LogMeIn, Inc.
Form 10-K
February 20, 2015
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2014

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number 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)

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

Title of Each Class	**Name of Exchange on Which Registered**

Common Stock, $.01 par value	NASDAQ Global Select Market

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

None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No þ

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 þ 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 þ No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

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 þ	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 Act). Yes ¨ No þ

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold on the NASDAQ Global Select Market on June 30, 2014 was $872,638,381.

As of February 13, 2015, the registrant had 24,463,959 shares of Common Stock, $0.01 par value per share, outstanding.

Portions of the registrant s definitive proxy statement to be filed with the Securities and Exchange Commission for the 2015 annual stockholders meeting to be held on May 21, 2015 are incorporated by reference into Items 10, 11, 12, 13 and 14 of Part III of this Annual Report on Form 10-K.

Table of Contents

LOGMEIN, INC.

INDEX

Table of Contents

Forward-Looking Statements

Matters discussed in this Annual Report on Form 10-K relating to future events or our future performance, including any discussion, express or implied, of our anticipated growth, operating results, future earnings per share, market opportunity, plans and objectives, are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements are often identified by the words may, will, expect, believe, anticipate, intend, could, estimate, or co 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 Item 1A of this Annual Report on Form 10-K and elsewhere in this Report. The forward-looking statements in this Annual Report on Form 10-K represent our views as of the date of this Annual Report on Form 10-K. 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 Annual Report on Form 10-K.

PART I

ITEM 1. ***BUSINESS***
Overview

LogMeIn 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. Our services free millions of people to work from virtually anywhere on any Internet enabled device, empower IT professionals to securely embrace today s mobile and cloud-centric workplace, transform how companies engage and support their customers, and help businesses bring the next generation of connected products to market. These services range from free downloadable mobile and web-based collaboration apps to enterprise grade professional helpdesk solutions to a cloud-based platform for the Internet of Things, all of which are accessible from anywhere with an Internet connection.

We incorporated under the laws of Bermuda as 3am Labs Ltd in February 2003. In August 2004, we completed a domestication in the State of Delaware under the name 3am Labs, Inc. We changed our name to LogMeIn, Inc. in March 2006. Our principal executive offices are located at 320 Summer Street, Boston MA 02210. Our website address is *www.LogMeIn.com*. We have included our website address in this report solely as an inactive textual reference. In 2004, we introduced our first cloud-based connectivity offering, which allowed users to securely connect to remote computer resources, including files, applications and the remote device itself. Used primarily by mobile professionals for the purposes of working remotely and by IT service providers to remotely manage computers and servers, this remote access solution was designed to give users the flexibility to work and interact with their computer resources from any other Internet-connected computer. We have since used this scalable technical foundation to expand the types of devices and data that can be accessed remotely, while introducing a variety of cloud-based offerings or applications built off of this foundation that address today s collaboration, customer service, IT management and connected product development use cases.

Our services are delivered via the cloud as hosted services, meaning that the technology enabling the use of our services primarily resides on our servers, data centers and IT hardware, rather than those of our users. We call the software, hardware and networking technology used to deliver our cloud-based services Gravity . Gravity establishes secure connections over the Internet between two or more Internet-enabled devices and manages the direct transmission of data between remotely connected devices. With tens of millions of users and hundreds of millions of sessions brokered, we believe our services are used to connect more Internet-enabled devices worldwide, than any other connectivity platform on the market.

We offer both free and fee based, or premium, services. Sales of our premium 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 complement our free services with our fee-based, or premium, services that can be easily accessed by users via time-bound free trials. The majority of these premium services are sold on an annual or monthly subscription basis.

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 Xively 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 services for which our paying customers subscribe. During the fiscal years ended December 31, 2012, 2013 and 2014, we generated revenues of $138.8 million, $166.3 million, and $222.0 million, respectively.

Our Market Opportunity

Our cloud-based connectivity services allow our users to work remotely, use a mix of personal and employer-procured technology for work purposes, support and manage remote computers and other Internet-enabled devices, and collaborate with other users. We believe our services benefit users in the following ways:

Increased productivity both in and outside of traditional office environments. Our collaboration and remote access services allow users to simply host and/or attend web-based meetings, access and control remote computers, access and secure cloud or web applications, run applications across different platforms and devices and save and share data with the cloud, thereby increasing their mobility and allowing them to remain productive from virtually anywhere on virtually any Internet-enabled device.

Reduced set-up, support and management costs. Our services enable IT staff to administer, monitor and support workers, their applications, their data, and their computers and other Internet-enabled devices from a remote location. Businesses can easily set up our cloud-based services with little or no modification to the remote location s network or security systems and without the need for upfront technology or software investment. Additionally, our customers are often able to lower their support and management costs by performing their management-related tasks remotely, thereby reducing or eliminating the costs of on-site support and management.

Increased end-user and customer satisfaction. Our customers rely on our services to improve the efficiency and effectiveness of end-user support and customer service. Satisfaction with support and other customer engagement services is primarily measured by customer satisfaction, sales conversions, call-handling time and whether or not an issue is resolved on the first call. Our services enable helpdesk technicians, as well as customer service staff, to quickly and easily engage with users, gain access to and take control over a remote user s Internet-enabled device. Once connected, technicians can diagnose and resolve problems while interacting with and possibly training the end user. Technicians can also answer questions and resolve common dilemmas via web chat, email, SMS and even social channels, like Twitter.

Reliable, fast and secure service. Our cloud-based services are delivered by a common proprietary platform called Gravity, which is designed to ensure that our services are reliable, fast and secure. Gravity achieves redundancy by being physically hosted in seven geographically diverse data centers, four of which are located in the United States, one of which is located in the United Kingdom, one of which is located in Asia and one of which is located in Australia. Gravity transmits data directly between end-point devices, which helps us reduce our bandwidth related costs and enables our services to connect and manage devices at enhanced speeds. Gravity also utilizes industry standard security protocols and is designed to authenticate and authorize users of our services without storing passwords.

Easy to try, buy and use. Our services are simple to install, which allows our prospective customers to use our services within minutes of registering for a trial. Additionally, our low service-delivery costs and hosted delivery model allow us to offer each of our services at competitive prices and to offer flexible payment options.

Table of Contents

Our Business Strengths

We believe that the following strengths differentiate us from our competitors and are key to our success:

Large established user community. As of December 31, 2014, tens of millions of customers have connected hundreds of millions of Internet-enabled devices to our services. These users drive awareness of our services through personal recommendations, blogs, social media and other online communication methods and provide us with a significant audience to which we can market and sell premium services.

Efficient customer acquisition model. We believe our free products and our large installed user base help to generate word-of-mouth referrals, which in turn increases the efficiency of our paid marketing activities. Sales of our premium 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 marketing to our existing customer and user base. We believe this direct approach to acquiring new customers generates an attractive and predictable return on our sales and marketing expenditures.

Technology-enabled cost advantage. Our service delivery platform, Gravity, establishes secure connections over the Internet between devices and manages the direct transmission of data between them. This patented platform reduces our bandwidth and other infrastructure requirements, which we believe makes our services faster and less expensive to deliver. We believe this cost advantage allows us to offer free services and serve a broader user community than our competitors.

Online, cloud-based delivery. Delivering our services online via the cloud allows us to serve additional customers with little incremental expense and to deploy new applications and upgrades quickly and efficiently to our existing customers.

High recurring revenue and high transaction volumes. We sell a majority of our premium services on a monthly or annual subscription basis, which provides greater levels of recurring revenues and predictability compared to traditional perpetual license-based business models. Approximately 99% of our subscriptions have a one-year term. We believe that our sales model of a high volume of new and renewed subscriptions at low transaction prices increases the predictability of our revenues compared to perpetual licensed-based software businesses.

Growth Strategy

Our objective is to extend our position as a leading provider of essential cloud-based services for all Internet connected devices. To accomplish this, we intend to:

Acquire new customers. We acquire new customers through word-of-mouth referrals from our existing user community and from paid, online advertising designed to attract visitors to our website. We also encourage our website visitors to register for free trials of our premium services. We supplement our online efforts with email and other traditional marketing campaigns and by participating in trade events and web-based seminars. To increase our sales, we plan to continue to aggressively market our solutions and encourage trials of our services while expanding our sales force.

Increase sales to existing customers. We upsell and cross-sell our broad portfolio of services to our existing premium subscriber customer base. To further penetrate this base, we plan to continue to actively market our portfolio of services through e-commerce and by expanding our sales force.

Continue to expand our service portfolio. We intend to continue to invest in the development of new cloud-based connectivity services for businesses, IT service providers, consumers and mobile professionals.

Pursue strategic acquisitions. We pursue acquisitions that complement our existing business, represent a strong strategic fit and are consistent with our overall growth strategy. We also target future acquisitions to expand or add functionality and capabilities to our existing portfolio of services, as well as add new services to our portfolio.

Table of Contents

Expand internationally. We offer services in 12 different languages and our services are used in more than 240 countries. We believe there is a significant opportunity to increase our sales internationally. We intend to continue to expand our international sales and marketing personnel and increase our international marketing expenditures to take advantage of this opportunity.

Continue to build our user community. We grow our community of users by marketing our services through paid advertising that targets prospective customers who are seeking essential cloud connectivity services and by offering popular free services, like join me. This strategy improves the effectiveness of our online advertising by increasing our response rates when people seeking remote access, collaboration, customer engagement and data services conduct online searches. In addition, our large and growing community of users drives awareness of our services and increases referrals of potential customers and users.

Our Services

Our core cloud-based services can generally be categorized into four business lines based on customer needs and respective use cases.

Collaboration. Our collaboration business is comprised of services designed to make it easy for users to interact with and access the computers, devices, data and people that make up their digital world. These individual services are as follows:

join.me, *join.me pro* and *join.me enterprise* are our free and premium browser-based online meeting and screen sharing services that give users the ability to quickly and securely host an online meeting with other people. These services can be initiated through a visit to the *http://join.me* website, through a small downloadable desktop application or through mobile applications. The free version of *join.me* provides users with access to basic online meeting and collaboration tools such as file sharing, use of a dedicated VoIP conference line, remote control and in-meeting chat. Users who upgrade to *join.me pro* receive access to additional key features such as presenter swap, a scheduling tool, Google Calendar and Micosoft Outlook plugins, the ability to record and recap meetings, on-screen annotation tools and detailed session reporting. Users and businesses who upgrade to *join.me enterprise* receive additional account management, policy control and provisioning capabilities, as well as Salesforce.com integration.

Cubby Basic, Cubby Pro and *Cubby Enterprise* are our cloud-based file syncing, storage and sharing services that allow users to simply and securely share data and files with other people and across all of their Internet-enabled devices, such as smartphones, tablets and computers. All three services can be accessed and used via a web-browser, a downloadable desktop application and free mobile applications. Users can choose to replicate or sync any folder and its contents on their computer with any other computer, mobile device and the cloud, thereby ensuring that their data is available across all of their devices and accessible from virtually anywhere with an Internet connection. Files stored within a user s Cubby, or synced folder, can also be shared with other people by either sending read-only web links or by sending a direct message inviting others into a particular Cubby, for access to and collaboration around sets of files. Cubby utilizes the same encryption standards used by many banks to encrypt online banking transactions to ensure that data is secure and can only be decrypted using a combination of encryption keys maintained by LogMeIn and/or the owner of the Cubby account. *Cubby Basic* provides users with access to 5GB of free cloud storage space. *Cubby Pro* is a premium offering for individual users that extends the benefits of *Cubby Basic* through additional, personal security features, the ability to sync files and folders directly between two or more computers without using the cloud, and offers users the ability to purchase additional storage space. *Cubby Enterprise* is designed for use by teams or entire businesses. It contains all of the features of *Cubby Pro* in addition to multi-user data sharing and security, and administrative and management controls that be customized by IT professionals or other administrators.

