

LogMeIn, Inc.  
Form 10-K  
February 19, 2016  
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**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, 2015

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)*

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

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

**02210**  
*(Zip Code)*

**(781) 638-9050**

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

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

**Title of Each Class**

**Name of Exchange on Which Registered**

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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, 2015 was \$1,198,888,576.

As of February 12, 2016, the registrant had 25,099,749 shares of Common Stock, \$.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 2016 annual stockholders meeting to be held on May 21, 2016 are incorporated by reference into Items 10, 11, 12, 13 and 14 of Part III of this Annual Report on Form 10-K.

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

We incorporated under the laws of Bermuda as 3am Labs Ltd in February 2003. In August 2004, we completed a domestication in the State of Delaware under the name 3am Labs, Inc. We changed our name to LogMeIn, Inc. in March 2006. Our principal executive offices are located at 320 Summer Street, Boston, Massachusetts 02210. Our website address is [www.LogMeInInc.com](http://www.LogMeInInc.com). We have included our website address in this report solely as an inactive textual reference. In 2004, we introduced our first cloud-based connectivity offering, which allowed users to securely connect to remote computer resources, including files, applications and the remote device itself. Used primarily by mobile professionals to work remotely and by IT service providers to remotely manage computers and servers, this remote access solution was designed to give users the flexibility to work and interact with their computer resources from any other Internet-connected computer. We have since used this scalable technical foundation to expand the types of devices and data that can be accessed remotely, while introducing a variety of cloud-based offerings or applications built off of this foundation that address today's collaboration, customer service, IT management and connected product development use cases. We call the unique technological and intellectual property foundation used to deliver our cloud-based services Gravity. Gravity establishes secure connections over the Internet between two or more Internet-enabled devices and manages the direct transmission of data between remotely connected devices. With tens of millions of users and hundreds of millions of sessions brokered, we believe our services are used to connect more Internet-enabled devices worldwide, than any other connectivity platform on the market.

We offer both free and fee-based, or premium, services. Sales of our premium services are generated through word-of-mouth referrals, web-based advertising, online search, off-line advertising, broadcast advertising, the conversion of free users and expiring free trials to paid subscriptions and direct marketing to new and existing customers. The majority of our premium services are sold on an annual subscription basis.

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We derive our revenue principally from subscription fees from our customers, who range from multinational enterprises to SMBs and individual consumers, and, to a lesser extent, from the delivery of professional services primarily related to our Connected Products and Service and Support businesses. The majority of our customers subscribe to our services on an annual basis. Our revenue is driven primarily by the number and type of our premium services for which our paying customers subscribe. During the fiscal years ended December 31, 2013, 2014 and 2015, we generated revenues of \$166.3 million, \$222.0 million and \$271.6 million, respectively.

### **Our Market Opportunity**

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

*Increased productivity both in and outside of traditional office environments.* Our collaboration, identity and access management and remote access services allow users to simply host and/or attend web-based meetings, access and control remote computers, access and secure cloud or online applications and websites and run applications across different platforms and devices, thereby increasing our users' mobility, bolstering their security and allowing them to remain productive from virtually anywhere on virtually any Internet-enabled device.

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

*Improved security and better adoption of password best practices.* Enterprise and business versions of our identity and access management services provide IT staff, line-of-business managers and small business owners with the ability to better protect themselves against the most common online security threats. Our web and desktop password management services can be provisioned to all employees, providing both a productivity benefit to employees who manage numerous passwords for the web and cloud applications needed to do their jobs, while also ensuring that passwords used for these services are securely stored, appropriately complex, unique to each application and can be changed automatically at regular intervals. Users of our identity and access management services can also further augment these password best practices by enforcing secondary authentication requirements, such as two-factor authentication, which requires authorization from both a desktop web browser and a mobile application before accessing sensitive applications and data.

*Increased end-user and customer satisfaction.* Our customers rely on our services to improve the efficiency and effectiveness of end-user support and customer service. Satisfaction with support and other customer engagement services is primarily measured by customer satisfaction, sales conversions, call-handling times and whether or not an issue is resolved on the first call. Our services enable helpdesk technicians and customer service staff to quickly and easily engage with users, gain access to and take control over a remote user's Internet-enabled device and, once connected, 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 popular social channels, like Twitter.

*Reduced time to market for new Internet connected products and related services.* Our Internet of Things, or IoT, platform called Xively, is designed to help manufacturers and other product companies accelerate the development, rollout, management and support of new connected products. We have found that the majority of manufacturers creating connected products today have little software or digital hardware experience and often no experience delivering an always-on Internet-delivered service. Our IoT-related professional services and our Xively IoT platform are designed to help reduce the complexity of



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the go-to-market process for these manufacturers, while also offering a reliable and scalable infrastructure from which they can host their new connected products. Our Xively platform and professional services also provide a means to quickly integrate data generated from new connected devices to common enterprise applications, like many popular CRM and ERP systems.

*Reliable, fast and secure service.* The majority of our cloud-based services utilize a common proprietary platform called Gravity, which is designed to ensure that our services are reliable, fast and secure. Gravity achieves redundancy by being hosted in multiple geographically diverse data centers located in the United States, the United Kingdom, Germany, Brazil, Argentina, Singapore and Australia. Whenever possible, Gravity transmits data directly between end-point devices, which helps us reduce our bandwidth related costs and enables our services to connect and manage devices at enhanced speeds.

### **Our Business Strengths**

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

*Large established user community.* As of December 31, 2015, tens of millions of customers have connected hundreds of millions of Internet-enabled devices to our services. These users drive awareness of our services through personal recommendations, blogs, social media and other online communication methods and provide us with a significant audience to which we can market and sell premium services.

*Efficient customer acquisition model.* We believe our free products and our large installed user base help to generate word-of-mouth referrals, which in turn increases the efficiency of our paid marketing activities. Sales of our premium services are generated through word-of-mouth referrals, web-based advertising, online search, off-line advertising, broadcast advertising, the conversion of free users and expiring free trials to paid subscriptions and by marketing to our existing customer and user base. We believe this direct approach to acquiring new customers generates an attractive and predictable return on our sales and marketing expenditures.

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

*Online, cloud-based delivery.* Delivering our services online via the cloud allows us to scale and 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 primarily sell our premium services on an annual subscription basis, which provides greater levels of recurring revenues and predictability compared to traditional perpetual license-based business models. Approximately 99% of our subscriptions have a one-year term. We believe that our sales model of a high volume of new and renewed subscriptions at low transaction prices increases the predictability of our revenues compared to perpetual licensed-based software businesses.

### **Growth Strategy**

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

*Acquire new customers.* We acquire new customers through word-of-mouth referrals from our existing user community and from paid, online advertising designed to attract visitors to our website. We also encourage our website visitors to try our free services or register for free trials of our premium services. We supplement our online efforts with email and other traditional marketing campaigns

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and by participating in trade events and web-based seminars. To increase our sales, we plan to continue to aggressively market our solutions and encourage trials of our services while continuing to scale our sales force.



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

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

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

*Expand internationally.* We offer services in 12 different languages and our services are used in more than 240 countries across all 7 continents. We believe there is a significant opportunity to increase our sales internationally. We intend to continue to expand our international sales and marketing personnel and increase our international marketing expenditures to take advantage of this opportunity.

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

### **Our Services**

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

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

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

*LogMeIn Pro* is our premium remote access service that provides secure access to a remote computer or other Internet-enabled device from any other Internet connected computer, as well as most smartphones and tablets. Once a *LogMeIn Pro* host is installed on a device, a user can quickly and easily access that device's desktop, files, applications and network resources remotely from their other Internet-enabled devices. *LogMeIn Pro* can be rapidly deployed and installed without the need for IT expertise. Users typically engage in a free trial prior to purchase.

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

*LogMeIn Rescue, Rescue Lens and LogMeIn Rescue+Mobile* are our web-based remote support and customer care services, which are used by helpdesk professionals to provide remote support via the Internet, without the need of pre-installed software. Using *LogMeIn Rescue*, support and service professionals can communicate with end users through an Internet chat window while diagnosing and repairing computer problems. If given permission by the computer user, the support professional can access, view or even take control of the end user's computer to take necessary support actions and to train the end user on the use of software and operating system applications. A complimentary and optional offering with any *LogMeIn Rescue* license, *Rescue Lens* extends this remote support paradigm to virtually any product—not just computers and smartphones—by enabling end users to utilize the cameras on their personal smartphone or tablet to stream live video back to support professionals. With *Rescue Lens*, the end user simply downloads an app from the Google Play or iOS App Store, enters a pin code to ensure security, and points the camera at the device or product that needs support. The support professional can then verbally and visually guide them through a resolution. *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 iOS, Android and Blackberry smartphones and tablets. Technicians can send a text message directing users to download a small software application onto their mobile device, which, once installed, allows the technician to remotely access, control and troubleshoot the phone or tablet.

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

*Identity and Access Management.* Our identity and access management services are used by individuals, line-of-business teams, security professionals, as well as internal and external IT professionals to manage and secure passwords, remote computers and other Internet-enabled devices and internet applications, as well as to automate common IT tasks.

*LogMeIn Central* is a web-based management console that helps IT professionals access, manage and monitor remote computers, deploy software updates and patches, automate IT tasks and run hundreds of versions of antivirus software. *LogMeIn Central* is offered as a premium service with multiple pricing tiers based on the number of computers supported and desired features.

*LastPass* is a market leading password management and single sign on, or SSO, solution that gives individuals, business teams and enterprises the ability to securely store, create and access the user identity and login credentials for thousands of online applications and websites. Available online, in a desktop app and via iOS and Android mobile apps, *LastPass* is offered in free, premium and enterprise versions and runs on today's most popular browsers, devices and operating systems.

*Connected Products.* Our connected product business is comprised solely of *Xively*, our Internet of Things cloud platform and connected product management solution. *Xively* is designed to help businesses build, run and support a rapidly growing class of Internet-connected products, which lack a traditional operating system. The *Xively* platform provides the infrastructure needed to help businesses reduce the costs of, and accelerate the time-to-market for, new Internet-connected products, while also helping these businesses manage the data created by these Internet-connected products and support the customers using them.

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*Additional Service Offerings.* In addition to the above-described core cloud-based services, we also offer the following services, the sales of which together comprise a smaller percentage of our annual revenues:

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

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

*Cubby Basic*, *Cubby Pro* and *Cubby Enterprise* are cloud-based file syncing, storage and sharing services that allow users to simply and securely share data and files with other people and across all of their Internet-enabled devices, such as smartphones, tablets and computers. All three services can be accessed and used via a web-browser, a downloadable desktop application and free mobile applications.

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

*Meldium* is a password and identity management product designed to help IT professionals and knowledge workers securely manage, store and share login credentials to help ensure that access to work-based applications and related data can be granted or revoked as necessary. *Meldium* is offered as a free product for individual use and is also sold as a premium product for team use.

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

## **Sales and Marketing**

Our sales and marketing efforts are designed to attract prospective customers to our website, drive use of our free services or enroll them in free trials of our services and convert them to, and retain them as, paying customers. We expend sales and marketing resources through a combination of paid and unpaid sources. We also invest in public relations to broaden the general awareness of our services and to highlight the quality and reliability of our services for specific audiences. We are constantly seeking and employing new methods to reach more users and to convert them to paid subscribers. For the twelve months ended December 31, 2013, 2014 and 2015, we spent \$88.8 million, \$119.5 million and \$138.9 million, respectively, on sales and marketing.

*New Account Sales.* Our sales are typically preceded by a trial of one of our services, and 98% of our sales transactions are settled via credit card. Our sales operations team manages the processes, systems and procedures that determine whether or not a trial should be managed by a telephone-based sales representative or handled via our e-commerce sales process. As of December 31, 2015, we employed 195 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.



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*International Sales.* We currently have sales teams located in Ireland, the United Kingdom, India and Australia focusing on international sales. In the years ended December 31, 2013, 2014 and 2015, we generated approximately 34%, 33% and 30%, respectively, of our revenue outside of the United States. As of December 31, 2013, 2014 and 2015, approximately 23%, 28% and 25% of our long-lived assets were located outside of the United States.

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

*Tradeshows and Events.* We showcase our services at technology and industry-specific tradeshows and events. Our participation in these shows ranges from elaborate presentations in front of large groups to one-on-one discussions and demonstrations at manned booths. In 2015, we attended approximately 130 trade shows and events in the United States, Europe, Asia and Australia.

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

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

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

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

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

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

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

## **Our Infrastructure, Technology and Developments**

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

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

Gravity is physically hosted in geographically diverse third-party co-location facilities located in the United States, United Kingdom, Germany, Brazil, Argentina, Singapore and Australia. Our goal is to maintain sufficient excess capacity such that any one of the data centers could fail and the remaining data centers could handle the service load without extensive disruption to our services. During the twelve months ended December 31, 2015, our Gravity service was available 99.96% of the time.

