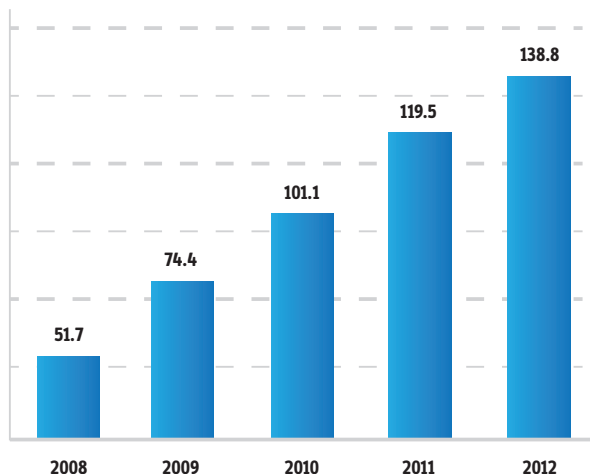




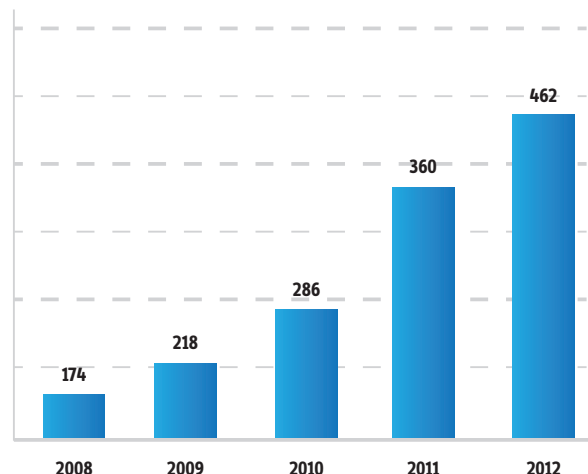
# ANNUAL REPORT 2012

# Financial Growth

Revenue (mm)



Subscribers (000s)



## 2012 Highlights

**\$138.8 million**

in revenue

**220+ million**

internet enabled devices

**10 million**

new users

**462 thousand**

subscribers

## Service Areas

Customer Care

**Rescue** **LDCHAT**

50 top telecommunication operators tap Rescue for mobile device support

Remote Monitoring and Management

**Pro** **Central**

“Technology of the Year” – InfoWorld on LogMeIn Pro

Access and Collaboration

**Free** **Pro** **LogMeIn** **join me** **cubby**  
for iOS

“Cubby is absolutely simple to use and the design is lightweight and attractive” – iPad Insight

Dear Stockholders:

As we close 2012 and look ahead to 2013, we believe LogMeIn is in the midst of an evolution that will help us to capitalize on some of the most transformative market opportunities in all of technology. From the rise of the Internet of Things, to the near ubiquity of mobile devices, to the disruptive nature of the cloud, the technology landscape is changing before our eyes. We believe LogMeIn is uniquely positioned to benefit from these changes.

While highlights of the year included more than \$138 million in total annual revenue, \$212 million in cash, cash equivalents and short-term marketable securities after generating more than \$28 million in operating cash flow, expanding our premium subscriber base to more than 460,000 accounts, and key wins at marquee businesses like the Boston Beer Company, Dunn & Bradstreet, First Data, Foursquare, Heineken, HTC, Rackspace, Ricoh, Scripps Interactive, and Telefonica, we believe these successes are only part of a bigger story.

Our proven ability to attract millions of users to our cloud and mobile services, including approximately 10 million new users in 2012 alone, has created a foundation upon which we can expand our business. Our core IT and customer care offerings complement our large user base and help create opportunities while providing what we believe to be advantageous inroads with key business stakeholders. Our newer products are delivering early returns and are poised to become key growth engines. In addition, we've expanded our proprietary cloud platform to tackle what we see as some of the most demanding data and connected object opportunities of tomorrow's Internet.

When it comes to the Access and Collaboration markets, we believe that winning over the modern mobile workplace requires building amazing applications capable of attracting millions of professionals, without sacrificing the security and management businesses demand. Our online collaboration product, join.me, has been very successful in doing just that and in 2012 became LogMeIn's fastest growing offering in terms of new users and sales. Every month more than a million people host or attend their first join.me meeting, and this massive viral adoption plays an important role in introducing join.me into the workplace to create new business opportunities.

The year also saw a key expansion of our Access and Collaboration portfolio, as well as our Gravity Cloud platform. The beta introduction of Cubby, our new cloud file sync and storage offering, helped to set the stage for a multi-faceted play into the multibillion dollar collaboration and cloud storage and synchronization markets. It also became the first product to utilize LogMeIn's Gravity Data Cloud, an extension of our Gravity Cloud platform that complements our secure and scalable connectivity benefits with data sync and storage capabilities.

While our applications won over millions of mobile professionals, we believe our relationship with IT professionals helped pave the path toward corporate adoption of a broad range of LogMeIn services. In 2012, our Next Generation RMM business, led by LogMeIn Central and LogMeIn Pro, continued to attract thousands of new outsourced IT consultants and managed service providers (MSPs), an audience we see as key partners for the cost-effective introduction of both our IT and business services to millions of potential end customers.

Meanwhile, the acquisition of Bold Software, LLC and its BoldChat product, in January 2012, helped to boost our Customer Care portfolio, and introduced new ways to capture demand for large scale online, mobile and social customer service opportunities. We believe BoldChat is a natural complement to LogMeIn Rescue, our flagship remote support offering, and is well positioned to be an important growth engine for our Customer Care business.

As we look ahead, LogMeIn is making key strategic investments to accelerate our revenue growth and deliver the best long term return for the business and our stockholders. We continue to expand our product portfolio in ways that introduce complementary product offerings to common audiences, and we're extending our underlying cloud platform to address what we believe to be some of the most transformative opportunities in all of technology — from the Internet of Things, to the mobile and cloud dominated post-PC era, to the consumerization of IT.

On behalf of every employee at LogMeIn, we thank you, our stockholders, for helping us build a business poised to tackle what we believe are many of technology's biggest and most exciting opportunities.

Sincerely,



Michael K. Simon

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**  
**Form 10-K**

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)**  
**OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the fiscal year ended December 31, 2012

or

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

to  
Commission file number 001-34391

**LOGMEIN, INC.**

*(Exact name of registrant as specified in its charter)*

**Delaware**

*(State or other jurisdiction of  
incorporation or organization)*

**500 Unicorn Park Drive**  
**Woburn, Massachusetts**

*(Address of principal executive offices)*

**20-1515952**

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

**01801**

*(Zip Code)*

**(781) 638-9050**

*(Registrant's telephone number, including area code)*

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

<u>Title of Each Class</u>	<u>Name of Exchange on Which Registered</u>
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  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

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

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

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.

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a 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

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, 2012 was \$665,263,305.

As of February 19, 2013, the registrant had 24,814,207 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 2012 annual stockholders' meeting to be held on May 23, 2013 are incorporated by reference into Items 10, 11, 12, 13 and 14 of Part III of this Annual Report on Form 10-K.

LOGMEIN, INC.

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## 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 “continue,” and similar expressions or variations. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in the section titled “Risk Factors,” set forth in 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 essential cloud-based collaboration, IT management and customer service offerings aimed at addressing the evolving multi-device, security, management and accessibility requirements of the new mobile workplace. Our solutions are used by tens of millions of professionals to work from virtually anywhere on virtually any Internet-enabled device. Hundreds of thousands of small and medium businesses use our solutions to manage distributed work environments, embrace employee-owned technology in the workplace and facilitate collaboration across distributed teams. Thousands of service providers, including more than 50 of the world’s largest telecommunications providers, use our solutions to service and support businesses and individual professionals across mobile, social and online channels. Our services range from free downloadable apps to state-of-the-art SaaS-based professional helpdesk solutions and are accessible from anywhere with an Internet connection. With tens of millions of users and hundreds of millions of sessions, we believe our cloud-services are used to connect more Internet-enabled devices — smartphones, tablets, PCs, Macs and sensor-enabled devices — worldwide than any other connectivity platform on the market.

In February 2003, we incorporated under the laws of Bermuda. 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. As of February 22, 2013, our principal executive offices are located at 500 Unicorn Park Drive, Woburn, Massachusetts 01801, and our telephone number is (781) 638-9050. However, we expect to move our principal executive offices to 320 Summer Street, Boston MA 02210 in the second quarter of 2013. Our website address is [www.LogMeIn.com](http://www.LogMeIn.com). We have included our website address in this report solely as an inactive textual reference.

In 2004, we introduced LogMeIn Free, a service that allows users to remotely access computer resources, including files, applications and the device itself. We have since expanded our free offerings to include LogMeIn for iOS, LogMeIn Hamachi, Cubby Basic, join.me, BoldChat Free and Cosm. As of December 31, 2012, our users have connected over 213 million smartphones, tablets, computers and other Internet-enabled devices to a LogMeIn service.

We complement our free services with ten fee-based, or premium services, the majority of which are sold on a subscription basis. These include LogMeIn Rescue and BoldChat, which are used by service professionals to deliver customer service and support for their end customers. Premium services such as LogMeIn Pro, LogMeIn Central, LogMeIn Hamachi and LogMeIn Backup are used by IT professionals for remote device management

and security. In addition, business professionals and teams use the premium versions of our access and collaboration products, including Cubby Pro, join.me Pro, LogMeIn Ignition for Windows and LogMeIn Pro to work remotely and collaborate with colleagues and customers in distributed work environments. Other products, including RemotelyAnywhere, LogMeIn Ignition for Android and LogMeIn Ignition for iOS are sold as a perpetual license for a one-time fee. Sales of our premium services are generated through word-of-mouth referrals, web-based advertising, expiring free trials that we convert to paid subscriptions and direct marketing to new and existing customers.

Nearly all of our free and premium solutions are delivered via the cloud as hosted services, which means that the technology enabling the use of our solutions 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.

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. During the fiscal years ended December 31, 2010, 2011 and 2012, we generated revenues of \$101.1 million, \$119.5 million and \$138.8 million, respectively.

Periodic reports, proxy statements and other information are available to the public, free of charge, on our website, [www.LogMeIn.com](http://www.LogMeIn.com), as soon as reasonably practicable after they have been filed with the SEC and through the SEC's website, [www.sec.gov](http://www.sec.gov). Such reports, proxy statements and other information may be obtained by visiting the Public Reference Room of the SEC at 100 F Street, N.E., Washington, DC 20549 or by calling the SEC at 1-800-SEC-0330.

## **Our Services**

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

- *Reduced set-up, support and management costs.* Our services enable IT staff to administer, monitor and support computers and other Internet-enabled devices at a remote location. Businesses easily set up our on-demand 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. In addition, our customers lower their support and management costs by performing management-related tasks remotely, reducing or eliminating the costs of on-site support and management.
- *Increased mobile worker productivity.* Our remote-access and collaboration services allow non-technical users to access and control remote computers, run applications across different platforms and devices and save and share data with the cloud, increasing their mobility and allowing them to remain productive from virtually anywhere on virtually any Internet-enabled device.
- *Increased end-user satisfaction.* Our customers rely on our on-demand 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 and even 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 services possess built-in redundancy of servers and other infrastructure in five data centers, four located in the United States and one located in Europe. Our proprietary platform enables our services to connect and manage devices at enhanced speeds. Our services implement industry-standard security protocols and 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. Our customers can use our services to manage their remote systems from any Web browser. In addition, 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.

## **Our Competitive Strengths**

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

- *Large established user community.* As of December 31, 2012, over 46 million registered users have connected over 213 million Internet-enabled devices to a LogMeIn service. 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, the large majority of which are focused on pay-per-click search engine advertising. Sales of our premium services are generated through word-of-mouth referrals, Web-based advertising, off-line advertising, expiring free trials that we convert to paying customers 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 remote computing 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 as compared to competing services. We believe this cost advantage allows us to offer free services and serve a broader user community than our competitors.
- *On-demand, cloud-based delivery.* Delivering our services on-demand 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 our 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 96% 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 aggressively marketing our solutions and encouraging 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 actively marketing our portfolio of services through e-commerce and by expanding our sales force.



- *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 services and by offering our popular free services, LogMeIn Free, LogMeIn for iOS, join.me, LogMeIn Hamachi, Cosm and BoldChat Free. This strategy improves the effectiveness of our online advertising by increasing our response rates when people seeking remote access, collaboration, customer care 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.
- *Expand internationally.* We believe there is a significant opportunity to increase our sales internationally. We offer services in 12 different languages and our services are used in more than 240 countries. We intend to expand our international sales and marketing staff and increase our international marketing expenditures to take advantage of this opportunity.
- *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 and consumers.
- *Pursue strategic acquisitions.* We pursue acquisitions that complement our existing business, represent a strong strategic fit and are consistent with our overall growth strategy, such as our recent acquisitions of the Cosm and Bold services. We may 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.

## Services and Technology

Our services are accessed on the Web and delivered on-demand. Our services generally fall into one of three categories:

- *Access and Collaboration services.* These services allow users to access computers and other Internet-enabled devices, applications, and files in order to continue working while away from physical office environments, to access personal systems while away from home, to remain productive across multiple devices, to conduct online meetings and collaborate with others from anywhere with an Internet connection. These services include free and premium remote access offerings, free and premium online meeting and visual collaboration offerings, as well as free and premium cloud data sync, storage and sharing solutions.
- *Customer Care services.* These services are used by external customer service and support organizations, as well as large internal IT departments to deliver web-based remote service and support of customers and their Internet-enabled devices.
- *Remote Monitoring and Management services.* These services are used by internal and external IT professionals to manage and secure remote computers and other Internet-enabled devices, automate common IT tasks and ensure the productivity of mobile workers.

## Access and Collaboration Services

*LogMeIn Free* is our free remote access service. It provides secure access to a remote computer or other Internet-enabled device. Once installed on a device, a user can quickly and easily access that device's desktop, files, applications and network resources.

*LogMeIn Pro* is our premium remote access service. It can be rapidly installed without IT expertise. Users typically engage in a trial prior to purchase. LogMeIn Pro offers several premium features not available through LogMeIn Free, including:

- *High Definition (HD) remote control and content streaming.* A user can watch multimedia content (video, games, etc.) playing on a remote computer on any other iOS device (iPad, iPhone, iPad) or computer. Remote viewing includes higher resolution views and rates compared with LogMeIn Free.
- *File transfer.* Files and folders can be moved easily between computers using drag-and-drop or dual-pane file transfer capabilities.

- *Remote sound.* A user can hear on his local computer e-mail notifications, music and podcasts originating from a remote PC.
- *File share.* Large files can be distributed by sending a link that permits remote third parties to download a file directly from a LogMeIn subscriber's computer.
- *Remote to local printing.* Files from a remote PC are automatically printed to a local printer without downloading drivers or manually configuring printer settings.
- *Desktop sharing.* A remote third-party user can be invited to view or control a LogMeIn user's desktop for online meetings and collaboration.
- *File sync.* Files and folders can be synchronized between remote and local computers.
- *Drive mapping.* Drives on a remote PC can be accessed as if they are local.
- *Wake On Lan.* Wake a remote computer that is sleeping or turn one on that is off right from a web browser.

*LogMeIn for iOS* is a free mobile application for iOS devices, including the iPad, iPhone and iPod touch. It is used in combination with either LogMeIn Free or LogMeIn Pro to access remote computers, including files and applications, from an iOS-based mobile device. The mobile application is available on the Apple iTunes App Store and can be used to connect to an unlimited number of Windows or Mac OSX based computers. When used in combination with LogMeIn Free, the app provides remote viewing and control over remote computers from a mobile device. When used in combination with LogMeIn Pro, the file sharing, file transfer and HD remote control capabilities available in LogMeIn Pro are extended to the users mobile device, including the ability to save computer files locally on an iOS device. In addition, when used with Pro, iOS users are able to save and transfer files to and from their Cubby account as well as other third party Cloud-based storage and syncing services.

*LogMeIn Ignition* is a premium service that delivers one click access to remote computers that subscribe to LogMeIn Free or LogMeIn Pro. Users can install LogMeIn Ignition on a mobile device, a computer, or run the application from a universal storage device in order to directly access their subscribed computer, eliminating the need for installation of additional software. LogMeIn Ignition is available for Windows-based PCs, as well as an Apple iPad, iPhone, iPod touch and Android-based smartphones and tablets.

*join.me* and *join.me pro* are browser-based online meeting and screen sharing services that give users the ability to quickly and securely share their computer desktop with up to 250 other people. Both services can be initiated either through a visit to the <http://join.me> website or through a small downloadable desktop application. Users start or 'host' a collaboration session by clicking a 'share button' which generates a 9-digit numeric code. They then provide this code to other users ('attendees' or 'viewers') who enter it at the join.me website and click 'join'. Within a few seconds, the attendees are viewing the host's screen.

*join.me* free includes the following features:

- *Screen sharing.* join.me enables users to share their local computer screen with up to 250 other people for online meetings or ad hoc collaboration.
- *Chat.* A simple text chat option that provides users with the ability to chat with all meeting participants or with individual participants.
- *File sharing.* join.me allows users to transfer or share files from one computer to another.
- *Remote control.* Allows host users to give attendees remote control of their screen and computer.
- *Toll-based conference line.* join.me offers a complementary teleconference line uniquely associated with each meeting or screen sharing session.
- *Mobile 'viewers.'* join.me offers free mobile applications for Android and iOS (iPhone, iPad, iPod touch) devices that allow people to attend a join.me meeting or screen sharing session from their tablet or smartphone.

*join.me pro* extends these capabilities with a variety of premium features for a monthly or annual subscription fee, including:

- *Presenter switching.* Allows *join.me* meeting hosts and attendees to switch who is controlling a *join.me* session and whose screen is being viewed.
- *Personal meeting IDs.* Allows meeting hosts to create and use personalized meeting codes and links for use with attendees in place of the nine digit numeric codes.
- *Meeting scheduler.* Enables hosts to schedule and invite people to meetings or planned events through an in-product calendaring and notification system.
- *Meeting 'lock'.* Allows hosts to lock or secure their meetings, requiring attendees to ask for permission to join before seeing the host's screen.
- *Windows-level sharing.* Enables hosts to select and share distinct areas of their screen to focus the meeting on distinct content and avoid sharing irrelevant information and applications.
- *iPad presenter.* Enables users to start meetings and visually share files directly from their iPad tablet. This works in conjunction with the free *join.me* mobile app.
- *User management.* *join.me pro* gives hosts and account holders the ability to create and manage new host accounts for co-workers or colleagues.
- *Reporting.* Enables the *join.pro* account holder to run reports on meetings and collaborations sessions initiated by individual users within a parent account.
- *Annotation.* Allows both meeting hosts and participants to highlight, outline and mark-up areas of the screen during a meeting using virtual highlighters, pens and laser pointers for better interaction and visual communication between participants.

*Cubby Basic* and *Cubby Pro* are cloud-based file syncing, storage and sharing services that allow users to share data and files across their Internet-enabled devices — smartphones, tablets and computers — and with other people. Both services can be accessed and used via a web-browser, a computer 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 devices and the cloud, ensuring that their data is available across their devices and accessible from virtually anywhere with an Internet connection. Files in *Cubby* can also be shared with other people, either by sending read-only web links, or by inviting others into a particular “cubby” or synced folder for access to and collaboration around sets of files.

