LogMeIn, Inc.
Form 10-Q
April 26, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2012

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		**20-1515952**
(State or other jurisdiction of incorporation or organization)		**(I.R.S. Employer Identification No.)**
500 Unicorn Park Drive		
Woburn, Massachusetts		**01801**
(Address of principal executive offices)		**(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 x 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 x No ¨

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

Large accelerated filer	¨	Accelerated filer	x
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 x

As of April 20, 2012, there were 24,628,657 shares of the registrant s Common Stock, par value $0.01 per share, outstanding.

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Part I. Financial Information

Item 1. Financial Statements

LogMeIn, Inc.

Condensed Consolidated Balance Sheets

	December 31, 2011	March 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 103,603,684	$ 92,373,291
Marketable securities	95,040,045	100,038,824
Accounts receivable (net of allowance for doubtful accounts of $109,000 and $130,000 as of December 31, 2011 and March 31, 2012, respectively)	8,747,104	6,810,016
Prepaid expenses and other current assets	2,411,640	2,833,826
Deferred income tax assets	1,980,342	1,976,055
Total current assets	211,782,815	204,032,012
Property and equipment, net	5,202,721	5,745,273
Restricted cash	369,792	378,052
Intangibles, net	3,260,612	7,035,371
Goodwill	7,258,743	18,845,909
Other assets	242,122	394,367
Deferred income tax assets	3,940,312	3,940,312
Total assets	$ 232,057,117	$ 240,371,296
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 6,275,163	$ 4,523,575
Accrued liabilities	10,472,805	11,394,906
Deferred revenue, current portion	55,961,859	58,806,066
Total current liabilities	72,709,827	74,724,547
Deferred revenue, net of current portion	2,302,465	2,333,859
Other long-term liabilities	1,239,136	1,924,231
Total liabilities	76,251,428	78,982,637
Commitments and contingencies (Note 9)		
Preferred stock, $0.01 par value - 5,000,000 shares authorized, 0 shares outstanding as of December 31, 2011 and March 31, 2012		
Equity:		
Common stock, $0.01 par value - 75,000,000 shares authorized as of December 31, 2011 and March 31, 2012; 24,551,641 and 24,594,845 shares issued and outstanding as of December 31, 2011 and March 31, 2012, respectively	245,516	245,948
Additional paid-in capital	154,440,369	158,900,221
Retained earnings	2,677,128	2,753,368
Accumulated other comprehensive loss	(1,557,324)	(510,878)

Total equity	155,805,689	161,388,659
Total liabilities and equity	$ 232,057,117	$ 240,371,296

See notes to condensed consolidated financial statements.

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LogMeIn, Inc.

Condensed Consolidated Statements of Operations

	Three Months Ended March 31, 2011	2012
Revenue	$ 27,038,779	$ 32,687,931
Cost of revenue	2,536,136	3,417,318
Gross profit	24,502,643	29,270,613
Operating expenses		
Research and development	4,317,779	6,219,971
Sales and marketing	12,986,109	16,845,823
General and administrative	6,058,690	4,905,264
Legal settlements	1,250,000	
Amortization of acquired intangibles	92,034	127,265
Total operating expenses	24,704,612	28,098,323
(Loss) income from operations	(201,969)	1,172,290
Interest income, net	210,712	215,490
Other expense	(108,811)	(236,265)
Loss (income) before income taxes	(100,068)	1,151,515
Benefit (provision) for income taxes	34,821	(1,075,275)
Net (loss) income	$ (65,247)	$ 76,240
Net (loss) income per share:		
Basic	$ (0.00)	$ 0.00
Diluted	$ (0.00)	$ 0.00
Weighted average shares outstanding:		
Basic	23,928,310	24,573,810
Diluted	23,928,310	25,354,380

See notes to condensed consolidated financial statements.

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LogMeIn, Inc.

