$ 0.06

Recently Issued Accounting Pronouncements On May 28, 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09), its final standard on revenue from contracts with customers. ASU 2014-9 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that an entity recognizes revenue to depict the

transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In applying the revenue model to contracts within its scope, an entity identifies the contract(s) with a customer, identifies the performance obligations in the contract, determines the transaction price, allocates the transaction price to the performance obligations in the contract and recognizes revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 applies to all contracts with customers that are within the scope of other topics in the FASB Accounting Standards Codification. Certain of ASU 2014-09's provisions also apply to transfers of nonfinancial assets, including in-substance nonfinancial assets that are not an output of an entity's ordinary activities (i.e., property plant and equipment, real estate or intangible assets). Existing accounting guidance applicable to these transfers has been amended or superseded. ASU 2014-09 also requires significantly expanded disclosures about revenue recognition. ASU 2014-09 is effective for the Company on January 1, 2018, with early adoption permitted, but not earlier than January 1, 2017. The Company is currently assessing the potential impact of the adoption of ASU 2014-09 on its consolidated financial statements.

Table of Contents

On February 25, 2016, the FASB issued ASU 2016-02, *Leases* (ASU 2016-02), which will require lessees to recognize most leases on their balance sheet as a right-of-use asset and a lease liability. Leases will be classified as either operating or finance, and classification will be based on criteria similar to current lease accounting, but without explicit bright lines. The guidance is effective for annual reporting periods beginning after December 15, 2018 and interim periods within those fiscal years, and early adoption is permitted. The Company is currently assessing the impact of the adoption of ASU 2016-02 on its consolidated financial statements.

On March 30, 2016, the FASB issued ASU 2016-09, *Compensation Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* (ASU 2016-09), which includes multiple provisions intended to simplify various aspects of the accounting for share-based payments, and is expected to impact net income, EPS, and the statement of cash flows. The guidance is effective for annual reporting periods beginning after December 15, 2016 and interim periods within those fiscal years, and early adoption is permitted. The Company is currently assessing the impact of the adoption of ASU 2016-09 on its consolidated financial statements.

3. Fair Value of Financial Instruments

The carrying value of the Company's financial instruments, including cash equivalents, restricted cash, accounts receivable and accounts payable, approximate their fair values due to their short maturities. The Company's financial assets and liabilities are measured using inputs from the three levels of the fair value hierarchy. A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement. The three levels are as follows:

Level 1: Unadjusted quoted prices for identical assets or liabilities in active markets accessible by the Company at the measurement date.

Level 2: Inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following table summarizes the basis used to measure certain of the Company's financial assets and contingent consideration liability that are carried at fair value (in thousands):

		Fair Value Measurements at December 31, 2015			
		Level 1	Level 2	Level 3	Total
Cash equivalents	money market funds	\$ 10,138	\$	\$	\$ 10,138
Cash equivalents	bank deposits		1		1
Short-term marketable securities:					
	U.S. government agency securities	50,237	17,994		68,231
	Corporate bond securities		17,053		17,053

Contingent consideration liability		2,028	2,028
------------------------------------	--	-------	-------

Fair Value Measurements at June 30, 2016

	Level 1	Level 2	Level 3	Total
--	---------	---------	---------	-------

Cash equivalents money market funds	\$ 10,364	\$	\$	\$ 10,364
Short-term marketable securities:				
U.S. government agency securities	58,709	9,512		68,221
Corporate bond securities		17,294		17,294
Contingent consideration liability			2,530	2,530

Bank deposits, corporate bonds and certain U.S. government agency securities are classified within the second level of the fair value hierarchy as the fair value of those assets are determined based upon quoted prices for similar assets.

Table of Contents

The Company's Level 3 liability consists of contingent consideration payable in connection with the September 5, 2014 acquisition of Zamurai Corporation and the October 15, 2015 acquisition of Marvasol, Inc. (d/b/a LastPass), as described in Note 4 below. Up to \$2.5 million of the LastPass contingent consideration is based on the achievement of certain bookings goals, the fair value of which was estimated at \$2.0 million as of December 31, 2015. The fair value of contingent consideration is estimated by applying a probability based model, which utilizes inputs that are unobservable in the market. Changes in the fair value of the contingent consideration liability will be reflected in acquisition-related costs in general and administrative expense until the liability is fully settled. As of June 30, 2016, the fair value of the LastPass contingent consideration liability was \$2.5 million, which is included in accrued liabilities in the condensed consolidated balance sheet. A reconciliation of the beginning and ending Level 3 liability is as follows:

	Six Months Ended June 30, 2016
Balance beginning of period	\$ 2,028
Change in fair value of contingent consideration liability	502
Balance end of period	\$ 2,530

4. Acquisitions

In the six months ended June 30, 2015 and 2016, acquisition-related costs were \$2.5 million and \$6.2 million, respectively, including \$2.5 million and \$4.8 million, respectively, of contingent retention-based bonus payment expense related to the Company's 2014 and 2015 acquisitions, which are typically earned over the first two years following the acquisition and a \$0.5 million charge recorded in the six months ended June 30, 2016 for the change in fair value of contingent consideration liability primarily related to the LastPass acquisition.

LastPass

On October 15, 2015, the Company acquired all of the outstanding equity interests in LastPass, a Fairfax, Virginia-based provider of an identity and password management service, for \$107.6 million, net of cash acquired, plus contingent payments totaling up to \$15.0 million which are expected to be paid over a two year period following the date of acquisition. The operating results of LastPass, which are included in the condensed consolidated financial statements beginning on the acquisition date, are comprised of \$4.3 million and \$8.2 million of revenue and \$5.6 million and \$11.1 million of expenses for the three and six months ended June 30, 2016, including amortization of acquired intangible assets of \$1.5 million and \$3.1 million, contingent retention-based bonuses of \$1.7 million and \$3.4 million and a contingent consideration fair value adjustment of \$0.2 million and \$0.5 million for the three and six months ended June 30, 2016, respectively.

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

Cash	\$ 2,518
Accounts receivable	639

Edgar Filing: LogMeIn, Inc. - Form 10-Q

Property and equipment	40
Deferred tax asset	3,050
Current and other assets	134
Intangible assets:	
Completed technology	29,400
Customer relationships	23,900
Trade name and trademark	3,000
Deferred revenue	(6,600)
Accrued expenses	(66)
Deferred tax liability	(23,478)
Goodwill	79,617
Total purchase price	112,154
Liability for contingent consideration	(2,000)
Total cash paid	\$ 110,154

The allocation of the purchase price related to income taxes is preliminary, including the Company finalizing the valuation of the acquired net operating loss carryforwards. The Company expects to complete this review in the third quarter of 2016.

The LastPass stock purchase agreement obligates the Company to make additional contingent and retention-based bonus payments totaling up to \$12.5 million to employees and former LastPass stockholders now employed by the Company on the first and second anniversaries of the acquisition date, contingent upon their continued employment and, for the first anniversary payment only, the achievement of certain bookings goals. The Company has concluded that the contingent payment arrangement is a compensation arrangement and is accruing the maximum

Table of Contents

payout ratably over the performance period, as it believes it is probable that the criteria will be met. The stock purchase agreement also includes non-retention based payments of \$2.5 million to LastPass stockholders which are contingent on the achievement of certain bookings goals, which the Company has concluded is contingent consideration and is being accounted for as part of the purchase price. This contingent consideration liability was recorded at its fair value of \$2.0 million at the acquisition date. The Company assesses the probability of the bookings goals being met and at what level each reporting period. As of June 30, 2016, the contingent consideration liability was \$2.5 million.

The goodwill recorded in connection with this transaction is primarily related to the expected synergies to be achieved related to the Company's ability to leverage its IT management offerings, customer base, sales force and IT management business plan with LastPass' product, technical expertise and customer base. All goodwill and intangible assets acquired are not deductible for income tax purposes.

The Company recorded a long-term deferred tax asset of \$3.1 million primarily related to net operating losses that were acquired as a part of the acquisition. The Company recorded a long-term deferred tax liability of \$23.5 million primarily related to the amortization of intangible assets which cannot be deducted for tax purposes.

The unaudited financial information in the table below summarizes the combined results of operations of the Company and LastPass, on a pro forma basis, as though the companies had been combined. The pro forma information for the period presented includes the effects of business combination accounting resulting from the acquisition as though the acquisition had been consummated as of the beginning of 2014, including amortization charges from acquired intangible assets; interest expense on borrowings and lower interest income in connection with the Company funding the acquisition with existing cash and investments and borrowings under its credit facility; the exclusion of acquisition-related costs of the Company and LastPass; the inclusion of expense related to contingent and retention-based bonuses assuming full achievement of the financial metric and retention requirements (\$7.0 million in 2014 and \$5.5 million in 2015), offset by the exclusion of LastPass historical bonuses paid to LastPass non-stockholder employees in 2015 in connection with the acquisition close of \$6.1 million; and the related tax effects. The pro forma financial information is presented for comparative purposes only and is not necessarily indicative of the results of operations that actually would have been achieved if the acquisition had taken place at the beginning of 2014.

Table of Contents**Unaudited Pro Forma Financial Information**

	Three Months Ended June 30, 2015		Six Months Ended June 30, 2015	
	Pro Forma (in thousands, except per share amounts)	As Reported	Pro Forma (in thousands, except per share amounts)	As Reported
Revenue	\$ 68,059	\$ 64,834	\$ 132,045	\$ 125,943
Net income	\$ 1,518	\$ 2,388	\$ 899	\$ 2,760
Earnings per share Basic	\$ 0.06	\$ 0.10	\$ 0.04	\$ 0.11
Earnings per share Diluted	\$ 0.06	\$ 0.09	\$ 0.04	\$ 0.11

5. Goodwill and Intangible Assets

There was no change in the carrying amount of goodwill for the six months ended June 30, 2016.

Intangible assets consist of the following (in thousands):

	Estimated Useful Life	December 31, 2015			June 30, 2016		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Identifiable intangible assets:							
Trade names and trademarks	1-11 years	\$ 3,806	\$ 824	\$ 2,982	\$ 3,806	\$ 890	\$ 2,916
Customer relationships	5-8 years	29,129	4,089	25,040	29,129	6,655	22,474
Customer backlog	4 months	120	120		120	120	
Domain names	5 years	915	665	250	915	731	184
Software	4 years	299	299		299	299	
Completed technology	3-9 years	46,503	6,893	39,610	46,503	9,182	37,321
Technology and know-how	3 years	3,176	3,176		3,176	3,176	
Documented know-how	4 years	280	127	153	280	162	118
Non-Compete agreements	5 years	162	114	48	162	138	24
Internally developed software	3 years	6,754	3,247	3,507	7,469	4,209	3,260
		\$ 91,144	\$ 19,554	\$ 71,590	\$ 91,859	\$ 25,562	\$ 66,297

The Company capitalized \$0.7 million and \$0.3 million during the three months ended June 30, 2015 and 2016, respectively, and \$1.7 million and \$0.7 million during the six months ended June 30, 2015 and 2016, respectively, of costs related to internally developed computer software to be sold as a service incurred during the application development stage and is amortizing these costs over the expected lives of the related services.

The Company is amortizing its intangible assets over the estimated lives noted above based upon the pattern in which their economic benefit will be realized, or if this pattern cannot be reliably determined, using the straight-line method over their estimated useful lives. The intangible assets have estimated useful lives which range from four months to

eleven years. Amortization expense for intangible assets was \$1.3 million and \$2.9 million for the three months ended June 30, 2015 and 2016, respectively, and \$2.5 million and \$6.0 million for the six months ended June 30, 2015 and 2016, respectively. Amortization relating to software, completed technology, technology and know-how, documented know-how and internally developed software is recorded within cost of revenues and the amortization of trade name and trademark, customer relationships, customer backlog, domain names and non-compete agreements is recorded within operating expenses.

Table of Contents

Future estimated amortization expense for intangible assets at June 30, 2016 is as follows (in thousands):

Amortization Expense (Years Ending December 31)	Amount
2016 (Six months ending December 31)	\$ 5,800
2017	11,592
2018	11,142
2019	8,425
2020	7,616
Thereafter	21,722
Total	\$ 66,297

Table of Contents**6. Accrued Liabilities**

Accrued liabilities consisted of the following (in thousands):

	December 31, 2015	June 30, 2016
Marketing programs	\$ 4,323	\$ 6,029
Payroll and payroll-related liabilities	18,239	15,638
Professional fees	1,944	2,855
Other accrued liabilities	7,168	8,550
Total accrued liabilities	\$ 31,674	\$ 33,072

7. Income Taxes

For the three months ended June 30, 2015 and 2016, the Company's effective tax rate was 17%, or \$0.5 million, on pre-tax earnings of \$2.9 million and 19%, or \$0.6 million, on pre-tax earnings of \$3.1 million, respectively. For the six months ended June 30, 2015 and 2016, the Company's effective tax rate was 17%, or \$0.5 million, on pre-tax earnings of \$3.3 million, and 19%, or \$0.3 million, on pre-tax earnings of \$1.8 million, respectively. The effective income tax rates for the six months ended June 30, 2015 and 2016 are lower than the U.S. federal statutory rate of 35% primarily due to profits earned in certain foreign jurisdictions, primarily the Company's Irish subsidiaries, which are subject to significantly lower tax rates than the U.S. federal statutory rate.

As of December 31, 2015 and June 30, 2016, the Company maintained a full valuation allowance related to the deferred tax assets of its Hungarian subsidiary. This entity has historical losses and the Company concluded it was not more likely than not that these deferred tax assets are realizable.

The Company files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. The Company's income tax returns from 2010 are open to examination by federal, state, and/or foreign tax authorities. In the normal course of business, the Company and its subsidiaries are examined by various taxing authorities. The Company regularly assesses the likelihood of additional assessments by tax authorities and provides for these matters as appropriate. Audits by tax authorities typically involve examination of the deductibility of certain permanent items, limitations on net operating losses and tax credits.

In connection with a tax audit of a foreign subsidiary, the Company received an assessment in the second quarter of 2016 challenging a tax position taken by the entity. The Company believes that it is more likely than not that its position will be upheld. If the Company's position is not upheld, its potential liability could be up to \$2 million.

Although the Company believes its tax estimates are appropriate, the final determination of tax audits could result in material changes in its estimates. The Company has recorded a liability related to uncertain tax positions of \$0.9 million and \$1.1 million as of December 31, 2015 and June 30, 2016, respectively. The Company's policy is to record estimated interest and penalties related to the underpayment of income taxes or unrecognized tax benefits as a component of its income tax provision. The Company recognized \$7,000 and \$15,000 of interest expense for the six months ended June 30, 2015 and 2016, respectively.

8. Common Stock and Equity

The Company's Board of Directors approved a \$75 million share repurchase program on October 20, 2014. Share repurchases are made from time-to-time in the open market, in privately negotiated transactions or otherwise, in accordance with applicable securities laws and regulations. The timing and amount of any share repurchases are determined by the Company's management based on its evaluation of market conditions, the trading price of the stock, regulatory requirements and other factors. The share repurchase program may be suspended, modified or discontinued at any time at the Company's discretion without prior notice.

For the three months ended June 30, 2015 and 2016, the Company repurchased 156,000 and 206,785 shares of its common stock at an average price of \$61.97 and \$53.05 per share for a total cost of \$9.7 million and \$11.0 million, respectively. For the six months ended June 30, 2015 and 2016, the Company repurchased 249,400 and 370,912 shares of its common stock at an average price of \$59.07 and \$52.13 per share for a total cost of \$14.7 million and \$19.3 million, respectively. At June 30, 2016, \$37.0 million remained available under the Company's share repurchase program.

Table of Contents**9. Stock Incentive Plan**

The Company's 2009 Stock Incentive Plan (2009 Plan) is administered by the Board of Directors and Compensation Committee, which have the authority to designate participants and determine the number and type of awards to be granted and any other terms or conditions of the awards. The Company awards restricted stock units as the principal equity incentive award. Restricted stock units with time-based vesting conditions generally vest over a three-year period while restricted stock units with market-based vesting conditions generally vest over two or three-year periods. Until 2012, the Company generally granted stock options as the principal equity incentive award. Options generally vest over a four-year period and expire ten years from the date of grant. Certain stock-based awards provide for accelerated vesting if the Company experiences a change in control. As of June 30, 2016, there were 3.4 million shares available for grant under the 2009 Plan.

The following table summarizes stock option activity (shares and intrinsic value in thousands):

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding, January 1, 2016	768	\$ 30.74	5.4	\$ 27,942
Granted				
Exercised	(239)	23.29		\$ 8,489
Forfeited	(2)	21.63		
Outstanding, June 30, 2016	527	\$ 34.17	5.3	\$ 15,404
Exercisable at December 31, 2015	598	\$ 30.54	5.0	\$ 21,881
Exercisable at June 30, 2016	463	\$ 35.05	5.0	\$ 13,152

The aggregate intrinsic value was calculated based on the positive differences between the fair value of the Company's common stock of \$67.10 per share on December 31, 2015 and \$63.43 per share on June 30, 2016 or at time of exercise and the exercise price of the options.