*Cubby Basic* includes the following features and capabilities:

- *Sync in place.* Enables the user to sync any existing folder on their computer or create new ones. This ensures the user does not have to reorganize their folders to benefit from *Cubby* or otherwise upload individual files into the cloud to share the information across devices. Users can sync as many folders as they would like.
- *Multiple ways to share files.* *Cubby* includes two ways to share files and folders with other people. Users can choose to create a “public link,” a web-based hyperlink, which can be emailed or shared over social media for quick read-only access to files within a selected “cubby” folder. Alternatively, users can invite others into their “cubby” folders, or “cubbies,” which grants the invited party full access to and editing power over the content, as well as the ability to add their own files to the shared “cubby” folder.
- *Free desktop and mobile applications.* In addition to accessing *Cubby* via the web, users can download free PC, Mac, Android, and/or iOS (iPhone/iPad) applications to sync files, manage settings and share content with others from all of their devices.
- *5GB of cloud data storage.* *Cubby* starts by providing users with 5GB of free cloud data storage space. Users can earn additional free space by successfully referring other new users to create *Cubby* accounts.
- *Online-banking level encryption security.* *Cubby* leverages the same encryption standards used in LogMeIn's other products to ensure data is secure and can only be decrypted using a combination of encryption keys maintained by LogMeIn and the owner of the *Cubby* account.

*Cubby Pro* extends these capabilities by adding the following premium features:

- *DirectSync*. Enables the user to sync files across their computers, as well as computers of other Cubby Pro users without having to sync or store information in the cloud. This proprietary feature takes advantage of LogMeIn's existing peer-to-peer infrastructure, used for our access, collaboration and customer care offerings, allowing users to sync files and data directly between devices without counting against their cloud data storage limits. It is also beneficial for eliminating regulatory or other compliance concerns that arise around storing confidential information within the cloud.
- *Cubby Locks*. Provides users with additional control over sensitive information by prompting additional password requirements and giving Cubby users sole ownership of their encryption keys.
- *Additional cloud storage*. Cubby Pro includes 100GB of cloud storage per user, with the option of buying more storage space and adding additional users to an account.

## Customer Care Services

*LogMeIn Rescue* is a Web-based remote support and customer care service used by helpdesk professionals to support remote computers via the Internet, without 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 over keyboard and mouse 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. Upon completion of the support session, all LogMeIn software is removed from the remote computer. LogMeIn Rescue is used by companies of varying sizes, from one-person support organizations to Fortune 100 companies servicing employees and customers.

LogMeIn Rescue includes the following features:

- *Rapid incident resolution*. Helpdesk professionals can gain access to the target PC quickly and can use Rescue's remote control capabilities to perform support functions available through a technician console, including: reading critical system information, deploying scripts, copying files through drag and drop and rebooting the machine. LogMeIn Rescue also grants helpdesk professionals the ability to quickly access remote distributed devices, as well as one-click access to on-LAN systems.
- *Seamless end-user experience*. End users remain in control of the support session and can initiate a session in a variety of ways, such as by clicking a link on a website or in an email or by entering a pin code provided by the support provider. The end user then sees a chat window, branded with the support provider's logo, and responds to a series of access and control requests while chatting with the support provider.
- *Support session and queue management*. Helpdesk professionals can use the LogMeIn Technician Console to manage a queue of support incident requests and up to ten simultaneous live remote sessions. The support queue can be shared and current live sessions can be transferred to other co-workers as needed.
- *Administration Center*. The Administration Center is used to create and assign permissions for groups of support technicians. It is also used to create support channels, web-based links and/or icons that automatically connect customers to technicians and assign them to specific groups. Support managers use the Administration Center to generate reports about individual sessions, post-session survey data and track technician activity.
- *Integrated security*. LogMeIn Rescue includes security features designed to safeguard the security and privacy of both the support provider and the end user. All data transmissions are encrypted using industry-standard encryption often used by financial institutions. Sessions can be recorded by the support provider and will create a record of each level of access permission granted by the end user. Any files transferred between computers are uniquely identified to demonstrate that no changes were made to original files.

*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 smartphones and tablet computers. Mobile users requesting help will receive a text message from a technician to download a small software application onto the smartphone. Once installed, the user enters a code connecting the device to the technician. After the user grants the technician permission, the technician can remotely access and control the phone or tablet from their Rescue+Mobile Technician Console to remotely control and update the phone's configuration settings, access system information, file transfer and reboot the device. Customers of this service can support Blackberry, Symbian, iOS and Android devices.

*BoldChat* is a web-based live chat and click-to-call service that helps customer service staff, ranging from sales to pre-and-post sale support, provide assistance directly from an organization's website. The BoldChat product offerings range from a free offering to a fully-featured enterprise offering, with multiple pricing tiers based on the number of users and required features. BoldChat includes the following features:

- *Proactive Chat.* Chat operators have the ability to prompt end users to chat proactively. Proactive chat invitations can be serviced through an automatic rules based engine or manually.
- *Multi-channel communications console.* Administrators may configure the operator console to not only handle chats but also Twitter conversations, email and SMS messages.
- *Twitter management.* Customer service teams can monitor and manage customer conversations on Twitter and handle assignment, escalation, replies and reporting in the same manner as other customer channels.
- *Co-browsing.* Chat operators can initiate a live co-browsing session with website visitors. During the session, operators can control the prospect's browser, highlight areas of interest and assist with form-filling.
- *Real time visitor monitoring.* Chat operators are provided with intelligent analytics about the visitor, including how the visitor arrived on the site, their time spent on the site, current URL and previous visits. Additionally, this information can be utilized in creating intelligence based routing and proactive chat invitations.
- *Routing & Automatic Chat Distribution.* Administrators can set up routing rules to ensure the right chats get to the right agent or group of agents. Additionally, BoldChat provides an automatic chat distribution capability that assigns chats to the most available agent based on a set of intelligent rules.
- *Reporting.* BoldChat provides the ability to report on chat activity across a single or multiple sites to determine proper staffing, identify successful proactive chat invites, track agent responsiveness and measure chat effectiveness and overall chat knowledge performance indicators, or KPI's.

## **Remote Monitoring and Management Services**

*LogMeIn Central* is a web-based management console that helps business users, IT professionals and other users deploy and administer LogMeIn Pro, LogMeIn Free and LogMeIn Hamachi. LogMeIn Central is offered as a premium service and includes the following features:

- *User management.* Account holders can manage users by setting user access controls and permissions.
- *Reporting.* Users can run various reports on account, device and session data.
- *Integrated security.* LogMeIn Central utilizes industry-standard encryption and authentication methods. In addition, LogMeIn Central also supports detailed account audit logging, including changes to account email addresses, failed attempts to login and changes to account security settings.
- *Host configuration.* LogMeIn Central enables the configuration of LogMeIn host software, including access settings, network restrictions and other compliance options.

- *Computer grouping and account personalization.* Users can organize their devices into specific groups and personalize the console to meet specific needs, including the saved searches, links to resources and customized charting and graphing.
- *One2Many tasks and commands.* When combined with LogMeIn Pro host software, LogMeIn Central enables users to push software updates, scripts and common management tasks to multiple devices simultaneously, ensuring rapid batch updates to dozens, hundreds or even thousands of devices.
- *Windows software updates automation.* When combined with LogMeIn Pro host software on Windows-based computers, LogMeIn Central enables users to schedule and push Microsoft Windows updates to one or more computers, even if those computers are not connected to a corporate local area network.
- *Anti-virus software monitoring and management.* When combined with LogMeIn Pro, users can monitor and manage third party anti-virus software on remote PCs. This capability works with hundreds of versions of anti-virus software and lets IT professionals verify installation, check virus definitions, confirm that real-time protection is enabled, see the last scan time and initiate a new scan if necessary and view a threat log of viruses on the remote computers to ensure PCs and servers are secure.

When combined with LogMeIn Pro, LogMeIn Central also provides alert and monitoring capabilities, computer inventory tracking, background login and advanced reporting and analysis. When combined with LogMeIn Hamachi, LogMeIn Central provides additional web-based management capabilities for VPN connectivity services, such as hub-and-spoke, gateway and mesh networking and advanced reporting and analysis.

In addition to being used independently as access services, LogMeIn Free and LogMeIn Pro can be used in conjunction with LogMeIn Central as a “host” application to enable IT professionals to remotely monitor and manage computers. When combined with LogMeIn Central, LogMeIn Pro provides IT professionals with additional automation, alerting and management functions. For reporting purposes, subscriptions of LogMeIn Pro that are used for this management function are counted as remote monitoring and management sales, whereas subscriptions for LogMeIn Pro used for individual access by business users are counted as access and collaboration sales.

*RemotelyAnywhere* is a systems administration product used to manage personal computers and servers from within the IT system of an enterprise. Unlike our LogMeIn services, RemotelyAnywhere is licensed to our customers on a perpetual basis. We also offer annual maintenance services that include software upgrades and services supporting 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 the LogMeIn Central or LogMeIn Pro services. LogMeIn Backup is easy to install and provides IT service providers a simple backup alternative to offer their customers using storage capacity that they control. Users can transfer specified files and folders from one computer to another either manually or automatically in accordance with a pre-determined schedule. 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 sets up a computer network among remote computers. It 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 local area network, 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.

*Cosm* is a hosted service for building and running *Internet of Things* applications. Smart devices, from connected heart monitors to connected building systems to environmental sensors are increasingly connecting to the Internet, generating data about themselves and their environment. This device generated data can be published individually or exchanged between devices. The Cosm service makes it easy for developers to connect devices to the Internet and to each other, publish and store data, and build interactive applications based on the device-created data.

## **LogMeIn Gravity Service Delivery Platform**

Many 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. This patented platform reduces our bandwidth and other infrastructure requirements, which we believe makes our services faster and less expensive to deliver as compared to competing services. Gravity consists of proprietary software applications that run on standard hardware servers and operating systems and is designed to be scalable and serve our large-scale user community at low costs.

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, 2012, 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 is physically hosted in third-party co-location facilities located in the United States and Europe. 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 load without extensive disruption to our services. During the twelve months ended December 31, 2012, our Gravity service was available 99.99% of the time.

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.

## **Sales and Marketing**

Our sales and marketing efforts are designed to attract prospects to our website, enroll them in free trials of our services and convert them to and retain them as paying customers. We also expend sales and marketing resources to attract users of our free services. We acquire new customers 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 paying customers.

## **Paid Sources of Demand Generation**

*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 suite of 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 2012, we attended approximately 56 trade shows and events in the United States, Europe and Australia.

*Offline Advertising.* Our offline print advertising is comprised of publications, such as *The Metro*, *MacLife* and *VSR Magazine*, which are targeted at IT professionals and consumers. We sponsor advertorials in regional newspapers, which target IT consumers. Additionally, we have advertised using more traditional methods, such as radio and outdoor advertising, in regional markets.

## **Unpaid Sources of Demand Generation**

*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 community of free users and paying customers. Users of most of our services, including our most popular service, LogMeIn Free, come to our website each time they initiate a new remote access session. We use this opportunity to promote additional premium services to them.

### **Other Marketing Initiatives**

*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 wants, 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 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 business problems and key market and IT trends.

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

### **Sales Efforts and Other Initiatives**

*New Account Sales.* Our sales are typically preceded by a trial of one of our services, and 98% of our purchase transactions are settled via credit card. Our sales operations team determines 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, 2012, we employed 133 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 Europe, Asia, and Australia focusing on international sales. In the years ended December 31, 2010, 2011, and 2012, we generated approximately 32%, 34%, and 35% respectively, of our revenue outside of the United States. As of December 31, 2010, 2011, and 2012 approximately 37%, 39%, and 37% of our long-lived assets were located outside of the United States.

For the twelve months ended December 31, 2010, 2011, and 2012 we spent \$45.9 million, \$57.2 million, and \$70.1 million respectively, on sales and marketing.

### **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, improve existing services and bring new services to market. Our primary engineering organization is based in Budapest, Hungary, where the first version of our service was developed. Our founding engineering team has worked together for over 10 years, designing and running large-scale Internet services. Approximately 44% of our employees, as of December 31, 2012, work in research and development. Research and development expenses totaled \$15.2 million in 2010, \$20.8 million in 2011, and \$26.4 million in 2012.

In June 2009, we received approval of a grant from the Hungarian government which reimbursed us for a portion of our Hungarian research and development related costs for a three year period, beginning in September 2008. These reimbursements were recorded as a reduction of research and development expense and totaled approximately \$200,000, \$371,000 and \$279,000 for the years ended December 31, 2009, 2010 and 2011, respectively. We did not receive any reimbursements related to this grant for the year ended December 31, 2012 and we do not expect to receive any additional reimbursements related to this grant going forward.



## **Competition**

The market for remote-access based products and services 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;
- 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-scale 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.

We also currently compete against several smaller competitors, including NTRglobal, TeamViewer, Splash-top and Bomgar. Certain of our solutions also compete with current or potential services offered by Adobe, Apple, Cisco/WebEx, Citrix, Google, LivePerson, Dropbox, Box, SugarSync, Microsoft and Oracle. Some of our competitors may also offer, currently or in the future, lower priced, or free, products or services that compete with our solutions, including Symantec's pcAnywhere and Microsoft's Remote Desktop, which comes bundled into most current versions of the Microsoft operating system, and others.

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.

## **Intellectual Property**

Our intellectual property rights are important to our business. We rely on a combination of copyright, trade secret, trademark 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 five issued patents and nine patents pending and are in the process of filing additional patent applications that cover many 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.

## **Employees**

As of December 31, 2012, we had 575 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, *Summary of Significant Accounting Policies — Segment Data*.

## **ITEM 1A. RISK FACTORS**

*These are risks and uncertainties that could cause actual results to differ materially from the results contemplated by the forward-looking statements contained in this Annual Report on Form 10-K. Because of these factors, as well as other variables affecting our operating results, past financial performance should not be considered as a reliable indicator of future performance and investors should not use historical trends to anticipate results or trends in future periods. These risks are not the only ones we face. Please also see “FORWARD-LOOKING STATEMENTS” earlier in this Annual Report on Form 10-K.*

### **RISKS RELATED TO OUR BUSINESS**

#### ***We may be unable to maintain profitability.***

We experienced net losses of \$5.4 million for 2008. During the third quarter of 2008, we achieved profitability and reported net income for the first time. We reported net income of \$8.8 million for 2009, \$21.1 million for 2010, \$5.8 million for 2011 and \$3.6 million for 2012. We cannot predict if we will sustain this profitability or, if we fail to sustain this profitability, attain profitability again in the near future or at all. We expect to continue making significant future expenditures to develop and expand our business. 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 due to the other risks described in this report and we may encounter unforeseen expenses, difficulties, complications and delays and other unknown events. Accordingly, we may not be able to maintain profitability, and we may incur significant losses for the foreseeable future.

***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.

***We are currently litigating two separate patent infringement disputes and an unfavorable outcome could have an adverse impact on our business, financial condition and operating results.***

We are currently defending a patent infringement allegation brought against us by 01 Communique Laboratory, Inc. in the Eastern District of Virginia, with a trial scheduled to begin on March 18, 2013. At this time, we cannot reasonably estimate our potential liability, if any, in connection with this matter. However, any adverse outcome in this matter, which could include any of the following, would have a material adverse effect on our business, financial condition and results of operations:

- An injunction being imposed against us, which could significantly restrict or prohibit our ability to offer all or a portion of our services to customers;
- An adverse judgment against us for significant monetary damages, including on-going license fees and royalties;
- A settlement on unfavorable terms; and/or
- The triggering of certain contractual obligations to customers related to indemnification or a breach of a contractual warranty of non-infringement.

We have also filed a Declaratory Judgment action against Pragmatum Telecom LLC, or Pragmatum, in the District of Delaware and Pragmatum has since asserted counterclaims against us. An unfavorable outcome in this matter could also adversely impact our business, financial condition and operating results.

For additional information concerning our pending patent infringement disputes, please refer to Part II, Item 3 entitled “Legal Proceedings” and note 12 of the notes to consolidated financial statements.

***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.

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

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

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

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

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

***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. For example, in July 2011 we acquired substantially all of the assets and liabilities of Connected Environments (BVI) Ltd. and Connected Environments Ltd. and their Cosm service and in January 2012 we acquired substantially all of the assets and liabilities of Bold Software, LLC and its BoldChat service. 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.

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

The integration of an acquired company such as our recent acquisition of substantially all of the assets and liabilities of Connected Environments (BVI) Ltd. and Connected Environments Ltd. and their Cosm service and our recent acquisition of substantially all of the assets and liabilities of Bold Software, LLC and its BoldChat service 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 Connected Environments, Bold Software or any other 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 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 five third-party data center facilities, of which four are located in the United States and one is located in Europe. We do not control the operation of these facilities. The owners of our data center facilities have no obligation to renew their agreements with us on commercially reasonable terms, or at all. If we are unable to renew these agreements on commercially reasonable terms, we may be required to transfer to new data center facilities, and we may incur significant costs and possible service interruption in connection with doing so.

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

Our data centers are vulnerable to damage or interruption from human error, intentional bad acts, pandemics, earthquakes, hurricanes, floods, fires, war, terrorist attacks, power losses, hardware failures, systems failures, telecommunications failures and similar events. At least one of our data facilities is located in an area known for seismic activity, increasing our susceptibility to the risk that an earthquake could significantly harm the operations of these facilities. The occurrence of a natural disaster 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.

***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 system stores our customers' confidential information, including credit card 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 possible liabilities as well as negative publicity. Techniques used to obtain unauthorized access or to sabotage systems change frequently and generally are difficult to recognize and react to. We and our third-party data center facilities may be unable to anticipate these techniques or to implement adequate preventative or reactionary measures.

In addition, many states have 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. Any security breach, whether successful or not, would harm our reputation, and it could cause the loss of customers.

***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.

***We may not be able to respond to rapid technological changes with new services, which could have a material adverse effect on our sales and profitability.***

The on-demand, cloud-based, remote-connectivity solutions market is characterized by rapid technological change, frequent new service introductions and evolving industry standards. Our ability to attract new customers and increase revenue from existing customers will depend in large part on our ability to enhance and improve our existing services, introduce new services and sell into new markets. 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 preferences 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.

We may experience difficulties with software development, industry standards, design or marketing that could delay or prevent our development, introduction or implementation of new services and enhancements. The introduction of new services by competitors, the emergence of new industry standards or the development of entirely new technologies to replace existing service offerings could render our existing or future services obsolete. If our services become obsolete due to wide-spread adoption of alternative connectivity technologies such as other Web-based computing solutions, our ability to generate revenue may be impaired. In addition, any new markets into which we attempt to sell our services, including new countries or regions, may not be receptive.

If we are unable to successfully develop or acquire new services, enhance our existing services to anticipate and meet customer preferences or sell our services into new markets, our revenue and results of operations would be adversely affected.

***The market in which we participate is 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 solutions. This competition may result in reduced prices and a substantial loss of customers for our solutions or a reduction in our revenue.

We compete with Citrix Systems, WebEx (a division of Cisco Systems) and others. Certain of our solutions, including our free remote access service, also compete with current or potential services offered by Microsoft and Apple. 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 on-demand, 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;
- 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 cyclicity in the demand for our services;
- general economic, industry and market conditions and those conditions specific to Internet usage and online businesses;
- litigation involving our company, our general industry or both;
- the purchasing and budgeting cycles of our customers;
- the financial condition of our customers; and
- geopolitical events such as war, threat of war or terrorist acts.



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

***If our services 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.***

Our services 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, such as 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, intellectual property infringement or other matters. 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 will be damaged.

***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 suffer extended periods of unavailability for our service, 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.***

We increased our revenue from \$51.7 million in 2008 to \$74.4 million in 2009 to \$101.1 million in 2010 to \$119.5 million in 2011 and to \$138.8 million in 2012. 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, which currently account for approximately 10 to 15% of our overall sales, 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 or independent consultants outside of the United States and are expanding our international operations. Our international expansion efforts may not be successful. In addition, conducting international operations subjects us to new risks that we have not generally faced in the United States.