Condensed Consolidated Statements of Comprehensive Income

	Three Months Ended March 31, 2011		Three Months Ended March 31, 2012	
Net income (loss)	$	(65,247)	$	76,240
Other comprehensive income:				
Net unrealized gains (losses) on marketable securities, net of tax		(17,143)		10,733
Net translation gains (losses)		572,460		1,035,713
Total other comprehensive income		555,317		1,046,446
Comprehensive income	$	490,070	$	1,122,686

See notes to condensed consolidated financial statements.

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LogMeIn, Inc.

Condensed Consolidated Statements of Cash Flows

	Three Months Ended March 31,	
	2011	2012
Cash flows from operating activities		
Net (loss) income	$ (65,247)	$ 76,240
Adjustments to reconcile net (loss) income to net cash provided by operating activities		
Depreciation and amortization	1,004,987	1,382,737
Amortization of premium on investments	59,105	10,690
Provision for bad debts	14,050	22,500
Provision for deferred income taxes	(12,461)	1,007,730
Income tax benefit from the exercise of stock options		(1,001,000)
Stock-based compensation	1,745,494	2,984,436
Gain on disposal of equipment	(178)	(661)
Changes in assets and liabilities:		
Accounts receivable	(1,143,272)	2,027,265
Prepaid expenses and other current assets	465,032	(409,260)
Other assets	(35,200)	(152,246)
Accounts payable	2,634,892	(1,747,316)
Accrued liabilities	(1,006,483)	526,557
Deferred revenue	4,773,964	2,450,898
Other long-term liabilities	(40,487)	685,095
Net cash provided by operating activities	8,394,196	7,863,665
Cash flows from investing activities		
Purchases of marketable securities	(30,076,850)	(54,992,000)
Proceeds from sale or disposal of marketable securities	30,000,000	50,000,000
Purchases of property and equipment	(1,117,622)	(1,339,457)
Intangible asset additions	(61,738)	(108,208)
Cash paid for acquisition, net of cash acquired		(14,831,525)
Increase in restricted cash and deposits	(25,569)	
Net cash used in investing activities	(1,281,779)	(21,271,190)
Cash flows from financing activities		
Proceeds from issuance of common stock upon option exercises	1,117,686	474,849
Income tax benefit from the exercise of stock options		1,001,000
Net cash provided by financing activities	1,117,686	1,475,849
Effect of exchange rate changes on cash and cash equivalents and restricted cash	571,637	701,283
Net increase (decrease) in cash and cash equivalents	8,801,740	(11,230,393)
Cash and cash equivalents, beginning of period	77,279,987	103,603,684
Cash and cash equivalents, end of period	$ 86,081,727	$ 92,373,291
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 118	$ 169
Cash paid for income taxes	$ 23,736	$ 62,957
Noncash investing and financing activities		

Purchases of property and equipment included in accounts payable and accrued liabilities	$	418,055	$	728,404
Fair value of contingent consideration in connection with acquisition included in accrued liabilities and other long term liabilities	$		$	223,552

See notes to condensed consolidated financial statements.

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LogMeIn, Inc.

Notes to Condensed Consolidated Financial Statements

1. Nature of the Business

LogMeIn, Inc. (the Company) develops and markets a suite of remote access, remote support, and collaboration solutions that provide instant, secure connections between Internet enabled devices. The Company s product line includes Gravity™, LogMeIn Free®, LogMeIn Pro®, LogMeIn® Central™, LogMeIn Rescue®, LogMeIn ® Rescue+Mobile™, LogMeIn Backup®, LogMeIn® Ignition™, LogMeIn for iOS, LogMeIn Hamachi®, join.me®, Pachube™, BoldChat®, and RemotelyAnywhere®. The Company is based in Woburn, Massachusetts with wholly-owned subsidiaries in Hungary, The Netherlands, Australia, the United Kingdom, Brazil, Japan, India and Ireland.