*Research and Development.* We have made and intend to continue making significant investments in research and development in order to continue to improve the efficiency of our service delivery platform, improve our existing services and bring new services to market. Our primary engineering organization is based in Budapest, Hungary, where the first version of our remote access service was developed. Approximately 41% of our employees, as of December 31, 2015, work in research and development. Research and development expenses totaled \$29.0 million, \$33.5 million and \$42.6 million in the years ended December 31, 2013, 2014 and 2015, respectively.

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

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

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

our large user and customer base;

the technological skills of our research and development personnel;

frequent enhancements to our services; and

continued expansion of our proprietary technology.

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

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### **Competition**

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

service reliability and security;

ease of initial setup and use;

fitness for use and the design of features that best meet the needs of the target customer;

the ability to support multiple device types and operating systems;

cost of customer acquisition;

product and brand awareness;

the ability to reach large fragmented groups of users;

cost of service delivery; and

pricing flexibility.

We believe that our large user base, efficient customer acquisition model and low service delivery costs enable us to compete effectively against our largest competitors, which include Citrix Systems' GoTo division and Cisco Systems' 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. Certain of our services also compete with current or potential services offered by companies like Adobe, AgileBits, Apple, Ayla Networks, BlueJeans Networks, Box, Dashlane, Dropbox, GFI, Google, IBM, KeePass, LivePerson, Microsoft, OKTA, Oracle, PTC, Splashtop, TeamViewer and Zoom Video Communications.

Many of our actual and potential competitors enjoy 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. However, we believe that our large user base, efficient customer acquisition model and relatively low costs of service delivery position us well to compete effectively now and in the future.

### ***Available Information***

Copies of the periodic reports that we file with the Securities and Exchange Commission, or SEC, such as our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and any other filings may be obtained by the public, free of charge, by visiting the Investors section of our website at <https://investor.logmein.com/sec.cfm>, as soon as reasonably practicable after they have been filed with the SEC, or by contacting our Investor Relations department at our office address listed above. Additionally, the SEC maintains copies of any materials that we may file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Room 1580, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site that contains periodic reports, proxy and information statements and other information regarding issuers that file electronically

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with the SEC at [www.sec.gov](http://www.sec.gov). The contents of these websites are not incorporated into this filing. Further, our references to the URLs for these websites are intended to be inactive textual references only.

### **Employees**

As of December 31, 2015, we had 1,006 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.



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### **Segments**

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

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

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

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

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

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

#### ***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;

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our ability to successfully implement strategic business model changes;

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

changes in sales compensation plans or organizational structure;

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

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

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

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

the purchasing and budgeting cycles of our customers;

the financial condition of our customers; and

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

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

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

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

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

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

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

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

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

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

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

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

incur large charges or substantial liabilities; and

become subject to adverse tax consequences, substantial depreciation or deferred compensation charges.

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

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

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

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

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

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

the potential loss of key employees of the acquired company;

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

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

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

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

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

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

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

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

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

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

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

increased price and product competition;

dissatisfied customers; or

general weak economic, industry or market conditions.

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

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

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

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

There is frequent litigation in the software and technology industries based on allegations of infringement or other violations of intellectual property rights. We have been, and may in the future be, subject to third party patent infringement or other intellectual property-related lawsuits as we face increasing competition and become increasingly visible. Regardless of the merit of these claims, they can be time-consuming, result in costly litigation and diversion of technical and management personnel or require us to develop a non-infringing technology or enter into license agreements. There can be no assurance that such licenses will be available on acceptable terms and conditions, if at all, and although we have previously licensed proprietary technology, we cannot be certain that the owners' rights in such technology will not be challenged, invalidated or circumvented. For these reasons and because of the potential for court awards that are difficult to predict, it is not unusual to find even arguably unmeritorious claims settled for significant amounts. In addition, many of our service agreements require us to indemnify our customers from certain third-party intellectual property infringement claims, which could increase our costs as a result of defending such claims and may require that we pay damages if there were an adverse ruling related to any such claims. These types of claims could harm our relationships with our customers, deter future customers from subscribing to our services or expose us to further litigation. These costs, monetary or otherwise, associated with defending against third party allegations of infringement could have negative effects on our business, financial condition and operating results.

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

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

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

to, posting, distributing or transmitting any

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

In November 2015, Citrix Systems announced plans to spin-off its GoTo division. The impact of such a spin-off remains to be determined and may result in uncertainty in the markets in which we compete.

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

***Industry consolidation may result in increased competition.***

Some of our competitors have made or may make acquisitions or may enter into partnerships or other strategic relationships to offer a more comprehensive service than they individually had offered. In addition, new entrants not currently considered to be competitors may enter the market through acquisitions, partnerships or strategic relationships. We expect these trends to continue as companies attempt to strengthen or maintain their market positions. Many of the companies driving this trend have significantly greater financial, technical and other resources than we do and may be better positioned to acquire and offer complementary services and technologies. The companies resulting from such combinations may create more compelling service offerings and may offer greater pricing flexibility than we can or may engage in business practices that make it more difficult for us to compete effectively, including on the basis of price, sales and marketing programs, technology or service functionality. These pressures could result in a substantial loss of customers or a reduction in our revenues.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our credit facility, which consists of a \$150 million secured revolving loan (and which may be increased by an additional \$50 million if the existing or additional lenders are willing to make such increased commitments) which is available through February 18, 2020, at which time any amounts outstanding will be due and payable in full. As of February 19, 2016, we had drawn \$60 million under the credit facility. We may wish to borrow additional amounts under the facility in the future for general corporate purposes, including, but not limited to, the potential acquisition of complementary products or businesses, share repurchases, as well as for working capital.

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

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

For the last three fiscal years, our revenue has grown from \$166.3 million in 2013 to \$222.0 million in 2014 and to \$271.6 million in 2015. Our growth has placed, and may continue to place, a significant strain on our managerial, administrative, operational, financial and other resources. We intend to further expand our overall business, customer base, headcount and operations both domestically and internationally. Creating a global organization and managing a geographically dispersed workforce will require substantial management effort and significant additional investment in our infrastructure. We will be required to continue to improve our operational, financial and

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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.

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

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

We face intense competition for qualified individuals from numerous technology, software and manufacturing companies. For example, our competitors may be able 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 long-term success depends, in part, on our ability to expand the sales of our services to customers located outside of the United States, and thus our business is susceptible to risks associated with international sales and operations.*

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

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

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

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

difficulties in managing and staffing international operations;

fluctuations in currency exchange rates;

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

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

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

increased financial accounting and reporting burdens and complexities;

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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.

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

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

have high failure rates;

are price sensitive;

are difficult to reach with targeted sales campaigns;

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

generate less revenue per customer and per transaction.

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

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

***Original equipment manufacturers may adopt solutions provided by our competitors.***

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

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

Ensuring that we have adequate internal financial and accounting controls and procedures in place so that we can produce accurate financial statements on a timely basis is a costly and time-consuming effort. Our internal controls over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles in the United States of America. In addition, Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, requires an annual management assessment of the effectiveness of our internal controls over financial reporting and a report from our independent registered public accounting firm addressing the effectiveness of our internal controls over financial reporting. We have documented, tested and improved, to the extent necessary, our internal controls over financial reporting for the year ended December 31, 2015. If in the future we are not able to comply with the requirements of Section 404 of the Sarbanes-Oxley Act in a timely manner, or if as part of our process of documenting and testing our internal controls over financial reporting, we or our independent registered public accounting firm identify deficiencies or areas for further attention and improvement, implementing appropriate changes to our internal controls may distract our officers and employees, entail substantial costs to modify our existing processes and take significant time to complete. These changes may not, however, be effective in maintaining the adequacy of our internal controls, and any failure to maintain that adequacy, or consequent inability to produce accurate financial statements on a timely basis, could increase our operating costs and harm our business. In addition, investors' perceptions that our internal controls are inadequate or that we are unable to produce accurate financial statements on a timely basis may harm our stock price and make it more difficult for us to effectively market and sell our services to new and existing customers.



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

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

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

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

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

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

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

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

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

We rely on a combination of copyright, service mark, trademark and trade secret laws, as well as confidentiality procedures and contractual restrictions, to establish and protect our proprietary rights, all of which provide only limited protection. In addition, we have have thirteen issued patents and eleven patents pending, and we are in the process of filing additional patents. We cannot assure you that any patents will issue from our currently pending patent applications in a manner that gives us the protection that we seek, if at all, or that any future patents issued to us will not be challenged, invalidated or circumvented. Any patents that may issue in the future from pending or future patent applications may not provide sufficiently broad protection or they may not



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

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

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

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

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

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

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

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

The software applications underlying our services are inherently complex and may contain material defects or errors, particularly when first introduced or when new versions or enhancements are released. We have from time to time found defects in our services, and new errors in our existing services may be detected in the future. Any defects that cause interruptions to the availability of our services could result in:

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

sales credits or refunds to our customers;

loss of existing customers and difficulty in attracting new customers;

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diversion of development resources;

harm to our reputation; and

increased insurance costs.

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

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

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

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

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

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

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

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

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

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

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

**RISKS RELATED TO OWNERSHIP OF OUR COMMON STOCK**

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

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

develop or enhance our services;

continue to expand our development, sales and marketing organizations;

acquire complementary technologies, products or businesses;

expand our operations, in the United States or internationally;

hire, train and retain employees; or

respond to competitive pressures or unanticipated working capital requirements.

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

During the period from our IPO in July 2009 through February 16, 2016, our common stock has traded as high as \$75.42 and as low as \$15.15. An active, liquid and orderly market for our common stock may not be sustained, which could depress the trading price of our common stock. Some of the factors that may cause the market price of our common stock to fluctuate include:

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

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

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

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

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

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

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success of competitive companies, products or services;

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

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

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

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

additions or departures of key personnel;

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

investors' general perception of us; and

changes in general economic, industry and market conditions.

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

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

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

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

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

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

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

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

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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.

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

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

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

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

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

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

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

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

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

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

controlling the procedures for the conduct and scheduling of board of directors and stockholder meetings;

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

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

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



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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 19, 2016, our principal facilities consist of approximately 220,000 square feet of office space at our U.S. headquarters located in Boston, Massachusetts, and approximately 72,000 square feet of space at our development facility located in Budapest, Hungary. We also have leased additional office space in San Francisco, California, Wichita, Kansas, Fairfax, Virginia and in Hungary, Ireland, Australia, the United Kingdom and India. We believe our facilities are sufficient to support our needs through 2016 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 data centers, which are located in the United States, the United Kingdom, Germany, Brazil, Argentina, Singapore and Australia.

**ITEM 3. LEGAL PROCEEDINGS**

On August 28, 2014, a putative class action complaint was filed against us in the U.S. District Court for the Eastern District of California (Case No. 1:14-cv-01355) by an individual on behalf of himself and purportedly on behalf of all other similarly situated individuals, or collectively, the Ignition Plaintiffs. The Ignition Plaintiffs have amended their initial complaint on February 17, 2015, May 6, 2015 and September 18, 2015. The amended complaint included claims made under California's False Advertising Law and Unfair Competition Law relating to the sale of our Ignition for iOS application, or the App, and the Ignition Plaintiffs' continued use of the App and sought restitution, damages in an unspecified amount, attorney's fees and costs, and unspecified equitable and injunctive relief. On January 27, 2016, the U.S. District Court for the Eastern District of California granted our motion for summary judgment and dismissed all of the Ignition Plaintiffs' claims.

On June 29, 2015, a putative class action complaint was filed against us in the U.S. District Court for the Central District of California (Case No. 5:15-cv-01258) by an individual on behalf of himself and purportedly on behalf of all other similarly situated individuals, or collectively, the Central Plaintiffs, under California's Automatic Purchase Renewal Statute and Unfair Competition Law related to pricing changes and billing practices for subscriptions to our LogMeIn Central service. On October 7, 2015, we entered into a Settlement Agreement resolving the matter in exchange for a one-time settlement payment of \$25,000. As a result, the U.S. District Court for the Central District of California dismissed the class action complaint on October 30, 2015.

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

**ITEM 4. MINE SAFETY DISCLOSURES**

None.

**Table of Contents****PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Certain Information Regarding the Trading of Our Common Stock**

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

|                | High     | Low      |
|----------------|----------|----------|
| <b>2014</b>    |          |          |
| First Quarter  | \$ 47.57 | \$ 31.08 |
| Second Quarter | \$ 47.69 | \$ 37.06 |
| Third Quarter  | \$ 50.00 | \$ 39.06 |
| Fourth Quarter | \$ 53.38 | \$ 40.92 |
| <b>2015</b>    |          |          |
| First Quarter  | \$ 58.16 | \$ 45.06 |
| Second Quarter | \$ 70.00 | \$ 54.56 |
| Third Quarter  | \$ 75.42 | \$ 56.64 |
| Fourth Quarter | \$ 74.77 | \$ 64.65 |

**Holders of Our Common Stock**

As of February 12, 2016, there were 10 holders of record of shares of our common stock. This number does not include stockholders for whom shares are held in nominee or street name. While we are unable to estimate the actual number of beneficial holders of our common stock, we believe the number of beneficial holders is substantially higher than the number of 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, 2015.