These risks include:

- localization of our services, including translation into foreign languages and adaptation for local practices and regulatory requirements;
- lack of familiarity with and unexpected changes in foreign regulatory requirements;
- longer accounts receivable payment cycles and difficulties in collecting accounts receivable;
- difficulties in managing and staffing international operations;
- fluctuations in currency exchange rates;
- potentially adverse tax consequences, including the complexities of foreign value added or other tax systems and restrictions on the repatriation of earnings;
- dependence on certain third parties, including channel partners with whom we do not have extensive experience;
- the burdens of complying with a wide variety of foreign laws and legal standards;
- increased financial accounting and reporting burdens and complexities;
- political, social and economic instability abroad, terrorist attacks and security concerns in general; and
- reduced or varied protection for intellectual property rights in some countries.

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

***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 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.

***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 one issued patent and three 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.

***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 licensed by us incorporate so-called "open source" software, and we may incorporate open source software in the future. Such 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.

***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, 2012. 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.

***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 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. In September 2011, we agreed to make a payment in the amount of \$1.3 million to resolve uncollected sales tax claims with a state tax assessor's office.

***The loss of key personnel 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 senior management team and key technical and sales personnel, including our President and Chief Executive Officer, Chief Financial Officer and Chief Technical Officer. These officers 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 officers likely would involve significant time and costs, and the loss of these officers 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 to 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 on-demand model for the use of software.***

We derive, and expect to continue to derive, substantially all of our revenue from the sale of on-demand solutions. As a result, widespread acceptance and use of the on-demand 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 on-demand, software solutions fails to grow or grows more slowly than we currently anticipate, demand for our services could be negatively affected.

## **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 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 22, 2013, our common stock has traded as high as \$49.50 and as low as \$15.15. An active, liquid and orderly market for our common stock may not develop or be sustained, which could depress the trading price of our common stock. Some of the factors that may cause the market price of our common stock to fluctuate include:

- fluctuations in our quarterly financial results or the quarterly financial results of companies perceived to be similar to us;
- fluctuations in our recorded revenue, even during periods of significant sales order activity;
- changes in estimates of our financial results or recommendations by securities analysts;
- failure of any of our services to achieve or maintain market acceptance;
- changes in market valuations of similar companies;
- 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 involving our company, our general industry or both, 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 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 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.

***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.***

Stockholders of the Company 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 the Company's operations and diverting the attention of the Company's Board of Directors and senior management from the pursuit of business strategies. These actions could adversely affect the Company's 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.

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 22, 2013, our principal facilities consist of approximately 45,813 square feet of office space at our U.S. headquarters located at 500 Unicorn Park Drive, Woburn, Massachusetts, and approximately 37,725 square feet of space at our development facility located in Hungary. We expect to move our U.S. headquarters to a new facility consisting of 101,821 square feet of office space, located at 320 Summer Street, Boston, MA 02210, in the second quarter of 2013. We also have leased additional office space in Hungary, The Netherlands, Australia, the United Kingdom and Ireland. We believe our facilities are sufficient to support our needs through 2013 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 five data centers, four of which are located in the United States and one of which is located in Europe.

## **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, which allegedly 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. Pursuant to a Scheduling Order entered by the court on January 17, 2013, the trial in this matter is set to begin on March 18, 2013. Although we continue to believe that we have strong defenses to the claims made by 01 and intend to vigorously defend against them, litigation is inherently unpredictable. Any unfavorable outcome in this matter could prevent us from offering all or a portion of our services to customers due to an injunction or require us to pay damages or on-going license fees, which could have a material adverse effect on our financial position, results of operations or cash flows.

On November 21, 2012, we filed suit against Pragmatum Telecom LLC, or Pragmatum, in the U.S. District Court for the District of Delaware (Civil Action No. 12-1507) seeking a declaratory judgment that our products do not infringe three patents allegedly owned by Pragmatum and further requesting a declaratory judgment that those three patents are invalid. The three patents in question are U.S. Patent Nos. 6,311,231, 6,668,286 and 7,159,043, which allegedly are owned by Pragmatum and generally relate to systems for communicating with customers over traditional telephone lines and the Internet. Pragmatum has previously alleged that these patents were infringed upon by certain of our customers through their use of our products. On January 11, 2013, Pragmatum answered our complaint and asserted counterclaims against us alleging infringement. As of February 22, 2013, no trial calendar has been set in this matter.

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 consolidated financial statements.

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

None.

## 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:

	<u>High</u>	<u>Low</u>
<b>2011</b>		
First Quarter .....	\$47.85	\$33.35
Second Quarter .....	\$49.50	\$35.72
Third Quarter .....	\$39.47	\$26.74
Fourth Quarter .....	\$44.60	\$30.57
<b>2012</b>		
First Quarter .....	\$42.95	\$33.45
Second Quarter .....	\$38.00	\$29.64
Third Quarter .....	\$34.43	\$18.74
Fourth Quarter .....	\$25.12	\$19.40

#### Holders of Our Common Stock

As of February 19, 2013, there were 9 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, 2012.

#### 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.

#### Purchases of Equity Securities

We did not purchase any equity securities during the year ended December 31, 2012.

On February 14, 2013, we announced that our board of directors approved a \$25 million share repurchase program. Any share repurchases made pursuant to the program will be made from time-to-time in the open market, in privately negotiated transactions or otherwise, in accordance with applicable securities laws and regu-

lations. The timing and amount of any share repurchases will be determined by management based on its evaluation of market conditions, the trading price of the stock, regulatory requirements and other factors. The share repurchase program may be suspended, modified or discontinued at any time at management’s discretion without prior notice.

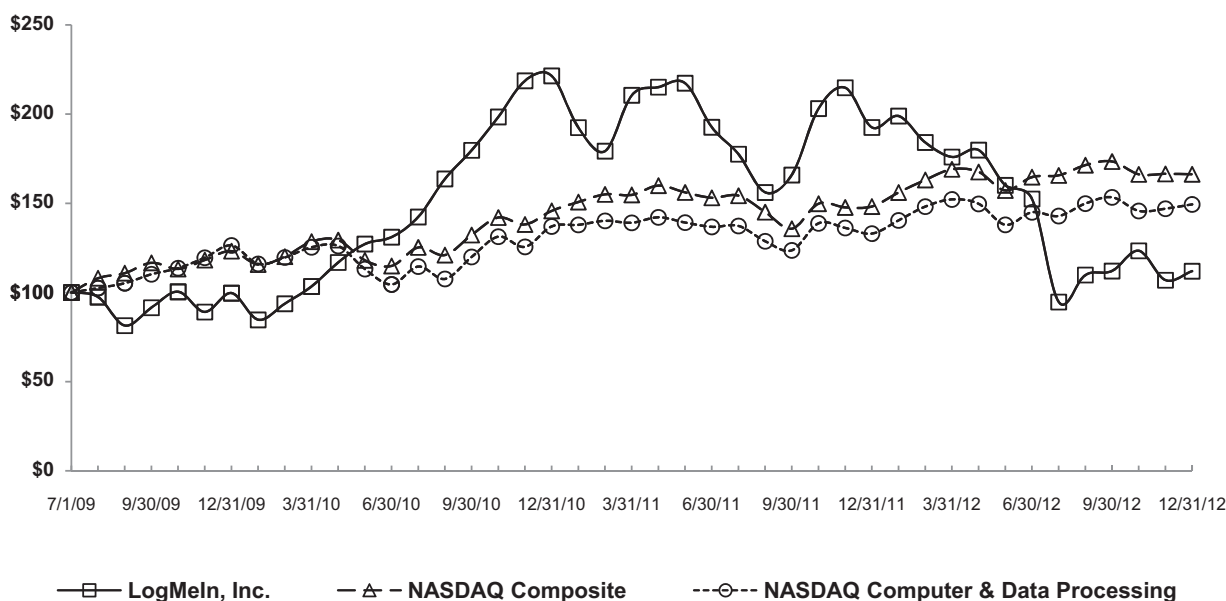
### Stock Performance Graph

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, 2012 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.

#### COMPARISON OF 42 MONTH CUMULATIVE TOTAL RETURN\*

Among LogMeln, Inc., the NASDAQ Composite Index, and the NASDAQ Computer & Data Processing Index



\*\$100 invested on 7/1/09 in stock or 6/30/09 in index, including reinvestment of dividends. Fiscal year ending December 31.

*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.*

## 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,				
	2008	2009	2010	2011	2012
	(In thousands, except for per share data)				
<b>Consolidated Statement of Operations Data:</b>					
Revenue .....	\$51,723	\$74,408	\$101,057	\$119,461	\$138,837
Cost of revenue(1) .....	<u>5,970</u>	<u>7,508</u>	<u>9,124</u>	<u>10,574</u>	<u>14,504</u>
Gross profit .....	<u>45,753</u>	<u>66,900</u>	<u>91,933</u>	<u>108,887</u>	<u>124,333</u>
Operating expenses:					
Research and development(1) .....	11,997	13,149	15,214	20,780	26,361
Sales and marketing(1) .....	31,631	35,821	45,869	57,156	70,058
General and administrative(1) .....	6,583	8,297	12,319	19,975	21,338
Legal settlements .....	600	—	—	1,250	—
Amortization of acquired intangibles(1) .....	<u>328</u>	<u>328</u>	<u>338</u>	<u>228</u>	<u>565</u>
Total operating expenses .....	<u>51,139</u>	<u>57,595</u>	<u>73,740</u>	<u>99,389</u>	<u>118,322</u>
Income (loss) from operations .....	(5,386)	9,305	18,193	9,498	6,011
Interest, net .....	217	128	634	861	887
Other expense, net .....	<u>(111)</u>	<u>(294)</u>	<u>(219)</u>	<u>(564)</u>	<u>(642)</u>
Income (loss) before provision for income taxes .....	(5,280)	9,139	18,608	9,795	6,256
Benefit (provision) for income taxes .....	<u>(122)</u>	<u>(342)</u>	<u>2,491</u>	<u>(4,034)</u>	<u>(2,690)</u>
Net income (loss) .....	(5,402)	8,797	21,099	5,761	3,566
Accretion of redeemable convertible preferred stock .....	<u>(2,348)</u>	<u>(1,311)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net income (loss) attributable to common stockholders .....	<u>\$ (7,750)</u>	<u>\$ 7,486</u>	<u>\$ 21,099</u>	<u>\$ 5,761</u>	<u>\$ 3,566</u>
Net income (loss) attributable to common stockholders per share:					
Basic .....	\$ (1.97)	\$ 0.39	\$ 0.91	\$ 0.24	\$ 0.14
Diluted .....	\$ (1.97)	\$ 0.37	\$ 0.85	\$ 0.23	\$ 0.14
Weighted average shares outstanding:					
Basic .....	3,933	12,990	23,244	24,176	24,711
Diluted .....	3,933	14,835	24,840	25,155	25,356

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

	Years Ended December 31,				
	2008	2009	2010	2011	2012
	(In thousands)				
Cost of revenue:					
Stock-based compensation .....	\$ 64	\$ 54	\$ 261	\$ 316	\$ 484
Intangible amortization .....	415	415	251	566	1,552
Research and development:					
Stock-based compensation .....	419	537	638	1,477	2,826
Sales and marketing:					
Stock-based compensation .....	962	932	1,553	2,700	4,962
General and administrative:					
Stock-based compensation .....	1,304	1,399	2,540	4,432	6,520
Amortization of acquired intangibles:					
Intangible amortization .....	328	328	338	228	565

	As of December 31,				
	2008	2009(1)	2010	2011	2012
	(In thousands)				
<b>Consolidated Balance Sheet Data:</b>					
Cash and cash equivalents and short-term marketable securities .....					
	\$ 22,913	\$130,246	\$167,424	\$198,644	\$212,092
Total assets .....	37,415	142,859	186,677	232,057	279,538
Deferred revenue, including long-term portion .....	28,358	34,103	42,793	58,264	69,649
Total liabilities .....	35,191	44,349	56,299	76,251	94,901
Redeemable convertible preferred stock .....	34,843	—	—	—	—
Total (deficit) equity .....	(32,619)	98,509	130,378	155,806	184,637

(1) Comparability affected by proceeds received from our 2009 public offerings.

## **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 essential cloud-based collaboration, IT management, and customer service offerings aimed at addressing the evolving multi-device, security, management, and accessibility requirements of the new mobile workplace. Our solutions are used by tens of millions of professionals to work from virtually anywhere on virtually any Internet-enabled device. Hundreds of thousands of small and medium businesses use our solutions to manage distributed work environments, embrace employee-owned technology in the workplace and facilitate collaboration across distributed teams. Thousands of service providers, including more than 50 of the world's largest telecommunications providers, use our solutions to service and support businesses and individual professionals across mobile, social and online channels. Our services range from free downloadable apps to state-of-the-art SaaS-based professional helpdesk solutions and are accessible from anywhere with an Internet connection. With tens of millions of users and hundreds of millions of sessions, we believe our cloud-services are used to connect more Internet-enabled devices worldwide — smartphones, tablets, PCs, Macs and sensor-enabled devices — than any other connectivity platform on the market.

We offer seven free services and ten premium services. Sales of our premium services are generated through word-of-mouth referrals, web-based advertising, expiring free trials that we convert 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, OEMs, and consumers. 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, 2012, we generated revenues of \$138.8 million, compared to \$119.5 million for the year ended December 31, 2011, an increase of approximately 16%.

In addition to selling our services to end users, we entered into a service and marketing agreement with Intel Corporation in December 2007 pursuant to which we adapted our service delivery platform, Gravity, to work with specific technology delivered with Intel hardware and software products. The agreement provided that Intel market and sell the services to its customers. Intel paid us a minimum license and service fee on a quarterly basis during the term of the agreement, and we shared with Intel revenue generated by the use of the services by third parties to the extent it exceeded certain minimum payments. We began recognizing revenue associated with the Intel service and marketing agreement in the quarter ended September 30, 2008 upon receipt of customer acceptance. In September 2010, Intel notified us that it intended to terminate the connectivity service and marketing agreement effective on December 26, 2010. In accordance with the termination provisions of the agreement, Intel paid us a one-time termination fee of \$2.5 million and did not owe us any of the \$5.0 million in fees associated with 2011, the final year of the agreement. During the year ended December 31, 2010, we recognized \$9.6 million in revenue from this agreement, which includes the \$2.5 million termination fee which was paid in December 2010.

Through December 31, 2012, 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 \$21.1 million for 2010, \$5.8 million for 2011, and \$3.6 million for 2012. 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.

- We continue to closely monitor current adverse economic conditions, particularly as they impact SMBs, IT service providers and consumers. We are unable to predict the likely duration and severity of the current adverse economic conditions in the United States and other countries, but the longer the duration the greater risks we face in operating our business.
- 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.
- 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.

## Sources of Revenue

We derive our revenue principally from subscription fees from SMBs, IT service providers, mobile carriers, customer service centers, OEMs and consumers. Our revenue is driven primarily by the number and type of our premium services for which our paying customers subscribe and is not concentrated within one customer or group of customers. 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.

In addition to our subscription fees, to a lesser extent, we generate revenue from license and annual maintenance fees from the licensing of our RemotelyAnywhere product. We license RemotelyAnywhere to our customers on a perpetual basis. Because we do not have vendor specific objective evidence of fair value, or VSOE, for our maintenance arrangements, we record the initial license and maintenance fee as deferred revenue and recognize the fees as revenue ratably, on a daily basis, over the initial maintenance period. We also initially record maintenance fees for subsequent maintenance periods as deferred revenue and recognize revenue ratably, on a daily basis, over the maintenance period. We also generate revenue from the license of our Ignition for iPhone, iPad and Android product, which is sold as a perpetual license and is recognized as delivered. In the fourth quarter of 2011, we introduced LogMeIn for iOS, a free app for iPhones and iPads, to the Apple App Store and changed our Ignition for iPhone and iPad business model from a perpetually-based licensing model to a subscription-based business model. We believe this change will have a positive impact on our business, but short-term the business model change has impacted the revenue recognized from our Ignition product.

## Employees

We have increased our number of full-time employees to 575 at December 31, 2012 as compared to 482 at December 31, 2011.

## 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 and customer support centers, including wages and benefits for personnel, telecommunication and hosting fees for our services, equipment maintenance, software license and maintenance fees and depreciation. Additionally, amortization expense associated with the acquired software and technology 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 is related to the number of customers who subscribe to our services and the complexity and redundancy of our services and hosting infrastructure. We expect cost of revenue expenses to increase in absolute dollars but remain relatively constant as a percentage of revenue as we continue to increase our number of customers over time.

*Research and Development.* Research and development expenses consist primarily of wages and benefits for development personnel, professional fees associated with outsourced development projects, facilities rent and depreciation associated with assets used in development. We have focused our research and development efforts 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. The majority of research and development costs have been expensed as incurred. However, we capitalized approximately \$0.7 million and \$0.3 million for the years ended December 31, 2012 and 2011, respectively, of costs related to internally developed computer software to be sold as a service, which was incurred during the application development stage. We expect that research and development expenses will increase in absolute dollars but remain relatively constant as a percentage of revenue primarily as a result of an increase in stock-based compensation offset by lower contingent payment costs associated with acquisitions and as we continue to enhance and expand our services and invest in research and development.

*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, professional 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 commit resources to our sales and marketing efforts. We expect that sales and marketing expenses will increase in both absolute dollars and 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, finance and accounting personnel, professional fees, insurance and other corporate expenses. We expect general and administrative expenses to increase primarily due to the significant legal costs associated with our continued defense against the patent infringement claims made by 01 Communique and the declaratory judgment action we filed against Pragmatus. Additionally, general and administrative expenses will increase as we continue to add personnel, enhance our internal information systems, incur additional expenses related to audit, accounting and insurance costs. We expect that our general and administrative expenses will significantly increase in both absolute dollars and as a percentage of revenue primarily related to defending the patent infringement claims made by 01.



## 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 our 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, the licensing of our Ignition for iPhone, iPad and Android software products, and the licensing of our RemotelyAnywhere software and its related maintenance.

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.

Revenue from the sales of our Ignition for iPhone, iPad and Android software product, which is sold as a perpetual license, is recognized when there is persuasive evidence of an arrangement, the product has been provided to the customer, the collection of the fee is probable, and the amount of the fees to be paid by the customer is 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 total consideration is recognized ratably over the term of the related agreement, or 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, related valuation allowances, 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, 2012 and 2011, our deferred tax assets consisted primarily of net operating losses, research and development credit carryforwards, and stock option 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 realized. This assessment requires judgment as to the likelihood and amounts of future taxable income by tax jurisdiction. During 2010, we reassessed the need for a valuation allowance against our deferred tax assets and concluded that it was more likely than not that we would be able to realize certain of our deferred tax assets primarily as a result of continued profitability, achieving three years of cumulative profitability and forecasted future earnings. Accordingly, we reversed the valuation allowance related to our U.S. and certain foreign deferred tax assets of \$8.6 million during the year ended December 31, 2010. As of December 31, 2012 and 2011, 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.

During 2012, we reassessed the need for a valuation allowance against our deferred tax assets related to our Cosm subsidiary and concluded that we would be able to realize the deferred tax assets as a result of projected future profitability. Accordingly, we reversed the valuation allowance related to our Cosm subsidiary of approximately \$677,000 during the year ended December 31, 2012.

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, 2012, we provided a liability of approximately \$251,000 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.

On January 2, 2013, President Barack Obama signed into law the American Taxpayer Relief Act of 2012. This law extended the federal research and development tax credit for the year ended December 31, 2012. Since the law was signed after December 31, 2012, we will record a federal income tax benefit of approximately \$140,000 related to the R&D tax credit in the 2013 financial statements.

*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 perform an annual impairment test of goodwill on the last day of our fiscal year and 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, 2012, our fair value as a whole significantly exceeds our carrying value. No impairments have been recorded through December 31, 2012.

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 one to seven years.