LogMeIn Pro is our premium remote access service that provides secure access to a remote computer or other Internet-enabled device from any other Internet connected computer, as well as most modern smartphones and tablets. Once a Pro host is installed on a device, a user can quickly and easily access that

Table of Contents

device s desktop, files, applications and network resources remotely from their other Internet-enabled devices. *LogMeIn Pro* can be rapidly deployed and installed without the need for IT expertise. Users typically engage in a free trial prior to purchase.

Service and Support. The services that comprise our service and support business are used by external customer service and support organizations, online retail and web-based businesses, as well as IT outsourcers and internal IT departments to deliver online, cloud-based service and support to customers and their Internet-enabled devices. These services are as follows:

LogMeIn Rescue and *LogMeIn Rescue+Mobile* are our Web-based remote support and customer care services, which are used by helpdesk professionals to provide remote support via the Internet, without the need of pre-installed software. Using *LogMeIn Rescue*, support and service professionals can communicate with end users through an Internet chat window while diagnosing and repairing computer problems. If given permission by the computer user, the support professional can access, view or even take control of the end user s computer to take necessary support actions and to train the end user on the use of software and operating system applications. *LogMeIn Rescue+Mobile* is an add-on of *LogMeIn Rescue s* web-based remote support service that allows call center technicians and IT professionals to remotely access and support Blackberry, Symbian, iOS and Android smartphones and tablets. Technicians can send a text message directing users to download a small software application onto their mobile device, which, once installed, allows the technician to remotely access, control and troubleshoot the phone or tablet.

BoldChat is our Web-based live chat service that helps customer service staff, ranging from sales to pre-and-post sale support, to directly engage and provide assistance to visitors to their organization s website. Key features include real-time visitor monitoring, co-browsing, detailed reporting on chat activity and its overall effectiveness, the ability to define rules that automatically trigger the initiation of a chat window, the ability to route and distribute chats to improve efficiency and the ability to monitor and manage customer conversations on Twitter, email and via SMS messages. Our *BoldChat* service offerings range from a basic free offering to a fully-featured enterprise offering, with multiple pricing tiers based on the number of users and desired features.

IT Management. Our IT management business is comprised of services that are used by internal and external IT professionals to manage and secure remote computers and other Internet-enabled devices, automate common IT tasks, manage and secure sensitive data and help ensure the productivity of mobile workers.

LogMeIn Central is a web-based management console that helps IT professionals access, manage and monitor remote computers, deploy software updates and patches, automate IT tasks, and run hundreds of versions of antivirus software. *LogMeIn Central* is offered as a premium service and works in conjunction with either basic hosts, which are free, or managed hosts, which are an additional premium offering and are priced per computer.

Meldium is a password and identity management product designed to help IT professionals and knowledge workers securely manage, store and share login credentials to over 1,600 third party cloud and web-based applications. *Meldium* allows for simple security and provisioning for applications used by employees to help ensure access to work-based applications and related data can be granted or revoked as necessary by managers or IT professionals. *Meldium* is offered as a free product for individual use and is also sold as a premium product for team use.

AppGuru is an application management product designed to help IT professionals and IT service providers discover, provision and secure both company procured and employee procured cloud and/or Software-as-a-Service applications being used within the workplace. *AppGuru* works in conjunction with LogMeIn applications like *join.me* and *Cubby*, as well as dozens of popular third-party applications like Salesforce.com, Dropbox, Box and NetSuite.

Connected Products. Our connected product business is comprised solely of *Xively*, our Internet of Things cloud platform, which may be used by businesses to connect deploy, manage and support Internet connected products that lack a traditional operating system. The *Xively* platform provides the infrastructure needed to help businesses reduce the costs of, and accelerate the time-to-market for, new Internet-connected products, applications and customer services.

Table of Contents

Additional Service Offerings. In addition to the above-described core cloud-based services, we continue to offer the following legacy services:

RemotelyAnywhere is a LAN-based systems administration product used to manage personal computers and servers from within the IT system of an enterprise. Unlike our core cloud-based service offerings, *RemotelyAnywhere* is licensed to customers on a perpetual basis. We also offer annual maintenance services that include software upgrades and support services for this application.

LogMeIn Backup is a service that subscribers install on two or more computers to create a backup network and is generally sold as a complement to *LogMeIn Central* or *LogMeIn Pro* subscriptions. *LogMeIn Backup* provides IT service providers a simple backup alternative to offer their customers using storage capacity that they can control. Files can be stored on, and restored to, any PC that the subscriber chooses, using industry-standard encryption protocols for the transmission and storage of the data.

LogMeIn Hamachi is a hosted virtual private network, or VPN, service that establishes a computer network among remote computers. *LogMeIn Hamachi* typically works with existing network and firewall configurations and can be managed from a web browser or the user s software. Using *LogMeIn Hamachi*, users can securely communicate over the Internet as if their computers are on the same LAN, allowing for remote access and virtual networking. *LogMeIn Hamachi* is offered both as a free and paid service, with tiered pricing based on the number of devices connected in each network.

Sales and Marketing

Our sales and marketing efforts are designed to attract prospective customers to our website, enroll them in free trials of our services and convert them to and retain them as paying customers. We expend sales and marketing resources through a combination of paid and unpaid sources. We also invest in public relations to broaden the general awareness of our services and to highlight the quality and reliability of our services for specific audiences. We are constantly seeking and employing new methods to reach more users and to convert them to paid subscribers. For the twelve months ended December 31, 2012, 2013 and 2014, we spent $70.1 million, $88.8 million and $119.5 million, respectively, on sales and marketing.

New Account Sales. Our sales are typically preceded by a trial of one of our services, and 98% of our sales transactions are settled via credit card. Our sales operations team manages the processes, systems and procedures that determine whether or not a trial should be managed by a telephone-based sales representative or handled via our e-commerce sales process. As of December 31, 2014, we employed 164 telephone-based sales representatives to manage newly generated trials. In addition, a small sales and business development team concentrates on sales to larger organizations and the formulation of strategic technology partnerships that are intended to generate additional sales.

International Sales. We currently have sales teams located in Ireland, the United Kingdom, Asia, and Australia focusing on international sales. In the years ended December 31, 2012, 2013 and 2014, we generated approximately 35%, 34% and 33%, respectively, of our revenue outside of the United States. As of December 31, 2012, 2013 and 2014, approximately 37%, 23% and 28% of our long-lived assets were located outside of the United States.

Online Advertising. We advertise online through pay-per-click spending with search engines, banner advertising with online advertising networks and other websites and email newsletters likely to be frequented by our target consumers, SMBs and IT professionals.

Tradeshows and Events. We showcase our services at technology and industry-specific tradeshows and events. Our participation in these shows ranges from elaborate presentations in front of large groups to one-on-one discussions and demonstrations at manned booths. In 2014, we attended approximately 60 trade shows and events in the United States, Europe, Asia and Australia.

Offline Advertising. Our offline print advertising is comprised of publications targeted at IT professionals and consumers. We also sponsor advertorials in regional newspapers, which target IT consumers. Additionally, from time-to-time we have advertised using more traditional methods, such as outdoor advertising, in regional markets.

Table of Contents

Radio Advertising. Our radio advertising includes 30-second spots as well as radio program sponsorships, and is primarily conducted on satellite and Internet radio networks, with some select advertising on traditional FM and AM radio stations. Show, channel and program selection is based on our key target audiences, most notably IT professionals and knowledge workers.

Word-of-Mouth Referrals. We believe that we have developed a loyal customer and user base, and new customers frequently claim to have heard about us from a current LogMeIn user. Many of our users arrive at our website via word-of-mouth referrals from existing users of our services.

Direct Advertising Into Our User Community. We have a large existing user community comprised of both free users and paying customers. Users of most of our services come to our website each time they log-in to their account and we use this opportunity to promote additional premium services to them.

Social Media Marketing. We participate in online communities such as Twitter, Facebook, LinkedIn and YouTube for the purpose of marketing, public relations and customer service. Through these online collaboration sites, we actively engage our users, learn about their needs, and foster word-of-mouth by creating and responding to content about LogMeIn events, promotions, product news and user questions.

Web-Based Seminars. We offer free online seminars to current and prospective customers designed to educate them about the benefits of online collaboration, remote access, support and administration, particularly with LogMeIn, and guide them in the use of our services. We often highlight customer success stories and focus the seminar on common business problems and key market and IT trends.

Public Relations. We engage in targeted public relations programs, including issuing press releases announcing important company events and product releases, participating in interviews with reporters and analysts, both general and industry specific and by, attending panel and group discussions and speeches at industry events. We also register our services in awards competitions and encourage bloggers to comment on our products.

Our Infrastructure, Technology and Developments

LogMeIn Gravity Service Delivery Platform. The majority of our services are delivered via a common proprietary cloud connectivity and data platform called Gravity, which consists of software applications, customized databases and web servers. Gravity establishes secure connections over the Internet between remote computers and other Internet-enabled devices and manages the direct transmission of data between remotely connected devices. Gravity is designed to be scalable and serve our large user community at low costs by reducing our bandwidth and other infrastructure requirements, which we believe makes our services faster and less expensive to deliver than other competing services.

The infrastructure-related costs of delivering our services include bandwidth, power, server depreciation and co-location fees. Gravity transmits data using a combination of methods designed to relay data via our data centers and to transmit data over the Internet directly between end-point devices. During the twelve months ended December 31, 2014, more than 93% of the data transmitted by our services was transmitted directly between end-point devices, reducing our bandwidth and bandwidth-related costs.

Gravity also implements multiple layers of security. Our services utilize industry-standard security protocols for encryption and authentication. Access to a device through our services requires system passwords such as the username and password for Windows. We also add additional layers of security such as single-use passwords, IP address filtering and IP address lockout. For security purposes, Gravity does not save end-user passwords for devices.

Gravity is physically hosted in seven third-party co-location facilities located in the United States, Europe, Australia and Asia. Our goal is to maintain sufficient excess capacity such that any one of the data centers could fail and the remaining data centers could handle the service load without extensive disruption to our services. During the twelve months ended December 31, 2014, our Gravity service was available 99.99% of the time.

Research and Development. We have made and intend to continue making significant investments in research and development in order to continue to improve the efficiency of our service delivery platform,

Table of Contents

improve our existing services and bring new services to market. Our primary engineering organization is based in Budapest, Hungary, where the first version of our remote access service was developed. Approximately 43% of our employees, as of December 31, 2014, work in research and development. Research and development expenses totaled $26.4 million, $29.0 million and $33.5 million in the years ended December 31, 2012, 2013 and 2014, respectively.

Intellectual Property. Our intellectual property rights are important to our business. We rely on a combination of copyright, trade secret, trademark, patent and other rights in the United States and other jurisdictions, as well as confidentiality procedures and contractual provisions to protect our proprietary technology, processes and other intellectual property. We also have twelve issued patents and eleven patents pending and are in the process of filing additional patent applications that cover other features of our services.

We enter into confidentiality and other written agreements with our employees, customers, consultants and partners, and through these and other written agreements, we attempt to control access to and distribution of our software, documentation and other proprietary technology and other information. Despite our efforts to protect our proprietary rights, third parties may, in an unauthorized manner, attempt to use, copy or otherwise obtain and market or distribute our intellectual property rights or technology or otherwise develop products or services with the same functionality as our services. In addition, U.S. patent filings are intended to provide the holder with a right to exclude others from making, using, selling or importing in the United States the inventions covered by the claims of granted patents. If granted, our patents may be contested, circumvented or invalidated. Moreover, the rights that may be granted in those pending patents may not provide us with proprietary protection or competitive advantages, and we may not be able to prevent third parties from infringing these patents. Therefore, the exact effect of our pending patents, if issued, and the other steps we have taken to protect our intellectual property cannot be predicted with certainty.