During the three and six months ended June 30, 2016, the Company granted 358,704 and 644,398 restricted stock units, respectively, of which 341,704 and 589,898 have time-based vesting conditions and 17,000 and 54,500 have market-based vesting conditions, respectively. Restricted stock units with time-based vesting conditions are valued on the grant date using the grant date closing price of the underlying shares. The Company recognizes the expense on a straight-line basis over the requisite service period of the restricted stock unit, which is generally three years. An additional 9,200 market-based restricted stock units were earned and issued during the three months ended June 30, 2016.

Table of Contents

In August 2013, May 2014, May 2015, February 2016 and May 2016, the Company granted to certain key executives restricted stock unit awards with market-based vesting conditions, which are tied to the individual executive's continued employment with the Company throughout the applicable performance period and the level of the Company's achievement of a pre-established relative total shareholder return, or TSR, goal, as measured over an applicable performance period ranging from two to three years as compared to the TSR realized for that same period by the Russell 2000 Index (the "TSR Units"). The target number of shares underlying the February 2016 and May 2016 TSR Units is 37,500 and 17,000 shares, respectively, but the actual number of shares that may be earned under these TSR Units can range from 0% to 200% of the target number of shares awarded, or up to 75,000 and 34,000 shares, respectively, based on the Company's level of achievement of its relative TSR goal for the applicable performance period. Compensation cost for TSR Units is recognized on a straight-line basis over the requisite service period and is recognized regardless of the actual number of awards that are earned based on the market condition.

The assumptions used in the Monte Carlo simulation model include (but are not limited to) the following:

	February 2016 Grant	May 2016 Grant
Risk-free interest rate	0.89%	1.02%
Volatility	40%	37%

The following table summarizes restricted stock unit activity, including performance-based TSR Units (shares in thousands):

	Number of shares Underlying Restricted Stock Units	Weighted Average Grant Date Fair Value
Unvested as of January 1, 2016	1,438	\$ 54.37
Restricted stock units granted	654	58.29
Restricted stock units vested	(479)	46.06
Restricted stock units forfeited	(56)	55.01
Unvested as of June 30, 2016	1,557	\$ 58.54

The Company recognized stock based compensation expense within the accompanying condensed consolidated statements of operations as summarized in the following table (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2016	2015	2016
Cost of revenue	\$ 464	\$ 690	\$ 818	\$ 1,238
Research and development	1,530	1,728	2,858	3,226
Sales and marketing	2,825	4,651	4,855	8,478
General and administrative	2,895	2,667	4,036	5,386
	\$ 7,714	\$ 9,736	\$ 12,567	\$ 18,328

As of June 30, 2016, there was \$68.5 million of total unrecognized share-based compensation cost, net of estimated forfeitures, related to unvested stock awards which are expected to be recognized over a weighted average period of 2.2 years. The total unrecognized share-based compensation cost will be adjusted for future changes in estimated forfeitures.

10. Commitments and Contingencies

Operating Leases The Company has operating lease agreements for offices in the United States, Hungary, Australia, the United Kingdom, Ireland and India that expire at various dates through 2028.

In December 2015, the Company amended its current lease for its Budapest, Hungary office space to provide for an expansion of leased space and to extend the term of the lease. The term of the amended lease began in June 2016 and extends through June 2021. The aggregate amount of minimum lease payments to be made over the term of the lease is approximately \$8.3 million (EUR 7.5 million). The lease agreement required a bank guarantee of \$0.5 million (EUR 0.5 million). The bank guarantee is classified as restricted cash.

Table of Contents

In December 2014, the Company entered into a lease for new office space in Boston, Massachusetts which began in December 2015 and extends through June 2028. The aggregate amount of minimum lease payments to be made over the term of the lease is approximately \$47.0 million. Pursuant to the terms of the lease, the landlord was responsible for making certain improvements to the leased space up to an agreed upon cost to the landlord. Any excess costs for these improvements will be billed by the landlord to the Company as additional rent. These excess costs total \$3.4 million, all of which were paid as of June 30, 2016. The lease required a security deposit of \$3.3 million in the form of an irrevocable, unsecured standby letter of credit. The lease includes an option to extend the original term of the lease for two successive five year periods.

Rent expense under all leases was \$1.9 million and \$3.0 million for the three months ended June 30, 2015 and 2016, respectively, and \$3.8 million and \$5.9 million for the six months ended June 30, 2015 and 2016, respectively. The Company records rent expense on a straight-line basis for leases with scheduled escalation clauses or free rent periods.

The Company also enters into hosting services agreements with third-party data centers and internet service providers that are subject to annual renewal. The aggregate hosting fees incurred under these arrangements totaled \$1.6 million and \$2.4 million for the three months ended June 30, 2015 and 2016, respectively and \$3.0 million and \$4.6 million for the six months ended June 30, 2015 and 2016, respectively.

Future minimum lease payments under non-cancelable operating leases including commitments associated with the Company's hosting services arrangements are approximately as follows at June 30, 2016 (in thousands):

Years Ending December 31	
2016 (Six months ending December 31)	\$ 9,146
2017	13,376
2018	11,054
2019	10,917
2020	10,686
Thereafter	45,329
Total minimum lease payments	\$ 100,508

Litigation The Company routinely assesses its current litigation and/or threatened litigation as to the probability of ultimately incurring a liability, and records its best estimate of the ultimate loss in situations where the Company assesses the likelihood of loss as probable.

On April 24, 2015, the Company entered into a Settlement Agreement with Sensory Technologies, LLC, or Sensory, whereby Sensory agreed to assign its JOIN[®] trademark to the Company and the parties agreed to mutually release each other from any and all claims related to the complaint filed by Sensory against the Company in the U.S. District Court for the Southern District of Indiana on August 26, 2014. In the second quarter of 2015, the Company paid Sensory a one-time fee of \$8.3 million, \$4.7 million of which was reimbursed by the Company's insurance provider, in connection with the Settlement Agreement. The Company believed that the JOIN[®] trademark had de minimis value and therefore expensed \$3.6 million in the first quarter of 2015 as legal settlement expense, which was paid in the second quarter of 2015.

The Company is from time to time subject to various other legal proceedings and claims, either asserted or unasserted, which arise in the ordinary course of business. While the outcome of these other claims cannot be predicted with

certainty, management does not believe that the outcome of any of these other legal matters will have a material adverse effect on the Company's condensed consolidated financial statements.

Table of Contents**11. Accumulated Other Comprehensive Loss**

Accumulated other comprehensive loss consists of foreign currency translation adjustments and changes in unrealized losses and gains (net of tax) on marketable securities. For the purposes of comprehensive income disclosures, the Company does not record tax provisions or benefits for the net changes in the foreign currency translation adjustment, as the Company intends to reinvest permanently undistributed earnings of its foreign subsidiaries. Accumulated other comprehensive loss is reported as a component of stockholders' equity and, as of December 31, 2015 and June 30, 2016, was comprised of cumulative translation adjustment losses of \$5.2 million and \$5.3 million, respectively, and unrealized losses (net of tax) on marketable securities of \$27,000 and unrealized gains (net of tax) of \$0.1 million, respectively. There were no material reclassifications to earnings in the six months ended June 30, 2016.

12. Credit Facility

On February 18, 2015, the Company entered into a multi-currency credit agreement with a syndicate of banks, financial institutions and other lending entities (the "Credit Agreement"), pursuant to which a secured revolving credit facility of up to \$100.0 million in the aggregate was made available to the Company. On January 22, 2016, the Company entered into the First Amendment to the Credit Agreement, pursuant to which the Company exercised its option to increase the credit facility to up to \$150.0 million in the aggregate with the existing lenders and an additional lender and amended the Credit Agreement to provide the Company with an option to further increase the credit facility by an additional \$50.0 million, which, if exercised, would provide the Company with access to a secured revolving credit facility of up to \$200.0 million. The credit facility is available to the Company on a revolving basis during the period from February 18, 2015 through February 18, 2020. The Company may prepay the loans or terminate or reduce the commitments in whole or in part at any time, without premium or penalty, subject to certain conditions and costs in the case of Eurodollar rate loans. The Company repaid \$7.5 million in both March and April 2016 reducing its outstanding debt balance from \$60.0 million to \$45.0 million as of June 30, 2016. On July 22, 2016, the Company repaid an additional \$7.5 million of outstanding borrowings. The Company and its subsidiaries expect to use the credit facility for general corporate purposes, including, but not limited to, the potential acquisition of complementary products or businesses, share repurchases, as well as for working capital.

Loans under the credit facility bear interest at variable rates which reset every 30 to 180 days depending on the rate and period selected by the Company as described below. As of June 30, 2016, the annual rate on the \$45.0 million revolving loan was 2.0% and was renewed at 2.0% on July 21, 2016. The average interest rate on borrowings outstanding for the period ending June 30, 2016 was 1.96%. The quarterly commitment fee on the undrawn portion of the credit facility ranges from 0.20% to 0.30% per annum, based upon the Company's total leverage ratio. As of June 30, 2016, the fair value of the credit facility approximated its book value.

The Credit Agreement contains customary affirmative and negative covenants, including covenants that limit or restrict the Company and its subsidiaries' ability to, among other things, incur indebtedness, grant liens, merge or consolidate, dispose of assets, change the nature of its business, make investments and acquisitions, pay dividends or make distributions, or enter into certain transactions with affiliates, in each case subject to customary and other exceptions for a credit facility of this size and type, each as further described in the Credit Agreement. The Credit Agreement also imposes limits on capital expenditures of the Company and its subsidiaries and requires the Company to maintain a maximum total leverage ratio (not greater than 2.75:1.00) and a minimum interest coverage ratio (not less than 3.00:1.00), each as further defined in the Credit Agreement. As of June 30, 2016, the total leverage ratio was 0.59:1.00, the minimum interest coverage ratio was 70.8:1.00 and the Company was in compliance with all financial and operating covenants of the Credit Agreement.

Any failure to comply with the financial or operating covenants of the Credit Agreement would prevent the Company from being able to borrow additional funds, and would constitute a default, permitting the lenders to, among other things, accelerate the amounts outstanding, including all accrued interest and unpaid fees, under the credit facility and to terminate the credit facility.

As of June 30, 2016, the Company had \$1.0 million of origination costs recorded in other assets. The Company incurred \$1.0 million of origination costs for the period ending December 31, 2015 in connection with entering into the Credit Agreement. The Company incurred an additional \$0.3 million of origination costs in connection with the First Amendment to the Credit Agreement for the period ending June 30, 2016. As permitted by FASB issued ASU 2015-15, the Company has elected to present debt issuance costs as an asset and subsequently amortize the deferred debt issuance costs ratably over the term of the credit facility.

13. Subsequent Events

On July 26, 2016, the Company announced the signing of a definitive merger agreement with Citrix Systems, Inc. for the Company to combine with Citrix Systems, Inc.'s GoTo business in a Reverse Morris Trust transaction. Following the transaction, Citrix Systems, Inc.'s equity will own approximately 50.1% of all outstanding shares of the Company on a fully diluted basis, while the Company's existing stockholders will own approximately 49.9%. While the final value of the transaction will be determined at closing, based on the Company's stock price and outstanding shares and equity grants as of July 25, 2016, the value of the transaction is approximately \$1.8 billion. The transaction, which has been unanimously approved by the Board of Directors of Citrix Systems, Inc. and the Company, is expected to be tax-free to Citrix Systems, Inc. and its stockholders for U.S. federal income tax purposes.

The issuance of shares by the Company in connection with the transaction requires approval by the Company's stockholders and is subject to certain regulatory approvals and other customary closing conditions, including receipt of opinions of counsel with respect to the tax-free nature of the proposed transaction. The transaction is expected to close during the first quarter of 2017. If the merger agreement is terminated under certain circumstances the Company may be required to pay Citrix Systems, Inc. a termination fee of \$62 million or may under other circumstances be required to reimburse Citrix Systems, Inc. up to \$10 million for certain expenses in connection with the merger.

The Company expects to incur significant one-time costs in connection with the merger during the remainder of 2016 and into 2017, including approximately \$16 million of transaction-related fees and expenses, including legal, accounting and other professional fees and transition and integration-related expenses expected to be incurred over the second half of 2016.

On July 26, 2016, the Company also announced that its Board of Directors declared a cash dividend of \$0.50 per share of common stock. The dividend is payable to the Company's stockholders of record as of August 8, 2016, and is expected to be paid on August 26, 2016. Although the Company has not adopted any plan or policy relating to paying dividends, the Company further announced that it intends to declare and pay two additional cash dividends, as permitted by the merger agreement. One dividend is expected to be declared and paid prior to the consummation of the transaction and the other dividend would be expected to be declared and paid in connection with the consummation of the transaction, subject to the merger agreement being in effect and the consummation of the transaction contemplated thereby.

Table of Contents**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 unaudited condensed consolidated financial statements and the related notes thereto included elsewhere in this Quarterly Report on Form 10-Q and the audited condensed consolidated financial statements and notes thereto and management's discussion and analysis of financial condition and results of operations for the year ended December 31, 2015 included in our Annual Report on Form 10-K, filed with the Securities and Exchange Commission, or SEC, on February 19, 2016. This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. These statements are often identified by the use of words such as may, will, expect, believe, anticipate, intend, could, estimate, or continue, and similar expressions or variations. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in the section titled Risk Factors, set forth in Part II, Item 1A of this Quarterly Report on Form 10-Q and elsewhere in this Report. The forward-looking statements in this Quarterly Report on Form 10-Q represent our views as of the date of this Quarterly Report on Form 10-Q. We anticipate that subsequent events and developments will cause our views to change. However, while we may elect to update these forward-looking statements at some point in the future, we have no current intention of doing so except to the extent required by applicable law. You should, therefore, not rely on these forward-looking statements as representing our views as of any date subsequent to the date of this Quarterly Report on Form 10-Q.

Overview

LogMeIn simplifies how people connect to their colleagues, employees, devices and the world around them. With millions of users worldwide, our cloud-based solutions make it possible for people and companies to connect and engage with their workplace, colleagues, customers and products anywhere, anytime. Our services are focused on high growth markets such as Identity and Access Management, Collaboration and the Internet of Things and are delivered via the cloud as hosted services, commonly called software-as-a-service, or SaaS.

We offer both free and fee-based, or premium, subscription software services. Sales of our premium subscription software services are generated through word-of-mouth referrals, web-based advertising, online search, off-line advertising, broadcast advertising, the conversion of free users and expiring free trials to paid subscriptions and direct marketing to new and existing customers. We derive our revenue principally from subscription fees from SMBs, IT service providers, mobile carriers, customer service centers, original equipment manufacturers, or OEMs, and consumers and to a lesser extent, from the delivery of professional services primarily related to our Internet of Things business. The majority of our customers subscribe to our services on an annual basis. Our revenue is driven primarily by the number and type of our premium subscription software services to which our paying customers subscribe. For the six months ended June 30, 2016, we generated revenues of \$163.0 million, compared to \$125.9 million for the six months ended June 30, 2015, an increase of 29%. Revenue from LastPass, which we acquired in the fourth quarter of 2015, was \$8.2 million for the six months ended June 30, 2016.

We reported GAAP net income of \$2.8 million and \$1.4 million for the six months ended June 30, 2015 and 2016, respectively. We continued to generate strong cash flows from operations of \$58.6 million and \$64.0 million for the six months ended June 30, 2015 and 2016, respectively, including contingent retention-based bonus payments of \$2.0 million and \$4.5 million, respectively. As of June 30, 2016, we had cash, cash equivalents and short-term marketable securities of \$225.4 million, an increase of \$17.0 million from December 31, 2015. During the six months ended June 30, 2016, we repaid \$15.0 million of the \$60.0 million borrowed under our credit facility in October 2015 to fund our acquisition of LastPass. On July 22, 2016, we repaid an additional \$7.5 million of our outstanding borrowings.

Under our stock repurchase program, shares may be repurchased from time-to-time in the open market, which may include the use of 10b5-1 trading plans, or in privately negotiated transactions, in accordance with applicable securities and stock exchange rules. For the three months ended June 30, 2015 and 2016, we repurchased 156,000 and 206,785 shares of our common stock at an average price of \$61.97 and \$53.05 per share for a total cost of \$9.7 million and \$11.0 million, respectively. For the six months ended June 30, 2015 and 2016 we repurchased 249,400 and 370,912 shares of our common stock at an average price of \$59.07 and \$52.13 per share for a total cost of \$14.7 million and \$19.3 million, respectively. At June 30, 2016, \$37.0 million remained available under our share repurchase program.