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 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 24, 2012. The unaudited interim condensed consolidated financial statements have been prepared on the same basis as the audited consolidated 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 income in stockholders 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, 2011 and March 31, 2012, marketable securities consisted of U.S. government agency securities that have remaining maturities within two years and have an aggregate amortized cost of $95,051,808 and $100,033,117 and an aggregate fair value of $95,040,045 and $100,038,824, including $102,552 and $85,768 of unrealized gains and $114,315 and $80,061 of unrealized losses, respectively.

Revenue Recognition The Company derives revenue primarily from subscription fees related to its LogMeIn premium services, the licensing of its Ignition for iPhone, iPad, and Android software products, and from the licensing of its RemotelyAnywhere software and its related maintenance.

Revenue from the Company s LogMeIn 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 five years, but are generally one year in duration. The Company s software cannot be run on another entity s hardware nor do customers have the right to take possession of the software and use it on their own or another entity s hardware.

Revenue from the sales of the Company s Ignition for iPhone, iPad and Android software products, which are sold as a perpetual license, is recognized when there is persuasive evidence of an arrangement, the product has been provided to the customer, the collection of the fee is

probable, and the amount of fees to be paid by the customer is fixed or determinable.

The Company s multi-element arrangements typically include subscription and professional services, which include development services. 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 as the services are not sold by any other vendor and the customer would not be able to resell such services. As a result, the deliverables within these arrangements do not qualify for treatment as separate units in accounting. Accordingly, the Company accounts for fees received under these multi-element arrangements as a single unit of accounting and recognizes the entire arrangement consideration ratably over the term of the related agreement, or the customer life, commencing when all significant performance obligations have been delivered and when all revenue recognition criteria have been met.

Revenues are reported net of applicable sales and use tax, value-added tax, and other transaction taxes imposed on the related transaction.

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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.

As of December 31, 2011, and March 31, 2012, no customers accounted for more than 10% of accounts receivable, and no customers accounted for more than 10% of revenue for the three months ended March 31, 2011 or 2012.

Goodwill Goodwill is the excess of the acquisition price over the fair value of the tangible and identifiable intangible net assets acquired related to the Bold acquisition in January 2012 (see note 4), the Pachube acquisition in July 2011 (see note 4) and the Applied Networking acquisition in July 2006. The Company does not amortize goodwill, but performs an annual impairment test of goodwill on the last day of its fiscal year and 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. Through March 31, 2012, no impairments have occurred.

Long-Lived Assets and Intangible Assets The Company records intangible assets at their estimated fair values at the date of acquisition. Intangible assets are 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. The Company s intangible assets have estimated useful lives which range from one to seven years.

Foreign Currency Translation The functional currency of operations outside the United States of America is deemed to be the currency of the local country. 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 stockholders equity. Foreign currency transaction gains and losses are charged to operations. The Company had foreign currency losses of approximately $109,000 and $245,000 for the three months ended March 31, 2011 and 2012, respectively.

Stock-Based Compensation Stock-based compensation is measured based upon the grant date fair value and recognized as an expense on a straight-line basis in the financial statements over the vesting period of the award for those awards expected to vest. The Company uses the Black-Scholes option pricing model to estimate the grant date fair value of stock awards. 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.

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 or positions 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. Through December 31, 2011 and March 31, 2012, the Company has provided a liability for approximately $198,000 and $218,000 for uncertain tax positions, respectively. 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 about which separate discrete financial information is available for evaluation by the chief operating decision-maker, or decision making group, in making decisions regarding resource allocation and assessing performance. The Company, which 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 (based on customer address) by geography is as follows:

	Three Months Ended March 31,	
	2011	2012
Revenues:		
United States	$ 17,217,000	$ 21,196,000
United Kingdom	2,600,000	3,009,000
International - all other	7,222,000	8,483,000
Total revenue	$ 27,039,000	$ 32,688,000

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.

The Company has entered into agreements with certain customers that require the Company to indemnify the customer against certain 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 unlimited.