Although the protection afforded by copyright, trade secret and trademark law, written agreements and common law may provide some advantages, we believe that the following factors help us maintain a competitive advantage:

- our large user and customer base;
- the technological skills of our research and development personnel;
- frequent enhancements to our services; and
- continued expansion of our proprietary technology.

LogMeIn is a registered trademark in the United States and in the European Union. We also hold a number of other trademarks and service marks identifying certain of our services or features of our services. We also have a number of trademark applications pending.

Competition

The market that we compete in is evolving, and we expect to face additional competition in the future. We believe that the key competitive factors in the market include:

- service reliability and security;
- ease of initial setup and use;
- fitness for use and the design of features that best meet the needs of the target customer;

the ability to support multiple device types and operating systems;

cost of customer acquisition;

product and brand awareness;

the ability to reach large fragmented groups of users;

cost of service delivery; and

pricing flexibility.

We believe that our large user base, efficient customer acquisition model and low service delivery costs enable us to compete effectively against our largest competitors, including Citrix s Online division and Cisco s WebEx division. Both companies offer hosted collaboration and remote access-based services. Both of these competitors attract new customers through traditional marketing and sales efforts, while we have primarily focused on building a large-scale community of users. We believe we reach significantly more users than Citrix and WebEx, which allows us to attract paying customers efficiently.

Certain of our solutions also compete with current or potential services offered by Adobe, Apple, Cisco/WebEx, Citrix, Google, IBM, TeamViewer, Splashtop, GFI, OKTA, BlueJeans, LivePerson, Dropbox, Box, SugarSync, Microsoft, Oracle and PTC. Some of our competitors may also offer, currently or in the future, lower priced, or even free, products or services that compete with our services, including, but not limited to, Symantec s pcAnywhere, Google s Chrome Remote Desktop and Microsoft s Remote Desktop, which comes bundled into most current versions of the Microsoft operating system.

Many of our actual and potential competitors enjoy greater name recognition, longer operating histories, more varied products and services and larger marketing budgets, as well as substantially greater financial, technical and other resources, than we do. In addition, we may also face future competition from new market entrants. We believe that our large user base, efficient customer acquisition model and low service delivery position us well to compete effectively in the future.

Available Information

Copies of the periodic reports that we file with the Securities and Exchange Commission, or SEC, such as our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and any other filings may be obtained by the public, free of charge, by visiting the Investors section of our website at *https://investor.logmein.com/sec.cfm*, as soon as reasonably practicable after they have been filed with the SEC, or by contacting our Investor Relations department at our office address listed above. Additionally, the SEC maintains copies of any materials that we may file with the SEC at the SEC s Public Reference Room at 100 F Street, NE, Room 1580, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site that contains periodic reports, proxy and information statements and other information regarding issuers that file electronically with the SEC at www.sec.gov. The contents of these websites are not incorporated into this filing. Further, our references to the URLs for these websites are intended to be inactive textual references only.

Employees

As of December 31, 2014, we had 804 full-time employees. None of our employees are represented by labor unions or covered by collective bargaining agreements. We consider our relationship with our employees to be good.

Segments

We have determined that we have one operating segment. For more information about our segments, see Note 2 to our Consolidated Financial Statements.

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 Annual Report or Form 10-K 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.

Table of Contents

RISKS RELATED TO OUR BUSINESS

We may be unable to maintain profitability.

We reported a net loss of $7.7 million for fiscal 2013, primarily due to patent litigation related expenses, and we reported net income of $8.0 million for the year ended December 31, 2014. However, given our operating history, we cannot be certain that we will be able 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.

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. 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.

For additional information please refer to Part I, Item 3 entitled Legal Proceedings and Note 11 of the Consolidated Financial Statements.

If the security of our customers confidential information stored in our systems is breached or otherwise subjected to unauthorized access, our reputation may be harmed, and we may be exposed to liability and a loss of customers.

Our systems store our customers confidential information, which may include credit card information, account and device information and other critical data. Any accidental or willful security breaches or other unauthorized access could expose us to liability for the loss of such information, time consuming and expensive litigation and other potential liabilities, as well as negative publicity. Many states have also enacted laws requiring companies to notify individuals of data security breaches involving their personal data. These mandatory disclosures regarding a security breach often lead to widespread negative publicity, which may cause our customers to lose confidence in the effectiveness of our data security measures.

Additionally, techniques used by computer hackers and cyber criminals to obtain unauthorized access or to sabotage systems change frequently and generally are difficult to recognize and react to. 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. 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.

Table of Contents

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 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.

Table of Contents

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.

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.

Our business strategy includes acquiring or investing in other companies, which may divert our management s attention, result in additional dilution to our stockholders and consume resources that are necessary to sustain our business.

Our business strategy includes acquiring complementary services, technologies or businesses. We also may enter into relationships with other businesses to expand our portfolio of services or our ability to provide our services in foreign jurisdictions, which could involve preferred or exclusive licenses, additional channels of distribution, discount pricing or investments in other companies. 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, these transactions, even if undertaken and announced, may not close.

An acquisition, investment or new business relationship may result in unforeseen operating difficulties and expenditures. In particular, we may encounter difficulties assimilating or integrating the businesses, technologies, products, personnel or operations of the acquired companies, particularly if the key personnel of the acquired company choose not to work for us, the company s software is not easily adapted to work with ours or we have difficulty retaining the customers of any acquired business due to changes in management or otherwise. Acquisitions may also disrupt our business, divert our resources and require significant management attention that would otherwise be available for development of our business. Moreover, the anticipated benefits of any acquisition, investment or business relationship may not be realized or we may be exposed to unknown liabilities. For one or more of those transactions, we may:

- issue additional equity securities that would dilute our stockholders;
- use cash 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;
- encounter difficulties retaining key employees of the acquired company or integrating diverse software codes or business cultures; and
- become subject to adverse tax consequences, substantial depreciation or deferred compensation charges.

Any of these risks could harm our business and operating results.

12

We expect that integrating an acquired company s operations may present challenges.

The integration of an acquired company requires, among other things, coordination of administrative, sales and marketing, accounting and finance functions and expansion of information and management systems. Integration may prove to be difficult initially due to the necessity of coordinating geographically separate organizations and integrating personnel with disparate business backgrounds and corporate cultures. We may not be able to retain key employees of an acquired company. Additionally, the process of integrating a new product or service may require a disproportionate amount of time and attention of our management and financial and other resources. Any difficulties or problems encountered in the integration of a new product or service could have a material adverse effect on our business.

The integration of an acquired company may cost more than we anticipate, and it is possible that we will incur significant additional unforeseen costs in connection with the integration that may negatively impact our earnings.

In addition, we may only be able to conduct limited due diligence on an acquired company s operations. Following an acquisition, 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.

Even if successfully integrated, there can be no assurance that our operating performance after an acquisition will be successful or will fulfill management s objectives.

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 may not be able to capitalize on potential emerging market opportunities 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 order to capitalize on potential emerging market opportunities that we have identified. If, despite our research and development efforts, we are not able to successfully develop new services or if we are not able to fully penetrate the emerging markets we have targeted, we may not be able to generate the revenue and earnings we anticipated and our business 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.

We host our services and serve all of our customers from seven 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.

Table of Contents

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 or an act of terrorism, or 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 data protection 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 data protection standards and have incorporated these standards into their contracts with us. If we fail to maintain our compliance with the data protection 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.

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 revenues 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.

Table of Contents

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.

Our services compete with large, established competitors like Citrix Systems, WebEx (a division of Cisco Systems), Microsoft, IBM, Apple, Google and Adobe. Certain of our services also compete with smaller competitors such as GFI, TeamViewer, Splashtop, OKTA, BlueJeans, LivePerson, Dropbox, BOX, SugarSync and PTC. 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 greater financial, technical and other resources. In addition, many of our competitors have established marketing relationships and access to larger customer bases, and have major distribution agreements with consultants, system integrators and resellers. If we are not able to compete effectively, 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.

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.

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 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;
- the timing of costs related to the development or acquisition of technologies, services or businesses;
- seasonal variations or other cyclicality 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 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, 2014. 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.

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 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 $138.8 million in 2012 to $166.3 million in 2013 and to $222.0 million in 2014. 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.

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.

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;

Table of Contents

- 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.

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 twelve issued patents and eleven 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 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.

Table of Contents

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;
- 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

Table of Contents

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.

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 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

Growth of our business may be adversely affected if businesses, IT support providers or consumers do not adopt remote access, support and collaboration solutions more widely.

Our services employ new and emerging technologies for remote access, support and collaboration. Our target customers may hesitate to accept the risks inherent in applying and relying on new technologies or methodologies to supplant traditional methods of remote connectivity. Our business will not be successful if our target customers do not accept the use of our remote access and remote support technologies.

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.

Prior to the completion of our initial public offering, or IPO, in July 2009, there was no public market for shares of our common stock. During the period from our IPO until February 13, 2015, our common stock has traded as high as $53.38 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;

Table of Contents

- 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 similar companies;
- announcements regarding changes to our current or planned products or services;
- success of competitive 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 services, contracts, acquisitions or strategic alliances;
- regulatory developments in the United States, foreign countries or both;
- litigation, including class action litigation, involving our company, our services, or our general industry, including 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

We do not expect to declare any dividends in the foreseeable future.

We do not anticipate declaring any cash dividends to holders of our common stock in the foreseeable future. Consequently, stockholders must rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize any future gains on the value of their shares of our common stock.

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;

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.

Table of Contents

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

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 1B. ***UNRESOLVED STAFF COMMENTS***

None.

ITEM 2. ***PROPERTIES***

As of February 20, 2015, our principal facilities consist of approximately 101,821 square feet of office space at our U.S. headquarters located at 320 Summer Street, Boston, MA 02210 and approximately 37,725 square feet of space at our development facility located in Hungary. In December 2014, we entered into a lease for additional office space in Boston, MA which consists of approximately 117,801 square feet of office space located at 333 Summer Street, Boston, MA 02210. We also have leased additional office space in San Francisco, California, Wichita, Kansas and in Hungary, Ireland, Australia, the United Kingdom and India. We believe our facilities are sufficient to support our needs through 2015 and that additional space will be available in the future on commercially reasonable terms as needed.

We lease space in third-party facilities from which we operate our seven data centers, four of which are located in the United States, one of which is located in Europe, one of which is located in Asia and one of which is located in Australia.

ITEM 3. ***LEGAL PROCEEDINGS***

On September 8, 2010, 01 Communique Laboratory, Inc., or 01, filed a complaint that named us as a defendant in a lawsuit in the U.S. District Court for the Eastern District of Virginia (Civil Action No. 1:10cv1007) alleging that we infringed U.S. Patent No. 6,928,479, or the 479 Patent, which is owned by 01 and has claims directed to a particular application or system for providing a private communication portal from one computer to a second computer. The complaint sought damages in an unspecified amount and injunctive relief. On April 1, 2011, the U.S. District Court for the Eastern District of Virginia granted our motion for summary judgment of non-infringement. The court issued a written order regarding this decision on May 4, 2011. On May 13, 2011, 01 filed a notice of appeal appealing the court s ruling granting summary judgment. On July 31, 2012, the U.S. Court of Appeals for the Federal Circuit vacated the lower court s summary judgment of non-infringement ruling and remanded the case back to the U.S. District Court for the Eastern District of Virginia with revised claim construction. The trial commenced on March 18, 2013 and on March 26, 2013, a jury in the Eastern District of Virginia found that our products do not infringe the 479 Patent as previously asserted by 01. The court issued a written order regarding this decision on April 2, 2013. On June 26, 2013, 01 filed a notice of appeal seeking to appeal the jury s non-infringement verdict. On June 9, 2014, the U.S. Court of Appeals for the Federal Circuit affirmed the jury s non-infringement verdict. On November 21, 2014, the U.S. District Court for the Eastern District of Virginia issued its final order, awarding costs to us, which 01 paid on December 3, 2014, formally concluding this matter.