**Securities Authorized for Issuance Under Equity Compensation Plans**

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

**Table of Contents****Purchases of Equity Securities**

| <b>Period</b>                        | <b>Total<br/>Number<br/>of Shares<br/>Purchased</b> | <b>Average<br/>Price<br/>per Share</b> | <b>Total<br/>Number of<br/>Shares<br/>Purchased<br/>as Part of<br/>Publicly<br/>Announced<br/>Plans or<br/>Programs(1)</b> | <b>Maximum<br/>Number (or<br/>Approximate<br/>Dollar Value)<br/>of Shares that<br/>may yet be<br/>Purchased<br/>Under the<br/>Plans or<br/>Programs(1)</b> |
|--------------------------------------|---|--|--|--|
| October 1, 2015 – October 31, 2015   | 3,320   | \$ 67.60                               | 3,320  | \$ 59,473,691  |
| November 1, 2015 – November 30, 2015 | 21,010  | \$ 71.22                               | 21,010   | \$ 57,977,285  |
| December 1, 2015 – December 31, 2015 | 23,731  | \$ 69.01                               | 23,731   | \$ 56,339,631  |
| <b>Total</b>                         | <b>48,061</b>                                       | <b>\$ 69.88</b>                        | <b>48,061</b>  |  |

- (1) Effective October 20, 2014, our board of directors approved a new \$75 million share repurchase program, which was in addition to our pre-existing \$50 million share repurchase program, which had previously been approved on August 13, 2013. Share repurchases are made from time-to-time in the open market, in privately negotiated transactions or otherwise, in accordance with applicable securities laws and regulations. During the year ended December 31, 2015, we repurchased 297,461 shares of our common stock.

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**Stock Performance Graph**

The following graph compares the cumulative total return to stockholders on our common stock for the period from December 31, 2010 through December 31, 2015 against the cumulative total return of 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 stock performance on the graph below is not necessarily indicative of future price performance.

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

**Table of Contents****ITEM 6. SELECTED FINANCIAL DATA**

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

|   | 2011       | Years Ended December 31, |            |            | 2015       |
|---|------------|--------------------------|------------|------------|------------|
|   |            | 2012                     | 2013       | 2014       |            |
| <b>(In thousands, except for per share data)</b>    |            |                          |            |            |            |
| <b>Consolidated Statement of Operations Data:</b>   |            |                          |            |            |            |
| Revenue   | \$ 119,461 | \$ 138,837               | \$ 166,258 | \$ 221,956 | \$ 271,600 |
| Cost of revenue <sup>(1)</sup>                      | 10,574     | 14,504                   | 18,816     | 28,732     | 35,458     |
| Gross profit  | 108,887    | 124,333                  | 147,442    | 193,224    | 236,142    |
| <b>Operating expenses:</b>                          |            |                          |            |            |            |
| Research and development <sup>(1)</sup>             | 20,780     | 26,361                   | 29,023     | 33,516     | 42,597     |
| Sales and marketing <sup>(1)</sup>                  | 57,156     | 70,058                   | 88,794     | 119,508    | 138,946    |
| General and administrative <sup>(1)</sup>           | 19,975     | 21,338                   | 29,181     | 30,526     | 33,034     |
| Legal settlements                                   | 1,250      |                          | 1,688      |            | 3,600      |
| Amortization of acquired intangibles <sup>(1)</sup> | 228        | 565                      | 682        | 987        | 1,916      |
| Total operating expenses                            | 99,389     | 118,322                  | 149,368    | 184,537    | 220,093    |
| Income (loss) from operations                       | 9,498      | 6,011                    | (1,926)    | 8,687      | 16,049     |
| Interest income                                     | 863        | 887                      | 549        | 604        | 654        |
| Interest expense                                    | (1)        |                          | (2)        | (2)        | (574)      |
| Other (expense) income                              | (565)      | (641)                    | (89)       | 105        | 1,389      |
| Income (loss) before income taxes                   | 9,795      | 6,257                    | (1,468)    | 9,394      | 17,518     |
| Provision for income taxes                          | (4,034)    | (2,691)                  | (6,214)    | (1,439)    | (2,960)    |
| Net income (loss)                                   | \$ 5,761   | \$ 3,566                 | \$ (7,682) | \$ 7,955   | \$ 14,558  |
| <b>Net income (loss) per share:</b>                 |            |                          |            |            |            |
| Basic   | \$ 0.24    | \$ 0.14                  | \$ (0.32)  | \$ 0.33    | \$ 0.59    |
| Diluted   | \$ 0.23    | \$ 0.14                  | \$ (0.32)  | \$ 0.31    | \$ 0.56    |
| <b>Weighted average shares outstanding:</b>         |            |                          |            |            |            |
| Basic   | 24,176     | 24,711                   | 24,351     | 24,385     | 24,826     |
| Diluted   | 25,155     | 25,356                   | 24,351     | 25,386     | 25,780     |

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

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|  | Years Ended December 31, |        |        |          |          |
|--|--------------------------|--------|--------|----------|----------|
|  | 2011                     | 2012   | 2013   | 2014     | 2015     |
|  | (In thousands)           |        |        |          |          |
| <b>Cost of revenue:</b>                      |                          |        |        |          |          |
| Stock-based compensation                     | \$ 316                   | \$ 484 | \$ 706 | \$ 1,107 | \$ 1,560 |
| Intangible amortization                      | 566                      | 1,552  | 1,820  | 3,959    | 4,151    |
| <b>Research and development:</b>             |                          |        |        |          |          |
| Stock-based compensation                     | 1,477                    | 2,826  | 3,761  | 3,653    | 5,188    |
| <b>Sales and marketing:</b>                  |                          |        |        |          |          |
| Stock-based compensation                     | 2,700                    | 4,962  | 7,242  | 9,033    | 11,090   |
| <b>General and administrative:</b>           |                          |        |        |          |          |
| Stock-based compensation                     | 4,432                    | 6,520  | 8,005  | 10,976   | 8,661    |
| <b>Amortization of acquired intangibles:</b> |                          |        |        |          |          |
| Intangible amortization                      | 228                      | 565    | 682    | 987      | 1,916    |

|  | As of December 31, |            |            |            |            |
|--|--------------------|------------|------------|------------|------------|
|  | 2011               | 2012       | 2013       | 2014       | 2015       |
|  | (In thousands)     |            |            |            |            |
| <b>Consolidated Balance Sheet Data:</b>                        |                    |            |            |            |            |
| Cash and cash equivalents and short-term marketable securities | \$ 198,644         | \$ 212,092 | \$ 189,556 | \$ 201,169 | \$ 208,427 |
| Total assets   | 232,057            | 279,538    | 279,613    | 317,849    | 455,699    |
| Deferred revenue, including long-term portion                  | 58,264             | 69,649     | 85,163     | 105,250    | 136,989    |
| Long-term debt   |                    |            |            |            | 60,000     |
| Total liabilities  | 76,251             | 94,901     | 112,274    | 144,005    | 247,888    |
| Total equity   | 155,806            | 184,637    | 167,339    | 173,844    | 207,811    |

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**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 simplifies how people connect to their colleagues, employees, devices and the world around them. With millions of users worldwide, our cloud-based solutions make it possible for people and companies to connect and engage with their workplace, colleagues, customers and products anywhere, anytime. Our services are focused on high growth markets such as Identity and Access Management, Collaboration and the Internet of Things and are delivered via the cloud as hosted services, commonly called software-as-a-service, or SaaS. With tens of millions of users and hundreds of millions of sessions brokered, we believe our services are used to connect more Internet-enabled devices worldwide, than any other connectivity platform on the market.

We offer both free and fee-based, or premium, services. Sales of our premium services are generated through word-of-mouth referrals, web-based advertising, online search, off-line advertising, broadcast advertising, the conversion of free users and expiring free trials to paid subscriptions and direct marketing to new and existing customers. We derive our revenue principally from subscription fees from SMBs, IT service providers, mobile carriers, customer service centers, original equipment manufacturers, or OEMs, and consumers and to a lesser extent, from the delivery of professional services primarily related to our Xively business. The majority of our customers subscribe to our services on an annual basis. Our revenue is driven primarily by the number and type of our premium services for which our paying customers subscribe. For the year ended December 31, 2015, we generated revenues of \$271.6 million, compared to \$222.0 million for the year ended December 31, 2014, an increase of 22%.

We incurred a GAAP net loss of \$7.7 million for 2013 and we earned net income of \$8.0 million and \$14.6 million for 2014 and 2015, respectively, while also generating cash flow from operations of \$30.0 million, \$74.2 million and \$85.8 million for 2013, 2014 and 2015, respectively. We regularly evaluate potential acquisitions or investment opportunities as part of our growth strategy and pursue acquisitions and other strategic transactions designed to help expand our business and/or add complementary products and technologies to our existing products. In 2014 we paid an aggregate of \$22.4 million, net of cash acquired, for the acquisitions of Ionia, Meldium and Zamurai and in 2015 we paid \$107.6 million, net of cash acquired, for the acquisition of LastPass, \$60.0 million of which was borrowed under our credit facility established in 2015. We had cash and investments of \$208.4 million as of December 31, 2015. We expect to continue making significant future expenditures to further develop and expand our business.

On August 13, 2013, our Board of Directors approved a \$50 million share repurchase program and approved an additional \$75 million share repurchase program on October 20, 2014. Under our repurchase programs, stock may be repurchased from time-to-time in the open market, which may include the use of 10b5-1 trading plans, or in privately negotiated transactions, in accordance with applicable securities and stock exchange rules. During the year ended December 31, 2015, we repurchased 297,461 shares of our common stock for \$18.1 million, an average price of \$60.81 per share.

**Table of Contents****Certain Trends and Uncertainties**

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

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

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

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

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

**Sources of Revenue**

We derive our revenue primarily from subscription fees for our premium services from enterprise customers, SMBs, IT service providers, mobile carriers, customer service centers, original equipment manufacturers, or OEMs, and consumers and to a lesser extent, from the delivery of professional services primarily related to our Xively business. The majority of our customers subscribe to our services on an annual basis and pay in advance, typically with a credit card, for their subscription. A smaller percentage of our customers subscribe to our services on a monthly basis through either month-to-month commitments or annual commitments that are then paid monthly with a credit card. We initially record a subscription fee as deferred revenue and then recognize it ratably, on a daily basis, over the life of the subscription period. Typically, a subscription automatically renews at the end of a subscription period unless the customer specifically terminates it prior to the end of the period. For the twelve months ended December 31, 2015, our gross annualized renewal rate was approximately 80%. We calculate our gross renewal rate on an annualized dollar basis across all product lines as of the end of each period. We expect our gross renewal rate to remain relatively consistent as we continue to invest in our products, customer support organization, and related retention programs.

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

|                                      | Years Ended December 31, |           |           |
|--------------------------------------|--------------------------|-----------|-----------|
|                                      | 2013                     | 2014      | 2015      |
| Revenues:                            |                          |           |           |
| Collaboration cloud                  | \$ 35,176                | \$ 62,746 | \$ 88,234 |
| Identity and Access Management cloud | 55,647                   | 74,244    | 92,712    |
| Service and Support cloud            | 75,433                   | 82,767    | 88,206    |



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|               |            |            |            |
|---------------|------------|------------|------------|
| Other         | 2          | 2,199      | 2,448      |
| Total revenue | \$ 166,258 | \$ 221,956 | \$ 271,600 |

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### **Employees**

We have increased our number of full-time employees to 1,006 at December 31, 2015 as compared to 804 at December 31, 2014.

### **Cost of Revenue and Operating Expenses**

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

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

*Research and Development.* Research and development expenses consist primarily of wages and benefits for development personnel, contingent bonus expense related to the Meldium and LastPass acquisitions (see Note 4 to the Consolidated Financial Statements), rent expense primarily related to our offices in Hungary and Boston, consulting fees associated with outsourced development projects, travel-related costs for development personnel, and depreciation of assets used in development. Our research and development efforts are focused on both improving ease of use and functionality of our existing services, as well as developing new offerings. The majority of our research and development employees are located in our development centers in Hungary. Therefore, a majority of research and development expense is subject to fluctuations in foreign exchange rates. We capitalized costs of \$1.2 million, \$2.1 million and \$2.2 million for the years ended December 31, 2013, 2014 and 2015, respectively, related to internally developed computer software to be sold as a service, which was incurred during the application development stage. The majority of research and development costs have been expensed as incurred. We expect that research and development expenses will increase in absolute dollars as we continue to enhance and expand our services but will remain relatively constant as a percentage of revenue.