*Stock-Based Compensation.* Share-based awards are accounted for at fair value, which requires us to recognize compensation expense for all share-based awards granted, modified, repurchased or cancelled on or after January 1, 2006. These costs are recognized on a straight-line basis over the requisite service period for all time-based vested awards.

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 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. We recognize compensation expense for only the portion of options that are expected to vest. Accordingly, we have estimated expected forfeitures of stock options 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 option grants may not be a reliable indicator of future fair values as assumptions such as volatility may change over time.

*Loss Contingencies.* We are currently 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 sig-

nificant 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 12 to the Consolidated Financial Statements in Part II, Item 8 for a further discussion of litigation and contingencies as well as “Legal Proceedings” in Part I, Item 3.

## 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.

	<u>Years Ended December 31,</u>		
	<u>2010</u>	<u>2011</u>	<u>2012</u>
<b>Operations Data:</b>			
Revenue . . . . .	100%	100%	100%
Cost of revenue . . . . .	<u>9</u>	<u>9</u>	<u>10</u>
Gross profit . . . . .	<u>91</u>	<u>91</u>	<u>90</u>
Operating expenses:			
Research and development . . . . .	15	17	19
Sales and marketing . . . . .	46	48	51
General and administrative . . . . .	12	17	15
Legal settlements . . . . .	—	1	—
Amortization of acquired intangibles . . . . .	<u>—</u>	<u>—</u>	<u>—</u>
Total operating expenses . . . . .	<u>73</u>	<u>83</u>	<u>85</u>
Income from operations . . . . .	18	8	5
Interest and other income (expense), net . . . . .	<u>—</u>	<u>—</u>	<u>—</u>
Income before income taxes . . . . .	18	8	5
Benefit from (provision for) income taxes . . . . .	<u>3</u>	<u>(3)</u>	<u>(2)</u>
Net income . . . . .	<u>21%</u>	<u>5%</u>	<u>3%</u>

## Years Ended December 31, 2012 and 2011

*Revenue.* Revenue for the year ended December 31, 2012 was \$138.8 million, an increase of \$19.4 million, or 16%, over revenue of \$119.5 million for the year ended December 31, 2011. Of the 16% increase in revenue, the majority of the increase was due to an increase in revenue from new customers, as our total number of premium subscribers increased to approximately 462,000 at December 31, 2012 from approximately 360,000 premium subscribers at December 31, 2011, and incremental add-on revenues from our existing customer base.

*Cost of Revenue.* Cost of revenue for the year ended December 31, 2012 was \$14.5 million, an increase of \$3.9 million, or 37%, over cost of revenue of \$10.6 million for the year ended December 31, 2011. As a percentage of revenue, cost of revenue was 10% and 9% for the years ended December 31, 2012 and 2011, respectively. The increase in absolute dollars resulted primarily from 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 increase in cost of revenue was primarily due to a \$1.9 million increase in costs associated with managing our data centers and the hosting of our services. The increase was also due to a \$1.0 million increase in amortization of intangible assets primarily due to the Cosm acquisition in July 2011 and the Bold acquisition in January 2012 and a \$0.9 million increase in personnel-related costs, as we increased the number of customer support employees to support our overall growth. Included in the increase in personnel-related costs is a \$0.1 million increase in stock-based compensation.

*Research and Development Expenses.* Research and development expenses for the year ended December 31, 2012 were \$26.3 million, an increase of \$5.6 million, or 27%, over research and development expenses of \$20.8 million for the year ended December 31, 2011. As a percentage of revenue, research and development expenses were 19% and 17% for the year ended December 31, 2012 and 2011, respectively. The increase in absolute dollars was primarily due to a \$4.9 million increase in personnel-related costs as we hired additional employees to improve the ease of use and functionality of our existing services and develop new service offerings, and retained employees from the Cosm acquisition in July 2011 and the Bold acquisition in January 2012, respectively. Included in the increase in personnel-related costs is a \$1.3 million increase in stock-based compensation. The increase was also due to a \$0.3 million increase in travel-related costs, a \$0.2 million increase in professional fees, a \$0.2 million increase in rent costs, a \$0.2 million increase in hardware and software maintenance costs, and a \$0.1 million increase in depreciation expense. These were offset by a \$0.3 million increase in costs related to internally developed computer software to be sold as a service which was incurred during the application development stage and therefore capitalized rather than expensed.

*Sales and Marketing Expenses.* Sales and marketing expenses for the year ended December 31, 2012 were \$70.1 million, an increase of \$12.9 million, or 23%, over sales and marketing expenses of \$57.2 million for the year ended December 31, 2011. As a percentage of revenue, sales and marketing expenses were 51% and 48% for the year ended December 31, 2012 and 2011, respectively. The increase in absolute dollars was primarily due to a \$6.9 million increase in personnel-related and recruiting costs, as we hired additional employees to support our growth in sales and expand our marketing efforts and \$3.8 million increase in marketing program costs. Included in the increase in personnel-related and recruiting costs is a \$2.1 million increase in stock-based compensation. The increase was also due to a \$0.7 million increase in credit card processing fees, a \$0.6 million increase in professional fees, a \$0.3 million increase in travel-related costs, a \$0.2 million increase in hardware and software maintenance costs, and a \$0.2 million increase in depreciation expense.

*General and Administrative Expenses.* General and administrative expenses for the year ended December 31, 2012 were \$21.3 million, an increase of \$1.3 million, or 7%, over general and administrative expenses of \$20.0 million for the year ended December 31, 2011. As a percentage of revenue, general and administrative expenses were 15% and 17% for the year ended December 31, 2012 and 2011, respectively. The increase in absolute dollars was due to a \$3.5 million increase in personnel-related costs, primarily consisting of a \$2.1 million increase in stock-based compensation. The increase was also due to a \$0.4 million increase in accounting fees, a \$0.2 million increase in travel-related costs, a \$0.1 million increase in hardware and software maintenance costs, a \$0.1 million increase in rent expense, a \$0.1 million increase in telecom expense, a \$0.1 million increase in depreciation expense, a \$0.1 million increase in director fees, and a \$0.1 million increase in miscellaneous tax fees. These were offset by a decrease of \$1.8 million for legal costs primarily associated with our defense against the patent infringement claims made by 01 Communique and a \$1.3 million state sales tax settlement for uncollected taxes recorded in 2011.

*Legal Settlement Expenses.* Legal settlement expenses for the year ended December 31, 2012 were \$0 compared to \$1.3 million for the year ended December 31, 2011. Legal settlement expenses for the year ended December 31, 2011 were related to the License Agreement we entered into with Gemini IP LLC on April 25, 2011 (see Note 12 to the Notes to the Consolidated Financial Statements).

*Amortization of Acquired Intangibles.* Amortization of acquired intangibles for the years ended December 31, 2012 and 2011 were \$0.6 million and \$0.2 million, respectively. The amortization of intangibles for the year ended December 31, 2012 related primarily to the value of intangible assets acquired in our January 2012 acquisition of Bold. The amortization of intangibles for the year ended December 31, 2011 related primarily to the value of intangible assets acquired in our July 2006 acquisition of Applied Networking, Inc., which is fully amortized as of December 31, 2012.

*Interest and Other Income, Net.* Interest and other income, net was income of approximately \$0.2 million and \$0.3 million for the years ended December 31, 2012 and 2011, respectively. The decrease was primarily related to an increase in foreign currency losses.

*Income Taxes.* During the years ended December 31, 2012, we recorded a provision for federal, state and foreign income taxes of approximately \$2.7 million compared to a provision of \$4.0 million for the year ended

December 31, 2011. At each balance sheet date, we assess the likelihood that deferred tax assets will be realized, and recognize a valuation allowance if it is more likely than not that some portion of the deferred tax assets will not be realized. This assessment requires judgment as to the likelihood and amounts of future taxable income by tax jurisdiction. As of December 31, 2012 and 2011, we maintained a full valuation allowance related to the deferred tax assets of our Hungarian subsidiary as this entity has historical losses. During 2012, we reassessed the need for a valuation allowance against the deferred tax assets of our Cosm subsidiary and concluded that it was more likely than not that we would be able to realize these assets based upon forecasted future earnings. Accordingly, we reversed the valuation allowance related to Cosm's deferred tax assets of approximately \$677,000 during the year ended December 31, 2012. Although we believe that our tax estimates are reasonable, tax determinations involve significant judgment making and may be subject to audit by tax authorities in the ordinary course of business.

*Net Income.* We recognized net income of \$3.6 million for the year ended December 31, 2012 compared to net income of \$5.8 million for the year ended December 31, 2011. For the year ended December 31, 2012, revenue increased \$19.4 million while cost of revenue increased \$3.9 million, operating expenses increased \$18.9 million, interest and other income decreased \$0.1 million, and our tax provision decreased \$1.3 million, resulting in a \$2.2 million decrease in net income.

The \$19.4 million increase in revenue is primarily due to an increase in revenue from new customers and add-on revenues from our existing customer base, partially offset by a decrease in Ignition product revenue, mainly caused by the change in our business model related to our Ignition for iPhone and iPad app from a perpetually based licensing model to a subscription based business model.

The \$3.9 million increase in cost of revenue is primarily due to a \$1.9 million increase in costs to manage our data centers and the hosting of our services, a \$1.0 million increase in acquisition related amortization, and \$0.9 million related to an increase in personnel-related costs.

The \$18.9 million increase in operating expenses is primarily due to a \$13.0 million increase in personnel-related costs, a \$5.6 million increase in stock-based compensation, a \$3.8 million increase in marketing program costs, and a \$2.0 million increase in acquisition related costs and amortization. These are offset by a \$3.0 million decrease in patent litigation related costs and a \$1.3 million state sales tax settlement for uncollected taxes recorded in 2011.

The \$0.1 million decrease in interest and other income is primarily due to an increase in foreign currency losses.

The \$1.3 million decrease 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 \$4.0 million provision for the year ended December 31, 2011. The decrease in the tax provision is primarily due to the release of the valuation allowance relating to Cosm's deferred tax assets as of December 31, 2012.

### **Years Ended December 31, 2011 and 2010**

*Revenue.* Revenue for the year ended December 31, 2011 was \$119.5 million, an increase of \$18.4 million, or 18%, over revenue of \$101.1 million for the year ended December 31, 2010. Of the 18% increase in revenue, the majority of the increase was due to an increase in revenue from new customers, as our total number of premium accounts increased to approximately 1.0 million at December 31, 2011 from approximately 585,000 premium accounts at December 31, 2010, and incremental add-on revenues from our existing customer base. Revenue for the year ended December 31, 2010 included \$9.6 million related to the service and marketing agreement with Intel, compared to \$0 for the year ended December 31, 2011.

*Cost of Revenue.* Cost of revenue for the year ended December 31, 2011 was \$10.6 million, an increase of \$1.4 million, or 16%, over cost of revenue of \$9.1 million for the year ended December 31, 2010. As a percentage of revenue, cost of revenue was 9% for the years ended December 31, 2011 and 2010. The increase in absolute dollars resulted primarily from 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 increase in cost of revenue was primarily due to a \$0.7 mil-

lion increase in costs associated with managing our data centers and the hosting of our services. The increase was also due to a \$0.3 million increase in amortization of intangible assets primarily due to the Cosm acquisition in July 2011 and a \$0.2 million increase in personnel-related costs, including a \$0.1 million increase in stock-based compensation, as we increased the number of customer support employees to support our overall growth.

*Research and Development Expenses.* Research and development expenses for the year ended December 31, 2011 were \$20.7 million, an increase of \$5.6 million, or 37%, over research and development expenses of \$15.2 million for the year ended December 31, 2010. As a percentage of revenue, research and development expenses were 17% and 15% for the year ended December 31, 2011 and 2010, respectively. The increase in absolute dollars was primarily due to a \$4.5 million increase in personnel-related costs as we hired additional employees to improve the ease of use and functionality of our existing services and develop new service offerings, retained employees from the Cosm acquisition in July 2011, recognition of \$1.5 million of contingent payment costs also associated with the Cosm acquisition (see note 4 to the consolidated financial statements) and a \$0.8 million increase in stock-based compensation primarily resulting from our decision to issue stock options to our Hungarian employees in 2011. The increase was also due to \$0.4 million increase in professional fees, a \$0.3 million increase in depreciation expense, a \$0.1 million increase in travel-related costs, a \$0.1 million increase in rent costs, a \$0.1 million increase in hardware and software maintenance costs and \$0.1 million increase in telecom costs. These were offset by a \$0.2 million increase in costs related to internally developed computer software to be sold as a service which was incurred during the application development stage and therefore capitalized rather than expensed.

*Sales and Marketing Expenses.* Sales and marketing expenses for the year ended December 31, 2011 were \$57.2 million, an increase of \$11.3 million, or 25%, over sales and marketing expenses of \$45.9 million for the year ended December 31, 2010. As a percentage of revenue, sales and marketing expenses were 48% and 46% for the year ended December 31, 2011 and 2010, respectively. The increase in absolute dollars was primarily due to a \$6.0 million increase in personnel-related and recruiting costs, including a \$1.1 million increase in stock-based compensation, from additional employees hired to support our growth in sales and expand our marketing efforts and \$3.1 million increase in marketing program costs. The increase was also due to a \$0.5 million increase in travel-related costs, a \$0.5 increase in rent costs primarily related to the expansion of our corporate headquarters, a \$0.4 million increase in credit card processing fees, a \$0.3 million increase in hardware and software maintenance costs, a \$0.2 million increase in telecom costs and a \$0.1 million increase in depreciation expense.

*General and Administrative Expenses.* General and administrative expenses for the year ended December 31, 2011 were \$20.0 million, an increase of \$7.7 million, or 62%, over general and administrative expenses of \$12.3 million for the year ended December 31, 2010. As a percentage of revenue, general and administrative expenses were 17% and 12% for the year ended December 31, 2011 and 2010, respectively. The increase in absolute dollars was primarily due to a \$3.2 million increase in legal costs associated with our defense against the patent infringement claims made by 01 Communique. The increase was also due to a \$2.6 million increase in personnel-related costs, primarily consisting of a \$1.9 million increase in stock-based compensation, a \$1.3 million state sales tax settlement for uncollected taxes, a \$0.4 million increase in accounting fees, a \$0.2 million increase in hardware and software maintenance costs and a \$0.1 million increase in travel-related costs. These were offset by a \$0.2 million decrease in professional fees.

*Legal Settlement Expenses.* Legal settlement expenses for the year ended December 31, 2011 were \$1.3 million compared to \$0 for the year ended December 31, 2010. Legal settlement expenses for the year ended December 31, 2011 were related to the License Agreement we entered into with Gemini IP LLC on April 25, 2011 (see Note 12 to the Notes to the Consolidated Financial Statements).

*Amortization of Acquired Intangibles.* Amortization of acquired intangibles for the year ended December 31, 2011 and 2010 was \$0.2 million and \$0.3 million, respectively, and related primarily to the value of intangible assets acquired in our July 2006 acquisition of Applied Networking, Inc.

*Interest and Other Income, Net.* Interest and other income, net was income of approximately \$0.3 million and \$0.4 million for the years ended December 31, 2011 and 2010, respectively. The change was mainly due to

an increase in interest income resulting from an increase in the balance of funds invested in higher yielding marketable securities, offset by an increase in foreign currency losses.

*Income Taxes.* During the years ended December 31, 2011, we recorded a provision for federal, state and foreign income taxes of approximately \$4.0 million compared to a benefit of \$2.5 million for the year ended December 31, 2010. Our effective tax rate increased year-over-year as we released our \$8.6 million valuation allowance against primarily all of our net domestic deferred tax assets during the year ended December 31, 2010, and also as a result of losses incurred in our UK subsidiaries attributable to our Cosm acquisition for which no corresponding benefit was recognized during the year ended December 31, 2011. At each balance sheet date, we assess the likelihood that deferred tax assets will be realized, and recognize a valuation allowance if it is more likely than not that some portion of the deferred tax assets will not be realized. This assessment requires judgment as to the likelihood and amounts of future taxable income by tax jurisdiction. As of December 31, 2011 and 2010, we maintained a full valuation allowance related to the deferred tax assets of our Hungarian subsidiary. Additionally, as of December 31, 2011, we maintained a full valuation allowance against the deferred tax assets of our Cosm subsidiary. These entities have historical losses and we concluded it was not more likely than not that these deferred tax assets are realizable.

*Net Income .* We recognized net income of \$5.8 million for the year ended December 31, 2011 compared to net income of \$21.1 million for the year ended December 31, 2010. For the year ended December 31, 2011, revenue increased \$18.4 million while cost of revenue increased \$1.4 million, operating expenses increased \$25.6 million and our tax provision increased \$6.5 million, resulting in a \$15.3 million decrease in net income.

The \$18.4 million increase in revenue is primarily due to a \$28.0 million increase in revenue from new customers and add-on revenues from our existing customer base partially offset by a \$9.6 million decrease in revenue related to our Intel agreement which ended in December 2010.

The \$1.4 million increase in cost of revenue is primarily due to a \$0.7 million increase in costs to manage our data centers and the hosting of our services, a \$0.3 million increase in acquisition related amortization, and \$0.2 million related to an increase in personnel-related costs.

The \$25.6 million increase in operating expenses is primarily due to a \$7.8 million increase in personnel-related costs, a \$3.8 million increase in stock-based compensation, a \$3.6 million increase in patent litigation related costs, a \$3.1 million increase in marketing program costs, a \$1.8 million increase in acquisition related costs and amortization, a \$1.3 million state sales tax settlement, and a \$1.0 million increase in equipment and software related costs.

The \$6.5 million increase in our tax provision is primarily due to a provision for federal, state, and foreign income taxes of \$4.0 million for the year ended December 31, 2011, compared to a \$6.1 million provision for the year ended December 31, 2010, which was offset by an \$8.6 million tax benefit associated with the reversal of our valuation allowance against our domestic and certain foreign deferred tax assets.

## 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,		
	2010	2011	2012
	(In thousands)		
Net cash provided by operations . . . . .	\$ 36,469	\$ 32,871	\$ 28,257
Net cash used in investing activities . . . . .	(65,003)	(17,760)	(29,800)
Net cash provided by financing activities . . . . .	5,789	12,094	9,228
Effect of exchange rate changes . . . . .	(265)	(881)	643
Net (decrease) increase in cash . . . . .	<u>\$ (23,010)</u>	<u>\$ 26,324</u>	<u>\$ 8,328</u>

At December 31, 2012, our principal source of liquidity was cash and cash equivalents and short-term marketable securities totaling \$212.1 million. As of December 31, 2012, \$12.0 million of the \$212.1 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, \$32.9 million, and \$36.5 million for the years ended December 31, 2012, 2011, and 2010, 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. We expect that our future cash flows from operating activities will be impacted by costs associated with the relocation of our corporate headquarters to Boston, Massachusetts and by the contingent payments associated with the Cosm and Bold acquisitions. Additionally, we expect to incur significant legal costs associated with our continued defense against the patent infringement claims made by 01 Communique and the declaratory judgment action we filed against Pragmatus, which will impact our future cash flows from operating activities.

Net cash inflows from operating activities during the year ended December 31, 2011 were mainly attributable to a \$15.5 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 \$8.9 million for stock compensation, \$4.4 million for depreciation and amortization, and a \$3.8 million provision for deferred income taxes, offset by non-cash benefits, primarily including a \$5.9 million income tax benefit from the exercise of stock options. The increase in net cash inflows from operating activities were also attributable to a \$3.3 million increase in accounts payable and accrued expenses, a \$0.1 million increase in other long-term liabilities and a \$0.1 million decrease in prepaid expenses and other current assets, offset by a \$4.1 million increase in accounts receivable and a \$0.2 million increase in other assets.