On August 26, 2014, Sensory Technologies, LLC, or Sensory, filed a complaint against us in the U.S. District Court for the Southern District of Indiana (Case No. 1:14-cv-1406). The complaint, which was served upon us on August 27, 2014, alleges, among other things, that we have infringed upon Sensory s JOIN® trademark, which is registered to Sensory under U.S. Trademark Registration No. 3622883. The complaint seeks damages in an unspecified amount and injunctive relief. We believe we have meritorious defenses to the claims and intend to defend the lawsuit vigorously. Given the inherent unpredictability of litigation and the fact that this litigation is still in its early stages, we are unable to predict the outcome of this litigation or reasonably estimate a possible loss or range of loss associated with this litigation at this time.

Table of Contents

On August 28, 2014, a putative class action complaint was filed against us in the U.S. District Court for the Eastern District of California (Case No. 1:14-cv-01355) by an individual on behalf of himself and on behalf of all other similarly situated individuals, or collectively, the Plaintiffs. After we filed a motion to dismiss the complaint on January 30, 2015, the Plaintiffs filed an amended complaint on February 17, 2015. The amended complaint includes claims made under California s False Advertising Act and Unfair Competition Law and relates to the marketing and sale of our Ignition for iOS application, or the App, and the Plaintiffs continued use of the App. The Plaintiffs complaint seeks restitution, damages in an unspecified amount, attorneys fees and costs, and unspecified equitable and injunctive relief. We believe we have meritorious defenses to the claims and intend to defend the lawsuit vigorously. Given the inherent unpredictability of litigation and the fact that this litigation is still in its early stages, we are unable to predict the outcome of this litigation or reasonably estimate a possible loss or range of loss associated with this litigation at this time.

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 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 our results of operations or financial condition.

ITEM 4. ***MINE SAFETY DISCLOSURES***

None.

Table of Contents

PART II

ITEM 5. ***MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES***

Certain Information Regarding the Trading of Our Common Stock

Our common stock began trading under the symbol LOGM on the NASDAQ Global Select Market on July 1, 2009. Prior to that date, there was no established public trading market for our common stock. The following table sets forth, for the periods indicated, the high and low sale price per share of our common stock on the NASDAQ Global Select Market:

	High	Low
2013		
First Quarter	$ 24.51	$ 16.12
Second Quarter	$ 26.54	$ 16.74
Third Quarter	$ 32.29	$ 24.49
Fourth Quarter	$ 34.56	$ 29.25
2014		
First Quarter	$ 47.57	$ 31.08
Second Quarter	$ 47.69	$ 37.06
Third Quarter	$ 50.00	$ 39.06
Fourth Quarter	$ 53.38	$ 40.92

Holders of Our Common Stock

As of February 13, 2015, there were 10 holders of record of shares of our common stock.

Dividends

We have never declared or paid dividends on our common stock. We currently intend to retain any future earnings to finance our research and development efforts, improvements to our existing services, the development of our proprietary technologies and the expansion of our business. We do not intend to declare or pay cash dividends on our capital stock in the foreseeable future. Any future determination to pay dividends will be at the discretion of our board of directors and will depend upon a number of factors, including our results of operations, financial condition, future prospects, contractual restrictions, restrictions imposed by applicable law and other factors our board of directors deems relevant.

Recent Sales of Unregistered Securities; Use of Proceeds from Registered Securities

(a) Recent Sales of Unregistered Securities

We did not sell any unregistered securities during the year ended December 31, 2014.

Securities Authorized for Issuance Under Equity Compensation Plans

Information regarding our equity compensation plans and the securities authorized for issuance thereunder is set forth herein under Part III, Item 12 below.

Table of Contents

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)
October 1, 2014 October 31, 2014	57,500	$ 44.58	57,500	82,323,944
November 1, 2014 November 30, 2014	67,901	49.99	67,901	78,929,805
December 1, 2014 December 31, 2014	90,330	49.82	90,330	74,429,151
Total	215,731	$ 48.48	215,731	

(1) Effective October 20, 2014, our board of directors approved a new $75 million share repurchase program, which is in addition to our existing $50 million share repurchase program which had been approved on August 13, 2013. 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 year ended December 31, 2014, we repurchased 843,574 shares of our common stock.

Table of Contents

Stock Performance Graph

The following graph compares the cumulative total return to stockholders for our common stock for the period from July 1, 2009, the effective date of our initial public offering, through December 31, 2014 against the NASDAQ Composite Index and the NASDAQ Computer and Data Processing Index.

The comparison assumes $100.00 was invested in our common stock, the NASDAQ Composite Index and the NASDAQ Computer and Data Processing Index and assumes reinvestment of dividends, if any. The graph assumes the initial value of our common stock on July 1, 2009 was the closing sale price on that day of $20.02 per share and not the initial offering price to the public of $16.00 per share. The stock performance on the graph below is not necessarily indicative of future price performance.

This performance graph shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or the Exchange Act, or incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

Table of Contents

ITEM 6. ***SELECTED FINANCIAL DATA***

You should read the following selected financial data together with our consolidated financial statements and the related notes appearing at the end of this Annual Report on Form 10-K and the Management s Discussion and Analysis of Financial Condition and Results of Operations section of this Annual Report on Form 10-K. Our historical results for any prior period are not necessarily indicative of results to be expected in any future period.

	Years Ended December 31,				
	2010	2011	2012	2013	2014
	(In thousands, except for per share data)				
Consolidated Statement of Operations Data:					
Revenue	$ 101,057	$ 119,461	$ 138,837	$ 166,258	$ 221,956
Cost of revenue(1)	9,124	10,574	14,504	18,816	28,732
Gross profit	91,933	108,887	124,333	147,442	193,224
Operating expenses:					
Research and development(1)	15,214	20,780	26,361	29,023	33,516
Sales and marketing(1)	45,869	57,156	70,058	88,794	119,508
General and administrative(1)	12,319	19,975	21,338	29,181	30,526
Legal settlements		1,250		1,688	
Amortization of acquired intangibles(1)	338	228	565	682	987
Total operating expenses	73,740	99,389	118,322	149,368	184,537
Income (loss) from operations	18,193	9,498	6,011	(1,926)	8,687
Interest income, net	634	862	887	547	602
Other (expense) income	(219)	(565)	(641)	(89)	105
Income (loss) before income taxes	18,608	9,795	6,257	(1,468)	9,394
Benefit from (provision for) income taxes	2,491	(4,034)	(2,691)	(6,214)	(1,439)
Net income (loss)	$ 21,099	$ 5,761	$ 3,566	$ (7,682)	$ 7,955
Net income (loss) per share:					
Basic	$ 0.91	$ 0.24	$ 0.14	$ (0.32)	$ 0.33
Diluted	$ 0.85	$ 0.23	$ 0.14	$ (0.32)	$ 0.31
Weighted average shares outstanding:					
Basic	23,244	24,176	24,711	24,351	24,385
Diluted	24,840	25,155	25,356	24,351	25,386

Table of Contents

(1) Includes stock-based compensation expense and intangible amortization expense as indicated in the following table:

	Years Ended December 31, 2010	2011	2012 (In thousands)	2013	2014
Cost of revenue:					
Stock-based compensation	$ 261	$ 316	$ 484	$ 706	$ 1,107
Intangible amortization	251	566	1,552	1,820	3,959
Research and development:					
Stock-based compensation	638	1,477	2,826	3,761	3,653
Sales and marketing:					
Stock-based compensation	1,553	2,700	4,962	7,242	9,033
General and administrative:					
Stock-based compensation	2,540	4,432	6,520	8,005	10,976
Amortization of acquired intangibles:					
Intangible amortization	338	228	565	682	987

	As of December 31, 2010	2011	2012 (In thousands)	2013	2014
Consolidated Balance Sheet Data:					
Cash and cash equivalents and short-term marketable securities	$ 167,424	$ 198,644	$ 212,092	$ 189,556	$ 201,169
Total assets	186,677	232,057	279,538	279,613	317,849
Deferred revenue, including long-term portion	42,793	58,264	69,649	85,163	105,250
Total liabilities	56,299	76,251	94,901	112,274	144,005
Total equity	130,378	155,806	184,637	167,339	173,844

Table of Contents

ITEM 7. ***MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS***

You should read the following discussion and analysis of our financial condition and results of operations together with our consolidated financial statements and the related notes and other financial information included elsewhere in this Annual Report on Form 10-K. Some of the information contained in this discussion and analysis or set forth elsewhere in this Annual Report on Form 10-K, including information with respect to our plans and strategy for our business and related financing, includes forward-looking statements that involve risks and uncertainties. You should review the Risk Factors section of this Annual Report on Form 10-K for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.

Overview

LogMeIn 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. Our services free millions of people to work from virtually anywhere on any Internet enabled device, empower IT professionals to securely embrace today s mobile and cloud-centric workplace, transform how companies engage and support their customers, and help businesses bring the next generation of connected products to market. These services range from free downloadable mobile and web-based collaboration apps to enterprise grade professional helpdesk solutions to a cloud-based platform for the Internet of Things, all of which are accessible from anywhere with an Internet connection.

We offer both free and fee based, or premium, services. Sales of our premium services are generated through word-of-mouth referrals, web-based advertising, online search, off-line 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 Xively 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 services for which our paying customers subscribe. For the year ended December 31, 2014, we generated revenues of $222.0 million, compared to $166.3 million for the year ended December 31, 2013, an increase of approximately 34%.

Through December 31, 2014, we have primarily funded our operations through the sale of common stock in connection with our initial and secondary offerings which resulted in proceeds of $85.7 million, the sale of redeemable convertible preferred stock which resulted in proceeds of approximately $27.8 million and cash flows from operations. We earned net income of $3.6 million for 2012, incurred a net loss of $7.7 million for 2013, and earned net income of $8.0 million for 2014. We expect to continue making significant future expenditures to develop and expand our business.

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 Annual Report on Form 10-K.

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.

Table of Contents

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 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 Xively 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 twelve months ended December 31, 2014, our gross annualized renewal rate was approximately 80%. We calculate our gross renewal rate on an annualized dollar basis across all product lines as of the end of each period. 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.

Employees

We have increased our number of full-time employees to 804 at December 31, 2014 as compared to 613 at December 31, 2013.

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, telecommunication, hosting fees, hardware and software maintenance costs and depreciation associated with our data centers, and contingent bonus expense related to the Ionia acquisition (see Note 4 to the 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 driven by our investment and efforts to support the growth of our Xively 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 operations and customer support centers to support the growth of our customer base and as we expand our professional services team.

Research and Development. Research and development expenses consist primarily of wages and benefits for development personnel, rent expense primarily related to our offices in Hungary, 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 Europe. Therefore, a majority of research and development expense is subject to fluctuations in foreign exchange rates. We capitalized approximately $0.7 million, $1.2 million and $2.1 million for the years ended December 31, 2012, 2013 and 2014, respectively, of costs related to internally developed computer software to be sold as a service, which was 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 and credit card processing fees. 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 tradeshows, including the costs of space at tradeshows 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 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. We expect general and administrative expenses related to personnel, recruiting, internal information systems, audit, accounting and insurance costs will increase in absolute dollars but remain relatively constant as a percentage of revenue as we continue to support the growth of our business. We also expect to incur increased litigation-related expenses in connection with our defense against the legal claims described in Part I, Item 3 and Note 11 to the Consolidated Financial Statements.

Critical Accounting Policies

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. 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 summarized below. See Note 2 to the Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K for additional information about these critical accounting policies, as well as a description of our other significant accounting policies.

Revenue Recognition. We derive our revenue primarily from subscription fees related to our premium services and to a lesser extent, the delivery of professional services, primarily related to our Xively business.