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

*General and Administrative.* General and administrative expenses consist primarily of wages and benefits for management, human resources, internal IT support, legal, finance and accounting personnel, professional fees, insurance and other corporate expenses. We expect that general and administrative expenses related to personnel, recruiting, internal information systems, audit, accounting and insurance costs will increase in absolute dollars but will remain relatively constant as a percentage of revenue as we continue to support the growth of our business.

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**Critical Accounting Policies**

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of our financial statements and related disclosures requires us to make estimates, assumptions and judgments that affect the reported amount of assets, liabilities, revenue, costs and expenses, and related disclosures. We base our estimates and assumptions on historical experience and other factors that we believe to be reasonable under the circumstances. We evaluate our estimates and assumptions on an ongoing basis. Our actual results may differ from these estimates under different assumptions and conditions. Our most critical accounting policies are summarized below. See Note 2 to the Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K for additional information about these critical accounting policies, as well as a description of our other significant accounting policies.

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

Revenue from our premium subscription services is recognized on a daily basis over the subscription term as the services are delivered, provided that there is persuasive evidence of an arrangement, the fee is fixed or determinable and collectability is deemed reasonably assured. Subscription periods range from monthly to ten years, but are primarily 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.

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

*Income Taxes.* We are subject to federal, state, and foreign income taxes for jurisdictions in which we operate, and we use estimates in determining our provision for these income taxes and deferred tax assets. Deferred tax assets, related valuation allowances, current tax liabilities and deferred tax liabilities are determined separately by tax jurisdiction. In making these determinations, we estimate deferred tax assets, current tax liabilities and deferred tax liabilities, and we assess temporary differences resulting from differing treatment of items for tax and accounting purposes. At December 31, 2014 and 2015, our deferred tax assets consisted primarily of net operating losses and stock-based compensation expense. We assess the likelihood that deferred tax assets will be realized, and we recognize a valuation allowance if it is more likely than not that some portion of the deferred tax assets will not be recognized. This assessment requires judgment as to the likelihood and amounts of future taxable income by tax jurisdiction. As of December 31, 2014 and 2015, we maintained a full valuation allowance against the deferred tax assets of our Hungarian subsidiary. This entity has historical tax losses and we concluded it was not more likely than not that these deferred tax assets are realizable.

We evaluate our uncertain tax positions based on a determination of whether and how much of a tax benefit we have taken in our tax filings or positions is more likely than not to be realized. Potential interest and penalties associated with any uncertain tax positions are recorded as a component of income tax expense. As of December 31, 2014 and 2015, we provided a liability of \$0.7 million and \$0.9 million, respectively for uncertain

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tax positions. Although we believe that our tax estimates are reasonable, the ultimate tax determination involves significant judgment that is subject to audit by tax authorities in the ordinary course of business.

*Goodwill and acquired intangible assets.* We record goodwill as the excess of the acquisition price over the fair value of the net tangible and identifiable intangible assets acquired. We do not amortize goodwill, but instead perform an annual impairment test of goodwill or whenever events and circumstances indicate that the carrying amount of goodwill may exceed its fair value. We operate as a single operating segment with one reporting unit and consequently evaluate goodwill for impairment based on an evaluation of the fair value of the Company as a whole. As of December 31, 2015, the fair value of the Company as a whole significantly exceeded our carrying value. We continuously monitor our intangible assets for indicators of impairment. If an indicator exists, we compare the undiscounted expected future cash flows from the intangible asset to its carrying value. If the carrying value exceeds the undiscounted expected cash flows, we record an impairment based on the difference between the carrying value and determined fair value. Projected future cash flows are an estimate made by management which based on their nature include risks and uncertainties, primarily related to acceptance of products in the marketplace. To the extent that estimates of cash flows do not come to fruition, future impairments of intangible assets may be required. No material impairments have been recorded through December 31, 2015.

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 up to eleven years.

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

The assumptions used in determining the fair value of stock-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 stock-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 stock-based award. The expected term of stock options has been estimated utilizing the vesting period of the option, the contractual life of the option and our option exercise history. We estimate the expected volatility of our common stock at the date of grant based on the historical volatility of comparable public companies over the option's expected term as well as our own stock price volatility since our IPO.

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

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

*Loss Contingencies.* We have been involved in various legal claims and legal proceedings and may be subject to additional legal claims and proceedings in the future that arise in the ordinary course of business. We consider the likelihood of a loss or the incurrence of a liability, as well as our ability to reasonably estimate the amount of loss, in determining loss contingencies. An estimated loss contingency is accrued when we believe that it is both probable that a liability has been incurred and the amount of loss can be reasonably estimated. Significant judgment is required to determine both probability and the estimated amount. We regularly evaluate current information available and reflect the impact of negotiations, settlements, rulings, advice of legal counsel, and updated information to determine whether such accruals should be adjusted and whether new accruals are

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required and update our disclosures accordingly. Litigation is inherently unpredictable and is subject to significant uncertainties, some of which are beyond our control. Should any of these estimates and assumptions change or prove to have been incorrect, it could have a material adverse effect on our results of operations, financial position and cash flows. See Note 11 to the Consolidated Financial Statements for a further discussion of litigation and contingencies as well as Legal Proceedings in Part I, Item 3.

**Results of Consolidated Operations**

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

|                                      | Years Ended December 31, |      |      |
|--------------------------------------|--------------------------|------|------|
|                                      | 2013                     | 2014 | 2015 |
| <b>Operations Data:</b>              |                          |      |      |
| Revenue                              | 100%                     | 100% | 100% |
| Cost of revenue                      | 11                       | 13   | 13   |
| Gross profit                         | 89                       | 87   | 87   |
| Operating expenses:                  |                          |      |      |
| Research and development             | 18                       | 15   | 16   |
| Sales and marketing                  | 53                       | 54   | 51   |
| General and administrative           | 18                       | 14   | 12   |
| Legal settlements                    | 1                        |      | 1    |
| Amortization of acquired intangibles |                          |      | 1    |
| Total operating expenses             | 90                       | 83   | 81   |
| (Loss) income from operations        | (1)                      | 4    | 6    |
| Interest income                      |                          |      |      |
| Interest expense                     |                          |      |      |
| Other (expense) income, net          |                          |      |      |
| (Loss) income before income taxes    | (1)                      | 4    | 6    |
| Provision for income taxes           | (4)                      |      | (1)  |
| Net (loss) income                    | (5)%                     | 4%   | 5%   |

**Years Ended December 31, 2014 and 2015**

*Revenue.* Revenue increased \$49.6 million, or 22%, from \$222.0 million for the year ended December 31, 2014 to \$271.6 million for the year ended December 31, 2015. This increase was primarily attributable to new customer purchases of join.me, existing customers who previously purchased LogMeIn Pro at introductory prices and subsequently have renewed at higher price points, and new customers who purchased, and existing customers who upgraded to, our improved Central offering.

*Cost of Revenue.* Cost of revenue increased \$6.7 million, or 23%, from \$28.7 million for the year ended December 31, 2014 to \$35.5 million for the year ended December 31, 2015. As a percentage of revenue, cost of revenue was 13% for both the years ended December 31, 2014 and 2015. The increase in absolute dollars was primarily due to a \$4.0 million increase in hosting costs associated with managing our data centers and hosting our services due to an increase in both the number of customers using our services and the total number of devices that connected to our services. The increase was also due to a \$1.6 million increase in personnel-related costs, including salary, wages, bonus and benefits and taxes, recruiting and relocation expense, as we increased the number of customer support employees to support our overall growth, a \$0.9 million increase in consulting fees, a \$0.5 million increase in rent expense and a \$0.3 million increase in depreciation expense. These costs



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were partially offset by lower contingent retention-based bonuses of \$1.0 million incurred in connection with acquisitions. Included in the increase in personnel-related costs is a \$0.5 million increase in stock-based compensation expense.

*Research and Development Expenses.* Research and development expenses increased \$9.1 million, or 27%, from \$33.5 million for the year ended December 31, 2014 to \$42.6 million for the year ended December 31, 2015. As a percentage of revenue, research and development expenses were 15% and 16% for the years ended December 31, 2014 and 2015, respectively. The increase in absolute dollars was primarily due to a \$5.5 million increase in personnel-related costs including salary, wages, bonus, recruiting and relocation costs, and benefits and taxes, as we increased the number of research and development employees to support our overall growth. The increase was also due to a \$1.7 million increase in contingent bonus expense, primarily related to the LastPass acquisition, and to a lesser extent, the Meldium acquisition, a \$1.0 million increase in consulting fees, a \$0.3 million increase in hardware and software maintenance costs and a \$0.3 million increase in rent expense. Included in the increase in personnel-related costs is a \$1.5 million increase in stock-based compensation expense.

*Sales and Marketing Expenses.* Sales and marketing expenses increased \$19.4 million, or 16%, from \$119.5 million for the year ended December 31, 2014 to \$138.9 million for the year ended December 31, 2015. As a percentage of revenue, sales and marketing expenses were 54% and 51% for the years ended December 31, 2014 and 2015. The increase in absolute dollars was primarily due to a \$10.8 million increase in personnel-related and recruiting costs, including salary, wages, commissions, bonus, and benefits and taxes, from the hiring of additional employees to support our growth in sales and to expand our marketing efforts. The total increase in sales and marketing expense was also due to a \$1.8 million increase in credit card transaction fees related to an increase in e-commerce sales, a \$1.8 million increase in hardware and software maintenance costs, a \$1.5 million increase in marketing programs and consulting costs, a \$1.3 million increase in sales consulting costs, a \$0.8 million increase in contingent bonus expense, a \$0.5 million increase in depreciation expense, a \$0.5 million increase in rent expense, a \$0.2 million increase in office-related costs, and a \$0.2 million increase in employee training costs. Included in the increase in personnel-related costs is a \$2.1 million increase in stock-based compensation expense.

*General and Administrative Expenses.* General and administrative expenses increased \$2.5 million, or 8%, from \$30.5 million for the year ended December 31, 2014 to \$33.0 million for the year ended December 31, 2015. As a percentage of revenue, general and administrative expenses were 14% and 12% for the years ended December 31, 2014 and 2015, respectively. The increase in absolute dollars was primarily due to a \$2.2 million increase in personnel-related and recruiting costs, including salary, wages, bonus, and benefits and taxes, as we increased the number of general and administrative employees to support our overall growth. The total increase in general and administrative expense was also due to a \$0.9 million increase in legal fees, a \$0.5 million increase in consulting fees, a \$0.4 million increase in travel-related and department meetings costs, a \$0.2 million increase in hardware and software maintenance costs and a \$0.2 million increase in corporate insurance costs. These increases were partially offset by a \$2.3 million decrease in stock-based compensation expense, primarily due to stock awards forfeited by two key executives in the first and third quarters of 2015.

*Legal Settlement Expenses.* Legal settlement expenses were \$3.6 million for the year ended December 31 2015 and were associated with the Sensory Settlement Agreement (see Note 11 to the Consolidated Financial Statements). We did not incur legal settlement expenses for the year ended December 31, 2014.

*Amortization of Acquired Intangibles.* Amortization of acquired intangibles increased \$0.9 million, or 94% from \$1.0 million for the year ended December 31, 2014 to \$1.9 million for the year ended December 31, 2015. The increase in amortization of acquired intangibles for the year ended December 31, 2015 is primarily related to the intangible assets acquired in the LastPass acquisition in October 2015.

*Interest Income.* Interest income increased \$0.1 million from \$0.6 million for the year ended December 31, 2014 to \$0.7 million for the year ended December 31, 2015. The increase was primarily attributable to interest income earned on marketable securities.

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*Interest Expense.* Interest expense was \$0.6 million for the year ended December 31, 2015 and was associated with the amortization of financing fees, as well as interest expense attributable to our credit facility. We did not incur interest expense for the year ended December 31, 2014.

*Other Income (Expense), Net.* Other income (expense), net was income of \$0.1 million and \$1.4 million for the years ended December 31, 2014 and 2015, respectively. The increase was primarily due to an increase in realized and unrealized foreign currency gains resulting from multi-currency settlements occurring during the period.

*Income Taxes.* We recorded a provision for federal, state and foreign income taxes of \$1.4 million on profit before income taxes of \$9.4 million and \$3.0 million on profit before taxes of \$17.5 million for the years ended December 31, 2014 and 2015, respectively, resulting in an effective tax rate of 15% and 17%, respectively. Our effective tax rate is lower than the U.S. federal statutory rate of 35% primarily due to profits earned in certain foreign jurisdictions, primarily our Irish subsidiaries, which are subject to significantly lower tax rates than the U.S. federal statutory rate.

*Net Income.* We recognized net income of \$8.0 million and \$14.6 million for the years ended December 31, 2014 and 2015, respectively.

**Years Ended December 31, 2013 and 2014**

*Revenue.* Revenue increased \$55.7 million, or 34%, from \$166.3 million for the year ended December 31, 2013 to \$222.0 million for the year ended December 31, 2014. This increase was primarily attributable to new customer purchases of join.me, existing customers who previously purchased LogMeIn Pro at introductory prices and have subsequently renewed at higher price points, and from new customers who purchased, and existing customers who upgraded to, our improved LogMeIn Central offering.