### ***Cash Flows From Investing Activities***

Net cash used in investing activities was \$29.8 million, \$17.8 million, and \$65.0 million for the years ended December 31, 2012, 2011, and 2010, 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 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, 2011 was primarily related to the acquisition of Cosm for \$10.0 million and the purchase of \$150.1 million of marketable securities offset by proceeds of \$145.0 million from maturity of marketable securities. Net cash used in investing activities also related to the addition of \$2.3 million in property and equipment mainly related to the expansion and upgrade of our data center capacity as well as the expansion and upgrade of our internal IT infrastructure.



Our future capital requirements may vary materially from historical levels and will depend on many factors including, but not limited to, the relocation of our corporate headquarters to Boston, Massachusetts and the expansion of our other existing offices, the establishment of additional offices in the United States and worldwide, the expansion of our data center infrastructure, the development of new services and the expansion of our sales, support, development and marketing organizations necessary to support our growth. Since our inception, we have experienced increases in our expenditures consistent with the growth in our operations and personnel, and we anticipate that our expenditures will continue to increase in the future. We also intend to make investments in computer equipment and systems and infrastructure related to existing and new offices as we move and expand our facilities, add additional personnel and continue to grow our business. We are not currently party to any purchase contracts related to future capital expenditures.

### ***Cash Flows From Financing Activities***

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 provided by financing activities for the year ended December 31, 2011 was primarily related to \$6.2 million in proceeds received from the issuance of common stock upon exercise of stock options as well as a \$5.9 million income tax benefit from the exercise of stock options.

On July 7, 2009, we closed our IPO raising net proceeds of approximately \$82.9 million after deducting underwriting discounts and commissions and offering costs. On December 16, 2009, we closed our secondary public offering raising net proceeds of approximately \$1.2 million after deducting underwriting discounts and commissions and offering costs. 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 obtain a 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.

### **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, 2012 and the effect such obligations are expected to have on our liquidity and cash flow in future periods.

	<b>Payments Due by Period</b>				
	<b>Total</b>	<b>Less Than 1 Year</b>	<b>1-3 Years</b>	<b>3-5 Years</b>	<b>More Than 5 Years</b>
Operating lease obligations . . . . .	\$53,448,000	\$7,299,000	\$10,997,000	\$9,904,000	\$25,248,000
Hosting service agreements . . . . .	2,641,000	2,265,000	363,000	13,000	—
<b>Total . . . . .</b>	<b>\$56,089,000</b>	<b>\$9,564,000</b>	<b>\$11,360,000</b>	<b>\$9,917,000</b>	<b>\$25,248,000</b>

The commitments under our operating leases shown above consist primarily of lease payments for our future corporate headquarters located in Boston, Massachusetts (see Note 12 to the Condensed Consolidated

Financial Statements), our research and development offices in Hungary, our international sales and marketing offices located in The Netherlands, Australia, the United Kingdom, Ireland, and India, contractual obligations related to our data centers and our current corporate headquarters located in Woburn, Massachusetts.

In April 2012, we entered into a lease for a new corporate headquarters located in Boston, Massachusetts. Pursuant to the lease, the landlord is obligated to rehabilitate the existing building and we expect that the lease term will begin in April 2013 and extend through June 2023. The aggregate amount of minimum lease payments to be made over the term of the lease is approximately \$41.3 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 \$5.2 million, of which \$4.1 million will be paid in 2013. 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. The security deposit is classified as restricted cash. The lease includes an option to extend the original term of the lease for two successive five year periods.

In October 2012, we entered into a lease for new office space in Dublin, Ireland. The term of the new office space began in October 2012 and extends through September 2022. The approximate annual lease payments for the new office space are \$161,000 (EUR 122,000). The lease agreement required a security deposit of approximately \$247,000 (EUR 187,000) and contains a termination option which allows us to terminate the lease pursuant to certain lease provisions.

### **Recent Accounting Pronouncements**

In September 2011, the Financial Accounting Standards Board (“FASB”) issued an Accounting Standards Update (“ASU”) which simplifies how companies test goodwill for impairment. The ASU permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in the goodwill accounting standard. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted. We have adopted this new ASU and it did not have a material effect on our financial position, results of operations or cash flows.

In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income (Topic 220) — Presentation of Comprehensive Income (ASU 2011-05), to require an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of equity. In December 2011, the FASB issued ASU No. 2011-12, Comprehensive Income (Topic 220) — Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU 2011-05 (ASU 2011-12), which defers the effective date of only those changes in ASU 2011-05 that relate to the presentation of reclassification adjustments. ASU 2011-05 is effective for us in our first quarter of fiscal 2012 and was applied retrospectively. We have adopted ASU 2011-05 and ASU 2011-12 and it did not have a material impact on our financial position, results of operations or cash flows.

In May 2011, the FASB issued ASU No. 2011-04, Fair Value Measurement (Topic 820) — Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (ASU 2011-04), to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between GAAP and International Financial Reporting Standards. ASU 2011-04 changes certain fair value measurement principles and enhances the disclosure requirements particularly for Level 3 fair value measurements (as defined in Note 3). ASU 2011-04 was effective for us in our first quarter of fiscal 2012 and was applied prospectively. We have adopted ASU 2011-04 and it did not have a material impact on our financial position, results of operations or cash flows.

**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 result of the majority of our research and development expenditures being made from our Hungarian research and development facilities, and in our international sales and marketing offices in The Netherlands, the United Kingdom, Australia, Japan, Brazil and India. In the year ended December 31, 2012, approximately 14%, 2%, 9%, 2%, 1% and 1% of our operating expenses occurred in our operations in Hungary, The Netherlands, the United Kingdom, Australia, Japan and Ireland, respectively, and less than 1% each in Brazil and India. In the year ended December 31, 2011, approximately 15%, 4%, 6% and 2% of our operating expenses occurred in our operations in Hungary, The Netherlands, the United Kingdom and Australia, respectively, and less than 1% each in Japan, Brazil and India.

Additionally, an increasing percentage of our sales outside the United States are denominated in local currencies and, thus, also subject to fluctuations due to changes in foreign currency exchange rates. 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 are primarily consisted of cash, money market instruments, government securities and agency bonds, 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.

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

**LogMeIn, Inc.  
Index to Consolidated Financial Statements**

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors of  
LogMeIn, Inc.  
Woburn, Massachusetts

We have audited the accompanying consolidated balance sheets of LogMeIn, Inc. and subsidiaries (the “Company”) as of December 31, 2011 and 2012, and the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2012. 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, 2011 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012, 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, 2012, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 22, 2013 expressed an unqualified opinion on the Company’s internal control over financial reporting.

/s/ Deloitte & Touche LLP

Boston, Massachusetts  
February 22, 2013

**LogMeIn, Inc.**  
**Consolidated Balance Sheets**

	<b>December 31, 2011</b>	<b>December 31, 2012</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents .....	\$103,603,684	\$111,931,599
Marketable securities .....	95,040,045	100,160,889
Accounts receivable (net of allowance for doubtful accounts of \$109,000 and \$180,000 as of December 31, 2011 and December 31, 2012, respectively) .....	8,747,104	13,231,017
Prepaid expenses and other current assets .....	2,411,640	3,619,864
Deferred income tax assets .....	1,980,342	3,214,311
Total current assets .....	211,782,815	232,157,680
Property and equipment, net .....	5,202,721	6,575,671
Restricted cash .....	369,792	3,806,603
Intangibles, net .....	3,260,612	6,368,024
Goodwill .....	7,258,743	18,883,449
Other assets .....	242,122	1,550,497
Deferred income tax assets .....	3,940,312	10,195,860
Total assets .....	\$232,057,117	\$279,537,784
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable .....	\$ 6,275,163	\$ 7,773,102
Accrued liabilities .....	10,472,805	16,656,801
Deferred revenue, current portion .....	55,961,859	65,874,832
Total current liabilities .....	72,709,827	90,304,735
Deferred revenue, net of current portion .....	2,302,465	3,774,049
Other long-term liabilities .....	1,239,136	821,736
Total liabilities .....	76,251,428	94,900,520
Commitments and contingencies (Note 12)		
Preferred stock, \$0.01 par value — 5,000,000 shares authorized, 0 shares outstanding as of December 31, 2011 and December 31, 2012 .....	—	—
Equity:		
Common stock, \$0.01 par value — 75,000,000 shares authorized as of December 31, 2011 and December 31, 2012; 24,551,641 and 24,814,007 shares issued and outstanding as of December 31, 2011 and December 31, 2012, respectively .....	245,516	248,140
Additional paid-in capital .....	154,440,369	178,546,385
Retained earnings .....	2,677,128	6,242,762
Accumulated other comprehensive loss .....	(1,557,324)	(400,023)
Total equity .....	155,805,689	184,637,264
Total liabilities and equity .....	\$232,057,117	\$279,537,784

See notes to consolidated financial statements.

**LogMeIn, Inc.**  
**Consolidated Statements of Income**

	Years Ended December 31,		
	2010	2011	2012
Revenue (including \$9,580,000, \$0 and \$0 from a related party during the years ended December 31, 2010, 2011 and 2012, respectively) .....	\$101,057,207	\$119,460,926	\$138,837,125
Cost of revenue .....	9,124,645	10,573,781	14,503,859
Gross profit .....	<u>91,932,562</u>	<u>108,887,145</u>	<u>124,333,266</u>
Operating expenses			
Research and development .....	15,213,902	20,780,061	26,361,324
Sales and marketing .....	45,868,817	57,155,727	70,058,389
General and administrative .....	12,319,316	19,975,048	21,337,507
Legal settlements .....	—	1,250,000	—
Amortization of acquired intangibles .....	337,753	228,138	565,205
Total operating expenses .....	<u>73,739,788</u>	<u>99,388,974</u>	<u>118,322,425</u>
Income from operations .....	18,192,774	9,498,171	6,010,841
Interest income .....	634,657	862,966	887,315
Interest expense .....	(1,000)	(1,207)	(352)
Other expense .....	(218,816)	(564,466)	(641,439)
Income before income taxes .....	18,607,615	9,795,464	6,256,365
Benefit from (provision for) income taxes .....	2,491,029	(4,034,020)	(2,690,731)
Net income .....	<u>\$ 21,098,644</u>	<u>\$ 5,761,444</u>	<u>\$ 3,565,634</u>
Net income per share:			
Basic .....	\$ 0.91	\$ 0.24	\$ 0.14
Diluted .....	\$ 0.85	\$ 0.23	\$ 0.14
Weighted average shares outstanding:			
Basic .....	23,244,479	24,175,621	24,711,242
Diluted .....	24,839,905	25,154,599	25,356,305

See notes to consolidated financial statements.

**LogMeIn, Inc.**

**Consolidated Statements of Comprehensive Income**

	Years Ended December 31,		
	2010	2011	2012
Net income .....	<u>\$21,098,644</u>	<u>\$ 5,761,444</u>	<u>\$3,565,634</u>
Other comprehensive (loss) gain:			
Net unrealized gains (losses) on marketable securities, net of tax ..	79,570	(32,978)	56,952
Net translation (losses) gains .....	<u>(283,130)</u>	<u>(1,323,237)</u>	<u>1,100,349</u>
Total other comprehensive (loss) gain .....	<u>(203,560)</u>	<u>(1,356,215)</u>	<u>1,157,301</u>
Comprehensive income .....	<u>\$20,895,084</u>	<u>\$ 4,405,229</u>	<u>\$4,722,935</u>

See notes to consolidated financial statements.



**LogMeIn, Inc.**  
**Consolidated Statements of Equity**

	Common Stock		Additional Paid-In Capital	(Accumulated Deficit) Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Equity
	Number of Shares	Amount				
<b>Balance at January 1, 2010</b> ..	22,448,808	\$224,488	\$122,465,372	\$(24,182,960)	\$ 2,451	\$ 98,509,351
Issuance of common stock upon exercise of stock options .....	1,409,706	14,097	4,820,786	—	—	4,834,883
Income tax benefit from stock options exercises .....	—	—	1,149,843	—	—	1,149,843
Reversal of accrued offering costs in connection with secondary public offering .....	—	—	25,222	—	—	25,222
Stock-based compensation .....	—	—	4,963,875	—	—	4,963,875
Net income .....	—	—	—	21,098,644	—	21,098,644
Unrealized gain on available-for- sale securities .....					79,570	79,570
Cumulative translation adjustments .....	—	—	—	—	(283,130)	(283,130)
<b>Balance at December 31, 2010</b>	<u>23,858,514</u>	<u>238,585</u>	<u>133,425,098</u>	<u>(3,084,316)</u>	<u>(201,109)</u>	<u>130,378,258</u>
Issuance of common stock upon exercise of stock options .....	693,127	6,931	6,200,198			6,207,129
Income tax benefit from stock options exercises .....			5,886,968			5,886,968
Stock-based compensation .....			8,928,105			8,928,105
Net income .....				5,761,444		5,761,444
Unrealized loss on available-for- sale securities .....					(32,978)	(32,978)
Cumulative translation adjustments .....					(1,323,237)	(1,323,237)
<b>Balance at December 31, 2011</b>	<u>24,551,641</u>	<u>245,516</u>	<u>154,440,369</u>	<u>2,677,128</u>	<u>(1,557,324)</u>	<u>155,805,689</u>
Issuance of common stock upon exercise of stock options .....	262,366	2,624	2,679,237			2,681,861
Income tax benefit from stock options exercises .....			6,634,626			6,634,626
Stock-based compensation .....			14,792,153			14,792,153
Net income .....				3,565,634		3,565,634
Unrealized gain on available-for- sale securities .....					56,952	56,952
Cumulative translation adjustments .....					1,100,349	1,100,349
<b>Balance at December 31, 2012</b>	<u>24,814,007</u>	<u>\$248,140</u>	<u>\$178,546,385</u>	<u>\$ 6,242,762</u>	<u>\$ (400,023)</u>	<u>\$184,637,264</u>

See notes to consolidated financial statements.

**LogMeIn, Inc.**

**Consolidated Statements of Cash Flows**

	Years Ended December 31,		
	2010	2011	2012
<b>Cash flows from operating activities</b>			
Net income	\$ 21,098,644	\$ 5,761,444	\$ 3,565,634
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	3,719,721	4,402,592	6,099,593
Amortization of premium on investments	239,090	133,547	53,855
Provision for bad debts	87,500	85,000	100,000
(Benefit from) provision for deferred income taxes	(2,673,141)	3,793,440	(830,599)
Income tax benefit from the exercise of stock options	(1,149,843)	(5,886,968)	(6,634,625)
Stock-based compensation	4,991,715	8,924,623	14,792,153
(Gain) loss on disposal of equipment	(1,882)	(396)	12,551
Changes in assets and liabilities:			
Accounts receivable	(682,247)	(4,087,712)	(4,471,236)
Prepaid expenses and other current assets	(1,071,375)	493,978	(1,070,297)
Other assets	2,899	(215,102)	(1,308,375)
Accounts payable	(331,753)	3,787,188	1,552,346
Accrued liabilities	3,643,713	(530,853)	5,815,827
Deferred revenue	8,690,287	15,471,169	10,959,853
Other long-term liabilities	(94,775)	738,980	(417,399)
Fair value adjustment to contingent consideration	—	—	37,970
Net cash provided by operating activities	36,468,553	32,870,930	28,257,251
<b>Cash flows from investing activities</b>			
Purchases of marketable securities	(185,348,800)	(150,065,750)	(135,084,650)
Proceeds from sale or disposal of marketable securities	125,000,000	145,000,000	130,000,000
Purchases of property and equipment	(4,243,166)	(2,322,480)	(5,277,226)
Intangible asset additions	(416,062)	(346,375)	(1,048,830)
Cash paid for acquisition, net of cash acquired	—	(10,000,000)	(14,831,525)
Decrease (increase) in restricted cash and deposits	5,118	(25,569)	(3,557,760)
Net cash used in investing activities	(65,002,910)	(17,760,174)	(29,799,991)
<b>Cash flows from financing activities</b>			
Payments of issuance costs related to secondary offering of common stock	(195,840)	—	—
Proceeds from issuance of common stock upon option exercises	4,834,883	6,207,129	2,681,861
Income tax benefit from the exercise of stock options	1,149,843	5,886,968	6,634,625
Payment of contingent consideration	—	—	(89,012)
Net cash provided by financing activities	5,788,886	12,094,097	9,227,474
Effect of exchange rate changes on cash and cash equivalents and restricted cash	(264,543)	(881,156)	643,181
Net (decrease) increase in cash and cash equivalents	(23,010,014)	26,323,697	8,327,915
Cash and cash equivalents, beginning of period	100,290,001	77,279,987	103,603,684
Cash and cash equivalents, end of period	\$ 77,279,987	\$ 103,603,684	\$ 111,931,599
<b>Supplemental disclosure of cash flow information</b>			
Cash paid for interest	\$ 1,000	\$ 1,207	\$ 352
Cash paid for income taxes	\$ 612,566	\$ 356,162	\$ 1,802,439
<b>Noncash investing and financing activities</b>			
Purchases of property and equipment included in accounts payable and accrued liabilities	\$ 388,501	\$ 670,744	\$ 742,142
Fair value of contingent consideration in connection with acquisition included in accrued liabilities and other long term liabilities	\$ —	\$ 212,536	\$ 161,494

See notes to consolidated financial statements.

## LogMeIn, Inc.

### Notes to Consolidated Financial Statements

#### 1. Nature of the Business

LogMeIn, Inc. (the “Company”) provides essential cloud-based services for remote access, device management, collaboration, data management and customer care. The Company’s product line includes BoldChat<sup>®</sup>, Cosm<sup>™</sup>, Cubby<sup>™</sup>, join.me<sup>®</sup>, LogMeIn Free<sup>®</sup>, LogMeIn Pro<sup>®</sup>, LogMeIn<sup>®</sup> Central<sup>™</sup>, LogMeIn Rescue<sup>®</sup>, LogMeIn<sup>®</sup> Rescue+Mobile<sup>™</sup>, LogMeIn Backup<sup>®</sup>, LogMeIn Ignition<sup>™</sup>, LogMeIn for iOS, LogMeIn Hamachi<sup>®</sup>, and RemotelyAnywhere<sup>®</sup>. The Company is based in Woburn, Massachusetts with wholly-owned subsidiaries in Hungary, The Netherlands, Australia, the United Kingdom, Brazil, Japan, India and Ireland.

#### 2. Summary of Significant Accounting Policies

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

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

*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 income 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, 2011 and December 31, 2012, marketable securities consisted of U.S. government agency securities that have remaining maturities within two years and have an aggregate amortized cost of \$95,051,808 and \$100,082,602 and an aggregate fair value of \$95,040,045 and \$100,160,889, including \$102,552 and \$82,787 of unrealized gains and \$114,315 and \$4,500 of unrealized losses, respectively.

*Restricted Cash* — As of December 31, 2011 and 2012, the Company had a letter of credit of \$125,000 from a bank. The letter of credit was issued in lieu of a security deposit on its Woburn, Massachusetts office lease. The letter of credit is secured by a certificate of deposit in the same amount which is held at the same financial institution. As of December 31, 2012, this amount was classified as short-term restricted cash and included in prepaid expenses and other current assets in the accompanying consolidated balance sheets.

At December 31, 2011 and 2012, the Company had a security deposit with a bank related to its Budapest, Hungary office lease in the amount of 170,295 Euro and 230,660 Euro, respectively (which totaled \$219,988 and \$305,844 at December 31, 2011 and 2012, respectively). At December 31, 2011 and 2012, the Company had a bank guarantee related to its Sydney, Australia office in the amount of 24,375 AUD and 25,177 AUD respectively, (which totaled \$24,808 and \$26,119 at December 31, 2011 and 2012, respectively). 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 long-term restricted cash in the accompanying consolidated balance sheets.

*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.