On July 26, 2016, we announced the signing of a definitive merger agreement with Citrix Systems, Inc. to combine with Citrix Systems, Inc.'s GoTo business in a Reverse Morris Trust transaction. Following the transaction, Citrix Systems, Inc.'s equity will own approximately 50.1% of all of our outstanding shares on a fully diluted basis, while our existing stockholders will own approximately 49.9%. While the final value of the transaction will be determined at closing, based on our stock price and outstanding shares and equity grants as of July 25, 2016, the value of the transaction is approximately \$1.8 billion. The transaction, which has been unanimously approved by our Board of Directors and the Board of Directors of Citrix Systems, Inc. is expected to be tax-free to Citrix Systems, Inc. and its stockholders for U.S. federal income tax purposes.

The issuance of our shares in connection with the transaction requires approval by our stockholders and is subject to certain regulatory approvals and other customary closing conditions, including receipt of opinions of counsel with respect to the tax-free nature of the proposed transaction. The transaction is expected to close during the first quarter of 2017. If the merger agreement is terminated under certain circumstances we may be required to pay Citrix Systems, Inc. a termination fee of \$62 million or may under other circumstances be required to reimburse Citrix Systems, Inc. up to \$10 million for certain expenses in connection with the merger.

We expect to incur significant one-time costs in connection with the merger during the remainder of 2016 and into 2017, including approximately \$16 million of transaction-related fees and expenses, including legal, accounting and other professional fees and transition and integration-related expenses expected to be incurred over the second half of 2016.

On July 26, 2016, we also announced that our Board of Directors declared a cash dividend of \$0.50 per share of common stock. The dividend is payable to our stockholders of record as of August 8, 2016, and is expected to be paid on August 26, 2016. Although we have not adopted any plan or policy relating to paying dividends, we further announced that we intend to declare and pay two additional cash dividends, as permitted by the merger agreement. One dividend is expected to be declared and paid prior to the consummation of the transaction and the other dividend would be expected to be declared and paid in connection with the consummation of the transaction, subject to the merger agreement being in effect and the consummation of the transaction contemplated thereby.

Table of Contents

Certain Trends and Uncertainties

The following represents a summary of certain trends and uncertainties, which could have a significant impact on our financial condition and results of operations. This summary is not intended to be a complete list of potential trends and uncertainties that could impact our business in the long or short term. The summary, however, should be considered along with the factors identified in the section titled **Risk Factors** of this Quarterly Report on Form 10-Q and elsewhere in this report.

There is frequent litigation in the software and technology industries based on allegations of infringement or other violations of intellectual property rights. We have been, and may in the future be, subject to third party patent infringement or other intellectual property-related lawsuits as we face increasing competition and become increasingly visible. Any adverse determination related to intellectual property claims or litigation could adversely affect our business, financial condition and operating results.

The risk of a data security breach or service disruption caused by computer hackers and cyber criminals has increased as the frequency, intensity and sophistication of attempted attacks and intrusions from around the world have increased. Our services and systems have been, and may in the future be, the target of various forms of cyber-attacks. While we make significant efforts to maintain the security and integrity of our services and computer systems, our cybersecurity measures and the cybersecurity measures taken by our third-party data center facilities may be unable to anticipate, detect or prevent all attempts to compromise our systems. Any security breach, whether successful or not, could harm our reputation, subject us to lawsuits and other potential liabilities and ultimately could result in the loss of customers.

We believe that competition will continue to increase. Increased competition could result from existing competitors or new competitors that enter the market because of the potential opportunity. We will continue to closely monitor competitive activity and respond accordingly. Increased competition could have an adverse effect on our financial condition and results of operations.

We believe that as we continue to grow revenue at expected rates, our cost of revenue and operating expenses, including sales and marketing, research and development and general and administrative expenses will increase in absolute dollar amounts. For a description of the general trends we anticipate in various expense categories, see **Cost of Revenue and Operating Expenses** below.

Sources of Revenue

We derive our revenue primarily from subscription fees for our premium services from enterprise customers, SMBs, IT service providers, mobile carriers, customer service centers, OEMs and consumers and to a lesser extent, from the delivery of professional services primarily related to our Internet of Things business. The majority of our customers subscribe to our services on an annual basis and pay in advance, typically with a credit card, for their subscription. A smaller percentage of our customers subscribe to our services on a monthly basis through either month-to-month commitments or annual commitments that are then paid monthly with a credit card. We initially record a subscription fee as deferred revenue and then recognize it ratably, on a daily basis, over the life of the subscription period. Typically, a subscription automatically renews at the end of a subscription period unless the customer specifically terminates it prior to the end of the period. For the three months ended June 30, 2016, our gross annualized renewal

rate was approximately 75%. We calculate our gross renewal rate on an annualized dollar basis across all product lines as of the end of each period. In the first quarter of 2016, we increased the price of LogMeIn Pro in conjunction with the addition of cloud storage and password management functionality. LogMeIn Pro customers renewed at lower rates in the quarter which is the primary driver of our overall lower gross annualized renewal rate. We expect our gross renewal rate to remain relatively consistent as we continue to invest in our products, customer support organization, and related retention programs.

Our revenue by service cloud (product grouping) is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2016	2015	2016
Revenues:				
Collaboration cloud	\$ 21,055	\$ 28,849	\$ 40,218	\$ 55,597
Identity and Access Management cloud	21,802	29,292	41,999	57,744
Service and Support cloud	21,206	24,451	42,420	48,362
Other	771	674	1,306	1,297
 Total revenue	 \$ 64,834	 \$ 83,266	 \$ 125,943	 \$ 163,000

Table of Contents**Employees**

We have increased our number of full-time employees to 1,093 at June 30, 2016 as compared to 1,006 at December 31, 2015 and 916 at June 30, 2015.

Cost of Revenue and Operating Expenses

We allocate certain overhead expenses, such as rent and utilities, to expense categories based on the headcount in or office space occupied by personnel in that expense category as a percentage of our total headcount or office space. As a result, an overhead allocation associated with these costs is reflected in the cost of revenue and each operating expense category.

Cost of Revenue. Cost of revenue consists primarily of costs associated with our data center operations, customer support centers and our Xively professional services team. Included in these costs are wages and benefits for personnel, telecommunications, hosting fees, hardware and software maintenance costs, consulting fees associated with outsourced customer support staffing and professional services team projects, depreciation associated with our data centers and contingent bonus expense related to our acquisitions (see Note 4 to the Condensed Consolidated Financial Statements). Additionally, amortization expense associated with the acquired software, technology and documented know-how, as well as internally developed software is included in cost of revenue. The expenses related to hosting our services and supporting our free and premium customers are dependent on the number of customers who subscribe to our services and the complexity and redundancy of our services and hosting infrastructure. The expenses related to our professional services team are primarily driven by our investment in and efforts to support the growth of our Internet of Things business. We expect cost of revenue expenses to increase in absolute dollars but remain relatively constant as a percentage of revenue as we continue to invest in our data center infrastructure and operations and customer support efforts.

Research and Development. Research and development expenses consist primarily of wages and benefits for development personnel, contingent bonus expense related to our acquisitions, rent expense primarily related to our offices in Hungary and Boston, consulting fees associated with outsourced development projects, travel-related costs for development personnel, and depreciation of assets used in development. Our research and development efforts are focused on both improving ease of use and functionality of our existing services, as well as developing new offerings. The majority of our research and development employees are located in our development centers in Hungary. Therefore, a majority of research and development expense is subject to fluctuations in foreign exchange rates. We capitalized costs of \$1.7 million and \$0.7 million for the six months ended June 30, 2015 and 2016, respectively, related to internally developed computer software to be sold as a service, which were incurred during the application development stage. The majority of research and development costs have been expensed as incurred. We expect that research and development expenses will increase in absolute dollars as we continue to enhance and expand our services but will remain relatively constant as a percentage of revenue.

Sales and Marketing. Sales and marketing expenses consist primarily of online search and advertising costs, wages, commissions and benefits for sales and marketing personnel, offline marketing costs such as media advertising and trade shows, consulting fees, credit card processing fees, rent expense and hardware and software maintenance costs. Online search and advertising costs consist primarily of pay-per-click payments to search engines and other online advertising media such as banner ads. Offline marketing costs include radio and print advertisements, as well as the costs to create and produce these advertisements, and tradeshow, including the costs of space at tradeshow and costs to design and construct tradeshow booths. Advertising costs are expensed as incurred. In order to continue to grow our business and awareness of our services, we expect that we will continue to invest in our sales and marketing efforts. We expect that sales and marketing expenses will increase in absolute dollars but will remain relatively constant as a

percentage of revenue.

General and Administrative. General and administrative expenses consist primarily of wages and benefits for management, human resources, internal IT support, legal, finance and accounting personnel, professional fees, insurance and other corporate expenses, including acquisition-related expenses. We expect that general and administrative expenses related to personnel, recruiting, internal information systems, audit, accounting and insurance costs will increase in absolute dollars but will remain relatively constant as a percentage of revenue as we continue to support the growth of our business. We expect that acquisition-related expenses will increase over the remainder of 2016 and into 2017 in conjunction with the proposed merger with Citrix Systems Inc.'s GoTo family of products both in absolute dollars and as a percentage of revenue (see Note 13 to the Condensed Consolidated Financial Statements). General and administrative expenses could increase if we incur litigation-related expenses associated with our defense against legal claims.

Table of Contents**Critical Accounting Policies**

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP. The preparation of our financial statements and related disclosures requires us to make estimates, assumptions and judgments that affect the reported amount of assets, liabilities, revenue, costs and expenses, and related disclosures. We base our estimates and assumptions on historical experience and other factors that we believe to be reasonable under the circumstances. We evaluate our estimates and assumptions on an ongoing basis. Our actual results may differ from these estimates under different assumptions and conditions. Our most critical accounting policies are listed below:

Revenue recognition;

Income taxes;

Goodwill and acquired intangible assets;

Stock-based compensation; and

Loss contingencies.

Results of Consolidated Operations

The following table sets forth selected consolidated statements of operations data for each of the periods indicated as a percentage of total revenue.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2016	2015	2016
Revenue	100%	100%	100%	100%
Cost of revenue	13	14	13	14
Gross profit	87	86	87	86
Operating expenses:				
Research and development	16	17	15	18
Sales and marketing	54	50	55	51
General and administrative	13	14	12	13
Legal settlements			3	
Amortization of acquired intangibles		1	1	2
Total operating expenses	83	82	86	84

Edgar Filing: LogMeIn, Inc. - Form 10-Q

Income from operations	4	4	1	2
Interest income				
Interest expense				(1)
Other income (expense), net			1	
Income before income taxes	4	4	2	1
Provision for income taxes		(1)		
Net income	4%	3%	2%	1%

Three Months Ended June 30, 2015 and 2016

Revenue. Revenue increased \$18.4 million, or 28%, from \$64.8 million for the three months ended June 30, 2015 to \$83.3 million for the three months ended June 30, 2016. This increase was primarily attributable to customers who purchased new, add-on and renewal subscriptions of join.me and existing customers who renewed and received our improved LogMeIn Pro and LogMeIn Central offerings at higher price points. Included in the increase is \$4.3 million of revenue related to LastPass.

Table of Contents

Cost of Revenue. Cost of revenue increased \$2.9 million, or 34%, from \$8.5 million for the three months ended June 30, 2015 to \$11.4 million for the three months ended June 30, 2016. As a percentage of revenue, cost of revenue was 13% and 14% for the three months ended June 30, 2015 and 2016, respectively. The increase in absolute dollars was primarily due to a \$1.4 million increase in hosting costs associated with managing our data centers and hosting our services as a result of an increase in both the number of customers using our services and the total number of devices that connected to our services. The total increase was also due to a \$0.8 million increase in personnel-related costs including salary, wages, bonus, recruiting and relocation costs, and benefits and taxes and a \$0.6 million increase in amortization expense associated with acquired intangibles and internally developed software. Included in the increase in personnel-related costs is a \$0.2 million increase in stock-based compensation expense.

Research and Development Expenses. Research and development expenses increased \$3.8 million, or 37%, from \$10.3 million for the three months ended June 30, 2015 to \$14.0 million for the three months ended June 30, 2016. As a percentage of revenue, research and development expenses were 16% and 17% for the three months ended June 30, 2015 and 2016, respectively. The increase in absolute dollars was primarily due to a \$1.4 million increase in personnel-related costs including salary, wages, bonus, recruiting and relocation costs, and benefits and taxes as we increased the number of research and development employees to support our overall growth. The total increase was also due to a \$0.9 million increase in contingent retention-based bonus expense primarily related to the LastPass acquisition, a \$0.4 million increase in rent expense, a \$0.3 million decrease in costs related to internally developed computer software to be sold as a service which were incurred during the application development stage and were therefore capitalized rather than expensed, a \$0.2 million increase in depreciation expense, a \$0.2 million increase in telecommunications expense and a \$0.2 million increase in hardware and software maintenance costs. Included in the increase in personnel-related costs is a \$0.2 million increase in stock-based compensation expense.

Sales and Marketing Expenses. Sales and marketing expenses increased \$7.1 million, or 20%, from \$34.6 million for the three months ended June 30, 2015 to \$41.7 million for the three months ended June 30, 2016. As a percentage of revenue, sales and marketing expenses were 54% and 50% for the three months ended June 30, 2015 and 2016, respectively. The increase in absolute dollars was primarily due to a \$4.5 million increase in personnel-related costs including salary, wages, bonus, recruiting and relocation costs, and benefits and taxes from the hiring of additional employees to support our growth in sales and to expand our marketing efforts. The total increase was also due to a \$0.5 million increase in rent expense, a \$0.5 million increase in sales consulting and contractor costs, a \$0.4 million increase in hardware and software maintenance costs, a \$0.3 million increase in travel-related and department meeting costs, a \$0.3 million increase in depreciation expense, a \$0.2 million increase in credit card transaction fees related to an increase in e-commerce sales and a \$0.2 million increase in marketing programs and consulting costs. Included in the increase in personnel-related costs is a \$1.8 million increase in stock-based compensation expense.

General and Administrative Expenses. General and administrative expenses increased \$2.8 million, or 32%, from \$8.6 million for the three months ended June 30, 2015 to \$11.4 million for the three months ended June 30, 2016. As a percentage of revenue, general and administrative expenses were 13% and 14% for the three months ended June 30, 2015 and 2016, respectively. The increase in absolute dollars was primarily due to a \$1.1 million increase in acquisition-related professional fees. The total increase in general and administrative expense was also due to a \$0.9 million increase in personnel-related costs including salary, wages, bonus, recruiting and relocation costs, and benefits and taxes as we increased the number of general and administrative employees to support our overall growth, a \$0.2 million increase in travel-related and department meeting costs, a \$0.2 million adjustment for the fair value of the contingent consideration related to the LastPass acquisition and a \$0.2 million increase in non-income taxes. These costs were partially offset by a \$0.6 million decrease in legal fees. Included in the increase in personnel-related costs is a \$0.2 million decrease in stock-based compensation expense.

Amortization of Acquired Intangibles. Amortization of acquired intangibles was \$0.3 million and \$1.4 million for the three months ended June 30, 2015 and 2016, respectively, primarily related to the intangible assets acquired in the LastPass acquisition in October 2015.

Interest Income. Interest income was \$0.2 million for both the three months ended June 30, 2015 and 2016 and was primarily attributable to interest income earned on marketable securities.

Interest Expense. Interest expense was \$0.1 million and \$0.4 million for the three months ended June 30, 2015 and 2016, respectively, and was primarily associated with interest expense attributable to our credit facility and the amortization of financing fees.

Other Income (Expense), Net. Other income (expense), net was a \$0.3 million gain and a \$0.1 million loss for the three months ended June 30, 2015 and 2016, respectively, comprised primarily of realized and unrealized foreign currency gains and losses resulting from multi-currency settlements and re-measurements occurring during the quarter.

Income Taxes. We recorded a provision for federal, state and foreign income taxes of \$0.5 million on profit before income taxes of \$2.9 million and a provision of \$0.6 million on profit before income taxes of \$3.1 million for the three months ended June 30, 2015 and 2016, respectively, resulting in an effective tax rate of 17% and 19%, respectively. Our effective income tax rates are lower than the U.S. federal statutory rate of 35% primarily due to profits earned in certain foreign jurisdictions, primarily our Irish subsidiaries, which are subject to significantly lower tax rates than the U.S. federal statutory rate.

Table of Contents**Six Months Ended June 30, 2015 and 2016**

Revenue. Revenue increased \$37.1 million, or 29%, from \$125.9 million for the six months ended June 30, 2015 to \$163.0 million for the six months ended June 30, 2016. This increase was primarily attributable to customer purchases of new, add-on and renewal subscriptions of join.me and existing customers who renewed and received our improved LogMeIn Pro and LogMeIn Central offerings at higher price points. Included in the increase is \$8.2 million of revenue related to LastPass.