*Cost of Revenue.* Cost of revenue increased \$9.9 million from \$18.8 million for the year ended December 31, 2013 to \$28.7 million for the year ended December 31, 2014. As a percentage of revenue, cost of revenue was 11% and 13% for the years ended December 31, 2013 and 2014, respectively. The increase in absolute dollars was primarily due to a \$2.5 million increase in contingent retention-based bonuses incurred in connection with the Ionia acquisition (see Note 4 to the Consolidated Financial Statements). The increase was also due to a \$2.1 million increase in amortization expense related to a software asset purchased in November 2013, a \$1.9 million increase in personnel-related costs, including salary, wages, bonus and benefits and tax, recruiting and relocation expense, as we retained professional services employees from the Ionia acquisition and increased the number of customer support employees to support our overall growth, a \$1.9 million increase in hosting costs associated with managing our data centers and hosting our services as a result of an increase in both the number of customers using our services and the total number of devices that connected to our services, a \$1.0 million increase in consulting fees, and a \$0.1 million increase in hardware and software maintenance costs. Included in the increase in personnel-related costs is a \$0.4 million increase in stock-based compensation expense.

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



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

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

*Legal Settlement Expenses.* Legal settlement expenses were \$1.7 million for the year ended December 31, 2013. We did not incur legal settlement expenses for the year ended December 31, 2014.

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

*Interest Income.* Interest income increased \$0.1 million from \$0.5 million for the year ended December 31, 2013 to \$0.6 million for the year ended December 31, 2014. The increase was primarily attributable to interest income earned on short-term deposits.

*Other Income (Expense), Net.* Other income (expense), net was expense of \$0.1 million and income of \$0.1 million for the years ended December 31, 2013 and 2014, respectively. The increase was primarily due to an increase in realized and unrealized foreign currency gains resulting from multi-currency settlements occurring during the period.

*Income Taxes.* We recorded a provision for federal, state and foreign income taxes of \$6.2 million for the year ended December 31, 2013, on a loss before income taxes of \$1.5 million as a result of income generated in the United States offset by losses incurred in certain foreign jurisdictions where there is no corresponding benefit. For the year ended December 31, 2014, we recorded a tax provision for income taxes of \$1.4 million on profit before taxes of \$9.4 million resulting in an effective tax rate of 15%. Our effective tax rate is lower than the U.S. federal statutory rate of 35% primarily due to profits earned in certain foreign jurisdictions, primarily our Irish subsidiaries, which are subject to significantly lower tax rates than the U.S. federal statutory rate.

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

**Table of Contents****Liquidity and Capital Resources**

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

|   | 2013               | Years Ended December 31, |                  |
|---|--------------------|--------------------------|------------------|
|   |                    | 2014                     | 2015             |
|   | (In thousands)     |                          |                  |
| Net cash provided by operations                     | \$ 30,020          | \$ 74,153                | \$ 85,770        |
| Net cash used in investing activities               | (24,368)           | (32,942)                 | (107,974)        |
| Net cash (used in) provided by financing activities | (28,648)           | (24,288)                 | 49,592           |
| Effect of exchange rate changes                     | 321                | (5,220)                  | (5,205)          |
| <b>Net (decrease) increase in cash</b>              | <b>\$ (22,675)</b> | <b>\$ 11,703</b>         | <b>\$ 22,183</b> |

At December 31, 2015, our principal source of liquidity was cash and cash equivalents and short-term marketable securities totaling \$208.4 million, of which \$135.1 million was in the United States and \$73.3 million was held by our international 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 \$30.0 million, \$74.2 million, and \$85.8 million for the years ended December 31, 2013, 2014 and 2015, respectively.

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

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

Net cash inflows from operating activities during the year ended December 31, 2015 were mainly attributable to a \$28.9 million increase in deferred revenue associated with upfront payments received from our customers, net income of \$14.6 million, a \$2.7 million increase in other long-term liabilities, a \$2.3 million increase in accrued

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liabilities, a \$2.2 million decrease in accounts receivable and a \$1.4 million increase in accounts payable. These cash inflows are partially offset by a \$2.8 million increase in prepaid expenses and other current assets. Additionally, included in net cash inflows from operating activities are add-backs of non-cash charges, including \$26.5 million for stock-based compensation expense and \$13.7 million for depreciation and amortization. The increase related to other long-term liabilities includes the impact of contingent retention-based bonuses associated with our recent acquisitions (See Note 4 to the Consolidated Financial Statements).

***Cash Flows From Investing Activities***

Net cash used in investing activities was \$24.4 million, \$32.9 million and \$108.0 million for the years ended December 31, 2013, 2014 and 2015, respectively.

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

Net cash used in investing for the year ended December 31, 2014 was primarily related to the acquisitions of Ionia Corporation, or Ionia, in March 2014, BBA, Inc., d/b/a Meldium, or Meldium, in August 2014, and Zamurai Corporation, or Zamurai, in September 2014 for \$22.4 million, net of cash acquired, and the purchase of \$7.5 million in property and equipment mainly related to the expansion and upgrade of our data center capacity, the expansion and upgrade of our internal IT infrastructure, and the expansion of our offices. Net cash used in investing activities also related to \$2.5 million in intangible asset additions, primarily for capitalized costs related to internally developed computer software to be sold as a service which were incurred during the application development stage.

Net cash used in investing activities for the year ended December 31, 2015 was primarily related to the acquisition of Marvasol, Inc., d/b/a LastPass, or LastPass, in October 2015 for \$107.6 million, net of cash acquired. Net cash used in investing activities was also related to the purchase of \$14.2 million in property and equipment in connection with the expansion and upgrade of our data center capacity, the expansion and upgrade of our internal IT infrastructure, and the expansion of our offices, and \$2.4 million in intangible asset additions, primarily related to capitalized costs related to internally developed computer software to be sold as a service which were incurred during the application development stage. Net cash used in investing activities was partially offset by \$14.7 million in net proceeds from the sale and maturities of marketable securities and a \$1.5 million decrease in restricted cash due to a planned decrease in the security deposit obligation under our Boston office lease.

***Cash Flows From Financing Activities***

Net cash used by financing activities was \$28.6 million and \$24.3 million for the years ended December 31, 2013 and 2014, respectively. Net cash provided by financing activities was \$49.6 million for the year ended December 31, 2015.

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

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

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### *Liquidity*

Net cash provided by financing activities for the year ended December 31, 2015 was primarily related to \$60.0 million in borrowings under our credit facility which we had drawn in October 2015 in order to partially fund our acquisition of LastPass. Net cash provided by financing activities also includes \$17.8 million in proceeds received from the issuance of common stock upon exercise of stock options and a \$2.7 million income tax benefit realized from stock-based awards. Net cash provided by financing activities was offset by \$18.1 million for the purchase of treasury stock pursuant to our share repurchase program, the payment of \$11.6 million for payroll taxes related to vesting of restricted stock units, and the payment of \$1.0 million in deferred financing costs.

On February 18, 2015, we entered into a multi-currency credit agreement with a syndicate of banks, financial institutions and other lending entities (the Credit Agreement), pursuant to which a secured revolving credit facility of up to \$100 million was made available to us. On January 22, 2016, we amended the Credit Agreement to, among other things, increase the funds available to us under the credit facility to up to \$150 million and to provide us with an option to further increase the credit facility by an additional \$50 million subject to further commitment from the lenders. The credit facility matures in February 2020 and includes certain financial covenants with which we must comply. We expect to use the credit facility for general corporate purposes, including the potential acquisition of complementary products or businesses, share repurchases, as well as for working capital. See Note 14 to the Consolidated Financial Statements for additional details. As of December 31, 2015, we had \$60 million of outstanding borrowings under the credit facility.

We have been purchasing treasury stock since 2013 pursuant to share repurchase programs approved by our board of directors. As of December 31, 2015, we had \$56 million remaining under the share repurchase program. Our ability to repurchase shares is subject to our having sufficient cash available and maintaining compliance with credit facility covenants.

### *Future Expectations*

We believe that our current cash and cash equivalents, together with cash generated from operations, will be sufficient to meet our working capital and capital expenditure requirements, as well as our planned share repurchases under our share repurchase program for at least the next twelve months. We may also elect to borrow additional funds under our credit facility or raise additional capital through the sale of additional equity or debt securities to develop or enhance our services, to fund expansion, to respond to competitive pressures or to acquire complementary products, businesses or technologies. If we elect, additional financing may not be available in amounts or on terms that are favorable to us, if at all. If we raise additional funds through the issuance of equity or convertible debt securities, our existing stockholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our common stock.

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

### **Key Non-GAAP Financial Measures**

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

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

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

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

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

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

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

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

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

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

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

*Litigation-related expenses* relate to costs associated with the defense and settlement of claims brought against us including intellectual property infringement claims and other material litigation (see Note 11 to the Consolidated Financial Statements).

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

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

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

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

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

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



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

| Non-GAAP Operating income                  | For the Year Ended December 31, |           |           |
|--|---------------------------------|-----------|-----------|
|  | 2013                            | 2014      | 2015      |
| GAAP (Loss) income from operations         | \$ (1,926)                      | \$ 8,687  | \$ 16,049 |
| Add Back:                                  |                                 |           |           |
| Stock-based compensation expense           | 19,714                          | 24,769    | 26,499    |
| Litigation related expenses                | 7,476                           | 475       | 4,963     |
| Acquisition related costs and amortization | 3,537                           | 8,237     | 11,216    |
| Non-GAAP Operating income                  | \$ 28,801                       | \$ 42,168 | \$ 58,727 |

| Adjusted EBITDA                          | For the Year Ended December 31, |           |          |
|--|---------------------------------|-----------|----------|
|  | 2013                            | 2014      | 2015     |
| GAAP Net (loss) income                   | \$ (7,682)                      | \$ 7,955  | \$14,558 |
| Add Back:                                |                                 |           |          |
| Stock-based compensation expense         | 19,714                          | 24,769    | 26,499   |
| Litigation related expenses              | 7,476                           | 475       | 4,963    |
| Acquisition related costs                | 1,540                           | 4,466     | 6,345    |
| Income tax expense                       | 6,214                           | 1,439     | 2,960    |
| Depreciation and amortization expense    | 7,704                           | 11,137    | 13,698   |
| Less:                                    |                                 |           |          |
| Interest and other (expense) income, net | (458)                           | (707)     | (1,469)  |
| Adjusted EBITDA                          | \$34,508                        | \$ 49,534 | \$67,554 |

| Non-GAAP Net income                        | For the Year Ended December 31, |           |          |
|--|---------------------------------|-----------|----------|
|  | 2013                            | 2014      | 2015     |
| GAAP Net (loss) income                     | \$ (7,682)                      | \$ 7,955  | \$14,558 |
| Add Back:                                  |                                 |           |          |
| Stock-based compensation expense           | 19,714                          | 24,769    | 26,499   |
| Litigation related expenses                | 7,476                           | 475       | 4,963    |
| Acquisition related costs and amortization | 3,537                           | 8,237     | 11,216   |
| Less:                                      |                                 |           |          |
| Income tax effect of non-GAAP items        | (9,194)                         | (11,509)  | (14,568) |
| Non-GAAP Net income                        | \$13,851                        | \$ 29,927 | \$42,668 |

| Non-GAAP Earnings per share                | For the Year Ended December 31, |         |         |
|--|---------------------------------|---------|---------|
|  | 2013                            | 2014    | 2015    |
| GAAP Diluted (loss) earnings per share     | \$ (0.32)                       | \$ 0.31 | \$ 0.56 |
| Add Back:                                  |                                 |         |         |
| Stock-based compensation expense           | 0.79                            | 0.98    | 1.03    |
| Litigation related expenses                | 0.30                            | 0.02    | 0.19    |
| Acquisition related costs and amortization | 0.14                            | 0.32    | 0.44    |
| Less:                                      |                                 |         |         |
| Income tax effect of non-GAAP items        | (0.36)                          | (0.45)  | (0.56)  |
| Non-GAAP earnings per share                | \$ 0.55                         | \$ 1.18 | \$ 1.66 |

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|   |            |            |            |
|---|------------|------------|------------|
| Shares used in computing diluted earnings per share | 25,018,758 | 25,386,199 | 25,779,928 |
|---|------------|------------|------------|



**Table of Contents****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, 2015 and the effect such obligations are expected to have on our liquidity and cash flow in future periods.

|                                | Total      | Payments Due by Period (in thousands) <sup>(1)</sup> |           |           |                      |
|--------------------------------|------------|--|-----------|-----------|----------------------|
|                                |            | Less Than<br>1 Year                                  | 1-3 Years | 3-5 Years | More Than<br>5 Years |
| Operating lease obligations    | \$ 99,011  | \$ 10,870  | \$ 32,149 | \$ 20,380 | \$ 35,612            |
| Credit facility <sup>(2)</sup> | 60,000     |  |           | 60,000    |                      |
| Hosting service agreements     | 4,742      | 3,698  | 1,044     |           |                      |
| Total                          | \$ 163,753 | \$ 14,568  | \$ 33,193 | \$ 80,380 | \$ 35,612            |

(1) Excluded from the table above is \$0.9 million related to uncertain tax positions as we are uncertain as to when a cash settlement for these liabilities will occur.