Activity in the allowance for doubtful accounts was as follows:

	December 31,		
	2010	2011	2012
Balance, beginning . . . . .	\$ 83,116	\$110,751	\$108,742
Provision for bad debt . . . . .	87,500	85,000	100,000
Uncollectible accounts written off . . . . .	59,865	87,009	29,241
Balance, ending . . . . .	<u>\$110,751</u>	<u>\$108,742</u>	<u>\$179,501</u>

*Property and Equipment* — Property and equipment are recorded at cost and depreciated using the straight-line method over the estimated useful lives of the related assets. Upon retirement or sale, the cost of the assets disposed of and the related accumulated depreciation are eliminated from the accounts, and any resulting gain or loss is reflected in the consolidated statements of income. Expenditures for maintenance and repairs are charged to expense as incurred.

Estimated useful lives of assets are as follows:

Computer equipment and software . . . . .	2 —3 years
Office equipment . . . . .	3 years
Furniture and fixtures . . . . .	5 years
Leasehold Improvements . . . . .	Shorter of lease term or estimated useful life

*Goodwill* — Goodwill is the excess of the acquisition price over the fair value of the tangible and identifiable intangible net assets acquired related to the Bold acquisition in January 2012 and the Cosm acquisition in July 2011 (see Note 4) and the Applied Networking acquisition in July 2006. The Company does not amortize goodwill, but performs an annual impairment test of goodwill on the last day of its fiscal year and whenever events and circumstances indicate that the carrying amount of goodwill may exceed its fair value. The Company operates as a single operating segment with one reporting unit and consequently evaluates goodwill for impairment based on an evaluation of the fair value of the Company as a whole. As of December 31, 2012, the fair value of the Company as a whole significantly exceeds the carrying amount of the Company. Through December 31, 2012, no impairments have occurred.

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

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets, including intangible assets, may not be recoverable. When such events occur, the Company compares the carrying amounts of the assets to their undiscounted expected future cash flows. If this comparison indicates that there is impairment, the amount of the impairment is calculated as the difference between the carrying value and fair value. Through December 31, 2012, no impairments have occurred.

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

Revenue from the Company's LogMeIn 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. The Company's software cannot be run on another entity's hardware nor do customers have the right to take possession of the software and use it on their own or another entity's hardware.

Revenue from the sales of the Company's Ignition for iPhone, iPad and Android software product, which is sold as a perpetual license, is recognized when there is persuasive evidence of an arrangement, the product has been provided to the customer, the collection of the fee is probable, and the amount of the fees to be paid by the customer is fixed and determinable.

The Company's multi-element arrangements typically include subscription and professional services, which may include development services. The Company evaluates each element within the arrangement to determine if they can be accounted for as separate units of accounting. If the delivered item or items have value to the customer on a standalone basis, either because they are sold separately by any vendor or the customer could resell the delivered item or items on a standalone basis, the Company has determined that the deliverables within these arrangements qualify for treatment as separate units of accounting. Accordingly, the Company recognizes revenue for each delivered item or items as a separate earnings process commencing when all of the significant performance obligations have been performed and when all the revenue recognition criteria have been met. In cases where the Company has determined that the delivered items within its multi-element arrangements do not have value to the customer on a stand-alone basis, the arrangement is accounted for as a single unit of accounting and the total consideration is recognized ratably over the term of the related agreement, or 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.

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

*Deferred Revenue* — Deferred revenue primarily consists of billings and payments received in advance of revenue recognition. The Company primarily bills and collects payments from customers for products and services in advance on a monthly and annual basis. Deferred revenue to be recognized in the next twelve months is included in current deferred revenue, and the remaining amounts are included in long-term deferred revenue in the consolidated balance sheets.

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

As of December 31, 2011 and 2012, no customers accounted for more than 10% of accounts receivable and there were no customers that represented 10% or more of revenue for the years ended December 31, 2010, 2011, or 2012.

*Legal costs* — Legal expenditures are expensed as incurred.

*Research and Development* — Research and development expenditures are expensed as incurred.

In June 2009, the Company received approval of a grant from the Hungarian government which reimburses it for a portion of its Hungarian research and development related costs for a three year period, beginning in September 2008. These reimbursements are recorded as a reduction of research and development expense and totaled approximately \$371,000 and \$279,000 for the years ended December 31, 2010, and 2011, respectively. The Company did not receive any reimbursements related to this grant for the year ended December 31, 2012 and does not expect to receive any additional reimbursements related to this grant going forward.

*Software Development Costs* — The Company has determined that technological feasibility of its software products that are sold as a perpetual license is reached shortly before their introduction to the marketplace. As a result, development costs incurred after the establishment of technological feasibility and before their release to the marketplace have not been material and such costs have been expensed as incurred.

The Company capitalizes certain direct costs to develop functionality as well as certain upgrades and enhancements of its on-demand products that are probable to result in additional functionality. The costs incurred in the preliminary stages of development are expensed as incurred. Once an application has reached the development stage, internal and external costs, if direct and incremental, are capitalized as part of intangible assets until the software is substantially complete and ready for its intended use. Internally developed software costs that are capitalized are classified as intangible assets and amortized over a three year period in the expense category to which the software relates.

*Foreign Currency Translation* — The functional currency of operations outside the United States of America is deemed to be the currency of the local country. Accordingly, the assets and liabilities of the Company's foreign subsidiaries are translated into United States dollars using the period-end exchange rate, and income and expense items are translated using the average exchange rate during the period. Cumulative translation adjustments are reflected as a separate component of equity. Foreign currency transaction gains and losses are charged to operations. The Company had foreign currency losses of approximately \$219,000, \$564,000, and \$641,000 for the years ended December 31, 2010, 2011, and 2012 included in other expense in the consolidated statements of income.

*Stock-Based Compensation* — Stock-based compensation is measured based upon the grant date fair value and recognized as an expense on a straight line basis in the financial statements over the vesting period of the award for those awards expected to vest. The Company uses the Black-Scholes option pricing model to estimate the grant date fair value of stock awards. The Company uses the with-or-without method to determine when it will realize excess tax benefits from stock based compensation. Under this method, the Company will realize these excess tax benefits only after it realizes the tax benefits of net operating losses from operations.

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

The Company evaluates its uncertain tax positions based on a determination of whether and how much of a tax benefit taken by the Company in its tax filings or positions is more likely than not to be realized. Potential interest and penalties associated with any uncertain tax positions are recorded as a component of income tax expense. As of December 31, 2012, the Company has provided a liability for approximately \$251,000 for uncertain tax positions. These uncertain tax positions would impact the Company's effective tax rate if recognized.

*Advertising Costs* — The Company expenses advertising costs as incurred. Advertising expense for the years ended December 31, 2010, 2011, and 2012 was approximately \$17,678,000, \$20,458,000, and \$23,755,000 respectively, which consisted primarily of online paid searches, banner advertising, and other online marketing and is included in sales and marketing expense in the accompanying consolidated statements of income.

*Comprehensive Income* — Comprehensive income is the change in stockholders' equity during a period relating to transactions and other events and circumstances from non-owner sources and currently consists of net income, foreign currency translation adjustments, and unrealized gains and losses, net of tax on available-for-sale securities. Accumulated other comprehensive loss was approximately \$1,557,000 at December 31, 2011 and consisted of \$1,550,000 related to foreign currency translation adjustments and \$7,000 of unrealized losses, net of tax on available-for-sale securities. Accumulated comprehensive loss was approximately \$400,000 at December 31, 2012 and consisted of \$450,000 related to foreign currency translation adjustments offset by \$50,000 of unrealized gains, net of tax on available-for sale securities.

*Fair Value of Financial Instruments* — The carrying value of the Company's financial instruments, including cash equivalents, restricted cash, accounts receivable, and accounts payable, approximate their fair values due to their short maturities.

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

The Company's revenue (based on customer address) and long-lived assets by geography are as follows:

	<b>Years Ended December 31,</b>		
	<b>2010</b>	<b>2011</b>	<b>2012</b>
<b>Revenues:</b>			
United States(1) . . . . .	\$ 68,960,000	\$ 79,050,000	\$ 90,233,000
United Kingdom . . . . .	8,871,000	10,652,000	12,846,000
International — all other . . . . .	23,226,000	29,759,000	35,758,000
Total revenue . . . . .	<u>\$101,057,000</u>	<u>\$119,461,000</u>	<u>\$138,837,000</u>
<b>Long-lived assets:</b>			
United States . . . . .	\$ 3,894,000	\$ 3,177,000	\$ 4,129,000
Hungary . . . . .	1,700,000	1,373,000	1,599,000
United Kingdom . . . . .	385,000	264,000	530,000
International — all other . . . . .	219,000	389,000	318,000
Total long-lived assets . . . . .	<u>\$ 6,198,000</u>	<u>\$ 5,203,000</u>	<u>\$ 6,576,000</u>

(1) United States revenue for the year ended December 31, 2010 includes \$9,580,000 in revenue associated with the Intel Agreement.

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

The Company excluded the following options to purchase common shares and restricted stock units because they had anti-dilutive impact:

	<b>Years Ended December 31,</b>		
	<b>2010</b>	<b>2011</b>	<b>2012</b>
Options to purchase common shares . . . . .	1,098,775	983,900	1,679,168
Restricted stock units . . . . .	—	—	146,452
Total options and restricted stock units . . . . .	<u>1,098,775</u>	<u>983,900</u>	<u>1,825,620</u>

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

	<u>Year Ended December 31, 2010</u>
<b><u>Basic:</u></b>	
Net income .....	\$21,098,644
Weighted average common shares outstanding, basic .....	23,244,479
Net income, basic .....	\$ 0.91
<b><u>Diluted:</u></b>	
Net income .....	\$21,098,644
Weighted average common shares outstanding .....	23,244,479
Add: Options to purchase common shares .....	1,595,426
Weighted average common shares outstanding, diluted .....	24,839,905
Net income, diluted .....	\$ 0.85
	<u>Year Ended December 31, 2011</u>
<b><u>Basic:</u></b>	
Net income .....	\$ 5,761,444
Weighted average common shares outstanding, basic .....	24,175,621
Net income, basic .....	\$ 0.24
<b><u>Diluted:</u></b>	
Net income .....	\$ 5,761,444
Weighted average common shares outstanding .....	24,175,621
Add: Options to purchase common shares .....	978,978
Weighted average common shares outstanding, diluted .....	25,154,599
Net income, diluted .....	\$ 0.23
	<u>Year Ended December 31, 2012</u>
<b><u>Basic:</u></b>	
Net income .....	\$ 3,565,634
Weighted average common shares outstanding, basic .....	24,711,242
Net income, basic .....	\$ 0.14
<b><u>Diluted:</u></b>	
Net income .....	\$ 3,565,634
Weighted average common shares outstanding .....	24,711,242
Add: Common stock equivalents .....	645,063
Weighted average common shares outstanding, diluted .....	25,356,305
Net income, diluted .....	\$ 0.14



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

The Company has entered into agreements with certain customers that contractually obligate the Company to indemnify the customer from certain claims alleging that the Company's products infringe third-party patents, copyrights, or trademarks. The term of these indemnification obligations is generally perpetual. The maximum potential amount of future payments the Company could be required to make under these indemnification obligations is unlimited. Through December 31, 2012, the Company has not experienced any losses related to these indemnification obligations.

On March 15, 2012, the Company received a request for indemnification from a customer in connection with a third-party claim that the customer's use of a LogMeIn service infringed the third party's patent. The Company was able to utilize funds from a designated escrow arrangement associated with a recent acquisition to settle this matter in September 2012 without any impact on the Company's financial statements.

In October 2012, the Company was notified by four of its customers that they have received letters from Pragmatus Telecom LLC, or Pragmatus, claiming that their use of certain LogMeIn services infringe upon three patents allegedly owned by Pragmatus. The Company received similar notifications from two other customers during November 2012. On November 21, 2012, the Company filed suit against Pragmatus in the U.S. District Court for the District of Delaware seeking a declaratory judgment that the Company's products do not infringe the three patents allegedly owned by Pragmatus and further requesting a declaratory judgment that those three patents are invalid. See Note 12 for additional information about the Pragmatus proceedings. The Company is unable to reasonably estimate a potential range of loss or expense associated with this matter at this time.

*Recently Issued Accounting Pronouncements* — In September 2011, the Financial Accounting Standards Board ("FASB") issued an Accounting Standards Update ("ASU") which simplifies how companies test goodwill for impairment. The ASU permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in the goodwill accounting standard. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted. The Company adopted this new ASU and it did not have a material effect on its financial position, results of operations or cash flows.

In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income (Topic 220) — Presentation of Comprehensive Income (ASU 2011-05), to require an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of equity. In December 2011, the FASB issued ASU No. 2011-12, Comprehensive Income (Topic 220) — Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU 2011-05 (ASU 2011-12), which defers the effective date of only those changes in ASU 2011-05 that relate to the presentation of reclassification adjustments. ASU 2011-05 was effective for the Company in its first quarter of fiscal 2012 and was applied retrospectively. The Company adopted ASU 2011-05 and ASU 2011-12 and they did not have a material impact on its financial position, results of operations or cash flows.

In May 2011, the FASB issued ASU No. 2011-04, Fair Value Measurement (Topic 820) — Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (ASU 2011-04), to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure

requirements are similar between GAAP and International Financial Reporting Standards. ASU 2011-04 changes certain fair value measurement principles and enhances the disclosure requirements particularly for Level 3 fair value measurements (as defined in Note 3). ASU 2011-04 was effective for the Company in its first quarter of fiscal 2012 and was applied prospectively. The Company adopted ASU 2011-04 and it did not have a material impact on its financial position, results of operations or cash flows.

### 3. Fair Value of Financial Instruments

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

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

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

Level 3: Unobservable inputs that reflect the Company's assumptions about the assumptions that market participants would use in pricing the asset or liability.

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

	Basis of Fair Value Measurements			
	Balance	Quoted Prices in Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Balance at December 31, 2011</b>				
Cash equivalents — money market funds . . . . .	\$ 53,839,536	\$53,839,536	\$ —	\$ —
Cash equivalents — bank deposits . . .	5,032,135	—	5,032,135	—
Short-term marketable securities — U.S. government agency securities . . . . .	95,040,045	85,040,105	9,999,940	—
Contingent consideration liability . . .	212,536	—	—	212,536
<b>Balance at December 31, 2012</b>				
Cash equivalents — money market funds . . . . .	49,209,098	49,209,098	—	—
Cash equivalents — bank deposits . . .	5,037,169	—	5,037,169	—
Short-term marketable securities — U.S. government agency securities . . . . .	100,160,889	90,138,019	10,022,870	—
Contingent consideration liability . . .	161,494	—	—	161,494

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

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

	Years Ended December 31,	
	2011	2012
Balance beginning of period	\$ —	\$212,536
Additions to Level 3	192,561	—
Payments	—	(89,012)
Change in fair value (included within research and development expense)	19,975	37,970
Balance end of period	<u>\$212,536</u>	<u>\$161,494</u>

#### 4. Acquisitions

On July 19, 2011, the Company acquired substantially all of the assets of Connected Environments (BVI) Limited, a British Virgin Island limited company and Connected Environments, Limited, a U.K. limited company (collectively, “Connected Environments”), primarily including their Cosm service, for an initial cash payment of \$10 million plus contingent payments totaling up to \$5.2 million. The Cosm service is a cloud-based connectivity and data management platform for the Internet of Things. The Company acquired Cosm to expand its capabilities with embedded devices and enter into the Internet of Things market.

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

The purchase price was allocated as follows:

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

The asset purchase agreement included a contingent payment provision requiring the Company to make additional payments to the shareholders of Connected Environments, as well as certain employees, on the first and second anniversaries of the acquisition, contingent upon the continued employment of certain employees and the achievement of certain product performance metrics. The range of the contingent payments that the Company could pay is between \$0 to \$4,898,000. The Company has concluded that the arrangement is a compensation arrangement and is accruing the maximum payout ratably over the performance period, as it believes it is probable that the criteria will be met. The Company paid approximately \$1.7 million of contingent payments in July 2012 and expects to pay the remaining \$3.2 million in July 2013.

The asset purchase agreement also includes a contingent payment provision to a non-employee shareholder for an amount between \$0 and \$267,000, which the Company has concluded is part of the purchase price. This

contingent liability was recorded at its fair value of \$192,561 at the acquisition date. The Company continues to re-measure the fair value of the consideration at each subsequent reporting period and recognizes any adjustments to fair value as part of earnings. The Company classifies the cash payments made to the non-employee shareholder as a financing activity within the statement of cash flows, while changes in the fair value of the liability are classified as cash flows from operations.

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

The Company incurred approximately \$0.3 million of acquisition-related costs which are included in general and administrative expense for the year ended December 31, 2011.

On January 6, 2012, the Company acquired substantially all of the assets of Bold Software, LLC (“Bold”), a Wichita, Kansas-based limited liability corporation, for a cash purchase price of approximately \$15.3 million plus contingent, retention-based bonuses totaling \$1.5 million, which are expected to be paid over a two year period from the date of acquisition. Bold is a leading provider of web chat and customer communications software. Bold’s operating results, of which there was approximately \$4.4 million of revenue, and \$5.3 million of expenses as of December 31, 2012, are included in the condensed consolidated financial statements beginning on the acquisition date.

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

The purchase price was allocated as follows:

	<u>Amount</u>
Cash . . . . .	\$ 482,000
Current assets . . . . .	126,000
Other assets . . . . .	19,000
Deferred revenue . . . . .	(424,000)
Other liabilities . . . . .	(107,000)
Completed technology . . . . .	1,090,000
Trade name and trademark . . . . .	30,000
Customer relationships . . . . .	2,760,000
Non-compete agreements . . . . .	160,000
Goodwill . . . . .	<u>11,178,000</u>
Total purchase price . . . . .	<u>\$15,314,000</u>

The pro forma results of operations for the year ended December 31, 2011 assuming the Company had acquired Bold on January 1, 2011, do not differ materially from those reported in the Company’s consolidated statement of income for that year.

The asset purchase agreement included a contingent, retention-based bonus program provision requiring the Company to make additional payments to employees, including former Bold owners now employed by the Company, on the first and second anniversaries of the acquisition, contingent upon their continued employment. The range of the contingent, retention-based bonus payments that the Company could pay is between \$0 to \$1,500,000. The Company has concluded that the arrangement is a compensation arrangement and is accruing the maximum payout ratably over the performance period, as it believes it is probable that the criteria will be met. On January 15, 2013, the Company paid \$484,000 in contingent, retention-based bonus payments and expects to pay \$1.0 million in January 2014.

The goodwill recorded in connection with this transaction is primarily related to the expected synergies to be achieved related to the Company's ability to leverage its existing sales and marketing capacity and customer base to accelerate BoldChat sales, and the ability to leverage Bold's technology with the Company's existing support service. All goodwill acquired is expected to be deductible for income tax purposes.

The Company incurred approximately \$0.1 million of acquisition-related costs which are included in general and administrative expense for the year ended December 31, 2011, and \$0.1 million of acquisition-related for the year ended December 31, 2012.

## 5. Goodwill and Intangible Assets

The changes in the carry amounts of goodwill for the years ended December 31, 2011 and 2012 are due to the addition of goodwill resulting from the Cosm and Bold acquisitions and the impact of foreign currency translation adjustments related to asset balances that are recorded in non-U.S. currencies.