Through December 31, 2011, the Company had not experienced any losses related to these indemnification obligations, and no claims with respect thereto were outstanding. On March 15, 2012, the Company received an indemnification claim from a customer related to a third-party claim that the customer s use of a LogMeIn service infringes the third party s patent. The Company is currently evaluating this claim. The Company does not expect any significant claims related to these indemnification obligations and consequently, concluded that the fair value of these obligations is negligible, and no related reserves were established.

Net Income (Loss) Per Share Basic net income (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding for the period. Diluted net income (loss) per share is computed by dividing net income (loss) 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. For the three months ended March 31, 2011, the Company incurred a net loss and therefore, the effect of the Company s outstanding common stock equivalents were not included in the calculation of diluted loss per share as they were anti-dilutive, Accordingly, basic and dilutive net loss per share for the period were identical.

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The Company excluded 2,939,422 and 1,412,513 options to purchase common shares during the three months ended March 31, 2011 and 2012, respectively, from the computation of diluted net income (loss) per share either because they had an anti-dilutive impact or because the Company had a net loss in the period:

	Three Months Ended March 31,	
	2011	**2012**
Options to purchase common shares	2,939,422	1,412,513
Unvested restricted stock units		
Total options and unvested restricted stock units	2,939,422	1,412,513

Basic and diluted net income (loss) per share was calculated as follows:

		Three Months Ended March 31, 2011
Basic and diluted net loss per share:		
Net loss	$	(65,247)
Weighted average common shares outstanding		23,928,310
Basic and diluted net loss per share	$	(0.00)

		Three Months Ended March 31, 2012
Basic:		
Net income	$	76,240
Weighted average common shares outstanding, basic		24,573,810
Net income, basic	$	0.00
Diluted:		
Net income	$	76,240
Weighted average common shares outstanding, basic		24,573,810
Add: Common stock equivalents		780,570
Weighted average common shares outstanding, diluted		25,354,380
Net income, diluted	$	0.00

Recently Issued Accounting Pronouncements In September 2011, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) which simplifies how companies test goodwill for impairment. The amendment permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in goodwill accounting standard. The Company adopted this ASU and it did not have a material effect on its financial position, results of operations or cash flows.

In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income (Topic 220) Presentation of Comprehensive Income (ASU 2011-05), to require an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of equity. The Company adopted this ASU and it did not have a material effect on its financial position, results of operations or cash flows.

In May 2011, the FASB issued ASU No. 2011-04, Fair Value Measurement (Topic 820) Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (ASU 2011-04), to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between GAAP and International Financial Reporting Standards. ASU 2011-04 changes certain fair value measurement principles and enhances the disclosure requirements particularly for Level 3 fair value measurements (as defined in Note 3). The Company adopted this ASU and it did not have a material effect on its financial position, results of operations or cash flows.

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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 reflect the Company s assumptions about the assumptions that market participants would use in pricing the asset or liability.

The following table summarizes the basis used to measure certain of the Company s financial assets that are carried at fair value:

		Basis of Fair Value Measurements		
	Balance	Quoted Prices in Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Balance at December 31, 2011				
Cash equivalents money market funds	$ 53,839,536	$ 53,839,536	$	$
Cash equivalents bank deposits	5,032,135		5,032,135	
Short-term marketable securities U.S. government agency securities	95,040,045	85,040,105	9,999,940	
Contingent consideration liability				212,536
Balance at March 31, 2012				
Cash equivalents money market funds	$ 49,053,464	$ 49,053,464	$	$
Cash equivalents bank deposits	5,033,386		5,033,386	
Short-term marketable securities U.S. government agency securities	100,038,824	80,024,005	20,014,819	
Contingent consideration liability				223,552

Bank deposits are classified within the second level of the fair value hierarchy and the fair value of those assets are determined based upon quoted prices for similar assets in active markets.