(2) The credit facility matures in February 2020, when all amounts outstanding will be due and payable.

The commitments under our operating leases shown above consist primarily of lease payments for our corporate headquarters located in Boston, Massachusetts (see Note 11 to the Consolidated Financial Statements), our research and development offices in Hungary, our international sales and marketing offices located in Australia, the United Kingdom, Ireland, and India, and contractual obligations related to our data centers.

In December 2015, we amended our current lease for our Budapest, Hungary office space to provide for an expansion of leased space and to extend the term of the lease. The term of the amended lease will begin on February 26, 2016 and will extend through April 29, 2021. The aggregate amount of minimum lease payments to be made over the term of the lease is approximately \$8.5 million (EUR 7.8 million). The lease agreement required a bank guarantee of \$0.4 million (EUR 0.4 million). The bank guarantee is classified as restricted cash.

In May 2015, the Company entered into an agreement to sublease a portion of the office space it currently leases in Dublin, Ireland. The sublease term began in May 2015 and extends to August 2017 which aligns with the non-cancelable term of the Company's head lease. The tenant will pay \$0.2 million per year, which recovers the Company's costs under the remaining term.

In December 2014, we entered into a lease for new office space in Boston, Massachusetts. The landlord was obligated to rehabilitate the existing building and the lease term began in December 2015 and will extend through June 2028. The aggregate amount of minimum lease payments to be made over the term of the lease is \$47 million. Pursuant to the terms of the lease, the landlord was responsible for making certain improvements to the leased space up to an agreed upon cost to the landlord. Any excess costs for these improvements will be billed by the landlord to us as additional rent. We estimate these excess costs to be \$4 million, of which \$2.1 million was paid as of December 31, 2015. The lease required a security deposit of approximately \$3.3 million in the form of an irrevocable, unsecured standby letter of credit. The lease includes an option to extend the original term of the lease for two successive five year periods.

In December 2014, we entered into a lease for new office space in San Francisco, California. The term of the new office space began in February 2015 and extends through April 2020. The aggregate amount of minimum lease payments to be made over the term of the lease is approximately \$2.4 million. The lease required a security deposit of \$41,000. The security deposit is classified as a long-term deposit.

**Recent Accounting Pronouncements**

On May 28, 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09), its final standard on revenue from contracts with customers. ASU 2014-9 outlines a single



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

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

In April 2015, the FASB issued ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs* (ASU 2015-03), which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability, consistent with the presentation of a debt discount. The guidance in ASU 2015-03 is required for annual reporting periods beginning after December 15, 2015, including interim periods within the reporting period and early adoption is permitted. We do not expect to early adopt ASU 2015-03, which will be effective for our fiscal year ending December 31, 2016. We are currently evaluating the impact of the adoption of this standard, if any, on our consolidated financial statements.

On April 15, 2015 the FASB issued *Customer's Accounting for Fees Paid in a Cloud Computing Arrangement* (ASU 2015-05) which clarifies the circumstances under which a cloud computing customer would account for the arrangement as a license of internal-use software under ASC 350-40. Under the new standard, customers will apply the same criteria as vendors to determine whether a cloud computing arrangement contains a software license or is solely a service contract. The new standard is effective for annual periods, including interim periods, beginning after December 15, 2015. Early adoption is permitted. We are currently evaluating the impact of the adoption of this standard on our consolidated financial statements.

On September 25, 2015 the FASB issued *Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments* (ASU 2015-16) that eliminates the requirement for an acquirer in a business combination to account for measurement-period adjustments retrospectively. Instead, acquirers must recognize measurement-period adjustments during the period in which they determine the amounts, including the effect on earnings of any amounts they would have recorded in previous periods if the accounting had been completed at the acquisition date. The guidance is effective for us for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted. We are currently evaluating the impact of the adoption of this standard on our consolidated financial statements. We do not believe the standard will have a material impact on our consolidated financial statements.

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**Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK.**

*Foreign Currency Exchange Risk* Our results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates as a majority of our non-U.S. sales are recorded by our Irish subsidiary and as we incur significant operating expenses in our foreign subsidiaries including our Hungarian research and development facilities and our sales and marketing operations in Ireland, the United Kingdom, Australia and India. For the years ended December 31, 2014 and 2015, approximately 32% and 30%, respectively, of our revenues were generated by our Irish subsidiary and approximately 29% and 24%, respectively, of our operating expenses occurred in our international operations in Hungary, Ireland, the United Kingdom, Australia, India and Brazil.

Currently, our largest exposure to foreign currency exchange rate risk relates to the Euro, British Pound and the Hungarian Forint. To date, changes in foreign currency exchange rates have not had a material impact on our operations, and we estimate that a change of 20% or less in foreign currency exchange rates would not materially affect our operations. At this time we do not, but may in the future, enter into any foreign currency hedging programs or instruments that would hedge or help offset such foreign currency exchange rate risk

At December 31, 2015, cash and cash equivalents and short-term marketable securities totaled \$208.4 million, of which \$135.1 million was held in the United States and \$73.3 million was held by our international subsidiaries. Our invested cash is subject to interest rate fluctuations and, for non-U.S. operations, foreign currency risk. Our consolidated cash balances were impacted favorably by \$0.3 million in 2013 and unfavorably by \$5.2 million in both 2014 and 2015, due to changes in foreign currencies relative to the U.S. dollar, particularly the Euro.

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

Interest expense on borrowings under our credit facility is sensitive to changes in interest rates. As of December 31, 2015, we had \$60.0 million outstanding under our variable-rate credit facility. Loans under the credit facility bear interest at variable rates which reset every 30 to 180 days depending on the rate and period selected by the Company. Interest rates on this loan will be adjusted at each rollover date to the extent such amounts are not repaid. As of December 31, 2015, the annual rate on the loan was 1.875%. If there was a hypothetical 100 basis point change in interest rates, the annual net impact to earnings and cash flows would be \$0.6 million. This hypothetical change in cash flows and earnings has been calculated based on the borrowings outstanding at December 31, 2015 and a 100 basis point per annum change in interest rate applied over a one-year period.

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**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.

Boston, Massachusetts

We have audited the accompanying consolidated balance sheets of LogMeIn, Inc. and subsidiaries (the Company) as of December 31, 2014 and 2015, and the related consolidated statements of operations, comprehensive (loss) income, equity, and cash flows for each of the three years in the period ended December 31, 2015. 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, 2014 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015, 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, 2015, based on the criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 19, 2016 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

Boston, Massachusetts

February 19, 2016

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

|   | <b>December 31,<br/>2014</b> | <b>December 31,<br/>2015</b> |
|---|------------------------------|------------------------------|
| <b>ASSETS</b>   |                              |                              |
| Current assets:   |                              |                              |
| Cash and cash equivalents   | \$ 100,960                   | \$ 123,143                   |
| Marketable securities   | 100,209                      | 85,284                       |
| Accounts receivable (net of allowance for doubtful accounts of \$301 and \$274 as of December 31, 2014 and December 31, 2015, respectively)   | 18,286                       | 16,011                       |
| Prepaid expenses and other current assets   | 4,545                        | 11,997                       |
| Restricted cash, current portion  | 1,492                        |                              |
| Deferred tax assets   | 5,403                        |                              |
| <b>Total current assets</b>   | <b>230,895</b>               | <b>236,435</b>               |
| Property and equipment, net   | 13,476                       | 21,711                       |
| Restricted cash, net of current portion   | 2,531                        | 2,467                        |
| Intangibles, net  | 18,983                       | 71,590                       |
| Goodwill  | 37,928                       | 117,545                      |
| Other assets  | 4,756                        | 5,753                        |
| Deferred tax assets   | 9,280                        | 198                          |
| <b>Total assets</b>   | <b>\$ 317,849</b>            | <b>\$ 455,699</b>            |
| <b>LIABILITIES AND EQUITY</b>   |                              |                              |
| Current liabilities:  |                              |                              |
| Accounts payable  | \$ 7,055                     | \$ 10,327                    |
| Accrued liabilities   | 29,482                       | 31,674                       |
| Deferred revenue, current portion   | 101,672                      | 134,297                      |
| <b>Total current liabilities</b>  | <b>138,209</b>               | <b>176,298</b>               |
| Long-term debt  |                              | 60,000                       |
| Deferred revenue, net of current portion  | 3,578                        | 2,692                        |
| Deferred tax liabilities  |                              | 5,812                        |
| Other long-term liabilities   | 2,218                        | 3,086                        |
| <b>Total liabilities</b>  | <b>144,005</b>               | <b>247,888</b>               |
| Commitments and contingencies (Note 11)   |                              |                              |
| Preferred stock, \$0.01 par value 5,000,000 shares authorized, 0 shares outstanding as of December 31, 2014 and December 31, 2015   |                              |                              |
| Equity:   |                              |                              |
| Common stock, \$0.01 par value 75,000,000 shares authorized as of December 31, 2014 and December 31, 2015; 26,530,977 and 27,540,008 shares issued as of December 31, 2014 and December 31, 2015, respectively; 24,418,760 and 25,130,330 outstanding as of December 31, 2014 and December 31, 2015, respectively | 267                          | 275                          |
| Additional paid-in capital  | 237,203                      | 276,793                      |
| Retained earnings   | 6,516                        | 21,074                       |
| Accumulated other comprehensive loss  | (3,117)                      | (5,216)                      |
|   | (67,025)                     | (85,115)                     |

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Treasury stock, at cost 2,112,217 and 2,409,678 shares as of December 31, 2014 and December 31, 2015, respectively

|                              |            |            |
|------------------------------|------------|------------|
| Total equity                 | 173,844    | 207,811    |
| Total liabilities and equity | \$ 317,849 | \$ 455,699 |

See notes to consolidated financial statements.



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

|                                      | Years Ended December 31, |            |            |
|--------------------------------------|--------------------------|------------|------------|
|                                      | 2013                     | 2014       | 2015       |
| Revenue                              | \$ 166,258               | \$ 221,956 | \$ 271,600 |
| Cost of revenue                      | 18,816                   | 28,732     | 35,458     |
| Gross profit                         | 147,442                  | 193,224    | 236,142    |
| Operating expenses                   |                          |            |            |
| Research and development             | 29,023                   | 33,516     | 42,597     |
| Sales and marketing                  | 88,794                   | 119,508    | 138,946    |
| General and administrative           | 29,181                   | 30,526     | 33,034     |
| Legal settlements                    | 1,688                    |            | 3,600      |
| Amortization of acquired intangibles | 682                      | 987        | 1,916      |
| Total operating expenses             | 149,368                  | 184,537    | 220,093    |
| (Loss) income from operations        | (1,926)                  | 8,687      | 16,049     |
| Interest income                      | 549                      | 604        | 654        |
| Interest expense                     | (2)                      | (2)        | (574)      |
| Other (expense) income, net          | (89)                     | 105        | 1,389      |
| (Loss) income before income taxes    | (1,468)                  | 9,394      | 17,518     |
| Provision for income taxes           | (6,214)                  | (1,439)    | (2,960)    |
| Net (loss) income                    | \$ (7,682)               | \$ 7,955   | \$ 14,558  |
| Net (loss) income per share:         |                          |            |            |
| Basic                                | \$ (0.32)                | \$ 0.33    | \$ 0.59    |
| Diluted                              | \$ (0.32)                | \$ 0.31    | \$ 0.56    |
| Weighted average shares outstanding: |                          |            |            |
| Basic                                | 24,350,913               | 24,385,297 | 24,826,363 |
| Diluted                              | 24,350,913               | 25,386,199 | 25,779,928 |

See notes to consolidated financial statements.

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

|  | <b>Years Ended December 31,</b> |                |                |
|--|---------------------------------|----------------|----------------|
|  | <b>2013</b>                     | <b>2014</b>    | <b>2015</b>    |
| Net (loss) income  | \$ (7,682)                      | \$ 7,955       | \$ 14,558      |
| Other comprehensive (loss) gain:   |                                 |                |                |
| Net unrealized (losses) gains on marketable securities, (net of tax benefit of \$14 and \$61 for the years ended December 31, 2013 and 2014 and net of tax provision of \$31 for the year ended December 31, 2015) | (25)                            | (107)          | 55             |
| Net translation losses   | (761)                           | (1,824)        | (2,154)        |
| <b>Total other comprehensive loss</b>  | <b>(786)</b>                    | <b>(1,931)</b> | <b>(2,099)</b> |
| Comprehensive (loss) income  | \$ (8,468)                      | \$ 6,024       | \$ 12,459      |

See notes to consolidated financial statements.