Revenue from our premium subscription 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. Our 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.

We currently only offer free versions of our iPhone, iPad and Android software products. We had formerly sold these iPhone, iPad and Android software products as perpetually licensed software, the revenue from which was recognized when there was persuasive evidence of an arrangement, the product had been provided to the customer, the collection of the fee was probable, and the amount of the fees to be paid by the customer was fixed and determinable.

Our multi-element arrangements typically include subscription and professional services, which may include development services. We evaluate 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, we have determined that the deliverables within these arrangements qualify for treatment as separate units of accounting. Accordingly, we recognize 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 the revenue recognition criteria have been met. In cases where we have determined that the delivered items within our 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 the revenue recognition criteria have been met.

Income Taxes. We are subject to federal, state, and foreign income taxes for jurisdictions in which we operate, and we use estimates in determining our provision for these income taxes and deferred tax assets. Deferred tax assets, related valuation allowances, current tax liabilities and deferred tax liabilities are determined separately by tax jurisdiction. In making these determinations, we estimate deferred tax assets, current tax liabilities and deferred tax liabilities, and we assess temporary differences resulting from differing treatment of items for tax and accounting purposes. At December 31, 2013 and 2014, our deferred tax assets consisted primarily of net operating losses and stock compensation expense. We assess the likelihood that deferred tax assets will be realized, and we recognize a valuation allowance if it is more likely than not that some portion of the deferred tax assets will not be recognized. This assessment requires judgment as to the likelihood and amounts of future taxable income by tax jurisdiction. During 2012, we reassessed the need for a valuation allowance against our deferred tax assets related to our Xively subsidiary and concluded that we would be able to realize the deferred tax assets as a result of future profitability. Accordingly, we reversed the valuation allowance related to our Xively subsidiary of approximately $677,000 during the year ended December 31, 2012. As of December 31, 2013 and 2014, we maintained a full valuation allowance against the deferred tax assets of our Hungarian subsidiary. This entity has historical losses and we concluded it was not more likely than not that these deferred tax assets are realizable.

We evaluate our uncertain tax positions based on a determination of whether and how much of a tax benefit we have taken in our 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. As of December 31, 2013 and 2014, we provided a liability of approximately $304,000 and $652,000, respectively for uncertain tax positions. Although we believe that our tax estimates are reasonable, the ultimate tax determination involves significant judgment that is subject to audit by tax authorities in the ordinary course of business.

Goodwill and acquired intangible assets. We record goodwill as the excess of the acquisition price over the fair value of the net tangible and identifiable intangible assets acquired. We do not amortize goodwill, but instead perform an annual impairment test of goodwill or whenever events and circumstances indicate that the carrying amount of goodwill may exceed its fair value. We operate as a single operating segment with one reporting unit and consequently evaluate goodwill for impairment based on an evaluation of the fair value of the Company as a whole. As of December 31, 2014, our fair value as a whole significantly exceeds our carrying value. We continuously monitor our intangible assets for indicators of impairment. If an indicator exists, we compare the undiscounted expected future cash flows from the intangible asset to its carrying value. If the carrying value exceeds the undiscounted, expected cash flows, we record an impairment based on the difference between the carrying value and determined fair value. Projected future cash flows are an estimate made by management which based on their nature include risks and uncertainties, primarily related to acceptance of

Table of Contents

products in the marketplace. To the extent that estimates of cash flows do not come to fruition, future impairments of intangible assets may be required. No material impairments have been recorded through December 31, 2014.

We record intangible assets at their respective 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, which range from four months to eight years.

Stock-Based Compensation. We value all stock-based compensation, including grants of stock options and restricted stock units, at fair value on date of grant and expense the fair value over the applicable service period.

The assumptions used in determining the fair value of share-based awards represent management s best estimates, but these estimates involve inherent uncertainties and the application of management s judgment. As a result, if factors change, and we use different assumptions, our share-based compensation could be materially different in the future. The risk-free interest rate used for each grant is based on a U.S. Treasury instrument with a term similar to the expected term of the share-based award. The expected term of stock options has been estimated utilizing the vesting period of the option, the contractual life of the option and our option exercise history. We estimate the expected volatility of our common stock at the date of grant based on the historical volatility of comparable public companies over the option s expected term as well as our own stock price volatility since our IPO.

Restricted stock units with time-based vesting conditions are valued on the grant date using the grant date closing price of our common stock. Restricted stock units with market-based vesting conditions are valued using a Monte Carlo simulation model. The number of shares expected to be earned, based on market conditions, is factored into the grant date Monte Carlo valuation for the awards. The grant date fair value is not subsequently adjusted regardless of the eventual number of shares that are earned based on the market condition.

We recognize compensation expense for only the portion of share-based awards that are expected to vest. Accordingly, we have estimated expected forfeitures of share-based awards based on our historical forfeiture rate and we use these rates to develop future forfeiture rates. If our actual forfeiture rate varies from our historical rates and estimates, additional adjustments to compensation expense may be required in future periods. Past fair value of share-based awards grants may not be a reliable indicator of future fair values as assumptions such as volatility may change over time.

Loss Contingencies. We have been involved in various legal claims and legal proceedings and may be subject to additional legal claims and proceedings in the future that arise in the ordinary course of business. We consider the likelihood of a loss or the incurrence of a liability, as well as our ability to reasonably estimate the amount of loss, in determining loss contingencies. An estimated loss contingency is accrued when we believe that it is both probable that a liability has been incurred and the amount of loss can be reasonably estimated. Significant judgment is required to determine both probability and the estimated amount. We regularly evaluate current information available and reflect the impact of negotiations, settlements, rulings, advice of legal counsel, and updated information to determine whether such accruals should be adjusted and whether new accruals are required and update our disclosures accordingly. Litigation is inherently unpredictable and is subject to significant uncertainties, some of which are beyond our control. Should any of these estimates and assumptions change or prove to have been incorrect, it could have a material adverse effect on our results of operations, financial position and cash flows. See Note 11 to the Consolidated Financial Statements for a further discussion of litigation and contingencies as well as Legal Proceedings in Part I, Item 3.

Table of Contents

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.

	Years Ended December 31, 2012	2013	2014
Operations Data:			
Revenue	100%	100%	100%
Cost of revenue	10	11	13
Gross profit	90	89	87
Operating expenses:			
Research and development	19	18	15
Sales and marketing	51	53	54
General and administrative	15	18	14
Legal settlements		1	
Amortization of acquired intangibles			
Total operating expenses	85	90	83
Income (loss) from operations	5	(1)	4
Interest and other income (expense), net			
Income (loss) before income taxes	5	(1)	4
Provision for income taxes	(2)	(4)	
Net income (loss)	3%	(5)%	4%

Years Ended December 31, 2013 and 2014

Revenue. Revenue increased $55.7 million, or 34%, from $166.3 million for the year ended December 31, 2013 to $222.0 million for the year ended December 31, 2014. The majority of the increase was attributable to an increase in revenue from new customers, as our total number of subscribers increased significantly during the period. The increase in revenue from new customers and in our total number of subscribers was attributable to continued increased sales of join.me pro, our premium collaboration service, and our strategic decision to discontinue offering LogMeIn Free, our free remote access service, to instead focus our marketing spend and efforts on our faster growing free services, specifically join.me. As a result of this change, we experienced significant growth in total sales and total subscribers as former LogMeIn Free users transitioned to either our premium remote access service, LogMeIn Pro, or our premium IT management product, LogMeIn Central. We believe that the majority of those LogMeIn Free users who would have converted to LogMeIn Pro or LogMeIn Central subscribers have already converted at this time.

Cost of Revenue. Cost of revenue increased $9.9 million from $18.8 million for the year ended December 31, 2013 to $28.7 million for the year ended December 31, 2014. As a percentage of revenue, cost of revenue was 11% and 13% for the years ended December 31, 2013 and 2014, respectively. The increase in absolute dollars was primarily due to a $2.5 million increase in contingent retention-based bonuses incurred in connection with the Ionia acquisition (see Note 4 to the Consolidated Financial Statements). The increase was also due to a $2.1 million increase in amortization expense related to a software asset purchased in November 2013, a $1.9 million increase in personnel-related costs, including salary, wages, bonus and benefits and tax, recruiting and relocation expense, as we retained professional services employees from the Ionia acquisition and increased the number of customer support employees to support our overall growth, a $1.9 million increase in hosting costs

Table of Contents

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, a $1.0 million increase in consulting fees, and a $0.1 million increase in hardware and software maintenance costs. 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 $4.5 million, or 15%, from $29.0 million for the year ended December 31, 2013 to $33.5 million for the year ended December 31, 2014. As a percentage of revenue, research and development expenses were 18% and 15% for the years ended December 31, 2013 and 2014, respectively. The increase in absolute dollars was primarily due to a $3.7 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 and a $1.0 million increase in contingent bonus expense related to the Meldium acquisition (see Note 4 to the Consolidated Financial Statements). The increase was also due to a $0.6 million increase in travel-related costs, a $0.4 million increase in hardware and software maintenance costs, a $0.3 million increase in consulting fees, and a $0.2 million increase in rent expense. These amounts were offset by a $1.1 million decrease in contingent bonus expense related to the Xively and Bold acquisitions as the final contingent bonus payments were earned and paid in July 2013 and January 2014, respectively, and a $0.8 million increase in costs related to internally developed computer software to be sold as a service, which were incurred during the application development stage and therefore capitalized rather than expensed.

Sales and Marketing Expenses. Sales and marketing expenses increased $30.7 million, or 35%, from $88.8 million for the year ended December 31, 2013 to $119.5 million for the year ended December 31, 2014. As a percentage of revenue, sales and marketing expenses were 53% and 54% for the years ended December 31, 2013 and 2014. The increase in absolute dollars was primarily due to a $12.8 million increase in personnel-related and recruiting costs, including salary, wages, commissions, bonus, and benefits and taxes, from the hiring of additional employees to support our growth in sales and expand our marketing efforts and a $10.8 million increase in marketing program costs. Included in the increase in personnel-related and recruiting costs is a $1.8 million increase in stock-based compensation expense. The total increase in sales and marketing expense was also due to a $1.9 million increase in credit card transaction fees related to an increase in e-commerce sales, a $1.8 million increase in consulting fees, a $1.1 million increase in travel-related and department meeting costs, a $0.8 million increase in rent expense, a $0.4 million increase in hardware and software maintenance costs, and a $0.3 million increase in telecommunications expense.

General and Administrative Expenses. General and administrative expenses increased $1.3 million, or 5%, from $29.2 million for the year ended December 31, 2013 to $30.5 million for the year ended December 31, 2014. As a percentage of revenue, general and administrative expenses were 18% and 14% for the years ended December 31, 2013 and 2014, respectively. The increase in absolute dollars was primarily due to a $4.3 million increase in personnel-related and recruiting costs, including salary, wages, bonus, and benefits and taxes, as we increased the number of general and administrative employees to support our overall growth. Included in the increase in personnel-related and recruiting costs is a $3.0 million increase in stock-based compensation expense. The total increase in general and administrative expense was also due to a $0.7 million increase in legal fees, $0.4 million increase in audit and accounting fees, a $0.3 million increase in consulting fees, a $0.2 million increase in rent expense, a $0.1 million increase in hardware and software maintenance costs, a $0.1 million increase in depreciation expense, a $0.1 million increase in telecommunications expense, and a $0.1 million increase in travel related costs. These amounts were offset by a $5.3 million decrease in litigation related costs, which had been primarily related to our defense against the patent infringement claims made by 01 Communique.

Legal Settlement Expenses. Legal settlement expenses were $1.7 million for the year ended December 31 2013 and were primarily associated with the Pragmatus License Agreement in April 2013 (see Note 11 to the Consolidated Financial Statements). We did not incur legal settlement expenses for the year ended December 31, 2014.