Cost of Revenue. Cost of revenue increased \$6.1 million, or 37%, from \$16.5 million for the six months ended June 30, 2015 to \$22.6 million for the six months ended June 30, 2016. As a percentage of revenue, cost of revenue was 13% and 14% for the six months ended June 30, 2015 and 2016, respectively. The increase in absolute dollars was primarily due to a \$3.2 million increase in hosting costs associated with managing our data centers and hosting our services as a result of an increase in both the number of customers using our services and the total number of devices that connected to our services. The total increase was also due to a \$1.5 million increase in personnel-related costs including salary, wages, bonus, recruiting and relocation costs, and benefits and taxes, a \$1.3 million increase in amortization expense associated with acquired intangibles and internally developed software, a \$0.2 million increase in rent expense and a \$0.2 million increase in travel-related and department meetings costs. These costs were partially offset by a \$0.4 million decrease in contingent retention-based bonuses related to our acquisitions. Included in the increase in personnel-related costs is a \$0.4 million increase in stock-based compensation expense.

Research and Development Expenses. Research and development expenses increased \$10.0 million, or 52%, from \$19.4 million for the six months ended June 30, 2015 to \$29.4 million for the six months ended June 30, 2016. As a percentage of revenue, research and development expenses were 15% and 18% for the six months ended June 30, 2015 and 2016, respectively. The increase in absolute dollars was primarily due to a \$3.0 million increase in personnel-related costs including salary, wages, bonus, recruiting and relocation costs, and benefits and taxes as we increased the number of research and development employees to support our overall growth, a \$2.3 million increase in contingent retention-based bonus expense primarily related to the LastPass acquisition and a \$1.6 million increase in travel-related and department meetings costs. The total increase was also due to a \$0.9 million decrease in costs related to internally developed computer software to be sold as a service which were incurred during the application development stage and were therefore capitalized rather than expensed, a \$0.8 million increase in rent expense, a \$0.4 million increase in depreciation expense, a \$0.3 million increase in hardware and software maintenance costs, a \$0.3 million increase in telecommunications expense and a \$0.3 million increase in consulting costs. Included in the increase in personnel-related costs is a \$0.4 million increase in stock-based compensation expense.

Sales and Marketing Expenses. Sales and marketing expenses increased \$14.9 million, or 22%, from \$69.0 million for the six months ended June 30, 2015 to \$83.9 million for the six months ended June 30, 2016. As a percentage of revenue, sales and marketing expenses were 55% and 51% for the six months ended June 30, 2015 and 2016, respectively. The increase in absolute dollars was primarily due to a \$9.4 million increase in personnel-related costs including salary, wages, bonus, recruiting and relocation costs, and benefits and taxes from the hiring of additional employees to support our growth in sales and to expand our marketing efforts. The total increase was also due to a \$1.4 million increase in sales consulting and contractor costs, a \$1.1 million increase in travel-related and department meeting costs, a \$1.1 million increase in rent expense, a \$0.7 million increase in hardware and software maintenance costs, a \$0.6 million increase in depreciation expense, a \$0.4 million increase in credit card transaction fees related to an increase in e-commerce sales and a \$0.3 million increase in contingent retention-based bonus expense primarily related to the LastPass acquisition. These increases were partially offset by a \$0.4 million decrease in marketing programs and consulting costs. Included in the increase in personnel-related costs is a \$3.6 million increase in stock-based compensation expense.

General and Administrative Expenses. General and administrative expenses increased \$6.3 million, or 41%, from \$15.3 million for the six months ended June 30, 2015 to \$21.7 million for the six months ended June 30, 2016. As a percentage of revenue, general and administrative expenses were 12% and 13% for the six months ended June 30, 2015 and 2016, respectively. The increase in absolute dollars was primarily due to a \$3.4 million increase in personnel-related costs including salary, wages, bonus, recruiting and relocation costs, and benefits and taxes as we increased the number of general and administrative employees to support our overall growth. The total increase in general and administrative expense was also due to a \$1.1 million increase in acquisition-related professional fees, a \$0.5 million increase in non-income taxes, a \$0.4 million increase in travel-related and department meeting costs, a \$0.4 million increase in consulting costs, a \$0.5 million adjustment for the fair value of the contingent consideration related to the LastPass acquisition, a \$0.2 million increase in rent expense and a \$0.2 million increase in employee training costs. These increases were partially offset by a \$1.1 million decrease in legal fees. Included in the increase in personnel-related costs is a \$1.4 million increase in stock-based compensation expense.

Legal Settlement Expense. Legal settlement expenses were \$3.6 million for the six months ended June 30, 2015 and were associated with the Sensory Settlement Agreement (see Note 10 to the Condensed Consolidated Financial Statements). We did not incur legal settlement expenses for the six months ended June 30, 2016.

Table of Contents

Amortization of Acquired Intangibles. Amortization of acquired intangibles was \$0.6 million and \$2.7 million for the six months ended June 30, 2015 and 2016, respectively, primarily related to the intangible assets acquired in the LastPass acquisition in October 2015.

Interest Income. Interest income was \$0.4 million for both the six months ended June 30, 2015 and 2016 and was primarily attributable to interest income earned on marketable securities.

Interest Expense. Interest expense was \$0.2 million and \$0.8 million for the six months ended June 30, 2015 and 2016, respectively, and was primarily associated with interest expense attributable to our credit facility and the amortization of financing fees.

Other Income (Expense), Net. Other income (expense), net was a \$1.5 million gain and a \$0.5 million loss for the six months ended June 30, 2015 and 2016, respectively, comprised primarily of realized and unrealized foreign currency gains and losses resulting from multi-currency settlements and re-measurements occurring during the quarter.

Income Taxes. We recorded a provision for federal, state and foreign income taxes of \$0.5 million on profit before income taxes of \$3.3 million and a provision of \$0.3 million on profit before income taxes of \$1.8 million for the six months ended June 30, 2015 and 2016, respectively, resulting in an effective tax rate of 17% and 19%, respectively. Our effective income tax rates are lower than the U.S. federal statutory rate of 35% primarily due to profits earned in certain foreign jurisdictions, primarily our Irish subsidiaries, which are subject to significantly lower tax rates than the U.S. federal statutory rate.

Liquidity and Capital Resources

The following table sets forth the major sources and uses of cash and cash equivalents for each of the periods below (in thousands):

	Six Months Ended June 30,	
	2015	2016
Net cash provided by operating activities	\$ 58,565	\$ 63,994
Net cash used in investing activities	(8,674)	(9,942)
Net cash used in financing activities	(10,333)	(37,899)
Effect of exchange rate changes on cash and cash equivalents	(4,376)	586
Net increase in cash and cash equivalents	\$ 35,182	\$ 16,739

At June 30, 2016, our principal source of liquidity was cash and cash equivalents and short-term marketable securities totaling \$225.4 million, of which \$136.4 million was in the United States and \$89.0 million was held by our international subsidiaries.

Cash Flows From Operating Activities

Net cash inflows from operating activities during the six months ended June 30, 2015 were mainly attributable to a \$34.3 million increase in deferred revenue associated with upfront payments received from our customers, a \$4.4 million increase in accounts payable, a \$3.5 million decrease in accounts receivable and net income of \$2.8

million. These cash inflows are partially offset by a \$3.8 million decrease in accrued liabilities and a \$2.5 million increase in prepaid expenses and other current assets. The decrease in accrued liabilities is primarily driven by bonus payments made in January 2015, which were accrued at December 31, 2014. The increase in prepaid expenses and other current assets is primarily driven by a \$1.4 million increase in prepaid software subscription and maintenance fees and a \$0.8 million increase in prepaid tax. Additionally, included in net cash inflows from operating activities are add-backs of non-cash charges, including \$12.6 million for stock-based compensation expense and \$5.9 million for depreciation and amortization.

Net cash inflows from operating activities during the six months ended June 30, 2016 were mainly attributable to a \$26.1 million increase in deferred revenue associated with upfront payments received from our customers, a \$3.5 million increase in other long-term liabilities, a \$2.5 million increase in accounts payable, a \$1.6 million decrease in accounts receivable, our net income of \$1.4 million and a \$0.9 million decrease in other assets. These cash inflows are partially offset by a \$2.3 million increase in prepaid expenses and other current assets. The increase in other long-term liabilities is primarily driven by a \$2.8 million increase in contingent retention-based bonuses related to the LastPass acquisition. The decrease in other assets is primarily driven by a \$1.0 million decrease in long-term prepaid rent. The increase in prepaid expenses and other current assets is primarily driven by a \$1.8 million increase in prepaid software subscription fees and a \$0.7 million increase in prepaid marketing costs. Additionally, included in net cash inflows from operating activities are add-backs of non-cash charges, including \$18.3 million for stock-based compensation expense, \$11.1 million for depreciation and amortization and \$0.5 million for the change in fair value of the contingent consideration liability related to the LastPass acquisition. We expect to make \$2.7 million in contingent bonus payments associated with our acquisitions over the remaining six months of 2016.

Table of Contents

Cash Flows From Investing Activities

Net cash used in investing for the six months ended June 30, 2015 was primarily attributable to payments totaling \$6.6 million in property and equipment related to the expansion and upgrade of our data center capacity, our internal IT infrastructure, and our offices. Net cash used in investing activities also related to \$1.9 million in intangible asset additions for capitalized costs related to internally developed computer software to be sold as a service which were incurred during the application development stage.

Net cash used in investing activities for the six months ended June 30, 2016 was primarily attributable to purchases of \$8.8 million in property and equipment related to the expansion and upgrade of our data center capacity, our internal IT infrastructure and our offices. Net cash used in investing activities was also related to \$0.7 million in intangible asset additions for capitalized costs related to internally developed computer software to be sold as a service which were incurred during the application development stage.

Cash Flows From Financing Activities

Net cash used in financing activities for the six months ended June 30, 2015 was primarily related to \$14.7 million for the purchase of treasury stock pursuant to our share repurchase program, the payment of \$6.9 million for payroll taxes related to vesting of restricted stock units, and the payment of \$0.8 million in deferred financing costs. These payments were offset by \$12.3 million in proceeds received from the issuance of common stock upon exercise of stock options.

Net cash used in financing activities for the six months ended June 30, 2016 related to the purchase of \$19.3 million of treasury stock pursuant to our share repurchase program, the repayment of \$15.0 million related to our credit facility, the payment of \$8.6 million for payroll taxes related to vesting of restricted stock units and the payment of \$0.3 million in deferred financing costs. These payments were partially offset by \$5.4 million in proceeds received from the issuance of common stock upon exercise of stock options. We expect to make \$2.5 million in contingent non-retention based payments associated with our acquisition of LastPass over the remaining six months of 2016.

We also have available a multi-currency credit facility with a syndicate of banks, financial institutions and other lending entities that provides for a secured revolving line of credit of up to \$150 million, which may be increased by an additional \$50 million subject to further commitment from the lenders. The credit facility matures on February 18, 2020 and includes certain financial covenants with which we must comply. We expect to use the credit facility for general corporate purposes, including the potential acquisition of complementary products or businesses, share repurchases, as well as for working capital (see Note 12 to our Condensed Consolidated Financial Statements for additional details). As of June 30, 2016, we had \$45.0 million of outstanding borrowings under the credit facility. On July 22, 2016, we repaid an additional \$7.5 million of our outstanding borrowings.

Future Expectations

While we believe that our current cash and cash equivalents, together with cash generated from operations, will be sufficient to meet our working capital and capital expenditure requirements for at least the next twelve months, as well as our acquisition-related fees and expenses related to the proposed merger with Citrix Systems, Inc.'s GoTo family of products and our announced dividends to our stockholders, we may elect to raise additional capital through the sale of additional equity or debt securities or expand our credit facility to develop or enhance our services, to fund expansion, to respond to competitive pressures or to acquire complementary products, businesses or technologies. If we elect, additional financing may not be available in amounts or on terms that are favorable to us, if at all. If we raise additional funds through the issuance of equity or convertible debt securities, our existing stockholders could suffer

significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our common stock.

During the last three years, inflation and changing prices have not had a material effect on our business and we do not expect that inflation or changing prices will materially affect our business in the foreseeable future.

Table of Contents

Regulations S-K Item 10(e), Use of Non-GAAP Financial Measures in Commission Filings, defines and prescribes the condition for use of non-GAAP financial information. We have presented the following non-GAAP measures in accordance with this standard. We believe that these non-GAAP measures of financial results provide useful information to management and investors regarding certain financial and business trends relating to our financial condition and results of operations. Management uses these non-GAAP measures to compare our performance to that of prior periods and uses these measures in financial reports prepared for management and our Board of Directors. We believe that the use of these non-GAAP financial measures provides an additional tool for investors to use in evaluating ongoing operating results and trends and in comparing our financial measures with other software-as-a-service companies, many of which present similar non-GAAP financial measures to investors.

In addition to our condensed consolidated financial statements prepared in accordance with GAAP, to date, we have considered the following non-GAAP financial measures to be key indicators of our financial performance:

Non-GAAP operating income, which we define as GAAP income from operations excluding acquisition-related costs and amortization, stock-based compensation expense and litigation-related expenses;

Adjusted EBITDA, which we define as GAAP net income excluding interest and other (income) expense, net, income tax expense, depreciation and amortization expenses, acquisition-related costs, stock-based compensation expense and litigation-related expenses;

Non-GAAP provision for income taxes, which we define as GAAP provision for income taxes excluding the tax impact from acquisition-related costs and amortization, stock-based compensation expense and litigation-related expenses;

Non-GAAP net income, which we define as GAAP net income excluding stock-based compensation expense, litigation-related expense and acquisition-related costs and amortization and the tax effect of the non-GAAP items; and

Non-GAAP earnings per share, which we define as non-GAAP net income divided by diluted average weighted shares outstanding.

The expenses described below have been excluded from our GAAP results to arrive at our non-GAAP measures, as outlined above:

Acquisition-related costs and amortization relate to costs associated with acquisitions of intellectual property and businesses and include related professional service costs (i.e. legal costs, audit and accounting fees), contingent purchase price, contingent retention bonuses and the amortization of acquired intangible assets.

Acquisition-related costs relate to costs associated with the acquisitions of intellectual property and businesses and include legal costs, audit and accounting fees and contingent retention-based bonuses.

Stock-based compensation expense relates to stock-based compensation awards granted to our executive officers, employees and outside directors.

Litigation-related expenses relate to costs associated with the defense and settlement of claims brought against us including intellectual property infringement claims and other material litigation.

Depreciation and amortization expenses relate to costs associated with the depreciation and amortization of fixed and intangible assets.

Interest and other (income) expense, net relates to the interest earned on outstanding cash balances and marketable securities, interest expense primarily related to our credit facility, as well as realized and unrealized foreign currency gains and losses resulting from multi-currency settlements occurring during the period and period end translation adjustments.

Income tax expense relates to the total income tax levied based on GAAP income during the period.

We consider our non-GAAP financial measures and these certain financial and operating metrics important to understanding our historical results, improving our business, benchmarking our performance against peer companies, and identifying current and future trends impacting our business.

The exclusion of certain expenses in the calculation of non-GAAP financial measures should not be construed as an inference that these costs are unusual or infrequent. We anticipate excluding these expenses in future presentations of our non-GAAP financial measures. We believe that these non-GAAP measures of financial results provide useful information to management and investors regarding certain financial and business trends related to our financial condition and results of operations.

We do not consider these non-GAAP measures in isolation or as an alternative to financial measures determined in accordance with GAAP. The principal limitation of these non-GAAP financial measures is that they exclude significant elements that are required to be recorded in our financial statements pursuant to GAAP. In addition, they are subject to inherent limitations as they reflect the exercise of judgments by management in determining these non-GAAP financial measures. In order to compensate for these limitations, management presents our non-GAAP financial measures in connection with our GAAP results. We urge investors to review the reconciliation of our non-GAAP financial measures to the comparable GAAP financial measures, which we have included in this Form 10-Q and in our press releases announcing our quarterly financial results, and not to rely on any single financial measure to evaluate our business.