The Level 3 liability consists of contingent consideration related to the July 19, 2011 acquisition of Pachube. The fair value of the contingent consideration was estimated by applying a probability based model, which utilizes significant inputs that are unobservable in the market. Key assumptions include a 13% discount rate and a 76% weighted-probability of achieving earn-out. The current portion of contingent consideration is included in Accrued liabilities and the non-current portion is included in Other long-term liabilities. A reconciliation of the beginning and ending Level 3 liability is as follows:

	Three Months Ended March 31, 2012
Balance beginning of period	$ 212,536
Transfers into Level 3	

Payments	
Change in fair value (included within research and development expense)	11,016
Balance end of period	$ 223,552

4. Acquisitions

On July 19, 2011, the Company acquired substantially all of the assets of Connected Environments (BVI) Limited, a British Virgin Island limited company and Connected Environments, Limited, a U.K. limited company (collectively Connected Environments), primarily including their Pachube service, for an initial cash payment of $10 million plus contingent payments totaling up to $5.2 million. The Pachube service is a cloud-based connectivity and data management platform for the Internet of Things. The Company acquired Pachube to expand its capabilities with embedded devices and enter into the Internet of Things market. The operating results of the acquired Pachube service, of which there was no revenue and $1.6 million of expenses during the three month period ended March 31, 2012, are included in the consolidated financial statements beginning on the acquisition date.

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The Pachube acquisition has been accounted for as a business combination. The assets acquired and the liabilities assumed were recorded at their estimated fair values as of the acquisition date. The Company retained an independent third party valuation firm to calculate the fair value of the intangible assets using the cost method with estimates and assumptions provided by Company management. The excess of the purchase price over the tangible net assets and identifiable intangible assets was recorded as goodwill.

The purchase price was allocated as follows:

	Amount
Tangible assets	$ 7,595
Technology and know-how	3,250,000
Goodwill	6,934,966
Total purchase price	10,192,561
Liability for contingent consideration	(192,561)
Cash paid	$ 10,000,000

The asset purchase agreement included a contingent payment provision requiring the Company to make additional payments to the shareholders of Connected Environments, as well as certain employees, on the first and second anniversaries of the acquisition, contingent upon the continued employment of certain employees and the achievement of certain product performance metrics. The range of the contingent payments that the Company could pay is between $0 to $4,898,000. The Company has concluded that the arrangement is a compensation arrangement and is accruing the maximum payout ratably over the performance period, as it believes it is probable that the criteria will be met.

The asset purchase agreement also includes a contingent payment provision to a non-employee shareholder for an amount between $0 and $267,000, which the Company has concluded is part of the purchase price. This contingent liability was recorded at its fair of $192,561 at the acquisition date. The Company will re-measure the fair value of the consideration at each subsequent reporting period and recognize any adjustment to fair value as part of earnings.

The goodwill recorded in connection with this transaction is primarily related to the expected synergies to be achieved related to Gravity, our service delivery platform, and the ability to leverage existing sales and marketing capacity and customer base with respect to the acquired Pachube service. All goodwill acquired is expected to be deductible for income tax purposes.

The Company incurred approximately $324,000 of acquisition-related costs which are included in general and administrative expense for the year ended December 31, 2011.

On January 6, 2012, the Company acquired substantially all of the assets of Bold Software, LLC (Bold), a Wichita, Kansas-based limited liability corporation, for a cash purchase price of approximately $15.3 million plus contingent, retention-based bonuses totaling $1.5 million, which are expected to be paid over a two year period from the date of acquisition. Bold is a leading provider of web chat and customer communications software. Bold s operating results, of which there was approximately $0.8 million of revenue and $1.1 million of expenses during the three months ended March 31, 2012, are included in the consolidated financial statements beginning on the acquisition date.

The Bold acquisition has been accounted for as a business combination. The assets acquired and the liabilities assumed were recorded at their estimated fair values as of the acquisition date. The Company retained an independent third party valuation firm to calculate the fair value of the intangible assets with estimates and assumptions provided by Company management. The excess of the purchase price over the tangible net assets and identifiable intangible assets was recorded as goodwill.