Amortization of Acquired Intangibles. Amortization of acquired intangibles increased $0.3 million, or 45% from $0.7 million for the year ended December 31, 2013 to $1.0 million for the year ended December 31, 2014. The increase in amortization of acquired intangibles for the year ended December 31, 2014 is primarily related to the intangible assets acquired in the Ionia acquisition in March 2014.

Interest and Other Income (Expense), Net. Interest and other income (expense), net was income of approximately $0.5 million and $0.6 million for the years ended December 31, 2013 and 2014, respectively. The increase was primarily related to an increase in foreign currency gains and an increase in interest income earned on marketable securities.

Income Taxes. We recorded a provision for federal, state and foreign income taxes of approximately $6.2 million for the year ended December 31, 2013, on a loss before income taxes of $1.5 million as a result of income generated in the United States offset by losses incurred in certain foreign jurisdictions where there is no corresponding benefit. For the year ended December 31, 2014, we recorded a tax provision for income taxes of approximately $1.4 million on profit before taxes of $9.4 million resulting in an effective tax rate of approximately 15%. Our effective tax rate is 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.

Net (Loss) Income. We recognized a net loss of $7.7 million for the year ended December 31, 2013 compared to net income of $8.0 million for the year ended December 31, 2014.

Years Ended December 31, 2012 and 2013

Revenue. Revenue increased $27.4 million, or 20%, from $138.8 million for the year ended December 31, 2012 to $166.3 million for the year ended December 31, 2013. The majority of the increase was due to an increase in revenue from new subscribers to our premium services, as our total number of subscribers increased from approximately 462,000 subscribers at December 31, 2012 to approximately 577,000 subscribers at December 31, 2013, and incremental add-on revenues from our existing customer base. This increase in new subscribers was driven in part by significant growth in new sales in join.me, our collaboration product and by a business model change that required users with LogMeIn Free installed on more than ten host computers to purchase a Central subscription.

Cost of Revenue. Cost of revenue increased $4.3 million, or 30%, from $14.5 million for the year ended December 31, 2012 to $18.8 million for year ended December 31, 2013. As a percentage of revenue, cost of revenue was 10% and 11% for the years ended December 31, 2012 and 2013, respectively. The increase in absolute dollars was primarily a result of an increase in both the number of customers using our premium services and the total number of devices that connected to our services, including devices owned by free users, which resulted in increased hosting and customer support costs. The costs associated with managing our data centers and the hosting of our services increased by $3.5 million in the year ended December 31, 2013 compared to the year ended December 31, 2012 due to the expansion of our data center capacity. The total increase in cost of revenue was also due to a $0.4 million increase in rent expense.

Research and Development Expenses. Research and development expenses increased $2.7 million, or 10%, from $26.4 million for the year ended December 31, 2012 to $29.0 million for the year ended December 31, 2013. As a percentage of revenue, research and development expenses were 19% and 18% for the years ended December 31, 2012 and 2013, respectively. The increase in absolute dollars was primarily due to a $2.4 million increase in personnel-related costs from the hiring of additional employees to improve the ease of use and functionality of our existing services and develop new service offerings. Included in the increase in personnel-related costs is a $3.9 million increase in salary, wages, bonus and benefits and tax expense and a $0.9 million increase in stock-based compensation. This was offset by a $1.8 million decrease in contingent bonus expense related to the Xively and Bold acquisitions and a $0.5 million increase in costs related to internally developed software to be sold as a service, which was incurred during the application development stage and therefore capitalized rather than expensed. The total increase in research and development expenses was also due to a $0.1 million increase in department meeting expenses and a $0.1 million increase in rent expense.

Sales and Marketing Expenses. Sales and marketing expenses increased $18.7 million, or 27%, from $70.1 million for the year ended December 31, 2012 to $88.8 million for the year ended December 31, 2013. As a percentage of revenue, sales and marketing expenses were 51% and 53% for the years ended December 31, 2012 and 2013. The increase in absolute dollars was primarily due to a $9.0 million increase in personnel-related costs, including salary, wages, commissions, bonus and benefits and tax expense, from the hiring of additional employees

Table of Contents

to support our growth in sales and expand our marketing efforts. Included in the increase in personnel-related costs is a $2.3 million increase in stock-based compensation. The total increase in sales and marketing expenses was also due to a $5.2 million increase in marketing program costs, a $1.7 million increase in rent expense, a $0.9 million increase in professional fees, a $0.7 million increase in credit card transaction fees, a $0.6 million increase in department meeting expenses and a $0.5 million increase in hardware and software maintenance costs.

General and Administrative Expenses. General and administrative expenses increased $7.8 million, or 37%, from $21.3 million for the year ended December 31, 2012 to $29.2 million for the year ended December 31, 2013. As a percentage of revenue, general and administrative expenses were 15% and 18% for the years ended December 31, 2012 and 2013, respectively. The increase in absolute dollars was primarily due to a $4.3 million increase in legal costs associated with our defense against the patent infringement claims made by 01 Communique. The increase was also a result of a $3.4 million increase in personnel-related costs, including salary, wages, bonus and benefits and tax expense, as we increased the number of general and administrative employees to support our overall growth. Included in the increase in personnel-related costs is a $1.5 million increase in stock-based compensation.

Legal Settlement Expenses. Legal settlement expenses for the year ended December 31, 2013 were $1.7 million compared to $0 million for the year ended December 31, 2012. Legal settlement expenses for the year ended December 31, 2013 were associated with patent litigation related expenses (see Note 11 to the Consolidated Financial Statements).

Amortization of Acquired Intangibles. Amortization of acquired intangibles increased $0.1 million, or 21% from $0.6 million for the year ended December 31, 2012 and $0.7 million for the year ended December 31, 2013. As a percentage of revenue, amortization of acquired intangibles were 0% for both the years ended December 31, 2012 and 2013. The amortization of acquired intangibles for the years ended December 31, 2012 and 2013 related primarily to intangible assets acquired as part of our January 2012 acquisition of Bold. The $0.1 million increase in amortization of acquired intangibles is primarily related to an increase in amortization of domain names.

Interest and Other Income, Net. Interest and other income, net was income of approximately $0.2 million and $0.5 million for the years ended December 31, 2012 and 2013, respectively. The increase in income was primarily related to a decrease in foreign currency losses offset by a decrease in interest income earned on marketable securities.

Income Taxes. We recorded a provision for federal, state and foreign income taxes of approximately $2.7 million and $6.2 million for the years ended December 31, 2012 and 2013, respectively. The increase in the tax provision recorded in the year ended December 31, 2013 is primarily the result of increased taxable income in the United States, while certain foreign jurisdictions incurred losses without a related tax benefit. Our effective tax rate for the year ended December 31, 2013 was impacted by these foreign losses and by permanent differences related to certain non-deductible stock-based compensation. In the future, we expect our effective tax rate to return to historical levels as our foreign losses decrease.

Net Income (Loss). For the year ended December 31, 2013, revenue increased $27.4 million while cost of revenue increased $4.3 million, operating expenses increased $31.0 million, interest and other income increased $0.2 million, and our tax provision increased $3.5 million, resulting in a $11.2 million decrease in net income.

The $27.4 million increase in revenue is primarily due to an increase in revenue from new customers and add-on revenues from our existing customer base.

The $4.3 million increase in cost of revenue is primarily due to a $3.5 million increase in costs to manage our data centers and the hosting of our services and a $0.4 million increase in rent expense.

The $31.0 million increase in operating expenses is primarily due to a $16.9 million increase in personnel-related costs, including salary, wages, commissions, bonus and benefits and tax expense. Included in the increase in personnel-related costs is a $4.7 million increase in stock-based compensation. The increase in operating expenses were also due to a $6.0 million increase in patent litigation related expenses, a $5.2 million increase in marketing programs, a $2.3 million increase in rent related costs, a $0.8 million increase in consulting fees, a $0.7 million increase in department meeting expenses, a $0.7 million increase in credit card transaction fees, a

Table of Contents

$0.4 million increase in hardware and software maintenance costs and a $0.3 million increase in depreciation expense. These were offset by a $1.9 million decrease in acquisition related costs and amortization and a $0.3 million decrease in legal fees.

The $3.6 million increase in our tax provision is primarily due to a provision for federal, state, and foreign income taxes of $2.7 million for the year ended December 31, 2012, compared to a provision of $6.2 million for the year ended December 31, 2013.

Liquidity and Capital Resources

The following table sets forth the major sources and uses of cash for each of the periods set forth below:

	Years Ended December 31,		
	2012	2013	2014
		(In thousands)	
Net cash provided by operations	$ 28,257	$ 30,020	$ 74,153
Net cash used in investing activities	(29,800)	(24,368)	(32,942)
Net cash provided by (used in) financing activities	9,228	(28,648)	(24,288)
Effect of exchange rate changes	643	321	(5,220)
Net increase (decrease) in cash	$ 8,328	$ (22,675)	$ 11,703

At December 31, 2014, our principal source of liquidity was cash and cash equivalents and short-term marketable securities totaling $201.2 million. As of December 31, 2014, $52.7 million of the $201.2 million of cash and cash equivalents and short-term marketable securities was held by our foreign subsidiaries. If the undistributed earnings of our foreign subsidiaries are needed for our operations in the United States, we would be required to accrue and pay U.S. taxes upon repatriation. Our current plans are not expected to require repatriation of cash and investments to fund our U.S. operations and, as a result, we intend to indefinitely reinvest our foreign earnings to fund our foreign subsidiaries.

Cash Flows From Operating Activities

Net cash provided by operating activities was $28.3 million, $30.0 million, and $74.2 million for the years ended December 31, 2012, 2013, and 2014, respectively.

Net cash inflows from operating activities during the year ended December 31, 2012 were mainly attributable to a $11.0 million increase in deferred revenue associated with the increase in subscription sales orders and customer growth. Net cash inflows from operating activities were also attributable to non-cash operating expenses, including $14.8 million for stock compensation, $6.1 million for depreciation and amortization, offset by a $6.6 million income tax benefit from the exercise of stock options and a $0.8 million benefit from deferred income taxes. The increase in net cash inflows from operating activities were also attributable to a $7.4 million increase in accounts payable and accrued expenses, offset by a $4.5 million increase in accounts receivable, a $1.1 million increase in prepaid expenses and other current assets and a $1.3 million increase in other assets.

Net cash inflows from operating activities during the year ended December 31, 2013 were mainly attributable to a $14.5 million increase in deferred revenue associated with upfront payments received from our customers for services. The net cash inflows from operating activities were also attributable to a $3.5 million increase in accrued expenses, offset by a $3.8 million increase in other assets, a $3.0 million increase in prepaid expenses and other current assets and a $2.2 million decrease in accounts payable. The increase in accrued expenses is primarily driven by a $1.9 million increase in accrued marketing programs and a $1.7 million increase in payroll and payroll related costs. The increase in other assets is primarily driven by a $1.9 million increase in prepaid tax and a $1.8 million increase in long-term prepaid rent for our Boston office. The increase in prepaid expense and other current assets is primarily related to a $3.0 million increase in prepaid taxes. Additionally, included in net cash inflows from operating activities are add-backs of non-cash expense items, including $19.7 million for stock compensation, $7.7 million for depreciation and amortization, and a $0.9 million provision for deferred income taxes resulting from differing treatment of items for tax and accounting purposes.