Changes in goodwill for the years ended December 31, 2011 and 2012, are as follows:

Balance, December 31, 2010	\$ 615,299
Goodwill related to the acquisition of Cosm	6,934,966
Foreign currency translation adjustments	(291,522)
Balance, December 31, 2011	\$ 7,258,743
Goodwill related to the acquisition of Bold	11,178,000
Foreign currency translation adjustments	446,706
Balance, December 31, 2012	<u>\$18,883,449</u>

Intangible assets consist of the following:

	Estimated Useful Life	December 31, 2011			December 31, 2012		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Identifiable intangible assets:							
Trademark	1-5 years	\$ 635,506	\$ 635,506	\$ —	\$ 665,844	\$ 665,844	\$ —
Customer base	5-7 years	1,003,068	1,003,068	—	3,789,117	1,447,297	2,341,820
Domain names	5 years	222,826	51,499	171,327	534,257	137,378	396,879
Software	4 years	298,977	298,977	—	298,977	298,977	—
Technology	3-6 years	1,361,900	1,361,900	—	2,463,402	1,580,896	882,506
Technology and know-how	3-6 years	3,113,381	469,376	2,644,005	3,256,803	1,576,600	1,680,203
Non-Compete agreements	5 years	—	—	—	161,691	8,721	152,970
Internally developed software	3 years	539,612	94,332	445,280	1,281,589	367,943	913,646
		<u>\$7,175,270</u>	<u>\$3,914,658</u>	<u>\$3,260,612</u>	<u>\$12,451,680</u>	<u>\$6,083,656</u>	<u>\$6,368,024</u>

In 2012, as a result of the Bold acquisition, the Company capitalized \$1,090,000 of technology, \$30,000 of trade names and trademarks, \$2,760,000 of customer base and \$160,000 of non-compete agreements as intangible assets. Changes in the gross carrying amount of the intangible assets are due to foreign currency translation adjustments. The Company is amortizing the intangible assets based upon the pattern in which their economic benefit will be realized, or if this pattern cannot be reliably determined, using the straight-line method over their estimated useful lives. The intangible assets have estimated useful lives which range from one to seven years.

The Company capitalized costs related to internally developed computer software to be sold as a service incurred during the application development stage of \$325,670 and \$741,977 during 2011 and 2012, respectively, and is amortizing these costs over the expected lives of the related services. The Company paid \$20,706 and \$311,431 during 2011 and 2012, respectively, to acquire domain names.

The Company is amortizing the intangible assets over the estimated useful lives noted above. Amortization expense for intangible assets was \$589,612, \$794,112 and \$2,117,590 for the years ended December 31, 2010, 2011 and 2012, respectively. Amortization relating to software, technology and know-how and internally developed software is recorded within cost of revenues and the amortization of trademark, customer base, and domain names is recorded within operating expenses. Future estimated amortization expense for intangible assets is as follows at December 31, 2012:

<u>Amortization Expense (Years Ending December 31)</u>	<u>Amount</u>
2013 .....	2,325,692
2014 .....	1,783,789
2015 .....	944,588
2016 .....	602,563
2017 .....	412,704
Thereafter .....	<u>298,688</u>
Total .....	<u>\$6,368,024</u>

## 6. Property and Equipment

Property and equipment consisted of the following:

	<u>December 31,</u>	
	<u>2011</u>	<u>2012</u>
Computer equipment and software .....	\$ 12,681,306	\$ 15,616,589
Office equipment .....	1,593,117	1,947,310
Furniture & fixtures .....	1,293,481	1,438,211
Construction in Progress .....	—	1,071,892
Leasehold improvements .....	<u>1,367,160</u>	<u>1,845,103</u>
Total property and equipment .....	16,935,064	21,919,105
Less accumulated depreciation and amortization .....	<u>(11,732,343)</u>	<u>(15,343,434)</u>
Property and equipment, net .....	<u>\$ 5,202,721</u>	<u>\$ 6,575,671</u>

Depreciation expense for property and equipment was \$3,130,559, \$3,608,480 and \$3,982,003 for the years ended December 31, 2010, 2011 and 2012.

## 7. Accrued Expenses

Accrued expenses consisted of the following:

	<u>December 31,</u>	<u>December 31,</u>
	<u>2011</u>	<u>2012</u>
Marketing programs .....	\$ 1,770,611	\$ 2,688,818
Payroll and payroll related .....	5,333,430	7,970,443
Professional fees .....	795,720	1,711,926
Other accrued liabilities .....	<u>2,573,044</u>	<u>4,285,614</u>
Total accrued expenses .....	<u>\$10,472,805</u>	<u>\$16,656,801</u>

## 8. Income Taxes

The domestic and foreign components of income before provision for income taxes are as follows:

	Years Ended December 31,		
	2010	2011	2012
Domestic .....	\$15,918,650	\$9,422,814	\$ 7,789,014
Foreign .....	2,688,965	372,650	(1,532,649)
Total income before provision for income taxes .....	<u>\$18,607,615</u>	<u>\$9,795,464</u>	<u>\$ 6,256,365</u>

The provision for (benefit from) income taxes is as follows:

	Years Ended December 31,		
	2010	2011	2012
Current			
Federal .....	\$ 810,518	\$ 5,477,164	\$ 8,324,149
State .....	423,119	235,074	1,180,472
Foreign .....	154,318	139,636	126,434
Total .....	<u>1,387,955</u>	<u>5,851,874</u>	<u>9,631,055</u>
Deferred			
Federal .....	(4,391,436)	(2,021,938)	(4,926,220)
State .....	521,472	187,825	44,104
Foreign .....	(9,020)	16,259	(2,058,208)
Total .....	<u>(3,878,984)</u>	<u>(1,817,854)</u>	<u>(6,940,324)</u>
Total provision for (benefit from) income taxes .....	<u>(\$ 2,491,029)</u>	<u>\$ 4,034,020</u>	<u>\$ 2,690,731</u>

A reconciliation of the Company's effective tax rate to the statutory federal income tax rate is as follows:

	For the Years Ended December 31,		
	2010	2011	2012
Statutory tax rate .....	35.0%	35.0%	35.0%
Change in valuation allowance .....	(45.9)	0.0	(10.8)
Impact of permanent differences .....	(0.2)	4.6	15.6
Foreign tax rate differential .....	(4.1)	0.3	(11.5)
Research and development credits .....	(2.4)	(2.6)	—
State taxes, net of federal benefit .....	5.2	3.4	13.8
Impact of uncertain tax positions .....	—	2.0	0.8
Other .....	(1.0)	(1.5)	0.1
Effective tax rate .....	<u>(13.4)%</u>	<u>41.2%</u>	<u>43.0%</u>

The Company has deferred tax assets related to temporary differences and operating loss carryforwards as follows:

	December 31,	
	2011	2012
Deferred tax assets:		
Net operating loss carryforwards .....	\$ 1,749,000	\$ 3,222,000
Deferred revenue .....	1,191,000	1,715,000
Amortization .....	840,000	897,000
Research and development credit carryforwards .....	880,000	383,000
Bad debt reserves .....	43,000	71,000
Stock compensation associated with non-qualified awards .....	3,906,000	8,242,000
Other .....	1,151,000	2,136,000
Total deferred tax assets .....	9,760,000	16,666,000
Deferred tax asset valuation allowance .....	<u>(2,969,000)</u>	<u>(2,463,000)</u>
Net deferred tax assets .....	<u>6,791,000</u>	<u>14,203,000</u>
Deferred tax liabilities:		
Depreciation .....	(626,000)	(313,000)
Goodwill amortization .....	(266,000)	(655,000)
Other .....	<u>(4,000)</u>	<u>—</u>
Total deferred tax liabilities .....	<u>(896,000)</u>	<u>(968,000)</u>
Total .....	<u>\$ 5,895,000</u>	<u>\$13,235,000</u>

At December 31, 2011 and 2012, deferred tax liabilities of approximately \$4,000 and \$28,000, respectively, are included in accrued expenses, and approximately \$22,000 and \$15,000 respectively, are included in long term liabilities.

As of December 31, 2009, the Company provided a full valuation allowance against its deferred tax assets as it was not more likely than not that any future benefit from deductible temporary differences and net operating loss and tax credit carryforwards would be realized. The Company believed the objective and verifiable evidence of its historical pretax net losses outweighed the positive evidence of its pre-tax income for the year ended December 31, 2009 and forecasted future results. During 2010, the Company reassessed the need for a valuation allowance against its deferred tax assets and concluded that it was more likely than not that it would be able to realize certain of its deferred tax assets primarily as a result of continued profitability, achievement of three years of cumulative profitability and forecasted future earnings. Accordingly, the Company reversed the valuation allowance related to its U.S. and certain foreign deferred tax assets of \$8,570,000. As of December 31, 2011, the Company maintained a full valuation allowance against the deferred tax assets of its Hungarian and Cosm subsidiaries. The increase in the valuation allowance for the year ended December 31, 2011 was \$933,000.

During 2012, the Company reassessed the need for a valuation allowance against its deferred tax assets relating to its Cosm subsidiary and concluded that it was more likely than not that it would be able to realize its deferred tax assets as a result of forecasted future earnings. Accordingly, the Company reversed the valuation allowance related to its Cosm deferred tax assets of approximately \$677,000. As of December 31, 2012, the Company maintained a full valuation allowance against the deferred tax assets of its Hungarian subsidiary. This entity has historical losses and the Company concluded it was not more likely than not that these deferred tax assets are realizable. The decrease in the valuation allowance for the year ended December 31, 2012 was \$506,000.

As of December 31, 2012, the Company had federal, state, and foreign net operating loss carryforwards of approximately \$0, \$261,000 and \$23,630,000, respectively, which expire at varying dates through 2017 for state



income tax purposes. The Company's foreign net operating loss carryforwards are not subject to expiration. The Company recognized a full valuation allowance against its Hungarian net operating loss carryforwards. The Company utilized approximately \$11,753,000 of federal, \$8,556,000 of state and added approximately \$8,922,000 of foreign net operating loss carryforwards during the year ended December 31, 2012.

As of December 31, 2012, the Company had federal, state and foreign research and development credit carryforwards of approximately \$0, \$143,000 and \$593,000, respectively, which are available to offset future state taxes and expire through 2031. The Company's foreign research and development credits expire beginning in 2014. The Company has recognized a full valuation allowance against its foreign research and development credit carryforwards. The domestic research and development credits are available to offset future tax payments, however they are no longer recognized for book purposes as they have been utilized under the with-and-without method.

The Company generally considers all earnings generated outside of the U.S. to be indefinitely reinvested offshore. Therefore, the Company does not accrue U.S. tax for the repatriation of the foreign earnings it considers to be indefinitely reinvested outside the U.S. As of December 31, 2012, the Company has not provided for federal income tax on approximately \$2,636,000 of accumulated undistributed earnings of its foreign subsidiaries. It is not practicable to estimate the amount of additional tax that might be payable on the undistributed foreign earnings.

The Company files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. The Company's income tax returns since inception are open to examination by federal, state, and foreign tax authorities. The Company had no amount recorded for any unrecognized tax benefits as December 31, 2009 or 2010. As of December 31, 2011 and 2012, the Company has provided a liability of \$198,000 and \$251,000 respectively for uncertain tax positions. These uncertain tax positions would impact the Company's effective tax rate if recognized.

The Company has provided liabilities for uncertain tax provisions as follows:

	Years Ended December 31,	
	2011	2012
Beginning balance .....	\$ —	\$198,000
Gross decreases — tax positions in prior period .....	—	—
Gross increases — tax positions in current period .....	<u>198,000</u>	<u>53,000</u>
Ending balance .....	<u>\$198,000</u>	<u>\$251,000</u>

The Company's policy is to record estimated interest and penalties related to the underpayment of income taxes or unrecognized tax benefits as a component of its income tax provision. During the years ended 2010, and 2011, the Company did not recognize any interest or penalties in its statements of operations and there are no accruals for interest or penalties at December 31, 2011. During 2012, the Company recognized approximately \$2,000 in its statement of operations at December 31, 2012.

The Company has performed an analysis of its ownership changes as defined by Section 382 of the Internal Revenue Code and has determined that an ownership change as defined by Section 382 occurred in October 2004 and March 2010 resulting in approximately \$219,000 and \$12,800,000 of NOLs being subject to limitation. As of December 31, 2012, all NOL's generated by the Company, including those subject to limitation, are available for utilization given the Company's large annual limitation amount. Subsequent ownership changes as defined by Section 382 could potentially limit the amount of net operating loss carryforwards that can be utilized annually to offset future taxable income.

## 9. Common Stock and Equity

*Authorized Shares* — On June 9, 2009, the Company’s Board of Directors approved a Restated Certificate of Incorporation to be effective upon the closing of the Company’s IPO. This Restated Certificate of Incorporation, among other things, increased the Company’s authorized common shares to 75,000,000 and authorized 5,000,000 shares of undesignated preferred stock.

*Common Stock Reserved* — As of December 31, 2011 and 2012, the Company has reserved the following number of shares of common stock for the exercise of stock options and restricted stock units:

	Number of Shares as of	
	December 31, 2011	December 31, 2012
Common stock options and restricted stock units . . . . .	<u>4,169,866</u>	<u>4,908,311</u>
Total reserved . . . . .	<u>4,169,866</u>	<u>4,908,311</u>

## 10. Stock Incentive Plan

The Company’s 2009 Stock Incentive Plan (“2009 Plan”) is administered by the Board of Directors and Compensation Committee, which have the authority to designate participants and determine the number and type of awards to be granted and any other terms or conditions of the awards. Options generally vest over a four-year period and expire ten years from the date of grant. Restricted stock units generally vest over a three-year period. Certain stock-based awards provide for accelerated vesting if there is a change in control. On May 24, 2012, the Company’s stockholders approved an amendment to the 2009 Plan that increased the shares available to grant under the plan by 1,400,000 shares, established a maximum option term, eliminated certain liberal share recycling provisions, set a ratio so that the aggregate number of shares available for issuance under the 2009 Plan will be reduced by one and sixty-two hundredths (1.62) shares for each share delivered in settlement of any award of Restricted Stock, Restricted Stock Units or other stock based awards and one share for each share delivered in settlement of an Option or a Stock Appreciation Right, and removed the provision that allows our board of directors to re-price underwater awards without stockholder approval. There were 1,184,804 shares available for grant under the 2009 Plan as of December 31, 2012.

The Company generally issues previously unissued shares of common stock for the exercise of stock options and restricted stock units. The Company received \$4,834,883, \$6,207,129 and \$2,681,861 in cash from stock option exercises during the years ended December 31, 2010, 2011 and 2012, respectively.

The Company uses the Black-Scholes option-pricing model to estimate the grant date fair value of stock awards. The Company estimates the expected volatility of its 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 its own stock price volatility since the Company’s IPO. The Company estimates expected term based on historical exercise activity and giving consideration to the contractual term of the options, vesting schedules, employee turnover, and expectation of employee exercise behavior. The assumed dividend yield is based upon the Company’s expectation of not paying dividends in the foreseeable future. The risk-free rate for periods within the estimated life of the stock award is based on the U.S. Treasury yield curve in effect at the time of grant. Historical employee turnover data is used to estimate pre-vesting stock awards forfeiture rates. The compensation expense is amortized on a straight-line basis over the requisite service period of the stock award, which is generally four years for options and three years for restricted stock units.

The Company used the following assumptions to apply the Black-Scholes option-pricing model:

	Years Ended December 31,		
	2010	2011	2012
Expected dividend yield .....	0.00%	0.00%	0.00%
Risk-free interest rate .....	1.03% - 2.46%	0.91% - 2.28%	0.64% - 0.87%
Expected term (in years) .....	5.56 - 6.25	5.56 - 6.25	5.56 - 6.25
Volatility .....	65% - 75%	60%	55% - 60%

The following table summarizes stock option activity:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding, January 1, 2012 .....	2,626,260	\$22.34	7.4	
Granted .....	775,816	34.31		
Exercised .....	(262,366)	10.22		<u>\$ 5,429,363</u>
Forfeited .....	(198,612)	10.22		
Outstanding, December 31, 2012 .....	<u>2,941,098</u>	<u>\$25.90</u>	<u>7.2</u>	<u>\$14,173,945</u>
Exercisable at December 31, 2012 .....	<u>1,361,728</u>	<u>\$17.16</u>	<u>5.6</u>	<u>\$13,090,809</u>
Vested or expected to vest at December 31, 2012 .....	<u>2,811,971</u>	<u>\$25.54</u>	<u>7.1</u>	<u>\$14,121,204</u>

The aggregate intrinsic value was calculated based on the positive differences between the estimated fair value of the Company's common stock on December 31, 2012 of \$22.41 per share or at time of exercise, and the exercise price of the options.

The weighted average grant date fair value of stock options issued was \$14.63, \$22.42 and \$18.57 per share for the years ended December 31, 2010, 2011 and 2012, respectively.

During the year ended December 31, 2012, the Company granted 795,599 restricted stock units containing time-based vesting conditions which generally lapse over a three year period. Upon vesting, the restricted stock units entitle the holder to receive one share of common stock for each restricted stock unit. As of December 31, 2012, the Company estimates that 589,824 shares of restricted stock units with an intrinsic value of approximately \$18,367,110 and a weighted average remaining contractual term of 2.4 years will ultimately vest.

The following table summarizes restricted stock unit activity:

	Number of Shares Underlying Restricted Stock Units	Weighted Average Grant Date Fair Value
Unvested as of January 1, 2012 .....	—	\$ —
Restricted stock units granted .....	795,599	31.21
Restricted stock units vested .....	—	—
Restricted stock units forfeited .....	(12,794)	35.70
Unvested as of December 31, 2012 .....	<u>782,805</u>	<u>\$31.14</u>

The Company recognized stock based compensation expense within the accompanying consolidated statements of income as summarized in the following table:

	Years Ended December 31,		
	2010	2011	2012
Cost of revenue .....	\$ 260,554	\$ 316,109	\$ 484,408
Research and development .....	638,383	1,476,638	2,825,579
Sales and marketing .....	1,552,584	2,700,178	4,962,355
General and administrative .....	2,540,194	4,431,698	6,519,811
	<u>\$4,991,715</u>	<u>\$8,924,623</u>	<u>\$14,792,153</u>

As of December 31, 2012, there was approximately \$40,207,275 of total unrecognized share-based compensation cost, net of estimated forfeitures, related to unvested stock option grants and unvested restricted stock units which are expected to be recognized over a weighted average period of 2.5 years. The total unrecognized share-based compensation cost will be adjusted for future changes in estimated forfeitures.

#### 11. 401(k) Plan

On January 1, 2007, the Company established a defined contribution savings plan under Section 401(k) of the Internal Revenue Code. The plan is available to all employees upon employment and allows participants to defer a portion of their annual compensation on a pre-tax basis. The Company may contribute to the plan at the discretion of the Board of Directors. The Company has not made any contributions to the plan through December 31, 2012.

#### 12. Commitments and Contingencies

*Operating Leases* — The Company has operating lease agreements for offices in Massachusetts, Hungary, The Netherlands, Australia, the United Kingdom, Ireland and India that expire in 2012 through 2023.

In April 2012, the Company entered into a lease for a new corporate headquarters located in Boston, Massachusetts. The landlord is obligated to rehabilitate the existing building and the Company expects that the lease term will begin in April 2013 and extend through June 2023. The aggregate amount of minimum lease payments to be made over the term of the lease is approximately \$41.3 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 the Company as additional rent. The Company estimates these excess costs to be approximately \$5.2 million, of which \$4.1 million will be paid in 2013. 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. The security deposit is classified as restricted cash. The lease includes an option to extend the original term of the lease for two successive five year periods.

In October 2012, the Company entered into a lease for new office space in Dublin, Ireland. The term of the new office space began in October 2012 and extends through September 2022. The approximate annual lease payments for the new office space are \$161,000 (EUR 122,000). The lease agreement required a security deposit of approximately \$247,000 (EUR 187,000) and contains a termination option which allows the Company to terminate the lease pursuant to certain lease provisions.

Rent expense under all leases was approximately \$2,300,000, \$2,898,000, and \$3,200,000 for the years ended December 31, 2010, 2011 and 2012, respectively. The Company records rent expense on a straight-line basis for leases with scheduled escalation clauses or free rent periods.