The purchase price was allocated as follows:

	Amount
Cash	$ 482,000

Current assets	126,000
Other assets	19,000
Deferred revenue	(424,000)
Other liabilities	(107,000)
Completed technology	1,090,000
Trade name and trademark	30,000
Customer relationships	2,760,000
Non-compete agreements	160,000
Goodwill	11,178,000
Total purchase price	$ 15,314,000

The asset purchase agreement included a contingent, retention-based bonus program provision requiring the Company to make additional payments to employees, including former Bold owners now employed by the Company, on the first and second anniversaries of the acquisition, contingent upon their continued employment. The range of the contingent, retention-based bonus payments that the Company could pay is between $0 to $1,500,000. The Company has concluded that the arrangement is a compensation arrangement and is accruing the maximum payout ratably over the performance period, as it believes it is probable that the criteria will be met.

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 existing sales and marketing capacity and customer base to accelerate BoldChat sales, and the ability to leverage Bold s technology with the Company s existing support service. All goodwill acquired is expected to be deductible for income tax purposes.

The Company incurred approximately $122,000 and $93,000 of acquisition-related costs which are included in general and administrative expense for the year ended December 31, 2011, and the three months ended March 31, 2012, respectively.

5. Goodwill and Intangible Assets

The changes in the carry amounts of goodwill for the three months ended March 31, 2012 are due to the addition of goodwill resulting from the Bold acquisition and the impact of foreign currency translation adjustments related to asset balances that are recorded in non-U.S. currencies.

Changes in goodwill for the three months ended March 31, 2012, are as follows:

Balance, December 31, 2011	$ 7,258,743
Goodwill related to the acquisition of Bold	11,178,000
Foreign currency translation adjustments	409,166
Balance, March 31, 2012	$ 18,845,909

Intangible assets consist of the following:

		December 31, 2011			March 31, 2012		
	Estimated Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Identifiable intangible assets:							
Trade name and trademark	1 -5 years	$ 635,506	$ 635,506	$	$ 665,939	$ 643,207	$ 22,732
Customer base	5 -7 years	1,003,068	1,003,068		3,796,404	1,110,012	2,686,392
Domain names	5 years	222,826	51,499	171,327	222,826	62,644	160,182
Software	4 years	298,977	298,977		298,977	298,977	
Technology	3 -6 years	4,475,281	1,831,276	2,644,005	5,687,568	2,168,621	3,518,947
Non-compete agreements	5 years	0	0		162,165	2,099	160,066
Internally developed software	3 years	539,612	94,332	445,280	647,820	160,768	487,052
		$ 7,175,270	$ 3,914,658	$ 3,260,612	$ 11,481,699	$ 4,446,328	$ 7,035,371

As a result of the Bold acquisition, the Company capitalized $1,090,000 of technology, $30,000 of trade names and trademarks, $2,760,000 of customer base and $160,000 of non-compete agreements as intangible assets. Changes in the gross carrying amount of the intangible assets are due to foreign currency translation adjustments. The Company is amortizing the intangible assets 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 one to seven years.

The Company capitalized $61,751 and $108,208 during the three months ended March 31, 2011 and 2012, 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 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. Amortization expense for intangible assets was $107,365 and $508,633 for the three months ended March 31, 2011 and 2012, respectively. Amortization relating to software, technology and internally

developed software is recorded within cost of revenues and the amortization of trade name and trademark, customer base, domain names, and non-compete agreements is recorded within operating expenses. Future estimated amortization expense for intangible assets is as follows at March 31, 2012:

Amortization Expense (Years Ending December 31)	**Amount**
2012 (Nine months ending December 31)	$ 1,529,935
2013	2,047,478
2014	1,497,662
2015	727,469
2016	540,688
Thereafter	692,139
Total	$ 7,035,371