Table of Contents

Reconciliation tables of the most comparable GAAP financial measures to the non-GAAP measures are presented as follows (in thousands, except per share data):

	For the Three Months Ended		For the Six Months Ended	
	June 30,		June 30,	
Non-GAAP Operating income	2015	2016	2015	2016
GAAP Income from operations	\$ 2,549	\$ 3,360	\$ 1,585	\$ 2,653
Add Back:				
Stock-based compensation expense	7,714	9,736	12,567	18,328
Litigation-related expenses	326		4,585	35
Acquisition-related costs and amortization	1,991	5,524	4,504	11,284
Non-GAAP Operating income	\$ 12,580	\$ 18,620	\$ 23,241	\$ 32,300

	For the Three Months Ended		For the Six Months Ended	
	June 30,		June 30,	
Adjusted EBITDA	2015	2016	2015	2016
GAAP Net income	\$ 2,388	\$ 2,506	\$ 2,760	\$ 1,433
Add Back:				
Stock-based compensation expense	7,714	9,736	12,567	18,328
Litigation-related expenses	326		4,585	35
Acquisition-related costs	1,001	3,017	2,529	6,239
Interest and other (income) expense, net	(323)	273	(1,722)	886
Income tax expense	484	581	547	334
Depreciation and amortization expense	3,057	5,260	5,934	10,704
Adjusted EBITDA	\$ 14,647	\$ 21,373	\$ 27,200	\$ 37,959

	For the Three Months Ended		For the Six Months Ended	
	June 30,		June 30,	
Non-GAAP Net income	2015	2016	2015	2016
GAAP Net income	\$ 2,388	\$ 2,506	\$ 2,760	\$ 1,433
Add Back:				
Stock-based compensation expense	7,714	9,736	12,567	18,328
Litigation-related expenses	326		4,585	35
Acquisition-related costs and amortization	1,991	5,524	4,504	11,284
Less:				
Income tax effect of non-GAAP items	(3,358)	(5,030)	(6,842)	(9,279)
Non-GAAP Net income	\$ 9,061	\$ 12,736	\$ 17,574	\$ 21,801

Table of Contents

	For the Three Months Ended		For the Six Months Ended	
	June 30,		June 30,	
Non-GAAP Earnings per share	2015	2016	2015	2016
GAAP Diluted earnings per share	\$ 0.09	\$ 0.10	\$ 0.11	\$ 0.06
Add Back:				
Stock-based compensation expense	0.30	0.38	0.49	0.71
Litigation-related expenses	0.01		0.18	
Acquisition-related costs and amortization	0.08	0.21	0.18	0.44
Less:				
Income tax effect of non-GAAP items	(0.13)	(0.20)	(0.27)	(0.37)
Non-GAAP Earnings per share	\$ 0.35	\$ 0.49	\$ 0.69	\$ 0.84
Shares used in computing diluted non-GAAP earnings per share	25,673	25,828	25,615	25,841

Off-Balance Sheet Arrangements

We do not engage in any off-balance sheet financing activities, nor do we have any interest in entities referred to as variable interest entities.

Contractual Obligations

The following table summarizes our contractual obligations at June 30, 2016 and the effect such obligations are expected to have on our liquidity and cash flow in future periods.

	Payments Due by Period (in thousands) ⁽¹⁾				
	Total	Less Than 1 Year	1-3 Years	4-5 Years	More Than 5 Years
Operating lease obligations	\$ 94,512	\$ 11,620	\$ 32,243	\$ 19,595	\$ 31,054
Credit facility ⁽²⁾	45,000		45,000		
Hosting service agreements	5,996	5,278	718		
Total	\$ 145,508	\$ 16,898	\$ 77,961	\$ 19,595	\$ 31,054

(1) Excluded from the table above is \$1.1 million related to uncertain tax positions as we are uncertain as to when a cash settlement for these liabilities will occur.

(2) The credit facility matures in February 2020, when all amounts outstanding will be due and payable. Excluded from the table above are the quarterly commitment fees on the undrawn portion that range from 0.20% to 0.30% per annum and interest payable on any outstanding borrowings.

The commitments under our operating leases shown above consist primarily of lease payments for our corporate headquarters located in Boston, Massachusetts (see Note 10 to the Condensed Consolidated Financial Statements), our research and development offices in Hungary, our international sales and marketing offices located in Australia, the United Kingdom, Ireland, and India, and contractual obligations related to our data centers.

In December 2015, we amended our current lease for our Budapest, Hungary office space to provide for an expansion of leased space and to extend the term of the lease. The term of the amended lease began in June 2016 and extends through June 2021. The aggregate amount of minimum lease payments to be made over the term of the lease is approximately \$8.3 million (EUR 7.5 million). The lease agreement required a bank guarantee of \$0.5 million (EUR 0.5 million). The bank guarantee is classified as restricted cash.

Table of Contents

In December 2014, we entered into a lease for new office space in Boston, Massachusetts. The lease term began in December 2015 and will extend through June 2028. The aggregate amount of minimum lease payments to be made over the term of the lease is \$47.0 million. Pursuant to the terms of the lease, the landlord was responsible for making certain improvements to the leased space up to an agreed upon cost to the landlord. Any excess costs for these improvements will be billed by the landlord to us as additional rent. These excess costs total \$3.4 million, all of which were paid as of June 30, 2016. The lease required a security deposit of approximately \$3.3 million in the form of an irrevocable, unsecured standby letter of credit. The lease includes an option to extend the original term of the lease for two successive five year periods.

Table of Contents**Recent Accounting Pronouncements**

On May 28, 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09), its final standard on revenue from contracts with customers. ASU 2014-09 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. In applying the revenue model to contracts within its scope, an entity identifies the contract(s) with a customer, identifies the performance obligations in the contract, determines the transaction price, allocates the transaction price to the performance obligations in the contract and recognizes revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 applies to all contracts with customers that are within the scope of other topics in the FASB Accounting Standards Codification. Certain of ASU 2014-09's provisions also apply to transfers of nonfinancial assets, including in-substance nonfinancial assets that are not an output of an entity's ordinary activities (i.e., property plant and equipment, real estate or intangible assets). Existing accounting guidance applicable to these transfers has been amended or superseded. ASU 2014-09 also requires significantly expanded disclosures about revenue recognition. ASU 2014-09 is effective for us on January 1, 2018, with early adoption permitted but not earlier than January 1, 2017. We are currently assessing the potential impact of the adoption of ASU 2014-09 on our consolidated financial statements.

On February 25, 2016, the FASB issued ASU 2016-02, *Leases* (ASU 2016-02), which will require lessees to recognize most leases on their balance sheet as a right-of-use asset and a lease liability. Leases will be classified as either operating or finance, and classification will be based on criteria similar to current lease accounting, but without explicit bright lines. The guidance is effective for annual reporting periods beginning after December 15, 2018 and interim periods within those fiscal years, and early adoption is permitted. We are currently assessing the impact of the adoption of ASU 2016-02 on our consolidated financial statements.

On March 30, 2016, the FASB issued ASU 2016-09, *Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* (ASU 2016-09), which includes multiple provisions intended to simplify various aspects of the accounting for share-based payments, and is expected to impact net income, EPS, and the statement of cash flows. The guidance is effective for annual reporting periods beginning after December 15, 2016 and interim periods within those fiscal years, and early adoption is permitted. We are currently assessing the impact of the adoption of ASU 2016-09 on our consolidated financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Exchange Risk. Our results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates as a majority of our non-U.S. sales are recorded by our Irish subsidiary and as we incur significant operating expenses in our foreign subsidiaries including our Hungarian research and development facilities and our sales and marketing operations in Ireland, the United Kingdom, Australia and India. For the six months ended June 30, 2015 and 2016, 30% and 28%, respectively, of our revenues were generated by our Irish subsidiary and 25% and 22%, respectively, of our operating expenses occurred in our international operations in Hungary, Ireland, the United Kingdom, Australia, India and Brazil.

Currently, our largest exposure to foreign currency exchange rate risk relates to the Euro, British Pound, Hungarian Forint and the Brazilian Real. To date, changes in foreign currency exchange rates have not had a material impact on our operations, and we estimate that a change of 20% or less in foreign currency exchange rates would not materially

affect our operations. At this time we do not, but may in the future, enter into any foreign currency hedging programs or instruments that would hedge or help offset such foreign currency exchange rate risk.

At June 30, 2016, cash and cash equivalents and short-term marketable securities totaled \$225.0 million, of which \$136.0 million was held in the United States and \$89.0 million was held by our international subsidiaries. Our invested cash is subject to interest rate fluctuations and, for non-U.S. operations, foreign currency risk. Our consolidated cash balances were impacted favorably by \$0.7 million and unfavorably by \$1.6 million for the three months ended June 30, 2015 and 2016, respectively, and unfavorably by \$4.4 million and favorably by \$0.6 million for the six months ended June 30, 2015 and 2016, respectively, due to changes in foreign currencies relative to the U.S. dollar, particularly the Euro.

Interest Rate Sensitivity. Interest income is sensitive to changes in the general level of U.S. interest rates. However, based on the nature and current level of our cash and cash equivalents and short-term marketable securities, which primarily consist of cash, money market instruments, government securities and corporate and agency bonds with maturities of two years or less, we believe there is no material risk of exposure to changes in the fair value of our cash and cash equivalents and marketable securities as a result of changes in interest rates.

Table of Contents

Interest expense on borrowings under our credit facility is sensitive to changes in interest rates. As of June 30, 2016, we had \$45.0 million outstanding under our variable-rate credit facility. On July 22, 2016, we repaid an additional \$7.5 million of our outstanding borrowings. Loans under the credit facility bear interest at variable rates which reset every 30 to 180 days depending on the rate and period selected by the Company. Interest rates on this loan will be adjusted at each rollover date to the extent such amounts are not repaid. As of June 30, 2016, the annual rate on the loan was 2.0%. If there was a hypothetical 100 basis point change in interest rates, the annual net impact to earnings and cash flows would be \$0.5 million. This hypothetical change in cash flows and earnings has been calculated based on the borrowings outstanding at June 30, 2016 and a 100 basis point per annum change in interest rate applied over a one-year period.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures. Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2016. The term disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of June 30, 2016, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Controls. No changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the quarter ended June 30, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents**PART II. OTHER INFORMATION****Item 1. Legal Proceedings**

We are from time to time subject to various legal proceedings and claims, either asserted or unasserted, which arise in the ordinary course of business. While the outcome of these claims cannot be predicted with certainty, management does not believe that the outcome of any of these legal matters will have a material adverse effect on our results of operations or financial condition.

Item 1A. Risk Factors

Our business is subject to numerous risks. We caution you that the following important factors, among others, could cause our actual results to differ materially from those expressed in forward-looking statements made by us or on our behalf in filings with the SEC, press releases, communications with investors and oral statements. Any or all of our forward-looking statements in this Quarterly Report on Form 10-Q and in any other public statements we make may turn out to be wrong. They can be affected by inaccurate assumptions we might make or by known or unknown risks and uncertainties. Many factors mentioned in the discussion below will be important in determining future results. Consequently, no forward-looking statement can be guaranteed. Actual future results may differ materially from those anticipated in forward-looking statements. We undertake no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosure we make in our reports filed with the SEC.

RISKS RELATED TO OUR PLANNED MERGER WITH CITRIX'S GOTO BUSINESS

On July 26, 2016, we announced that we, along with Lithium Merger Sub, Inc., our wholly-owned subsidiary, Citrix Systems, Inc., or Citrix, and GetGo, Inc., or GetGo, a wholly-owned subsidiary of Citrix, had entered into an Agreement and Plan of Merger, pursuant to which we will combine with Citrix's GoTo family of products known as the GoTo Business in a Reverse Morris Trust transaction, which we refer to herein as the Merger. For additional information regarding the Merger, please see our Current Report on Form 8-K filed with the SEC on July 26, 2016. In addition to the Risks Related to Our Business provided later in this Quarterly Report on Form 10-Q, we have also identified the following risks related to the Merger:

We may not realize anticipated cost synergies and growth opportunities.

We expect that we will realize cost and revenue synergies, growth opportunities, and other financial and operating benefits as a result of the Merger. Our success in realizing these benefits, and the timing of their realization, depends on the successful integration of the business operations of the GoTo Business with us. Even if we are able to integrate the GoTo Business successfully, we cannot predict with certainty if or when these cost and revenue synergies, growth opportunities and benefits will occur, or the extent to which they actually will be achieved. For example, the benefits from the Merger may be offset by costs incurred in integrating the companies or in obtaining or attempting to obtain regulatory approvals for the Merger. Realization of any benefits and synergies could be affected by the factors described in other risk factors and a number of factors beyond our control, including, without limitation, general economic conditions, further consolidation in the industry in which we operate, increased operating costs and regulatory developments.

The integration of the GoTo Business following the Merger may present significant challenges.

There is a significant degree of difficulty inherent in the process of integrating the GoTo Business with our company. These difficulties include:

the integration of the GoTo Business with our current businesses while carrying on the ongoing operations of all businesses;

managing a significantly larger company than before the consummation of the Merger;

the necessity of coordinating geographically separate organizations;

the challenge of integrating the business cultures of both companies, which may prove to be incompatible;

creating uniform standards, controls, procedures, policies and information systems and controlling the costs associated with such matters;

integrating certain information technology, purchasing, accounting, finance, sales, billing, payroll and regulatory compliance systems; and

the potential difficulty in retaining key officers and personnel of our company and GoTo.

The process of integrating operations could cause an interruption of, or loss of momentum in, the activities of one or more of our businesses. Members of our or the GoTo Business senior management may be required to devote considerable amounts of time to

Table of Contents

this integration process, which will decrease the time they will have to manage the business of our company or the GoTo Business, serve our existing customers or the customers of the GoTo Business businesses, and develop new products or strategies. If our or the GoTo Business senior management is not able to effectively manage the integration process, or if any significant business activities are interrupted as a result of the integration process, our or the GoTo Business business could suffer.

Our successful or cost-effective integration of the GoTo Business cannot be assured. The failure to do so could have a material adverse effect on our business, financial condition or results of operations after the Merger.

We may fail to obtain the required regulatory approvals in connection with the Merger in a timely fashion, if at all, or regulators may impose burdensome conditions.

We and Citrix are subject to certain antitrust, competition, and communications laws, and the proposed Merger is subject to review and approval by regulators under those laws, including, but not limited to, review and approval by the Antitrust Division of the U.S. Department of Justice under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, the Federal Communications Commission under the Communications Act of 1934, as amended, and the Competition and Markets Authority in the United Kingdom. Although we and Citrix have agreed to use reasonable best efforts to obtain the requisite approvals, there can be no assurance that these regulatory approvals will be obtained. In particular, the requirement to receive the regulatory approvals before the consummation of the transaction could delay the completion of the transactions if, for example, one or more government agencies request additional information from the parties in order to facilitate their review of the transactions. Any delay in the completion of the transactions could diminish the anticipated benefits of the transactions or result in additional transaction costs, loss of revenue or other effects associated with uncertainty about the transactions. In addition, these governmental entities may attempt to condition their approval of the transactions on the imposition of conditions, terms, obligations or restrictions that could have a material adverse effect on us after the transactions, including, but not limited to, our operating results or the value of our common stock. If we agree to any material conditions in order to obtain any approvals required to complete the transaction, the business and results of operations of the combined company may be adversely affected.

Failure to complete the Merger could adversely impact the market price of our common stock as well as our business and operating results.

The consummation of the Merger is subject to numerous conditions, including without limitation (i) the successful spin-off of the GoTo Business from Citrix having taken place in accordance with the Separation Agreement, dated July 26, 2016, by and among us, Citrix and GetGo; (ii) the effectiveness of our registration statement registering our common stock to be issued pursuant to the Merger Agreement, and any other registration statement required in connection with the Merger; (iii) approval of the issuance of our common stock by the requisite vote of our stockholders; and (iv) certain regulatory approvals and receipt of certain customary opinions of legal counsel. There is no assurance that these conditions will be met and that the Merger will be consummated.

If the Merger is not completed for any reason, the price of our common stock may decline to the extent that the market price of our common stock reflects positive market assumptions that the Merger will be completed and the related benefits will be realized. In addition, we and Citrix have expended and will continue to expend significant management time and resources and have incurred and will continue to incur significant expenses due to legal, advisory, printing and financial services fees related to the Merger. These expenses must be paid regardless of whether the Merger is consummated. If the Merger is not consummated because the Merger Agreement is terminated, we may be required under certain circumstances to pay Citrix a termination fee of \$62 million or may under other circumstances be required to reimburse Citrix up to \$10 million for certain expenses in connection with the Merger.

The announcement and pendency of the Merger could have an adverse effect on our stock price, business, financial condition, results of operations or business prospects.

The announcement and pendency of the Merger could disrupt our businesses in the following ways, among others:

customers and other third-party business partners of us or Citrix may seek to terminate and/or renegotiate their relationships with us or Citrix as a result of the Merger, whether pursuant to the terms of their existing agreements with us and/or Citrix or otherwise;

the attention of our management may be directed toward the completion of the Merger and related matters and may be diverted from the day-to-day business operations of their respective companies, including from other opportunities that might otherwise be beneficial to us; and

current and prospective employees may experience uncertainty regarding their future roles with the combined company, which might adversely affect our ability to retain, recruit and motivate key personnel.

Table of Contents

Should they occur, any of these matters could adversely affect our stock price, or otherwise harm our financial condition, results of operations or business prospects.

We will incur significant costs related to the Merger that could have a material adverse effect on our liquidity, cash flows and operating results.

We expect to incur significant one-time costs in connection with the Merger during the remainder of 2016 and into 2017, including approximately \$16 million of transaction-related fees and expenses, including legal, accounting and other professional fees and transition and integration-related expenses expected to be incurred over the second half of 2016. While we expect to be able to fund these one-time costs using cash from operations and borrowings under existing and anticipated credit sources, these costs will negatively impact our liquidity, cash flows and results of operations in the periods in which they are incurred.

The Merger may discourage other companies from trying to acquire us before or for a period of time following completion of the Merger.