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

|   | Common Stock        |        | Additional<br>Paid-In<br>Capital | (Accumulated<br>Deficit)<br>Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss | Treasury<br>Stock | Total<br>Equity |
|---|---------------------|--------|----------------------------------|--|---|-------------------|-----------------|
|   | Number of<br>Shares | Amount |                                  |  |   |                   |                 |
| <b>Balance at January 1, 2013</b>                                   | 24,814,007          | \$ 248 | \$ 178,546                       | \$ 6,243   | \$ (400)                                      | \$                | \$ 184,637      |
| Issuance of common stock upon exercise of stock options             | 373,761             | 4      | 3,794                            |  |   |                   | 3,798           |
| Net issuance of common stock upon vesting of restricted stock units | 184,076             | 2      | (1,836)                          |  |   |                   | (1,834)         |
| Excess tax benefits realized from stock-based awards                |                     |        | 17                               |  |   |                   | 17              |
| Stock-based compensation  |                     |        | 19,714                           |  |   |                   | 19,714          |
| Treasury stock  | (1,268,643)         |        |                                  |  |   | (30,525)          | (30,525)        |
| Net loss  |                     |        |                                  | (7,682)  |   |                   | (7,682)         |
| Unrealized loss on available-for-sale securities, net of tax        |                     |        |                                  |  | (25)  |                   | (25)            |
| Cumulative translation adjustments                                  |                     |        |                                  |  | (761)   |                   | (761)           |
| <b>Balance at December 31, 2013</b>                                 | 24,103,201          | \$ 254 | \$ 200,235                       | \$ (1,439)                                       | \$ (1,186)                                    | \$ (30,525)       | \$ 167,339      |
| Issuance of common stock upon exercise of stock options             | 858,988             | 9      | 17,586                           |  |   |                   | 17,595          |
| Net issuance of common stock upon vesting of restricted stock units | 300,145             | 4      | (5,770)                          |  |   |                   | (5,766)         |
| Excess tax benefits realized from stock-based awards                |                     |        | 383                              |  |   |                   | 383             |
| Stock-based compensation  |                     |        | 24,769                           |  |   |                   | 24,769          |
| Treasury stock  | (843,574)           |        |                                  |  |   | (36,500)          | (36,500)        |
| Net income  |                     |        |                                  | 7,955  |   |                   | 7,955           |
| Unrealized loss on available-for-sale securities, net of tax        |                     |        |                                  |  | (107)   |                   | (107)           |
| Cumulative translation adjustments                                  |                     |        |                                  |  | (1,824)                                       |                   | (1,824)         |
| <b>Balance at December 31, 2014</b>                                 | 24,418,760          | \$ 267 | \$ 237,203                       | \$ 6,516   | \$ (3,117)                                    | \$ (67,025)       | \$ 173,844      |
| Issuance of common stock upon exercise of stock options             | 611,947             | 6      | 17,788                           |  |   |                   | 17,794          |
| Net issuance of common stock upon vesting of restricted stock units | 397,084             | 2      | (11,643)                         |  |   |                   | (11,641)        |
| Excess tax benefits realized from stock-based awards                |                     |        | 6,946                            |  |   |                   | 6,946           |
| Stock-based compensation  |                     |        | 26,499                           |  |   |                   | 26,499          |
| Treasury stock  | (297,461)           |        |                                  |  |   | (18,090)          | (18,090)        |
| Net income  |                     |        |                                  | 14,558   |   |                   | 14,558          |
| Unrealized gain on available-for-sale securities, net of tax        |                     |        |                                  |  | 55  |                   | 55              |
| Cumulative translation adjustments                                  |                     |        |                                  |  | (2,154)                                       |                   | (2,154)         |
| <b>Balance at December 31, 2015</b>                                 | 25,130,330          | \$ 275 | \$ 276,793                       | \$ 21,074  | \$ (5,216)                                    | \$ (85,115)       | \$ 207,811      |

See notes to consolidated financial statements.

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

|  | <b>Years Ended December 31,</b> |             |             |
|--|---------------------------------|-------------|-------------|
|  | <b>2013</b>                     | <b>2014</b> | <b>2015</b> |
| <b>Cash flows from operating activities</b>  |                                 |             |             |
| Net (loss) income  | \$ (7,682)                      | \$ 7,955    | \$ 14,558   |
| Adjustments to reconcile net (loss) income to net cash provided by operating activities: |                                 |             |             |
| Depreciation and amortization  | 7,704                           | 11,137      | 13,698      |
| Amortization of premium on investments   | 198                             | 224         | 328         |
| Amortization of deferred financing costs   |                                 |             | 187         |
| Provision for bad debts  | 116                             | 102         | 61          |
| Provision for (benefit from) deferred income taxes                                       | 926                             | (2,707)     | (1,062)     |
| Excess tax benefits realized from stock-based awards                                     | (17)                            | (383)       | (2,743)     |
| Stock-based compensation   | 19,714                          | 24,769      | 26,499      |
| Other, net   |                                 | 21          | (12)        |
| Changes in assets and liabilities, excluding effect of acquisitions:                     |                                 |             |             |
| Accounts receivable  | 302                             | (5,804)     | 2,224       |
| Prepaid expenses and other current assets  | (2,986)                         | 1,822       | (2,794)     |
| Other assets   | (3,764)                         | 476         | (454)       |
| Accounts payable   | (2,233)                         | 1,727       | 1,420       |
| Accrued liabilities  | 3,457                           | 9,234       | 2,288       |
| Deferred revenue   | 14,493                          | 23,983      | 28,874      |
| Other long-term liabilities  | (208)                           | 1,597       | 2,698       |
| Net cash provided by operating activities  | 30,020                          | 74,153      | 85,770      |
| <b>Cash flows from investing activities</b>  |                                 |             |             |
| Purchases of marketable securities   | (90,376)                        | (95,342)    | (92,335)    |
| Proceeds from sale or disposal or maturity of marketable securities                      | 90,000                          | 95,045      | 107,042     |
| Purchases of property and equipment  | (10,938)                        | (7,471)     | (14,219)    |
| Intangible asset additions   | (13,061)                        | (2,529)     | (2,375)     |
| Cash paid for acquisition, net of cash acquired  |                                 | (22,449)    | (107,575)   |
| (Increase) decrease in restricted cash and deposits                                      | 7                               | (196)       | 1,488       |
| Net cash used in investing activities  | (24,368)                        | (32,942)    | (107,974)   |
| <b>Cash flows from financing activities</b>  |                                 |             |             |
| Borrowings under credit facility   |                                 |             | 60,000      |
| Proceeds from issuance of common stock upon option exercises                             | 3,798                           | 17,595      | 17,794      |
| Excess tax benefits realized from stock-based awards                                     | 17                              | 383         | 2,743       |
| Payments of withholding taxes in connection with restricted stock unit vesting           | (1,834)                         | (5,766)     | (11,641)    |
| Payment of debt issuance costs   |                                 |             | (988)       |
| Payment of contingent consideration  | (104)                           |             | (226)       |
| Purchase of treasury stock   | (30,525)                        | (36,500)    | (18,090)    |
| Net cash (used in) provided by financing activities                                      | (28,648)                        | (24,288)    | 49,592      |
| Effect of exchange rate changes on cash and cash equivalents and restricted cash         | 321                             | (5,220)     | (5,205)     |
| Net (decrease) increase in cash and cash equivalents                                     | (22,675)                        | 11,703      | 22,183      |
| Cash and cash equivalents, beginning of period   | 111,932                         | 89,257      | 100,960     |
| Cash and cash equivalents, end of period   | \$ 89,257                       | \$ 100,960  | \$ 123,143  |

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### Supplemental disclosure of cash flow information

|   |           |          |          |
|---|-----------|----------|----------|
| Cash paid for interest  | \$ 2      | \$ 2     | \$ 574   |
| Cash paid for income taxes  | \$ 10,094 | \$ 1,489 | \$ 861   |
| <b>Noncash investing and financing activities</b>   |           |          |          |
| Purchases of property and equipment included in accounts payable and accrued liabilities  | \$ 1,510  | \$ 1,032 | \$ 3,145 |
| Fair value of contingent consideration in connection with acquisition included in accrued liabilities and other long term liabilities | \$        | \$ 249   | \$ 2,028 |
| Debt issuance costs included in accounts payable and accrued liabilities  | \$        | \$ 13    | \$       |

See notes to consolidated financial statements.

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

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

**2. Summary of Significant Accounting Policies**

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

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

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

*Marketable Securities* The Company's marketable securities are classified as available-for-sale and are carried at fair value with the unrealized gains and losses, net of tax, reported as a component of accumulated other comprehensive loss in equity. Realized gains and losses and declines in value judged to be other than temporary are included as a component of earnings based on the specific identification method. Fair value is determined based on quoted market prices. At December 31, 2014 and 2015, marketable securities consisted of U.S. government agency securities and corporate bonds that have remaining maturities within two years and have an aggregate amortized cost of \$100.3 million and \$85.3 million, respectively. The securities have an aggregate fair value of \$100.2 million and \$85.3 million, including \$9,000 and \$10,000 of unrealized gains and \$138,000 and \$53,000 of unrealized losses, at December 31, 2014 and 2015 respectively.

*Restricted Cash* 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 in accordance with the lease. In 2015, \$1.5 million of the security deposit was returned to the Company due to a planned decrease in the security deposit obligation. Such amounts are classified as restricted cash in the accompanying consolidated balance sheets. In addition, the Company has made security deposits for various other leased facilities, which are also classified as restricted cash.

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

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

|                                    | December 31, |        |        |
|------------------------------------|--------------|--------|--------|
|                                    | 2013         | 2014   | 2015   |
| Balance beginning of period        | \$ 180       | \$ 269 | \$ 301 |
| Provision for bad debt             | 116          | 102    | 61     |
| Uncollectible accounts written off | 27           | 70     | 88     |
| Balance end of period              | \$ 269       | \$ 301 | \$ 274 |

*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 operations. 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<br>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. The Company does not amortize goodwill, but performs an impairment test of goodwill annually or whenever events and circumstances indicate that the carrying amount of goodwill may exceed its fair value. The Company operates as a single operating segment with one reporting unit and consequently evaluates goodwill for impairment based on an evaluation of the fair value of the Company as a whole. As of December 31, 2015, the fair value of the Company as a whole significantly exceeds the carrying amount of the Company. Through December 31, 2015, no impairments have occurred.

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

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets, including intangible assets, may not be recoverable. When such events occur, the Company compares the carrying amounts of the assets to their undiscounted expected future cash flows. If this comparison indicates that there is impairment, the amount of the impairment is calculated as the difference between the carrying value and fair value. Through December 31, 2015, the Company recorded no material impairments.

*Revenue Recognition* The Company derives revenue primarily from subscription fees related to its LogMeIn premium services and to a lesser extent, the delivery of professional services, primarily related to its Xively business.

Revenue from the Company's LogMeIn premium services is recognized on a daily basis over the subscription term as the services are delivered, provided that there is persuasive evidence of an arrangement, the fee is fixed or determinable and collectability is deemed reasonably assured. Subscription periods range from monthly to ten 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.

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





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

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

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, 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, 2015 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, 2013, 2014 or 2015. As of December 31, 2014, one customer accounted for 15% of accounts receivable.

*Legal Costs* Legal expenditures are expensed as incurred.

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

*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.

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.

*Foreign Currency Translation* The functional currency of operations outside the United States of America is deemed to be the currency of the local country, unless otherwise determined that the United States dollar would serve as a more appropriate functional currency given the economic operations of the entity. Accordingly, the assets and liabilities of the Company's foreign subsidiaries are translated into United States dollars using the period-end exchange rate, and income and expense items are translated using the average exchange rate during the period. Cumulative translation adjustments are reflected as a separate component of equity. Foreign currency

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transaction gains and losses are charged to operations. The Company had foreign currency gains of approximately \$0.1 million and \$1.4 million for the years ended December 31, 2014 and 2015, respectively, included in other income in the consolidated statements of operations.

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

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

The Company evaluates its uncertain tax positions based on a determination of whether and how much of a tax benefit taken by the Company in its tax filings is more likely than not to be realized. Potential interest and penalties associated with any uncertain tax positions are recorded as a component of income tax expense. As of December 31, 2015, the Company has provided a liability for approximately \$0.9 million 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, 2013, 2014 and 2015 was approximately \$27.8 million, \$36.8 million and \$35.8 million, 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 operations.

*Comprehensive Loss* Comprehensive loss 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 comprehensive loss was approximately \$3.1 million at December 31, 2014 and consisted of \$3.0 million related to foreign currency translation adjustments in addition to \$0.1 million in unrealized losses, net of tax on available-for sale securities. Accumulated comprehensive loss was approximately \$5.2 million at December 31, 2015 and consisted of \$5.2 million related to foreign currency translation adjustments offset by \$27,000 of unrealized losses, 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 Company, which uses consolidated financial information in determining how to allocate resources and assess performance, has determined that it operates in one segment.