The Company also enters into hosting services agreements with third-party data centers and internet service providers that are subject to annual renewal. Hosting fees incurred under these arrangements aggregated approximately \$1,618,000, \$1,924,000, and \$3,153,000 for the years ended December 31, 2010, 2011 and 2012, respectively. Future minimum lease payments under non-cancelable operating leases including one year commitments associated with the Company's hosting services arrangements are approximately as follows at December 31, 2012:

<u>Years Ending December 31</u>	
2013 .....	9,564,000
2014 .....	5,818,000
2015 .....	5,542,000
2016 .....	5,529,000
2017 .....	4,388,000
Thereafter .....	<u>25,248,000</u>
Total minimum lease payments .....	<u>\$56,089,000</u>

*Litigation* — On September 8, 2010, 01 Communique Laboratory, Inc., or 01, filed a complaint that named the Company 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 the Company infringed U.S. Patent No. 6,928,479, which allegedly 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 the Company's 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. Pursuant to a Scheduling Order entered by the court on January 17, 2013, the trial in this matter is set to begin on March 18, 2013. The Company continues to believe that it has strong defenses to the claims made by 01 and intends to vigorously defend against them. However, an unfavorable outcome in this matter could prevent the Company from offering all or a portion of the Company's services to customers due to an injunction or require the Company to pay damages or on-going license fees, which could have a material adverse effect on the Company's financial position, results of operations or cash flows. The Company has not accrued for a loss contingency related to this matter because litigation is inherently unpredictable and, although a loss is reasonably possible, an unfavorable outcome is not considered by management to be probable at this time and the Company remains unable to reasonably estimate a possible loss or range of loss associated with this litigation.

On November 3, 2010, Gemini IP LLC, or Gemini, filed a complaint that named the Company as a defendant in a lawsuit in the U.S. District Court for the Eastern District of Texas (Civil Action No. 4:07-cv-521) alleging that the Company infringed U.S. Patent No. 6,117,932, which allegedly is owned by Gemini and has claims related to a system for operating an IT helpdesk. The complaint sought damages in an unspecified amount and injunctive relief. On April 25, 2011, the Company and Gemini entered into a License Agreement which granted the Company a fully-paid license that covers the patent at issue in the action and mutually released each party from all claims. The Company paid Gemini a one-time licensing fee of \$1,250,000 in connection with the License Agreement. As a result, the action was dismissed by the court on May 23, 2011.

On November 21, 2012, the Company filed suit against Pragmatum Telecom LLC, or Pragmatum, in the U.S. District Court for the District of Delaware (Civil Action No. 12-1507) seeking a declaratory judgment that the Company's products do not infringe three patents allegedly owned by Pragmatum and further requesting a declaratory judgment that those three patents are invalid. The three patents in question are U.S. Patent Nos. 6,311,231, 6,668,286 and 7,159,043, which allegedly are owned by Pragmatum and generally relate to systems for communicating with customers over traditional telephone lines and the Internet. Pragmatum has previously alleged that these patents were infringed upon by certain of the Company's customers through their use of the

Company's products. On January 11, 2013, Pragmatix answered the Company's complaint and asserted counter-claims against the Company alleging infringement. As of February 22, 2013, no trial calendar has been set in this matter. At this time, the Company is unable to reasonably estimate a possible loss or range of loss associated with this litigation.

The Company is from time to time subject to various other legal proceedings and claims, either asserted or unasserted, which arise in the ordinary course of business. The Company routinely assesses its current litigation and/or threatened litigation as to the probability of ultimately incurring a liability, and records its best estimate of the ultimate loss in situations where the Company assesses the likelihood of loss as probable. While the outcome of these other claims cannot be predicted with certainty, management does not believe that the outcome of any of these other legal matters will have a material adverse effect on the Company's consolidated financial statements.

*Other Contingencies* — In 2011, the Company was contacted by a representative from a state tax assessor's office requesting remittance of uncollected sales taxes due for the period from 2005 to the present. While the Company does not believe it was responsible for collecting sales taxes in this state, after vigorously defending its position and exhausting all defenses against this claim, in September 2011, the Company agreed to make a settlement payment of \$1.3 million with the state tax assessor's office. The Company recorded the amount in general and administrative expense. The Company paid the settlement in December 2011.

### **13. Related Party**

In December 2007, the Company entered into a strategic agreement with Intel Corporation to jointly develop a service that delivers connectivity to computers built with Intel components. Under the terms of the multi-year agreement, the Company adapted its service delivery platform, Gravity, to work with specific technology delivered with Intel hardware and software products. The agreement provides that Intel will market and sell the service to its customers. Intel pays the Company a minimum license and service fee on a quarterly basis during the multi-year term of the agreement. The Company began recognizing revenue associated with the Intel service and marketing agreement upon receipt of acceptance in the quarter ended September 30, 2008. In addition, the Company and Intel share revenue generated by the use of the service by third parties to the extent it exceeds the minimum payments. In conjunction with this agreement, Intel Capital purchased 2,222,223 shares of our Series B-1 redeemable convertible preferred stock for \$10,000,004, which were converted into 888,889 shares of common stock in connection with the closing of the IPO on July 7, 2009.

In September 2010, Intel notified the Company that it intended to terminate the connectivity service and marketing agreement effective on December 26, 2010. In accordance with the termination provisions of the agreement, Intel paid the Company a one-time termination fee of \$2.5 million in lieu of the \$5 million in annual fees associated with 2011. Intel paid the Company the \$2.5 million termination fee in December 2010.

In June 2009, the Company entered into a license, royalty and referral agreement with Intel Americas, Inc., pursuant to which the Company will pay Intel specified royalties with respect to subscriptions to its products that incorporate the Intel technology covered by the service and marketing agreement with Intel Corporation. In addition, in the event Intel refers customers to the Company under this agreement, the Company will pay Intel specified fees.

The Company recognized \$9,580,000, \$0 and \$0 of net revenue relating to these agreements for the years ended December 31, 2010, 2011 and 2012, respectively. The Company recorded expenses relating to referral fees of approximately \$4,000, \$0 and \$0 relating to this agreement for the years ended December 31, 2010, 2011 and 2012.

### **14. Subsequent Event**

On February 14, 2013, the Company announced that its board of directors approved a \$25 million share repurchase program. Any share repurchases made pursuant to the program will be made from time-to-time in the open market, in privately negotiated transactions or otherwise, in accordance with applicable securities laws and regulations. The timing and amount of any share repurchases will be determined by the Company's management based on its evaluation of market conditions, the trading price of the stock, regulatory requirements and other factors. The share repurchase program may be suspended, modified or discontinued at any time at the Company's discretion without prior notice.

## 15. Quarterly Information (Unaudited)

	For the Three Months Ended,							
	March 31, 2011(1)	June 30, 2011	September 30, 2011(2)	December 31, 2011	March 31, 2012	June 30, 2012	September 30, 2012	December 31, 2012(3)
	(in thousands, except for per share data)							
<b>Statement of</b>								
<b>Operations Data:</b>								
Revenue . . . . .	\$27,039	\$29,098	\$31,002	\$32,322	\$32,688	\$33,797	\$35,368	\$36,985
Gross profit . . . . .	24,503	26,652	28,404	29,328	29,271	30,372	31,681	33,010
Income (loss) from operations . . . . .	(202)	4,005	1,972	3,723	1,172	2,256	1,549	1,034
Net income (loss) . . . . .	(65)	2,682	1,128	2,017	76	576	718	2,196
Net income (loss) per share-basic . . . . .	0.00	0.11	0.05	0.08	0.00	0.02	0.03	0.14
Net income (loss) per share-diluted . . . . .	0.00	0.11	0.04	0.08	0.00	0.02	0.03	0.14

- (1) Comparability affected by a \$1.3 million Gemini IP, LLC settlement and \$2.9 million of patent litigation expense related to the Company's defense against the patent infringement claim brought by 01 Communi-que.
- (2) Comparability affected by a \$1.3 million state sales tax settlement.
- (3) Comparability affected by the reversal of the valuation allowance related to its Cosm deferred tax assets of approximately \$677,000.

## **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

### **ITEM 9A. CONTROLS AND PROCEDURES**

#### **Disclosure Controls and Procedures**

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2012. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act of 1934, as amended, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of December 31, 2012, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

#### **Management’s Annual Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act as a process designed by, or under the supervision of, our principal executive and principal financial officer and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of management, including our principal executive and financial officers, we assessed our internal control over financial reporting as of December 31, 2012, based on criteria for effective internal control over financial reporting established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on this assessment, our management concluded that we maintained effective internal control over financial reporting as of December 31, 2012 based on the specified criteria.



The Company's Independent Registered Public Accounting Firm has issued an attestation report on the Company's internal control over financial reporting as of December 31, 2012.

**Changes in Internal Control Over Financial Reporting**

No change in our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-(f) under the Exchange Act) occurred during the quarter ended December 31, 2012 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors of  
LogMeIn, Inc.  
Woburn, Massachusetts

We have audited the internal control over financial reporting of LogMeIn, Inc. and subsidiaries (the “Company”) as of December 31, 2012, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management’s Annual Report on Internal Control over Financial Reporting*. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the company’s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2012 of the Company and our report dated February 22, 2013 expressed an unqualified opinion on those financial statements.

/s/ Deloitte & Touche LLP

Boston, Massachusetts  
February 22, 2013

## **ITEM 9B. OTHER INFORMATION**

None.

## **PART III**

### **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

Information required by this item is incorporated by reference from the information in our proxy statement for the 2013 Annual Meeting of Stockholders, which we will file with the Securities and Exchange Commission within 120 days of December 31, 2012.

We have adopted a code of ethics, called the Code of Business Conduct and Ethics, which applies to our officers, including our principal executive, financial and accounting officers, and our directors and employees. We have posted the Code of Business Conduct and Ethics on our website at <https://secure.logmein.com/US/home.aspx> under the “Investors” section. We intend to make all required disclosures concerning any amendments to, or waivers from, the Code of Business Conduct and Ethics on our website.

### **ITEM 11. EXECUTIVE COMPENSATION**

Information required by this item is incorporated by reference from the information in our proxy statement for the 2013 Annual Meeting of Stockholders, which we will file with the Securities and Exchange Commission within 120 days of December 31, 2012.

### **ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

Information required by this item is incorporated by reference from the information in our proxy statement for the 2013 Annual Meeting of Stockholders, which we will file with the Securities and Exchange Commission within 120 days of December 31, 2012.

### **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

Information required by this item is incorporated by reference from the information in our proxy statement for the 2013 Annual Meeting of Stockholders, which we will file with the Securities and Exchange Commission within 120 days of December 31, 2012.

### **ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

Information required by this item is incorporated by reference from the information in our proxy statement for the 2013 Annual Meeting of Stockholders, which we will file with the Securities and Exchange Commission within 120 days of December 31, 2012.

## **PART IV**

### **ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

#### *(a) (1) Financial Statements*

See Index to the Consolidated Financial Statements on page 47 of this Annual Report on Form 10-K, which is incorporated into this item by reference.

#### *(a) (2) Financial Statement Schedules*

No financial statement schedules have been submitted because they are not required or are not applicable or because the information required is included in the consolidated financial statements or the notes thereto.

#### *(a) (3) Exhibits*

See Exhibit Index on page 80 of this Annual Report on Form 10-K, which is incorporated into this item by reference.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

### LOGMEIN, INC.

By: /s/ Michael K. Simon \_\_\_\_\_

Michael K. Simon  
President and Chief Executive Officer  
(Principal Executive Officer)

Date: February 22, 2013

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
/s/ MICHAEL K. SIMON _____ Michael K. Simon	President, Chief Executive Officer and Director (Principal Executive Officer)	February 22, 2013
/s/ JAMES F. KELLIHER _____ James F. Kelliher	Chief Financial Officer (Principal Financial and Accounting Officer)	February 22, 2013
/s/ STEVEN J. BENSON _____ Steven J. Benson	Director	February 22, 2013
/s/ MICHAEL J. CHRISTENSON _____ Michael J. Christenson	Director	February 22, 2013
/s/ EDWIN J. GILLIS _____ Edwin J. Gillis	Director	February 22, 2013
/s/ GREGORY W. HUGHES _____ Gregory W. Hughes	Director	February 22, 2013
/s/ IRFAN SALIM _____ Irfan Salim	Director	February 22, 2013
/s/ HILARY SCHNEIDER _____ Hilary Schneider	Director	February 22, 2013

## EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description</u>
3.1(1)	Restated Certificate of Incorporation of the Registrant
3.2(1)	Amended and Restated Bylaws of the Registrant
4.1(1)	Specimen Certificate evidencing shares of common stock
10.1(1)	2004 Equity Incentive Plan, as amended
10.2(1)	Form of Incentive Stock Option Agreement under the 2004 Equity Incentive Plan
10.3(1)	Form of Nonstatutory Stock Option Agreement under the 2004 Equity Incentive Plan
10.4(1)	2007 Stock Incentive Plan
10.5(1)	Form of Incentive Stock Option Agreement under the 2007 Stock Incentive Plan
10.6(1)	Form of Nonstatutory Stock Option Agreement under the 2007 Stock Incentive Plan
10.7(1)	Form of Restricted Stock Agreement under the 2007 Stock Incentive Plan
10.8(1)	Indemnification Agreement, dated as of July 23, 2008, between the Registrant and Steven Benson
10.9(1)	Indemnification Agreement, dated as of July 23, 2008, between the Registrant and Edwin Gillis
10.10(1)	Indemnification Agreement, dated as of July 23, 2008, between the Registrant and Irfan Salim
10.11(1)	Indemnification Agreement, dated as of July 23, 2008, between the Registrant and Michael Simon
10.12(2)	Indemnification Agreement, dated as of August 10, 2010, between the Registrant and Michael Christenson
10.13(2)	Indemnification Agreement, dated as of January 19, 2011, between the Registrant and Greg Hughes
10.14(3)	Indemnification Agreement, dated as of March 9, 2011, between the Registrant and Hilary Schneider
10.15(2)	Form of Director Indemnification Agreement
10.16(1)	Second Amended and Restated Investor Rights Agreement, dated as of December 26, 2007, among the Registrant and the parties listed therein
10.17(1)	Lease, dated July 14, 2004, between Acquiport Unicorn, Inc. and the Registrant, as amended by the First Amendment to Lease, dated as of December 14, 2005, as further amended by the Second Amendment to Lease, dated October 19, 2007
10.18(4)	Third Amendment to Lease, July 1, 2010
10.19(5)	Lease, dated April 11, 2012, between Lincoln Summer Street Venture, LLC and the Registrant.
10.20(1)	Amended and Restated Letter Agreement, dated as of April 23, 2008, between the Registrant and Michael Simon
10.21(1)	Amended and Restated Letter Agreement, dated as of April 23, 2008, between the Registrant and James Kelliher
10.22(1)	Amended and Restated Letter Agreement, dated as of April 23, 2008, between the Registrant and Martin Anka
10.23(1)	Form of Management Incentive Stock Option Agreement under the 2009 Stock Incentive Plan
10.24(1)	Form of Management Nonstatutory Stock Option Agreement under the 2009 Stock Incentive Plan
10.25(1)	Form of Director Nonstatutory Stock Option Agreement under the 2009 Stock Incentive Plan
10.26(1)	Form of Employment Offer Letter
10.27(6)	Amended and Restated 2009 Stock Incentive Plan
10.28(7)	Form of Restricted Stock Unit Agreement under the 2009 Stock Incentive Plan
10.29*	Summary of 2013 Executive Compensation
21.1*	Subsidiaries of the Registrant
23.1*	Consent of Independent Registered Public Accounting Firm
23.2*	Consent of Shields & Company, Inc.
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following materials from LogMeIn, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2012, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Cash Flows, and (iv) Notes to Consolidated Financial Statements

\* Filed herewith.

- (1) Incorporated by reference to the Registrant's Registration Statement on Form S-1, as amended (Reg 333-148620)
- (2) Incorporated by reference to Registrant's Form 10-K for the fiscal year ended December 31, 2010 (001-34391)
- (3) Incorporated by reference to Registrant's Form 10-K for the fiscal year ended December 31, 2011 (001-34391)
- (4) Incorporated by reference to Registrant's Form 10-Q for the quarter ended July 29, 2010 (001-34391)
- (5) Incorporated by reference to Registrant's Form 10-Q for the quarter ended March 31, 2012 (001-34391)
- (6) Incorporated by reference to Registrant's Current Report on Form 8-K dated May 24, 2012 (001-34391)
- (7) Incorporated by reference to Registrant's Form 10-Q for the quarter ended June 30, 2012 (001-34391)

## Board of Directors

### Michael K. Simon

Chairman, President  
& Chief Executive Officer

### Steven J. Benson

General Partner,  
Prism VentureWorks

### Michael J. Christenson

Managing Director,  
Allen & Company

### Edwin J. Gillis

Business Consultant  
& Former Chief Financial  
Officer, Veritas Software

### Gregory W. Hughes

President & Chief Executive  
Officer, Serena Software, Inc.

### Irfan Salim

Former Chief Executive  
Officer, MarkMonitor, Inc.

### Hilary A. Schneider

President,  
LifeLock, Inc.

## Management Team

### Michael K. Simon

Chairman, President  
& Chief Executive Officer

### Marton B. Anka

Founder & Chief Technology  
Officer

### Andrew F. Burton

Senior Vice President,  
Products

### Michael J. Donahue

Vice President  
& General Counsel

### Michael J. Ewing

Chief Marketing Officer

### James F. Kelliher

Chief Financial Officer

### Seth L. Shaw

Senior Vice President,  
Sales

## Worldwide Offices

### Headquarters

LogMeIn, Inc.  
320 Summer Street  
Boston, MA 02210

### European Offices

LogMeIn Ireland Ltd.  
Bloodstone Bldg. Block C  
Riverside IV, 7th Floor  
70 Sir John Rogerson's Quay  
Dublin 2, Ireland

LogMeIn Europe UK, Ltd.  
One Kingdom Street  
Paddington Central,  
4th Floor  
London W2 6BD

LogMeIn Pachube Ltd.  
13-21 Curtain Rd.  
London EC2A 3LU

### R&D Offices

LogMeIn, Kft.  
Andrássy út, 9. II. em.  
1061 Budapest, Hungary

LogMeIn, Kft.  
Széchenyi tér 3. I. em.  
6720 Szeged, Hungary

### Asia Pacific Offices

LogMeIn Australia Pty. Ltd.  
Level 39, CitiGroup Centre  
2 Park Street  
Sydney, NSW 2000,  
Australia

LogMeIn (Private) India Ltd.  
Embassy Golf-Links  
Business Parks  
1st Floor, Pine Valley  
off Intermediate Ring Rd.  
Bangalore, Karnataka  
India -560071

## Stockholder Information

### Stock Listing

NASDAQ Global Select Market  
Symbol: LOGM

### Transfer Agent & Registrar

American Stock Transfer and  
Trust Company, LLC  
6201 15th Avenue  
Brooklyn, NY 11219

### Independent Public Accountants

Deloitte & Touche LLP  
200 Berkeley Street  
Boston, MA 02116

### Outside Legal Counsel

Latham & Watkins LLP  
John Hancock Tower, 20th floor  
200 Clarendon Street  
Boston, MA 02116

### Annual Stockholder Meeting

May 23, 2013  
9:00 a.m. EDT  
Latham & Watkins LLP  
John Hancock Tower, 20th floor  
200 Clarendon Street  
Boston, MA 02116

LogMeIn's essential cloud services help millions of mobile professionals, hundreds of thousands of small and medium businesses, and thousands of the world's premier service providers simply connect to the people, devices and data that make up their digital lives.

**LogMeIn, Inc.**    320 Summer Street    Boston, MA 02210    [LogMeIn.com](http://LogMeIn.com)