Certain provisions in our merger agreement with Citrix prohibit us from soliciting any acquisition proposals. If the merger agreement is terminated under circumstances that obligate us to pay Citrix a termination fee, our financial condition will be adversely affected as a result of the payment of the termination fee, which might deter third parties from proposing alternative business combination proposals, including acquisition proposals that might result in greater value to our stockholders than the Merger. In addition, we have entered into a Tax Matters Agreement with GetGo and Citrix which we refer to as the tax matters agreement, certain provisions of which are intended to preserve the tax-free treatment of the separation and the distribution for U.S. federal income tax purposes. These provisions may discourage acquisition proposals for a period of time following the Merger. We expect to issue approximately 27.6 million shares of our common stock on a fully-diluted basis in connection with the Merger. Consequently, we will be a significantly larger company and have significantly more shares of common stock outstanding after the consummation of the Merger, which could make an acquisition of our company more expensive. As a result, some companies may not seek to acquire us.

Under the tax matters agreement, we will be restricted from taking certain actions that could adversely affect the intended U.S. federal income tax treatment of the Merger and certain related transactions consummated in connection with Citrix's internal restructuring, and such restrictions could significantly impair our and GetGo's ability to implement strategic initiatives that otherwise would be beneficial.

The tax matters agreement that we have entered into in connection with the proposed merger generally restricts us and GetGo from taking certain actions after the transaction that could adversely affect the intended U.S. federal income tax treatment of the transactions and certain related transactions consummated in connection with Citrix's internal restructuring. Failure to adhere to these restrictions, including in certain circumstances that may be outside of our control, could result in tax being imposed on Citrix for which we and GetGo could bear responsibility and for which we and GetGo could be obligated to indemnify Citrix. In addition, even if we and GetGo are not responsible for tax liabilities of Citrix under the tax matters agreement, GetGo nonetheless could be liable under applicable tax law for such liabilities if Citrix were to fail to pay such taxes. In each case, our and GetGo's obligation to indemnify Citrix would not apply if these transactions would otherwise fail to qualify for their intended tax treatment; in such a situation, some or all of these restrictions could become inapplicable. Because of these restrictions in the tax matters agreement, we and GetGo will be restricted from taking certain actions, particularly for the two years following the Merger, including (among other things) the ability to freely issue stock, to make acquisitions and to raise additional equity capital. These restrictions could have a material adverse effect on our liquidity and financial condition, and otherwise could impair our and GetGo's ability to implement strategic initiatives. In addition, GetGo's and our

indemnity obligation to Citrix might discourage, delay or prevent a change of control that our stockholders may consider favorable.

RISKS RELATED TO OUR BUSINESS

We may be unable to maintain profitability.

We reported net income of \$8.0 million and \$14.6 million for the years ending December 31, 2014 and 2015, respectively. For the six months ended June 30, 2016, we reported net income of \$1.4 million. However, given our operating history, we cannot be certain that we will be able to continue to maintain this profitability in the future. Our growth in revenue and customer base may not be sustainable, and we may not achieve sufficient revenue to achieve or maintain profitability. We may incur significant losses in the future for a number of reasons, including, but not limited to, unforeseen expenses, operating difficulties, complications and delays or due to the other risks described in this report. Accordingly, we may not be able to maintain our profitability, and we may incur significant losses for the foreseeable future.

Our quarterly operating results may fluctuate in the future. As a result, we may fail to meet or exceed the expectations of research analysts or investors, which could cause our stock price to decline.

Our quarterly operating results may fluctuate as a result of a variety of factors, many of which are outside of our control. If our quarterly operating results or guidance fall below the expectations of research analysts or investors, the price of our common stock

Table of Contents

could decline substantially. Fluctuations in our quarterly operating results or guidance may be due to a number of factors, including, but not limited to, those listed below:

our ability to renew existing customers, increase sales to existing customers and attract new customers;

the amount and timing of operating costs and capital expenditures related to the operation, maintenance and expansion of our business;

service outages or security breaches;

whether we meet the service level commitments in our agreements with our customers;

changes in our pricing policies or those of our competitors;

our ability to successfully implement strategic business model changes;

the timing and success of new application and service introductions and upgrades by us or our competitors;

changes in sales compensation plans or organizational structure;

Table of Contents

the timing of costs related to the development or acquisition of technologies, services or businesses;

seasonal variations or other cyclicity in the demand for our services;

general economic, industry and market conditions and those conditions specific to Internet usage and online businesses;

litigation, including class action litigation, involving our company, our services, or our general industry;

the purchasing and budgeting cycles of our customers;

the financial condition of our customers; and

geopolitical events such as war, threat of war or terrorist acts.

We believe that our quarterly revenue and operating results may vary significantly in the future and that period-to-period comparisons of our operating results may not be meaningful. You should not rely on past results as an indication of future performance.

If our services or computer systems are breached our customers may be harmed, our reputation may be damaged and we may be exposed to significant liabilities.

Our services and computer systems store and transmit confidential data of our customers and their customers, which may include credit card information, account and device information, passwords and other critical data. Any breach of the cybersecurity measures we have taken to safeguard this information may subject us to fines and penalties, time consuming and expensive litigation, trigger indemnification obligations and other contractual liabilities, damage our reputation and harm our customers and our business.

Cyber-attacks from computer hackers and cyber criminals and other malicious Internet-based activity continue to increase generally, and our services and systems, including the systems of our outsourced service providers, have been and may in the future continue to be the target of various forms of cyber-attacks such as DNS attacks, wireless network attacks, viruses and worms, malicious software, application centric attacks, peer-to-peer attacks, phishing attempts, backdoor trojans and distributed denial of service (DDoS) attacks. The techniques used by computer hackers and cyber criminals to obtain unauthorized access to data or to sabotage computer systems change frequently and generally are not detected until after an incident has occurred. While we make significant efforts to maintain the security and integrity of our services and computer systems, our cybersecurity measures and the cybersecurity measures taken by our third-party data center facilities may be unable to anticipate, detect or prevent all attempts to compromise our systems. If our cybersecurity measures are compromised as a result of third-party action, employee or customer error, malfeasance, stolen or fraudulently obtained log-in credentials or otherwise, our reputation could be damaged, our business may be harmed and we could incur significant liabilities.

Many states have enacted laws requiring companies to notify individuals of security breaches involving their personal data. These mandatory disclosures regarding a security breach may be costly to comply with and may lead to

widespread negative publicity, which may cause our customers to lose confidence in the effectiveness of our cybersecurity measures. Additionally, some of our customer contracts require us to notify customers in the event of a security breach and/or indemnify customers from damages they may incur as a result of a breach of our services and computer systems. There can be no assurance that the limitations of liability provisions in our contracts for a security breach would be enforceable or would otherwise protect us from any such liabilities or damages with respect to any particular claim. We also cannot be sure that our existing insurance coverage will continue to be available on acceptable terms or will be available in sufficient amounts to cover one or more large claims related to a breach of our services or computer systems. The successful assertion of one or more large claims against us that exceed our available insurance coverage could have a material adverse effect on our business, financial condition and operating results.

Our business strategy includes acquiring or investing in other companies, which may ultimately fail to meet our expectations, divert our management's attention, result in additional dilution to our stockholders and disrupt our business and operating results.

As part of our business strategy, we periodically make acquisitions of, or strategic investments in, complementary businesses, services, technologies and intellectual property rights and we expect that we will continue to make such acquisitions and strategic investments in the future. Acquisitions of high-technology companies are inherently risky and negotiating these transactions can be time-consuming, difficult and expensive and our ability to close these transactions may often be subject to conditions or approvals that are beyond our control. Consequently,

Table of Contents

these transactions, even if undertaken and announced, may not close. In connection with an acquisition, investment or strategic transaction we may do one or more of the following, which may harm our business and adversely affect our operating results:

issue additional equity securities that would dilute our stockholders and decrease our earnings per share;

use cash and other resources that we may need in the future to operate our business;

incur debt on terms unfavorable to us or that we are unable to repay;

incur large charges or substantial liabilities; and

become subject to adverse tax consequences, substantial depreciation or deferred compensation charges. Following an acquisition, the integration of an acquired company may cost more than we anticipate and we may be subject to unforeseen liabilities arising from an acquired company's past or present operations. These liabilities may be greater than the warranty and indemnity limitations we negotiate. Any unforeseen liability that is greater than these warranty and indemnity limitations could have a negative impact on our financial condition. Some of the additional risks associated with integrating acquired companies may include, but are not limited to:

difficulties and delays integrating the employees, culture, technologies, products and systems of the acquired companies;

an uncertain revenue and earnings stream from the acquired company, which could dilute our earnings;

being subject to unfavorable revenue recognition or other accounting treatment as a result of an acquired company's practices;

difficulties retaining the customers of any acquired business due to changes in management or otherwise;

our ongoing business may be disrupted and our management's attention may be diverted by acquisition, transition or integration activities;

the potential loss of key employees of the acquired company;

undetected errors or unauthorized use of a third-party's code in products of the acquired companies;

unforeseen or unanticipated legal liabilities which are not discovered by due diligence during the acquisition process, including stockholder litigation related to the acquisition, third party intellectual property claims or claims for potential violations of applicable law, rules and regulations, arising from prior or ongoing acts or omissions by the acquired businesses;

entry into markets in which we have no or limited direct prior experience and where competitors have stronger market positions and which are highly competitive; and

assuming pre-existing contractual relationships of an acquired company that we would not have otherwise entered into, the termination or modification of which may be costly or disruptive to our business.

If we fail to successfully integrate and manage the companies and technologies we acquire, or if an acquisition does not further our business strategy as we expect, our operating results will be adversely affected. Even if successfully integrated, there can be no assurance that any of our acquisitions or future acquisitions will be successful in helping us achieve our financial and strategic goals.

A significant portion of our historical revenues have come from our remote access and support products and any decline in sales for these products could adversely affect our results of operations and financial condition.

A significant portion of our annual revenues have historically come from our remote access and remote support business and we continue to anticipate that sales of our remote access and remote support products will constitute a majority of our revenue for the foreseeable future. Any decline or variability in sales of our remote access and remote support products could adversely affect our results of operations and financial condition. Declines and variability in sales of these products could potentially occur as a result of:

the growing use of mobile devices such as smartphones and tablet computers to perform functions that have been traditionally performed on desktops and laptops, resulting in less demand for these types of remote access products;

Table of Contents

the introduction of new or alternative technologies, products or service offerings by competitors;

our failure to innovate or introduce new product offerings, features and enhancements;

potential market saturation or our inability to enter into new markets;

increased price and product competition;

dissatisfied customers; or

general weak economic, industry or market conditions.

If sales of our remote access and remote support products decline as a result of these or other factors, our revenue would decrease and our results of operations and financial condition would be adversely affected.

We may not be able to capitalize on potential emerging market opportunities, like the Internet of Things, and new services that we introduce may not generate the revenue and earnings we anticipated, which may adversely affect our business.

Our business strategy involves identifying emerging market opportunities which we can capitalize on by successfully developing and introducing new services designed to address those market opportunities. We have made and expect to continue to make significant investments in research and development in an effort to capitalize on potential emerging market opportunities that we have identified. One such emerging market which we have identified is the Internet of Things, or IoT, and we have made and expect to continue to make significant investments in our Xively IoT platform. However, emerging markets and opportunities often take time to fully develop and attract a significant number of competitors. If the emerging markets we have targeted, such as the IoT, ultimately fail to materialize as we or others have anticipated or if potential customers choose to adopt solutions offered by our competitors rather than our own, we may not be able to generate the revenue and earnings we anticipated and our business and results of operations would be adversely affected.

Assertions by a third party that our services and solutions infringe its intellectual property, whether or not correct, could subject us to costly and time-consuming litigation or expensive licenses.

There is frequent litigation in the software and technology industries based on allegations of infringement or other violations of intellectual property rights. We have been, and may in the future be, subject to third party patent infringement or other intellectual property-related lawsuits as we face increasing competition and become increasingly visible. For example, upon the closing of the proposed merger with GetGo, we will assume all liabilities with respect to certain intellectual property-related lawsuits to which Citrix is a party, all of which are currently on appeal. Regardless of the merit of these claims, they can be time-consuming, result in costly litigation and diversion of technical and management personnel or require us to develop a non-infringing technology or enter into license agreements. There can be no assurance that such licenses will be available on acceptable terms and conditions, if at all, and although we have previously licensed proprietary technology, we cannot be certain that the owners' rights in such technology will not be challenged, invalidated or circumvented. For these reasons and because of the potential for court awards that are difficult to predict, it is not unusual to find even arguably unmeritorious claims settled for

significant amounts. In addition, many of our service agreements require us to indemnify our customers from certain third-party intellectual property infringement claims, which could increase our costs as a result of defending such claims and may require that we pay damages if there were an adverse ruling related to any such claims. These types of claims could harm our relationships with our customers, deter future customers from subscribing to our services or expose us to further litigation. These costs, monetary or otherwise, associated with defending against third party allegations of infringement could have negative effects on our business, financial condition and operating results.

If our services are used to commit fraud or other similar intentional or illegal acts, we may incur significant liabilities, our services may be perceived as not secure and customers may curtail or stop using our services.

Certain services we provide enable direct remote access to third-party computer systems. We do not control the use or content of information accessed by our customers through our services. If our services are used to commit fraud or other bad or illegal acts, including, but not limited to, posting, distributing or transmitting any

Table of Contents

software or other computer files that contain a virus or other harmful component, interfering or disrupting third-party networks, infringing any third party's copyright, patent, trademark, trade secret or other proprietary rights or rights of publicity or privacy, transmitting any unlawful, harassing, libelous, abusive, threatening, vulgar or otherwise objectionable material, or accessing unauthorized third-party data, we may become subject to claims for defamation, negligence or intellectual property infringement and subject to other potential liabilities. As a result, defending such claims could be expensive and time-consuming, and we could incur significant liability to our customers and to individuals or businesses who were the targets of such acts. As a result, our business may suffer and our reputation may be damaged.

We depend on search engines to attract a significant percentage of our customers, and if those search engines change their listings or increase their pricing, it would limit our ability to attract new customers.

Many of our customers locate our website through search engines, such as Google. Search engines typically provide two types of search results, algorithmic and purchased listings, and we rely on both types. Algorithmic listings cannot be purchased and are determined and displayed solely by a set of formulas designed by the search engine. Search engines revise their algorithms from time to time in an attempt to optimize search result listings. If the search engines on which we rely for algorithmic listings modify their algorithms in a manner that reduces the prominence of our listing, fewer potential customers may click through to our website, requiring us to resort to other costly resources to replace this traffic. Any failure to replace this traffic could reduce our revenue and increase our costs. In addition, costs for purchased listings have increased in the past and may increase in the future, and further increases could have negative effects on our financial condition.

If we are unable to attract new customers to our services on a cost-effective basis, our revenue and results of operations will be adversely affected.

We must continue to attract a large number of customers on a cost-effective basis, many of whom have not previously used cloud-based, remote-connectivity solutions. We rely on a variety of marketing methods to attract new customers to our services, such as paying providers of online services and search engines for advertising space and priority placement of our website in response to Internet searches. Our ability to attract new customers also depends on the competitiveness of the pricing of our services. If our current marketing initiatives are not successful or become unavailable, if the cost of such initiatives were to significantly increase, or if our competitors offer similar services at lower prices, we may not be able to attract new customers on a cost-effective basis and, as a result, our revenue and results of operations would be adversely affected.

If we are unable to retain our existing customers, our revenue and results of operations would be adversely affected.

We sell our services pursuant to agreements that are generally one year in duration. Our customers have no obligation to renew their subscriptions after their subscription period expires, and these subscriptions may not be renewed on the same or on more profitable terms. As a result, our ability to grow depends in part on subscription renewals. We may not be able to accurately predict future trends in customer renewals, and our customers' renewal rates may decline or fluctuate because of several factors, including their satisfaction or dissatisfaction with our services, the prices of our services, the prices of services offered by our competitors or reductions in our customers' spending levels. If our customers do not renew their subscriptions for our services, renew on less favorable terms, or do not purchase additional functionality or subscriptions, our revenue may grow more slowly than expected or decline, and our profitability and gross margins may be harmed.

If we fail to convert our free users to paying customers, our revenue and financial results will be harmed.

A significant portion of our user base utilizes our services free of charge through our free services or free trials of our premium services. We seek to convert these free and trial users to paying customers of our premium services. If our rate of conversion suffers for any reason, our revenue may decline and our business may suffer.

Table of Contents

If our efforts to build a strong brand identity are not successful, we may not be able to attract or retain subscribers and our operating results may be adversely affected.

We believe that building and maintaining a strong brand identity plays an important role in attracting and retaining subscribers to our services, who may have other options from which to obtain their remote connectivity services. In order to build a strong brand, we believe that we must continue to offer innovative remote connectivity services that our subscribers value and enjoy using, and also market and promote those services through effective marketing campaigns, promotions and communications with our user base. From time-to-time, subscribers may express dissatisfaction with our services or react negatively to our strategic business decisions, such as changes that we make in pricing, features or service offerings, including the discontinuance of our free services. To the extent that user dissatisfaction with our services or strategic business decisions is widespread or not adequately addressed, our overall brand identity may suffer and as a result our ability to attract and retain subscribers may be adversely affected, which could adversely affect our operating results.