Table of Contents

Net cash inflows from operating activities during the year ended December 31, 2014 were mainly attributable to a $24.0 million increase in deferred revenue associated with upfront payments received from our customers for services. The net cash inflows from operating activities were also attributable to a $9.2 million increase in accrued expenses, our net income of $8.0 million, a $1.8 million decrease in prepaid expenses and other current assets, a $1.7 million increase in accounts payable, and a $1.6 million increase in other long-term liabilities. The net cash inflows from operating activities were offset by a $5.8 million increase in accounts receivable. The increase in accrued expenses is primarily driven by a $5.2 million increase in payroll and payroll related costs and a $3.0 million increase in accrued marketing programs. The decrease in prepaid expenses and other current assets is primarily driven by a $2.2 million decrease in prepaid tax. The decrease in prepaid expenses and other current assets is offset by a $1.0 million increase in prepaid software subscription fees. Additionally, included in net cash inflows from operating activities are add-backs of non-cash charges, including $24.8 million for stock compensation, $11.1 million for depreciation and amortization, and a $2.7 million benefit from deferred income taxes resulting from differing treatment of items for tax and accounting purposes.

Cash Flows From Investing Activities

Net cash used in investing activities was $29.8 million, $24.4 million, and $32.9 million for the years ended December 31, 2012, 2013, and 2014, respectively.

Net cash used in investing for the year ended December 31, 2012 was primarily related to the acquisition of Bold for $14.8 million, net of cash acquired, and the purchase of $135.1 million of marketable securities offset by proceeds of $130.0 million from redemption and maturity of marketable securities. Net cash used in investing activities also related to the addition of $5.3 million in property and equipment mainly related to the expansion and upgrade of our data center capacity, the expansion and upgrade of our internal IT infrastructure and the expansion of our offices. Restricted cash and deposits also increased $3.6 million as a result of the letter of credit associated with the lease of our new corporate headquarters in Boston. We also had $1.0 million in intangible asset additions related to internally developed software and the purchase of domain names and trademarks.

Net cash used in investing for the year ended December 31, 2013 was primarily related to an increase in intangible assets associated with the acquisition of a software asset for $11.5 million and the addition of $10.9 million in property and equipment mainly related to the expansion and upgrade of our data center capacity, the expansion and upgrade of our internal IT infrastructure and the expansion of our offices. Net cash used in investing activities also related to $1.6 million in intangible asset additions related to internally developed software and the purchase of domain names and trademarks and the purchase of $90.4 million of marketable securities offset by proceeds of $90.0 million from redemption and maturity of marketable securities.

Net cash used in investing for the year ended December 31, 2014 was primarily related to the acquisitions of Ionia in March 2014, Meldium in August 2014, and a San Francisco-based collaboration software provider in September 2014, which resulted in a $22.4 million increase in acquired intangible assets, and the purchase of $7.5 million in property and equipment mainly related to the expansion and upgrade of our data center capacity, the expansion and upgrade of our internal IT infrastructure, and the expansion of our offices. Net cash used in investing activities also related to $2.5 million in intangible asset additions, primarily 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 provided by financing activities was $9.2 million for the year ended December 31, 2012. Net cash used by financing activities was $28.6 million and $24.3 million for the years ended December 31, 2013 and 2014, respectively.

Net cash provided by financing activities for the year ended December 31, 2012 was primarily related to a $6.6 million income tax benefit from the exercise of stock options as well as $2.7 million in proceeds from the issuance of common stock upon exercise of stock options. These were offset by a $0.1 million payment for contingent consideration.

Net cash used in financing activities for the year ended December 31, 2013 was primarily related to $30.5 million for the purchase of treasury stock pursuant to our share repurchase program as well as $1.8 million for payroll taxes paid related to vesting of restricted stock units, and $0.1 million payment for contingent consideration, offset by $3.8 million in proceeds received from the issuance of common stock upon exercise of stock options.

Net cash used in financing activities for the year ended December 31, 2014 was primarily related to the purchase of $36.5 million of treasury stock pursuant to our share repurchase program as well as the payment of $5.8 million for payroll taxes related to vesting of restricted stock units, offset by $17.6 million in proceeds received from the issuance of common stock upon exercise of stock options.

While we believe that our current cash and cash equivalents will be sufficient to meet our working capital and capital expenditure requirements for at least the next twelve months, 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.

Key Non-GAAP Financial Measures

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 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 operating income less acquisition related costs and amortization, stock-based compensation expense, and litigation related expenses;

- Adjusted EBITDA, which we define as GAAP income, less interest income and other expense (net), provision for income taxes, 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 less the tax impact from acquisition related costs and amortization, stock compensation expense, litigation related expenses, and tax benefits associated with the reversal of a valuation allowance;

- Non-GAAP net income, which we define as GAAP net income (loss) before stock-based compensation expense, litigation related expense, and acquisition related costs and amortization, less 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 legal costs, audit and accounting fees, contingent retention bonuses and the amortization of intangible assets.

Table of Contents

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 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 (see Note 11 to the Consolidated Financial Statements).

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

Interest income and other expense (income), net relates to the interest earned on outstanding cash balances during the period as well as foreign currency, realized and unrealized, gains and losses as a result of 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.

Tax benefits related to the reversal of a valuation allowance relate to the reversal of a valuation allowance against certain foreign deferred tax assets (see Note 8 to the Consolidated Financial Statements).

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-K and in our press releases announcing our quarterly financial results, and not to rely on any single financial measure to evaluate our business.

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

	For the Year Ended December 31,		
Non-GAAP Income from operations	**2012**	**2013**	**2014**
GAAP income (loss) from operations	$ 6,011	$ (1,926)	$ 8,687
Add Back:			
Stock-based compensation expense	14,792	19,714	24,769
Litigation related expenses	1,470	7,476	475
Acquisition related costs and amortization	5,450	3,537	8,237
Non-GAAP operating income	$ 27,723	$ 28,801	$ 42,168

Table of Contents

Adjusted EBITDA	For the Year Ended December 31, 2012	2013	2014
GAAP net income (loss)	$ 3,566	$ (7,682)	$ 7,955
Add Back:			
Stock-based compensation expense	14,792	19,714	24,769
Litigation related expenses	1,470	7,476	475
Acquisition related costs	3,597	1,540	4,466
Interest income and other income, net	(246)	(458)	(707)
Income tax expense	2,691	6,214	1,439
Depreciation and Amortization expense	6,100	7,704	11,137
Adjusted EBITDA	$ 31,970	$ 34,508	$ 49,534

Non-GAAP Net Income	For the Year Ended December 31, 2012	2013	2014
GAAP net income (loss)	$ 3,566	$ (7,682)	$ 7,955
Add Back:			
Stock-based compensation expense	14,792	19,714	24,769
Litigation related expenses	1,470	7,476	475
Acquisition related costs and amortization	5,450	3,537	8,237
Less:			
Income tax effect of non-GAAP items	(6,922)	(9,194)	(11,509)
Non-GAAP net income	$ 18,356	$ 13,851	$ 29,927

Non-GAAP Earnings per share	For the Year Ended December 31, 2012	2013	2014
GAAP diluted earnings (loss) per share	$ 0.14	$ (0.32)	$ 0.31
Add Back:			
Stock-based compensation expense	0.58	0.79	0.98
Litigation related expenses	0.06	0.30	0.02
Acquisition related costs and amortization	0.21	0.14	0.32
Less:			
Income tax effect of non-GAAP items	(0.27)	(0.36)	(0.45)
Non-GAAP earnings per share	$ 0.72	$ 0.55	$ 1.18
Shares used in computing diluted net income per share	25,356,305	25,018,758	25,386,199

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 December 31, 2014 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	3-5 Years	More Than 5 Years
Operating lease obligations	$ 99,921	$ 7,013	$ 19,366	$ 20,290	$ 53,252
Hosting service agreements	3,559	3,334	225		
Total	$ 103,480	$ 10,347	$ 19,591	$ 20,290	$ 53,252

(1) Excluded from the table above is $652,000 related to uncertain tax positions as we are uncertain as to when a cash settlement for these liabilities will occur.

The commitments under our operating leases shown above consist primarily of lease payments for our corporate headquarters located in Boston, Massachusetts (see Note 11 to the 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 2014, we entered into a lease for new office space in Boston, Massachusetts. The landlord is obligated to rehabilitate the existing building and we expect that the lease term will begin in November 2015 and extend through April 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 is 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. We estimate these excess costs to be approximately $7.0 million. 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.

In December 2014, we entered into a lease for new office space in San Francisco, California. The term of the new office space begins in February 2015 and extends through December 2019. The aggregate amount of minimum lease payments to be made over the term of the lease is approximately $2.4 million. The lease required a security deposit of approximately $41,000. The security deposit is classified as a long-term deposit.

In October 2014, we entered into a lease for new office space in Dublin, Ireland. The term of the new office space began in October 2014 and extends through September 2024. The aggregate amount of minimum lease payments to be made over the term of the lease is approximately $5.8 million (EUR 4.8 million).

In April 2014, 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 July 2014 and will extend through June 2019. The aggregate amount of minimum lease payments to be made over the term of the lease is approximately $6.9 million (EUR 5.7 million). The amended lease agreement required a bank guarantee of approximately $430,000 (EUR 354,000). The bank guarantee is classified as restricted cash.

Recent Accounting Pronouncements

On May 28, 2014, the 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 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, 2017. We are currently assessing the potential impact of the adoption of ASU 2014-09 on our consolidated financial statements.

On June 19, 2014, the FASB issued ASU 2014-12, *Stock Compensation* (ASU 2014-12), providing guidance on accounting for share-based payment awards when the terms of an award provide that a performance target could be achieved after the requisite service period. The update clarifies that performance targets that can be achieved after the requisite service period of a share-based payment award be treated as performance conditions that affect vesting. These awards should be accounted for under Accounting Standards Codification Topic 718, *Compensation Stock Compensation*, and existing guidance should be applied as it relates to awards with performance conditions that affect vesting. The update is effective for us for the interim and annual periods beginning after December 15, 2015. We are currently evaluating the impact of the adoption of this standard, if any, on our consolidated financial statements.

On August 27, 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements Going Concern: Disclosure of Uncertainties about an Entity s Ability to Continue as a Going Concern* (ASU 2014-15). The standard requires that we evaluate, at each interim and annual reporting period, whether there are conditions or events that raise substantial doubt about our ability to continue as a going concern within one year after the date the financial statements are issued, and provide related disclosures. ASU 2014-15 is effective for annual periods ending after December 15, 2016, and for annual and interim periods thereafter, and early adoption is permitted. We do not expect to early adopt ASU 2014-15, which will be effective for our fiscal year ending December 31, 2016. We do not believe the standard will have a material impact on our consolidated financial statements.

On January 9, 2015, the FASB issued ASU 2015-01, *Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items* (ASU 2015-01). The standard eliminates the requirement of Extraordinary Items to be separately classified on the income statement. ASU 2015-01 is effective for annual periods ending after December 15, 2015, and for annual and interim periods thereafter, and early adoption is permitted. We do not expect to early adopt ASU 2015-01, which will be effective for our fiscal year ending December 31, 2016. We do not believe the standard will have a material impact on our financial statements.

Item 7A. *QUANTITATIVE AND QUALITATIVE DISCLOSURE 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. In the years ended December 31, 2014 and 2013, approximately 32% and 18%, respectively, of our revenues were generated by our Irish subsidiary. In the year ended December 31, 2014, approximately 13%, 7%, 6%, 3% and 1% of our operating expenses occurred in our operations in Hungary, Ireland, the United Kingdom, Australia and India, respectively, and less than 1% occurred in Brazil. In the year ended December 31, 2013, approximately 13%, 7%, 4% and 2% of our operating expenses occurred in our operations in Hungary, the United Kingdom, Ireland and Australia, respectively, and less than 1% each in Brazil, India, the Netherlands and Japan.

To date, changes in foreign currency exchange rates have not had a material impact on our operations, and a future 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.

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

ITEM 8. ***FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA***

LogMeIn, Inc.

Index to Consolidated Financial Statements

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors of

LogMeIn, Inc.