The markets in which we participate are competitive, with low barriers to entry, and if we do not compete effectively, our operating results may be harmed.

The markets for remote-connectivity solutions are competitive and rapidly changing, with relatively low barriers to entry. With the introduction of new technologies and market entrants, we expect competition to intensify in the future. In addition, pricing pressures and increased competition generally could result in reduced sales, reduced margins or the failure of our services to achieve or maintain widespread market acceptance. Often we compete against existing services that our potential customers have already made significant expenditures to acquire and implement.

Certain of our competitors offer, or may in the future offer, lower priced, or free, products or services that compete with our services. This competition may result in reduced prices and a substantial loss of customers for our services or a reduction in our revenue.

Many of our services directly compete with large, established competitors like Citrix Systems GoTo division and WebEx (a division of Cisco Systems), and certain of our services also compete with current or potential services offered by companies like Adobe, AgileBits, Apple, Ayla Networks, BlueJeans Networks, Box, Dashlane, Dropbox, GFI, Google, IBM, KeePass, LivePerson, Microsoft, OKTA, Oracle, PTC, Splashtop, TeamViewer and Zoom Video Communications. Many of our actual and potential competitors enjoy competitive advantages over us, such as greater name recognition, longer operating histories, more varied services and larger marketing budgets, as well as substantially greater financial, technical and other resources. In addition, many of our competitors have established marketing relationships, access to larger customer bases and have major distribution agreements with consultants, system integrators and resellers.

If we are not able to compete effectively for any of these reasons, our operating results will be harmed.

Industry consolidation may result in increased competition.

Some of our competitors have made or may make acquisitions or may enter into partnerships or other strategic relationships to offer a more comprehensive service than they individually had offered. In addition, new entrants not currently considered to be competitors may enter the market through acquisitions, partnerships or strategic relationships. We expect these trends to continue as companies attempt to strengthen or maintain their market positions. Many of the companies driving this trend have significantly greater financial, technical and other resources than we do and may be better positioned to acquire and offer complementary services and technologies. The companies resulting from such combinations may create more compelling service offerings and may offer greater

pricing flexibility than we can or may engage in business practices that make it more difficult for us to compete effectively, including on the basis of price, sales and marketing programs, technology or service functionality. These pressures could result in a substantial loss of customers or a reduction in our revenues.

Table of Contents

We may not be able to respond to rapid technological changes in time to address the needs of our customers, which could have a material adverse effect on our sales and profitability.

The cloud-based remote-connectivity services market is characterized by rapid technological change, the frequent introduction of new services and evolving industry standards. Our ability to remain competitive will depend in large part on our ability to continue to enhance our existing services and develop new service offerings that keep pace with the market's rapid technological developments. Additionally, to achieve market acceptance for our services, we must effectively anticipate and offer services that meet changing customer demands in a timely manner. Customers may require features and capabilities that our current services do not have. If we fail to develop services that satisfy customer requirements in a timely and cost-effective manner, our ability to renew our services with existing customers and our ability to create or increase demand for our services will be harmed and our revenue and results of operations would be adversely affected.

We use a limited number of data centers to deliver our services. Any disruption of service at these facilities could harm our business.

The majority of our services are hosted from third-party data center facilities located throughout the world. We do not control the operation of these facilities. The owners of our data center facilities have no obligation to renew their agreements with us on commercially reasonable terms, or at all. If we are unable to renew these agreements on commercially reasonable terms, we may be required to transfer to new data center facilities, and we may incur significant costs and possible service interruption in connection with doing so.

Any changes in third-party service levels at our data centers or any errors, defects, disruptions or other performance problems with our services could harm our reputation and may damage our customers' businesses. Interruptions in our services might reduce our revenue, cause us to issue credits to customers, subject us to potential liability, cause customers to terminate their subscriptions or harm our renewal rates.

Our data centers are vulnerable to damage or interruption from human error, intentional bad acts, pandemics, earthquakes, hurricanes, floods, fires, war, terrorist attacks, power losses, hardware failures, systems failures, telecommunications failures and similar events. At least one of our data facilities is located in an area known for seismic activity, increasing our susceptibility to the risk that an earthquake could significantly harm the operations of these facilities. The occurrence of a natural disaster, an act of terrorism, vandalism or other misconduct, a decision to close the facilities without adequate notice or other unanticipated problems could result in lengthy interruptions in our services.

Failure to comply with credit card processing standards may cause us to lose the ability to offer our customers a credit card payment option, which would increase our costs of processing customer orders and make our services less attractive to our customers, the majority of which purchase our services with a credit card.

Major credit card issuers have adopted credit card processing standards and have incorporated these standards into their contracts with us. If we fail to maintain our compliance with the credit card processing and documentation standards adopted by the major credit card issuers and applicable to us, these issuers could terminate their agreements with us, and we could lose our ability to offer our customers a credit card payment option. Most of our individual and SMB customers purchase our services online with a credit card, and our business depends substantially upon our ability to offer the credit card payment option. Any loss of our ability to offer our customers a credit card payment option would make our services less attractive to them and hurt our business. Our administrative costs related to customer payment processing would also increase significantly if we were not able to accept credit card payments for our services.

Evolving regulations and legal obligations related to data privacy, data protection and information security and our actual or perceived failure to comply with such obligations, could have an adverse effect on our business.

Our handling of the data we collect from our customers, as further described in our privacy policy, and our processing of personally identifiable information and data of our customers customers through the services we provide, is subject to a variety of laws and regulations, which have been adopted by various federal, state and

Table of Contents

foreign governments to regulate the collection, distribution, use and storage of personal information of individuals. Several foreign countries in which we conduct business, including the European Union and Canada, currently have in place, or have recently proposed, laws or regulations concerning privacy, data protection and information security, which are more restrictive than those imposed in the United States. Some of these laws are in their early stages and we cannot yet determine the impact these revised laws and regulations, if implemented, may have on our business. However, any failure or perceived failure by us to comply with these privacy laws, regulations, policies or obligations or any security incident that results in the unauthorized release or transfer of personally identifiable information or other customer data in our possession, could result in government enforcement actions, litigation, fines and penalties and/or adverse publicity, all of which could have an adverse effect on our reputation and business.

We have in the past relied on the U.S. Department of Commerce's Safe Harbor Privacy Principles and compliance with the U.S.-EU and U.S.-Swiss Safe Harbor Frameworks as a means for legitimizing the transfer of personally identifiable information from the European Economic Area, or EEA, to the United States. However, in October 2015, the European Union Court of Justice, or ECJ, ruled that the U.S. EU Safe Harbor Framework is no longer deemed to be a valid method of transfer of data outside of the EEA. In response to the ECJ's opinion, we have been working to implement alternative methods to transfer data from the EEA to the U.S. However, we may ultimately be unsuccessful in establishing an acceptable means for the transfer of data from the EEA.

Data protection regulation remains an area of increased focus in all jurisdictions and data protection regulations continue to evolve. There is no assurance that we will be able to meet new requirements that may be imposed on the transfer of personally identifiable information from the EU to the U.S. without incurring substantial expense or at all. European and/or multi-national customers may be reluctant to purchase or continue to use our services due to concerns regarding their data protection obligations. In addition, we may be subject to claims, legal proceedings or other actions by individuals or governmental authorities if they have reason to believe that our data privacy or security measures fail to comply with current or future laws and regulations.

We are required to comply with certain financial and operating covenants under our credit facility; any failure to comply with those covenants could cause amounts borrowed under the facility to become immediately due and payable or prevent us from borrowing under the facility.

Our credit facility, which consists of a \$150 million secured revolving loan (and which may be increased by an additional \$50 million if the existing or additional lenders are willing to make such increased commitments) which is available through February 18, 2020, at which time any amounts outstanding will be due and payable in full. As of July 22, 2016, we had \$37.5 million of outstanding borrowings under the credit facility. We may wish to borrow additional amounts under the facility in the future for general corporate purposes, including, but not limited to, the potential acquisition of complementary products or businesses, share repurchases, as well as for working capital.

We are required to comply with certain financial and operating covenants which limit our ability to operate our business as we otherwise might operate it. Our failure to comply with any of these covenants or to meet any payment obligations under the facility could result in an event of default which, if not cured or waived, would result in any amounts outstanding, including any accrued interest and unpaid fees, becoming immediately due and payable. We might not have sufficient working capital or liquidity to satisfy any repayment obligations in the event of an acceleration of those obligations. In addition, if we are not in compliance with the financial and operating covenants at the time we wish to borrow additional funds, we will be unable to borrow such funds.

If we fail to manage our growth effectively, we may be unable to execute our business plan, maintain high levels of service or address competitive challenges adequately.

For the last three fiscal years, our revenue has grown from \$166.3 million in 2013 to \$222.0 million in 2014 and to \$271.6 million in 2015. Our growth has placed, and may continue to place, a significant strain on our managerial, administrative, operational, financial and other resources. We intend to further expand our overall business, customer base, headcount and operations both domestically and internationally. Creating a global organization and managing a geographically dispersed workforce will require substantial management effort and significant additional investment in our infrastructure. We will be required to continue to improve our operational, financial and management controls and our reporting procedures and we may not be able to do so effectively. As such, we may be unable to manage our expenses effectively in the future, which may negatively impact our gross profit or operating expenses in any particular quarter.

Table of Contents

The loss of key employees or an inability to attract and retain additional personnel may impair our ability to grow our business.

We are highly dependent upon the continued service and performance of our executive management team as well as other key technical and sales employees. These key employees are not party to an employment agreement with us, and they may terminate employment with us at any time with no advance notice. The replacement of these key employees likely would involve significant time and costs, and the loss of these key employees may significantly delay or prevent the achievement of our business objectives.

We face intense competition for qualified individuals from numerous technology, software and manufacturing companies. For example, our competitors may be able attract and retain a more qualified engineering team by offering more competitive compensation packages. If we are unable to attract new engineers and retain our current engineers, we may not be able to develop and maintain our services at the same levels as our competitors and we may, therefore, lose potential customers and sales penetration in certain markets. Our failure to attract and retain suitably qualified individuals could have an adverse effect on our ability to implement our business plan and, as a result, our ability to compete would decrease, our operating results would suffer and our revenues would decrease.

Our long-term success depends, in part, on our ability to expand the sales of our services to customers located outside of the United States, and thus our business is susceptible to risks associated with international sales and operations.

We currently maintain offices and have sales personnel outside of the United States and are expanding our international operations. Our international expansion efforts may not be successful. In addition, conducting international operations subjects us to new risks that we have not generally faced in the United States. These risks include:

localization of our services, including translation into foreign languages and adaptation for local practices and regulatory requirements;

lack of familiarity with and unexpected changes in foreign regulatory requirements;

longer accounts receivable payment cycles and difficulties in collecting accounts receivable;

difficulties in managing and staffing international operations;

fluctuations in currency exchange rates;

potentially adverse tax consequences, including the complexities of foreign value added or other tax systems and restrictions on the repatriation of earnings;

dependence on certain third parties, including channel partners with whom we do not have extensive experience;

the burdens of complying with a wide variety of foreign laws and legal standards;

increased financial accounting and reporting burdens and complexities;

political, social and economic instability abroad, terrorist attacks and security concerns in general; and

reduced or varied protection for intellectual property rights in some countries.

Operating in international markets also requires significant management attention and financial resources. The investment and additional resources required to establish operations and manage growth in other countries may not produce desired levels of revenue or profitability.

Table of Contents

Failure to effectively and efficiently service SMBs would adversely affect our ability to increase our revenue.

We market and sell a significant amount of our services to SMBs. SMBs are challenging to reach, acquire and retain in a cost-effective manner. To grow our revenue quickly, we must add new customers, sell additional services to existing customers and encourage existing customers to renew their subscriptions. Selling to and retaining SMBs is more difficult than selling to and retaining large enterprise customers because SMB customers generally:

have high failure rates;

are price sensitive;

are difficult to reach with targeted sales campaigns;

have high churn rates in part because of the scale of their businesses and the ease of switching services; and

generate less revenue per customer and per transaction.

In addition, SMBs frequently have limited budgets and may choose to spend funds on items other than our services. Moreover, SMBs are more likely to be significantly affected by economic downturns than larger, more established companies, and if these organizations experience economic hardship, they may be unwilling or unable to expend resources on IT.

If we are unable to market and sell our services to SMBs with competitive pricing and in a cost-effective manner, our ability to grow our revenue quickly and become profitable will be harmed.

Original equipment manufacturers may adopt solutions provided by our competitors.

Original equipment manufacturers may in the future seek to build the capability for remote-connectivity solutions into their products. We may compete with our competitors to sell our services to, or partner with, these manufacturers. Our ability to attract and partner with these manufacturers will, in large part, depend on the competitiveness of our services. If we fail to attract or partner with, or our competitors are successful in attracting or partnering with, these manufacturers, our revenue and results of operations would be affected adversely.

If we fail to maintain proper and effective internal controls, our ability to produce accurate and timely financial statements could be impaired, which could harm our operating results, our ability to operate our business and investors' views of us.

Ensuring that we have adequate internal financial and accounting controls and procedures in place so that we can produce accurate financial statements on a timely basis is a costly and time-consuming effort. Our internal controls over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles in the United States of America. In addition, Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, requires an annual management assessment of the effectiveness of our internal controls over financial reporting and a

report from our independent registered public accounting firm addressing the effectiveness of our internal controls over financial reporting. We have documented, tested and improved, to the extent necessary, our internal controls over financial reporting for the year ended December 31, 2015. If in the future we are not able to comply with the requirements of Section 404 of the Sarbanes-Oxley Act in a timely manner, or if as part of our process of documenting and testing our internal controls over financial reporting, we or our independent registered public accounting firm identify deficiencies or areas for further attention and improvement, implementing appropriate changes to our internal controls may distract our officers and employees, entail substantial costs to modify our existing processes and take significant time to complete. These changes may not, however, be effective in maintaining the adequacy of our internal controls, and any failure to maintain that adequacy, or consequent inability to produce accurate financial statements on a timely basis, could increase our operating costs and harm our business. In addition, investors perceptions that our internal controls are inadequate or that we are unable to produce accurate financial statements on a timely basis may harm our stock price and make it more difficult for us to effectively market and sell our services to new and existing customers.

Table of Contents

We provide minimum service level commitments to some of our customers, the failure of which to meet could cause us to issue credits for future services or pay penalties, which could significantly harm our revenue.

Some of our customer agreements now, and may in the future, provide minimum service level commitments regarding items such as uptime, functionality or performance. If we are unable to meet the stated service level commitments for these customers or our services suffer extended periods of unavailability, we are or may be contractually obligated to provide these customers with credits for future services or pay other penalties. Our revenue could be significantly impacted if we are unable to meet our service level commitments and are required to provide a significant amount of our services at no cost or pay other penalties. We do not currently have any reserves on our balance sheet for these commitments.

If we do not effectively expand and train our work force, our future operating results will suffer.

We plan to continue to expand our work force both domestically and internationally to increase our customer base and revenue. We believe that there is significant competition for qualified personnel with the skills and technical knowledge that we require. Our ability to achieve significant revenue growth will depend, in large part, on our success in recruiting, training and retaining sufficient numbers of personnel to support our growth. New hires require significant training and, in most cases, take significant time before they achieve full productivity. Our recent hires and planned hires may not become as productive as we expect, and we may be unable to hire or retain sufficient numbers of qualified individuals. If our recruiting, training and retention efforts are not successful or do not generate a corresponding increase in revenue, our business will be harmed.

Our sales cycles for enterprise customers can be long, unpredictable and require considerable time and expense, which may cause our operating results to fluctuate.

The timing of our revenue from sales to enterprise customers is difficult to predict. These efforts require us to educate our customers about the use and benefit of our services, including the technical capabilities and potential cost savings to an organization. Enterprise customers typically undertake a significant evaluation process that has in the past resulted in a lengthy sales cycle, typically several months. We spend substantial time, effort and money on our enterprise sales efforts without any assurance that our efforts will produce any sales. In addition, service subscriptions are frequently subject to budget constraints and unplanned administrative, processing and other delays. If sales expected from a specific customer for a particular quarter are not realized in that quarter or at all, our results could fall short of public expectations and our business, operating results and financial condition could be adversely affected.

Adverse economic conditions or reduced IT spending may adversely impact our revenues and profitability.

Our business depends on the overall demand for IT and on the economic health of our current and prospective customers. The use of our service is often discretionary and may involve a commitment of capital and other resources. Weak economic conditions in the United States, European Union and other key international economies may affect the rate of IT spending and could adversely impact our customers' ability or willingness to purchase our services, delay prospective customers' purchasing decisions, reduce the value or duration of their subscription contracts, or affect renewal rates, all of which could have an adverse effect on our business, operating results and financial condition.

Our success depends in large part on our ability to protect and enforce our intellectual property rights.

We rely on a combination of copyright, service mark, trademark and trade secret laws, as well as confidentiality procedures and contractual restrictions, to establish and protect our proprietary rights, all of which provide only limited protection. In addition, we have fifteen issued patents and seventeen patents pending, and we are in the process

of filing additional patents. We cannot assure you that any patents will issue from our currently pending patent applications in a manner that gives us the protection that we seek, if at all, or that any future patents issued to us will not be challenged, invalidated or circumvented. Any patents that may issue in the future from pending or future patent applications may not provide sufficiently broad protection or they may not

Table of Contents

prove to be enforceable in actions against alleged infringers. Also, we cannot assure you that any future service mark or trademark registrations will be issued for pending or future applications or that any registered service marks or trademarks will be enforceable or provide adequate protection of our proprietary rights.

We endeavor to enter into agreements with our employees and contractors and agreements with parties with whom we do business to limit access to and disclosure of our proprietary information. The steps we have taken, however, may not prevent unauthorized use or the reverse engineering of our technology. Moreover, others may independently develop technologies that are competitive to ours or infringe our intellectual property. Enforcement of our intellectual property rights also depends on our successful legal actions against these infringers, but these actions may not be successful, even when our rights have been infringed.

Furthermore, effective patent, trademark, service mark, copyright and trade secret protection may not be available in every country in which our services are available. In addition, the legal standards relating to the validity, enforceability and scope of protection of intellectual property rights in Internet-related industries are uncertain and still evolving.

Our use of open source software could negatively affect our ability to sell our services and subject us to possible litigation.

A portion of the technologies we license incorporate so-called open source software, and we may incorporate additional open source software in the future. Open source software is generally licensed by its authors or other third parties under open source licenses. If we fail to comply with these licenses, we may be subject to certain conditions, including requirements that we offer our services that incorporate the open source software for no cost, that we make available source code for modifications or derivative works we create based upon, incorporating or using the open source software and/or that we license such modifications or derivative works under the terms of the particular open source license. If an author or other third party that distributes such open source software were to allege that we had not complied with the conditions of one or more of these licenses, we could be required to incur significant legal expenses defending against such allegations and could be subject to significant damages, enjoined from the sale of our services that contained the open source software and required to comply with the foregoing conditions, which could disrupt the distribution and sale of some of our services.

We rely on third-party software, including server software and licenses from third parties to use patented intellectual property that is required for the development of our services, which may be difficult to obtain or which could cause errors or failures of our services.

We rely on software licensed from third parties to offer our services, including server software from Microsoft and patented third-party technology. In addition, we may need to obtain future licenses from third parties to use intellectual property associated with the development of our services, which might not be available to us on acceptable terms, or at all. Any loss of the right to use any software required for the development and maintenance of our services could result in delays in the provision of our services until equivalent technology is either developed by us, or, if available, is identified, obtained and integrated, which could harm our business. Any errors or defects in third-party software could result in errors or a failure of our services which could harm our business.

Material defects or errors in the software we use to deliver our services could harm our reputation, result in significant costs to us and impair our ability to sell our services.

The software applications underlying our services are inherently complex and may contain material defects or errors, particularly when first introduced or when new versions or enhancements are released. We have from time to time

found defects in our services, and new errors in our existing services may be detected in the future. Any defects that cause interruptions to the availability of our services could result in:

a reduction in sales or delay in market acceptance of our services;

sales credits or refunds to our customers;

loss of existing customers and difficulty in attracting new customers;

Table of Contents

diversion of development resources;

harm to our reputation; and

increased insurance costs.

After the release of our services, defects or errors may also be identified from time to time by our internal team and by our customers. The costs incurred in correcting any material defects or errors in our services may be substantial and could harm our operating results.

Government regulation of the Internet and e-commerce and of the international exchange of certain technologies is subject to possible unfavorable changes, and our failure to comply with applicable regulations could harm our business and operating results.

As Internet commerce continues to evolve, increasing regulation by federal, state or foreign governments becomes more likely. For example, we believe increased regulation is likely in the area of data privacy, and laws and regulations applying to the solicitation, collection, processing or use of personal or consumer information could affect our customers' ability to use and share data, potentially reducing demand for our products and services. In addition, taxation of products and services provided over the Internet or other charges imposed by government agencies or by private organizations for accessing the Internet may also be imposed. Any regulation imposing greater fees for Internet use or restricting the exchange of information over the Internet could result in reduced growth or a decline in the use of the Internet and could diminish the viability of our Internet-based services, which could harm our business and operating results.

Our software products contain encryption technologies, certain types of which are subject to U.S. and foreign export control regulations and, in some foreign countries, restrictions on importation and/or use. We have submitted our encryption products for technical review under U.S. export regulations and have received the necessary approvals. Any failure on our part to comply with encryption or other applicable export control requirements could result in financial penalties or other sanctions under the U.S. export regulations, which could harm our business and operating results. Foreign regulatory restrictions could impair our access to technologies that we seek for improving our products and services and may also limit or reduce the demand for our products and services outside of the United States.

Our operating results may be harmed if we are required to collect sales or other related taxes for our subscription services in jurisdictions where we have not historically done so.

Primarily due to the nature of our services in certain states and countries, we do not believe we are required to collect sales or other related taxes from our customers in certain states or countries. However, one or more other states or countries may seek to impose sales or other tax collection obligations on us, including for past sales by us or our resellers and other partners. A successful assertion that we should be collecting sales or other related taxes on our services could result in substantial tax liabilities for past sales, discourage customers from purchasing our services or otherwise harm our business and operating results.

Our business is substantially dependent on market demand for, and acceptance of, the cloud-based model for the use of software.

We derive, and expect to continue to derive, substantially all of our revenue from the sale of cloud-based services. As a result, widespread acceptance and use of the cloud-based business model is critical to our future growth and success. Under the perpetual or periodic license model for software procurement, users of the software typically run applications on their hardware. Because companies are generally predisposed to maintaining control of their IT systems and infrastructure, there may be resistance to the concept of accessing the functionality that software provides as a service through a third party. If the market for cloud-based, software solutions ceases to grow or grows more slowly than we currently anticipate, demand for our services could be negatively affected.

Table of Contents

Our success depends on our customers' continued high-speed access to the Internet and the continued reliability of the Internet infrastructure.

Because our services are designed to work over the Internet, our revenue growth depends on our customers' high-speed access to the Internet, as well as the continued maintenance and development of the Internet infrastructure. The future delivery of our services will depend on third-party Internet service providers to expand high-speed Internet access, to maintain a reliable network with the necessary speed, data capacity and security, and to develop complementary products and services, including high-speed modems, for providing reliable and timely Internet access and services. The success of our business depends directly on the continued accessibility, maintenance and improvement of the Internet as a convenient means of customer interaction, as well as an efficient medium for the delivery and distribution of information by businesses to their employees. All of these factors are out of our control.

To the extent that the Internet continues to experience increased numbers of users, frequency of use or bandwidth requirements, the Internet may become congested and be unable to support the demands placed on it, and its performance or reliability may decline. Any future Internet outages or delays could adversely affect our ability to provide services to our customers.

RISKS RELATED TO OWNERSHIP OF OUR COMMON STOCK

Our failure to raise additional capital or generate the cash flows necessary to expand our operations and invest in our services could reduce our ability to compete successfully.

We may need to raise additional funds, and we may not be able to obtain additional debt or equity financing on favorable terms, if at all. If we raise additional equity financing, our stockholders may experience significant dilution of their ownership interests, and the per share value of our common stock could decline. If we engage in debt financing, we may be required to accept terms that restrict our ability to pay dividends or make distributions, incur additional indebtedness and force us to maintain specified liquidity or other ratios. If we need additional capital and cannot raise it on acceptable terms, we may not be able to, among other things:

develop or enhance our services;

continue to expand our development, sales and marketing organizations;

acquire complementary technologies, products or businesses;

expand our operations, in the United States or internationally;

hire, train and retain employees; or

respond to competitive pressures or unanticipated working capital requirements.

Our stock price may be volatile, and the market price of our common stock may drop in the future.

During the period from our IPO in July 2009 through July 26, 2016, our common stock has traded as high as \$75.42 and as low as \$15.15. An active, liquid and orderly market for our common stock may not be sustained, which could depress the trading price of our common stock. Some of the factors that may cause the market price of our common stock to fluctuate include:

fluctuations in our quarterly financial results or the quarterly financial results of companies perceived to be similar to us;

fluctuations in our recorded revenue, even during periods of significant sales order activity;

changes in estimates of our financial results or recommendations by securities analysts;

failure of any of our services to achieve or maintain market acceptance;

changes in market valuations of companies perceived to be similar to us;

announcements regarding changes to our current or planned products or services;

Table of Contents

success of competitive companies, products or services;

changes in our capital structure, such as future issuances of securities or the incurrence of debt;

announcements by us or our competitors of significant new services, contracts, acquisitions or strategic alliances;

regulatory developments in the United States, foreign countries or both;

litigation, including stockholder litigation and/or class action litigation, involving our company, our services or our general industry, as well as announcements regarding developments in on-going litigation matters;

additions or departures of key personnel;

general perception of the future of the remote-connectivity market or our services;

investors' general perception of us; and

changes in general economic, industry and market conditions.

In addition, if the market for technology stocks or the stock market in general experiences a loss of investor confidence, the trading price of our common stock could decline for reasons unrelated to our business, financial condition or results of operations. If any of the foregoing occurs, it could cause our stock price to fall and may expose us to class action lawsuits that, even if unsuccessful, could be costly to defend and a distraction to management.

A significant portion of our total outstanding shares may be sold into the public market at any time, which could cause the market price of our common stock to drop significantly, even if our business is doing well.

If our existing stockholders sell a large number of shares of our common stock or the public market perceives that such existing stockholders might sell shares of common stock, the trading price of our common stock could decline significantly.

If securities or industry analysts do not publish or cease publishing research or reports about us, our business or our market, or if they publish a negative report or change their recommendations regarding our stock adversely, our stock price and trading volume could decline.

The trading market for our common stock is influenced by the research and reports that industry or securities analysts publish about us, our business, our market or our competitors. If any of the analysts who cover us or may cover us in the future publish a negative report or change their recommendation regarding our stock adversely, or provide more favorable relative recommendations about our competitors, our stock price would likely decline. If any analyst who covers us or may cover us in the future were to cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to

decline.

Our management has broad discretion over the use of our existing cash resources and might not use such funds in ways that increase the value of our common stock.

Our management will continue to have broad discretion to use our cash resources. Our management might not apply these cash resources in ways that increase the value of our common stock.

Table of Contents

As a public company, we incur significant additional costs which could harm our operating results.

As a public company, we incur significant legal, accounting and other expenses, including costs associated with public company reporting requirements. We also have incurred and will continue to incur costs associated with current corporate governance requirements, including requirements under Section 404 and other provisions of the Sarbanes-Oxley Act, as well as rules implemented by the Securities and Exchange Commission, or SEC, and The NASDAQ Global Select Market. The expenses incurred by public companies for reporting and corporate governance purposes have increased dramatically. We expect these rules and regulations to substantially increase our legal and financial compliance costs and to make some activities more time-consuming and costly. We also expect these new rules and regulations may make it more difficult and more expensive for us to maintain director and officer liability insurance, and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage previously available. As a result, it may be more difficult for us to attract and retain qualified individuals to serve on our Board of Directors or as our executive officers.

Certain stockholders could attempt to influence changes within the Company which could adversely affect the Company's operations, financial condition and the value of our common stock.

Our stockholders may from time-to-time seek to acquire a controlling stake in our company, engage in proxy solicitations, advance shareholder proposals or otherwise attempt to effect changes. Campaigns by stockholders to effect changes at publicly traded companies are sometimes led by investors seeking to increase short-term stockholder value through actions such as financial restructuring, increased debt, special dividends, stock repurchases or sales of assets or the entire company. Responding to proxy contests and other actions by activist stockholders can be costly and time-consuming, disrupting our operations and diverting the attention of our Board of Directors and senior management from the pursuit of business strategies. These actions could adversely affect our operations, financial condition and the value of our common stock.

Anti-takeover provisions contained in our certificate of incorporation and bylaws, as well as provisions of Delaware law, could impair a takeover attempt.

Our certificate of incorporation, bylaws and Delaware law contain provisions that could have the effect of rendering more difficult or discouraging an acquisition deemed undesirable by our Board of Directors. Our corporate governance documents include provisions:

authorizing blank check preferred stock, which could be issued with voting, liquidation, dividend and other rights superior to our common stock;

limiting the liability of, and providing indemnification to, our directors and officers;

limiting the ability of our stockholders to call and bring business before special meetings and to take action by written consent in lieu of a meeting;

requiring advance notice of stockholder proposals for business to be conducted at meetings of our stockholders and for nominations of candidates for election to our Board of Directors;

controlling the procedures for the conduct and scheduling of Board of Directors and stockholder meetings;

providing the Board of Directors with the express power to postpone previously scheduled annual meetings and to cancel previously scheduled special meetings;

restricting the forum for certain litigation brought against us to Delaware;

limiting the determination of the number of directors on our Board of Directors and the filling of vacancies or newly created seats on the board to our Board of Directors then in office; and

providing that directors may be removed by stockholders only for cause.

These provisions, alone or together, could delay hostile takeovers and changes in control of our company or changes in our management.

The results of the United Kingdom's referendum on withdrawal from the European Union may have a negative effect on global economic conditions, financial markets and our business.

In June 2016, a majority of voters in the United Kingdom elected to withdraw from the European Union in a national referendum. The referendum was advisory, and the terms of any withdrawal are subject to a negotiation period that could last at least two years after the government of the United Kingdom formally initiates a withdrawal process. Nevertheless, the referendum has created significant uncertainty about the future relationship between the United Kingdom and the European Union, including with respect to the laws and regulations that will apply as the United Kingdom determines which European Union laws to replace or replicate in the event of a withdrawal. The referendum may also give rise to calls for the governments of other European Union member states to consider withdrawal. These developments, or the perception that any of them could occur, have had and may continue to have a material adverse effect on global economic conditions and the stability of global financial markets, and may significantly reduce global market liquidity and restrict the ability of key market participants to operate in certain financial markets. Any of these factors could depress economic activity and restrict our access to capital, which could have a material adverse effect on our business, financial condition and results of operations and reduce the price of our common stock.

Table of Contents

As a Delaware corporation, we are also subject to provisions of Delaware law, including Section 203 of the Delaware General Corporation law, which prevents some stockholders holding more than 15% of our outstanding common stock from engaging in certain business combinations without approval of the holders of substantially all of our outstanding common stock. Any provision of our certificate of incorporation or bylaws or Delaware law that has the effect of delaying or deterring a change in control could limit the opportunity for our stockholders to receive a premium for their shares of our common stock, and could also affect the price that some investors are willing to pay for our common stock.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**(a) Sales of Unregistered Securities**

We did not sell any unregistered securities in the six months ended June 30, 2016.

(b) Use of Proceeds

We did not receive any proceeds from the sale of unregistered securities in the six months ended June 30, 2016.

(c) Purchases of Equity Securities

Period		Total Number of Shares Purchased	Average Price per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(1)	Maximum Number (or Approximate Dollar Value) of Shares that may yet be Purchased Under the Plans or Programs(1)
April 1, 2016	April 30, 2016	153,872	\$ 50.41	153,872	\$ 40,216,325
May 1, 2016	May 31, 2016	26,574	\$ 59.13	26,574	\$ 38,644,989
June 1, 2016	June 30, 2016	26,339	\$ 62.36	26,339	\$ 37,002,387
Total		206,785	\$ 53.05	206,785	

(1) On October 20, 2014, our Board of Directors approved a \$75 million share repurchase program. Share repurchases are made from time-to-time in the open market, in privately negotiated transactions or otherwise, in

accordance with applicable securities laws and regulations. During the six months ended June 30, 2016, we repurchased 370,912 shares of our common stock.

Item 6. Exhibits

The exhibits listed in the Exhibit Index immediately preceding the exhibits are filed (other than exhibits 32.1 and 32.2) as part of this Quarterly Report on Form 10-Q and such Exhibit Index is incorporated herein by reference.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LOGMEIN, INC.

Date: July 27, 2016

By: /s/ William R. Wagner
William R. Wagner
President & Chief Executive Officer
(Principal Executive Officer)

Date: July 27, 2016

By: /s/ Edward K. Herdiech
Edward K. Herdiech
Chief Financial Officer

(Principal Financial Officer)

Table of Contents***EXHIBIT INDEX***

Listed and indexed below are all Exhibits filed as part of this report.

Exhibit

No.	Description
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by Chief Executive Officer.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by Chief Financial Officer.
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by Chief Executive Officer.
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by Chief Financial Officer.
101	The following materials from LogMeIn, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2016, formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Operations, (iii) the Condensed Consolidated Statements of Comprehensive Income, (iv) the Condensed Consolidated Statements of Cash Flows, and (v) Notes to Condensed Consolidated Financial Statements.