Boston, Massachusetts

We have audited the accompanying consolidated balance sheets of LogMeIn, Inc. and subsidiaries (the Company) as of December 31, 2013 and 2014, and the related consolidated statements of operations, comprehensive income (loss), equity, and cash flows for each of the three years in the period ended December 31, 2014. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of LogMeIn, Inc. and subsidiaries as of December 31, 2013 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of December 31, 2014, based on the criteria established in *Internal Control Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 20, 2015 expressed an unqualified opinion on the Company s internal control over financial reporting.

/s/ Deloitte & Touche LLP

Boston, Massachusetts

February 20, 2015

Table of Contents

LogMeIn, Inc.

Consolidated Balance Sheets

(In thousands, except share and per share data)

	December 31, 2013	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$ 89,257	$ 100,960
Marketable securities	100,299	100,209
Accounts receivable (net of allowance for doubtful accounts of $269 and $301 as of December 31, 2013 and December 31, 2014, respectively)	12,957	18,286
Prepaid expenses and other current assets	6,508	4,545
Restricted cash, current portion	23	1,492
Deferred income tax assets	3,053	5,403
Total current assets	212,097	230,895
Property and equipment, net	13,198	13,476
Restricted cash, net of current portion	3,902	2,531
Intangibles, net	16,886	18,983
Goodwill	18,712	37,928
Other assets	5,348	4,756
Deferred income tax assets	9,470	9,280
Total assets	$ 279,613	$ 317,849
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 6,390	$ 7,055
Accrued liabilities	20,110	29,482
Deferred revenue, current portion	82,496	101,672
Total current liabilities	108,996	138,209
Deferred revenue, net of current portion	2,667	3,578
Other long-term liabilities	611	2,218
Total liabilities	112,274	144,005
Commitments and contingencies (Note 11)		
Preferred stock, $0.01 par value 5,000,000 shares authorized, 0 shares outstanding as of December 31, 2013 and December 31, 2014		
Equity:		
Common stock, $0.01 par value 75,000,000 shares authorized as of December 31, 2013 and December 31, 2014; 25,371,844 and 26,530,977 shares issued as of December 31, 2013 and December 31, 2014, respectively; 24,103,201 and 24,418,760 outstanding as of December 31, 2013 and December 31, 2014, respectively	254	267
Additional paid-in capital	200,235	237,203
(Accumulated deficit) retained earnings	(1,439)	6,516
Accumulated other comprehensive loss	(1,186)	(3,117)
Treasury stock, at cost 1,268,643 and 2,112,217 shares as of December 31, 2013 and December 31, 2014, respectively	(30,525)	(67,025)

Total equity		167,339		173,844
Total liabilities and equity	$	279,613	$	317,849

See notes to consolidated financial statements.

Table of Contents

LogMeIn, Inc.

Consolidated Statements of Operations

(In thousands, except share and per share data)

	Years Ended December 31, 2012	2013	2014
Revenue	$ 138,837	$ 166,258	$ 221,956
Cost of revenue	14,504	18,816	28,732
Gross profit	124,333	147,442	193,224
Operating expenses			
Research and development	26,361	29,023	33,516
Sales and marketing	70,058	88,794	119,508
General and administrative	21,338	29,181	30,526
Legal Settlements		1,688	
Amortization of acquired intangibles	565	682	987
Total operating expenses	118,322	149,368	184,537
Income (loss) from operations	6,011	(1,926)	8,687
Interest income, net	887	547	602
Other (expense) income	(641)	(89)	105
Income (loss) before income taxes	6,257	(1,468)	9,394
Provision for income taxes	(2,691)	(6,214)	(1,439)
Net income (loss)	$ 3,566	$ (7,682)	$ 7,955
Net income (loss) per share:			
Basic	$ 0.14	$ (0.32)	$ 0.33
Diluted	$ 0.14	$ (0.32)	$ 0.31
Weighted average shares outstanding:			
Basic	24,711,242	24,350,913	24,385,297
Diluted	25,356,305	24,350,913	25,386,199

See notes to consolidated financial statements.

Table of Contents

LogMeIn, Inc.

Consolidated Statements of Comprehensive Income (Loss)

(In thousands)

	Years Ended December 31,		
	2012	**2013**	**2014**
Net income (loss)	$ 3,566	$ (7,682)	$ 7,955
Other comprehensive gain (loss):			
Net unrealized gains (losses) on marketable securities, net of tax	57	(25)	(107)
Net translation gains (losses)	1,100	(761)	(1,824)
Total other comprehensive gain (loss)	1,157	(786)	(1,931)
Comprehensive income (loss)	$ 4,723	$ (8,468)	$ 6,024

See notes to consolidated financial statements.

Table of Contents

LogMeIn, Inc.

Consolidated Statements of Equity

(In thousands, except share data)

	Common Stock						
	Number of Shares	Amount	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Treasury Stock	Total Equity
Balance at January 1, 2012	24,551,641	$ 246	$ 154,440	$ 2,677	$ (1,557)	$	$ 155,806
Issuance of common stock upon exercise of stock options	262,366	2	2,679				2,681
Income tax benefit from stock options exercises			6,635				6,635
Stock-based compensation			14,792				14,792
Net income				3,566			3,566
Unrealized gain on available-for-sale securities, net of tax					57		57
Cumulative translation adjustments					1,100		1,100
Balance at December 31, 2012	24,814,007	$ 248	$ 178,546	$ 6,243	$ (400)	$	$ 184,637
Issuance of common stock upon exercise of stock options	373,761	4	3,794				3,798
Net issuance of common stock upon vesting of restricted stock units	184,076	2	(1,836)				(1,834)
Income tax benefit from stock options exercises			17				17
Stock-based compensation			19,714				19,714
Treasury stock	(1,268,643)					(30,525)	(30,525)
Net loss				(7,682)			(7,682)
Unrealized loss on available-for-sale securities, net of tax					(25)		(25)
Cumulative translation adjustments					(761)		(761)
Balance at December 31, 2013	24,103,201	$ 254	$ 200,235	$ (1,439)	$ (1,186)	$ (30,525)	$ 167,339
Issuance of common stock upon exercise of stock options	858,988	9	17,586				17,595
Net issuance of common stock upon vesting of restricted stock units	300,145	4	(5,770)				(5,766)
Income tax benefit from stock options exercises			383				383
Stock-based compensation			24,769				24,769
Treasury stock	(843,574)					(36,500)	(36,500)
Net income				7,955			7,955
Unrealized loss on available-for-sale securities, net of tax					(107)		(107)
Cumulative translation adjustments					(1,824)		(1,824)
Balance at December 31, 2014	24,418,760	$ 267	$ 237,203	$ 6,516	$ (3,117)	$ (67,025)	$ 173,844

See notes to consolidated financial statements.

Table of Contents

LogMeIn, Inc.

Consolidated Statements of Cash Flows

(In thousands)

	Years Ended December 31,		
	2012	**2013**	**2014**
Cash flows from operating activities			
Net income (loss)	$ 3,566	$ (7,682)	$ 7,955
Adjustments to reconcile net income (loss) to net cash provided by operating activities			
Depreciation and amortization	6,100	7,704	11,137
Amortization of premium on investments	54	198	224
Provision for bad debts	100	116	102
Gain on sales of marketable securities			(5)
(Benefit from) provision for deferred income taxes	(831)	926	(2,707)
Income tax benefit from the exercise of stock options	(6,635)	(17)	(383)
Stock-based compensation	14,792	19,714	24,769
Loss on disposal of equipment	12		26
Changes in assets and liabilities:			
Accounts receivable	(4,471)	302	(5,804)
Prepaid expenses and other current assets	(1,070)	(2,986)	1,822
Other assets	(1,308)	(3,764)	476
Accounts payable	1,552	(2,233)	1,727
Accrued liabilities	5,854	3,457	9,234
Deferred revenue	10,960	14,493	23,983
Other long-term liabilities	(418)	(208)	1,597
Net cash provided by operating activities	28,257	30,020	74,153
Cash flows from investing activities			
Purchases of marketable securities	(135,085)	(90,376)	(95,342)
Proceeds from maturities of marketable securities	130,000	90,000	75,000
Proceeds from sale of marketable securities			20,045
Purchases of property and equipment	(5,277)	(10,938)	(7,471)
Intangible asset additions	(1,049)	(13,061)	(2,529)
Cash paid for acquisition, net of cash acquired	(14,831)		(22,449)
(Increase) decrease in restricted cash and deposits	(3,558)	7	(196)
Net cash used in investing activities	(29,800)	(24,368)	(32,942)
Cash flows from financing activities			
Proceeds from issuance of common stock upon option exercises	2,682	3,798	17,595
Income tax benefit from the exercise of stock options	6,634	17	383
Payment of contingent consideration	(89)	(104)	
Common stock withheld to satisfy income tax withholdings for restricted stock unit vesting		(1,834)	(5,766)
Purchase of treasury stock		(30,525)	(36,500)
Net cash provided by (used in) financing activities	9,227	(28,648)	(24,288)
Effect of exchange rate changes on cash and cash equivalents and restricted cash	644	321	(5,220)
Net increase (decrease) in cash and cash equivalents	8,328	(22,675)	11,703
Cash and cash equivalents, beginning of period	103,604	111,932	89,257
Cash and cash equivalents, end of period	$ 111,932	$ 89,257	$ 100,960
Supplemental disclosure of cash flow information			

Cash paid for interest	$		$	2	$	2
Cash paid for income taxes	$	1,802	$	10,094	$	1,489
Noncash investing and financing activities						
Purchases of property and equipment included in accounts payable and accrued liabilities	$	742	$	1,510	$	1,032
Fair value of contingent consideration in connection with acquisition included in accrued liabilities and other long term liabilities	$	161	$		$	249
Deferred financing costs included in accounts payable and accrued liabilities	$		$		$	13

See notes to consolidated financial statements.

LogMeIn, Inc.

Notes to 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® , 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 Hungary, The Netherlands, Australia, the United Kingdom, Brazil, Bermuda, Japan, Ireland, and India.

2. Summary of Significant Accounting Policies

Principles of Consolidation The accompanying 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).

Use of Estimates The preparation of 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.

Cash Equivalents Cash equivalents consist of highly liquid investments with an original or remaining maturity of less than three months at the date of purchase. Cash equivalents consist of investments in money market funds which primarily invest in U.S. Treasury obligations. Cash equivalents are stated at cost, which approximates fair value.

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, 2013 and 2014, 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 $100.3 million. The securities have an aggregate fair value of $100.3 million and $100.2 million, including $67,000 and $9,000 of unrealized gains and $28,000 and $138,000 of unrealized losses, at December 31, 2013 and 2014 respectively.

Restricted Cash In May 2013, $125,000 of restricted cash associated with the Company s Woburn, Massachusetts office lease was returned to the Company in connection with the expiration of the lease. In April 2012, the Company entered into a lease for a new corporate headquarters located in Boston, Massachusetts. The lease required a security deposit of approximately $3.3 million in the form of an irrevocable standby letter of credit which is collateralized by a bank deposit in the amount of approximately $3.5 million or 105 percent of the security deposit. Such amounts are classified as restricted cash in the accompanying consolidated balance sheets. In addition, the Company has made security deposits for various other leased facilities, which are also classified as restricted cash.

Accounts Receivable The Company reviews accounts receivable on a periodic basis to determine if any receivables will potentially be uncollectible. Estimates are used to determine the amount of the allowance for doubtful accounts necessary to reduce accounts receivable to its estimated net realizable value. The estimates are based on an analysis of past due receivables, historical bad debt trends, current economic conditions, and customer specific information. After the Company has exhausted all collection efforts, the outstanding receivable balance relating to services provided is written off against the allowance and the balance related to services not yet delivered is charged as an offset to deferred revenue.

Table of Contents

Activity in the allowance for doubtful accounts was as follows (in thousands):

	December 31,		
	2012	**2013**	**2014**
Balance, beginning	$ 109	$ 180	