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

|                         | Years Ended December 31, |                   |                   |
|-------------------------|--------------------------|-------------------|-------------------|
|                         | 2013                     | 2014              | 2015              |
| Revenues:               |                          |                   |                   |
| United States           | \$ 109,444               | \$ 148,532        | \$ 191,300        |
| United Kingdom          | 15,058                   | 19,452            | 21,662            |
| International all other | 41,756                   | 53,972            | 58,638            |
| <b>Total revenue</b>    | <b>\$ 166,258</b>        | <b>\$ 221,956</b> | <b>\$ 271,600</b> |

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

|                                      | Years Ended December 31, |                   |                   |
|--------------------------------------|--------------------------|-------------------|-------------------|
|                                      | 2013                     | 2014              | 2015              |
| Revenues:                            |                          |                   |                   |
| Collaboration cloud                  | \$ 35,176                | \$ 62,746         | \$ 88,234         |
| Identity and Access Management cloud | 55,647                   | 74,244            | 92,712            |
| Service and Support cloud            | 75,433                   | 82,767            | 88,206            |
| Other                                | 2                        | 2,199             | 2,448             |
| <b>Total revenue</b>                 | <b>\$ 166,258</b>        | <b>\$ 221,956</b> | <b>\$ 271,600</b> |

The Company's long-lived assets by geography are as follows (in thousands):

|                                | Years Ended December 31, |                  |                  |
|--------------------------------|--------------------------|------------------|------------------|
|                                | 2013                     | 2014             | 2015             |
| Long-lived assets:             |                          |                  |                  |
| United States                  | \$ 10,207                | \$ 9,731         | \$ 16,342        |
| Hungary                        | 1,224                    | 2,018            | 2,525            |
| Ireland                        | 1,057                    | 1,139            | 1,963            |
| International all other        | 710                      | 588              | 881              |
| <b>Total long-lived assets</b> | <b>\$ 13,198</b>         | <b>\$ 13,476</b> | <b>\$ 21,711</b> |

*Net (Loss) Income Per Share* Basic net (loss) income per share is computed by dividing net (loss) income by the weighted average number of common shares outstanding for the period. Diluted net (loss) income per share is computed by dividing net (loss) 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. For the year ended December 31, 2013, the Company incurred a net loss and therefore, the effect of the Company's outstanding common stock equivalents were not included in the calculation of diluted loss per share as they were anti-dilutive. Accordingly, basic and dilutive net loss per share for each period were identical.

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

|                                   | Years Ended December 31, |      |      |
|-----------------------------------|--------------------------|------|------|
|                                   | 2013                     | 2014 | 2015 |
| Options to purchase common shares | 2,389                    | 57   |      |

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|  |       |    |     |
|--|-------|----|-----|
| Restricted stock units                   | 1,192 | 18 | 204 |
| Total options and restricted stock units | 3,581 | 75 | 204 |

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

|   | Years ended December 31, |          |           |
|---|--------------------------|----------|-----------|
|   | 2013                     | 2014     | 2015      |
| <b>Basic:</b>                                       |                          |          |           |
| Net (loss) income                                   | \$ (7,682)               | \$ 7,955 | \$ 14,558 |
| Weighted average common shares outstanding, basic   | 24,351                   | 24,385   | 24,826    |
| Net (loss) income per share, basic                  | \$ (0.32)                | \$ 0.33  | \$ 0.59   |
| <b>Diluted:</b>                                     |                          |          |           |
| Net (loss) income                                   | \$ (7,682)               | \$ 7,955 | \$ 14,558 |
| Weighted average common shares outstanding          | 24,351                   | 24,385   | 24,826    |
| Add: Common stock equivalents                       |                          | 1,001    | 954       |
| Weighted average common shares outstanding, diluted | 24,351                   | 25,386   | 25,780    |
| Net (loss) income per share, diluted                | \$ (0.32)                | \$ 0.31  | \$ 0.56   |

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

In the ordinary course of business, the Company enters into agreements with certain customers that contractually obligate the Company to provide indemnifications of varying scope and terms with respect to certain matters including, but not limited to, losses arising out of the breach of such agreements, from the services provided by the Company or claims alleging that the Company's products infringe third-party patents, copyrights, or trademarks. The term of these indemnification obligations is generally perpetual. The maximum potential amount of future payments the Company could be required to make under these indemnification obligations is, in many cases, unlimited. Through December 31, 2015, the Company has not experienced any losses related to these indemnification obligations.

**Recently Issued Accounting Pronouncements** On May 28, 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09), its final standard on revenue from contracts with customers. ASU 2014-9 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In applying the revenue model to contracts within its scope, an entity identifies the contract(s) with a customer, identifies the performance obligations in the contract, determines the transaction price, allocates the transaction price to the performance obligations in the contract and recognizes revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 applies to all contracts with customers that are within the scope of other topics in the FASB Accounting Standards Codification. Certain of ASU 2014-09's provisions also apply to transfers of nonfinancial assets, including in-substance nonfinancial assets that are not an output of an entity's ordinary activities (i.e., property plant and equipment, real estate or intangible assets). Existing accounting guidance applicable to these transfers has been amended or superseded. ASU 2014-09 also requires significantly expanded disclosures about revenue recognition. ASU 2014-09 is effective for the Company on January 1, 2018, with early adoption permitted, but not earlier than January 1, 2017. The Company is currently assessing the potential impact of the adoption of ASU 2014-09 on its consolidated financial statements.

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

In April 2015, the FASB issued ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs* ( ASU 2015-03 ), which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability, consistent with the presentation of a debt discount. The guidance in ASU 2015-03 is required for annual reporting periods beginning after December 15, 2015, including interim periods within the reporting period and early adoption is permitted. The Company has not elected to early adopt ASU 2015-03 and instead, this standard will be effective for its fiscal year ending December 31, 2016. The Company is currently evaluating the impact of the adoption of this standard, if any, on its consolidated financial statements.

On April 15, 2015 the FASB issued *Customer's Accounting for Fees Paid in a Cloud Computing Arrangement* (ASU 2015-05) which clarifies the circumstances under which a cloud computing customer would account for the arrangement as a license of internal-use software under ASC 350-40. Under the new standard, customers will apply the same criteria as vendors to determine whether a cloud computing arrangement contains a software license or is solely a service contract. The new standard is effective for annual periods, including interim periods, beginning after December 15, 2015. Early adoption is permitted. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements. The Company does not believe the standard will have a material impact on its consolidated financial statements.

On September 25, 2015 the FASB issued *Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments* (ASU 2015-16) that eliminates the requirement for an acquirer in a business combination to account for measurement-period adjustments retrospectively. Instead, acquirers must recognize measurement-period adjustments during the period in which they determine the amounts, including the effect on earnings of any amounts they would have recorded in previous periods if the accounting had been completed at the acquisition date. The guidance is effective for the Company for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.

### **3. Fair Value of Financial Instruments**

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

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

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

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

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

|                                     | Fair Value Measurements at December 31, 2014 Using |         |         |           |
|-------------------------------------|--|---------|---------|-----------|
|                                     | Level 1  | Level 2 | Level 3 | Total     |
| <b>Financial Assets:</b>            |  |         |         |           |
| Cash equivalents money market funds | \$ 13,139  | \$      | \$      | \$ 13,139 |
| Cash equivalents bank deposits      |  | 5,003   |         | 5,003     |
| Short-term marketable securities :  |  |         |         |           |
| U.S. government agency securities   | 59,903   | 19,950  |         | 79,853    |
| Corporate bond securities           |  | 20,356  |         | 20,356    |
| Contingent consideration liability  |  |         | 249     | 249       |

|                                     | Fair Value Measurements at December 31, 2015 Using |         |         |           |
|-------------------------------------|--|---------|---------|-----------|
|                                     | Level 1  | Level 2 | Level 3 | Total     |
| <b>Financial Assets:</b>            |  |         |         |           |
| Cash equivalents money market funds | \$ 10,138  | \$      | \$      | \$ 10,138 |
| Cash equivalents bank deposits      |  | 1       |         | 1         |
| Short-term marketable securities :  |  |         |         |           |
| U.S. government agency securities   | 50,237   | 17,994  |         | 68,231    |
| Corporate bond securities           |  | 17,053  |         | 17,053    |
| Contingent consideration liability  |  |         | 2,028   | 2,028     |

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

The Level 3 liability consists of contingent consideration related to the August 27, 2014 acquisition of Meldium, the September 5, 2014 acquisition of Zamurai and the October 15, 2015 acquisition of LastPass, each as further described in Note 4 below. The LastPass contingent consideration of up to \$2.5 million is based on the achievement of certain bookings goals. The fair value of the LastPass contingent consideration was estimated at \$2.0 million by applying a probability based model, which utilizes inputs that are unobservable in the market. A reconciliation of the beginning and ending Level 3 liability is as follows:

|  | Years Ended<br>December 31, |          |
|--|-----------------------------|----------|
|  | 2014                        | 2015     |
| Balance beginning of period                                | \$                          | \$ 249   |
| Additions to Level 3                                       | 239                         | 2,000    |
| Payments   |                             | (226)    |
| Change in fair value of contingent consideration liability | 10                          | 5        |
| Balance end of period                                      | \$ 249                      | \$ 2,028 |

**4. Acquisitions**

In 2015, we completed the acquisition of LastPass (on October 15, 2015), and in 2014, we completed the acquisitions of Ionia (on March 7, 2014), Meldium (on August 27, 2014) and Zamurai (on September 5, 2014). The results of operations of these acquired businesses have been included in our consolidated financial statements beginning on their respective acquisition dates.

These acquisitions have been accounted for as business combinations. Assets acquired and liabilities assumed have been recorded at their estimated fair values as of the respective acquisition date. The fair values of





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intangible assets were based on valuations using an income approach, with estimates and assumptions provided by management of the acquired companies and the Company. The excess of the purchase price over the tangible assets, identifiable intangible assets and assumed liabilities was recorded as goodwill.

Acquisition-related costs of \$1.5 million, \$4.5 million and \$6.4 million were recorded in 2013, 2014 and 2015, respectively. These costs include \$0.1 million, \$0.4 million, and \$0.7 million in 2013, 2014 and 2015, respectively, of direct costs of completing an acquisition including professional fees, which include legal and valuation services, and expenses related to acquisition integration activities and \$1.4 million, \$4.1 million, and \$5.6 million in 2013, 2014 and 2015, respectively, of retention-based bonus payment expense, which are typically earned over the first two years following the acquisition.

*2015 Acquisition**LastPass*

On October 15, 2015, the Company acquired all of the outstanding equity interests in LastPass, a Fairfax, Virginia-based provider of an identity and password management service, for \$107.6 million, net of cash acquired, plus contingent payments totaling up to \$15 million which are expected to be paid over a two-year period following the date of acquisition. The operating results of LastPass, which are included in the consolidated financial statements beginning on the acquisition date, are comprised of \$2.7 million of revenue and approximately \$3.8 million of expenses for the year ended December 31, 2015, including amortization of acquired intangible assets of \$0.9 million and contingent retention-based bonuses of \$1.4 million.

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

|  |            |
|--|------------|
| Cash                                   | \$ 2,518   |
| Accounts receivable                    | 639        |
| Property and equipment                 | 40         |
| Deferred tax asset                     | 3,050      |
| Current and other assets               | 134        |
| Intangible assets:                     |            |
| Completed technology                   | 29,400     |
| Customer relationships                 | 23,900     |
| Trade name and trademark               | 3,000      |
| Deferred revenue                       | (6,600)    |
| Accrued expenses                       | (66)       |
| Deferred tax liability                 | (23,478)   |
| Goodwill                               | 79,617     |
| <br>                                   |            |
| Total purchase price                   | 112,154    |
| Liability for contingent consideration | (2,000)    |
| <br>                                   |            |
| Total cash paid                        | \$ 110,154 |

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

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

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payout ratably over the performance period, as it believes it is probable that the criteria will be met. The stock purchase agreement also includes non-retention based payments to LastPass stockholders, contingent on the achievement of certain bookings goals, for up to \$2.5 million, which the Company has concluded is contingent consideration and is part of the purchase price. This contingent liability was recorded at its fair value of \$2.0 million at the acquisition date which is included in accrued expenses on the accompanying consolidated balance sheet as of December 31, 2015. The Company will re-measure the fair value of the contingent consideration at each subsequent reporting period and recognize any adjustments to fair value as part of earnings.

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

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

The unaudited financial information in the table below summarizes the combined results of operations of the Company and LastPass, on a pro forma basis, as though the companies had been combined. The pro forma information for the period presented includes the effects of business combination accounting resulting from the acquisition as though the acquisition had been consummated as of the beginning of 2014, including amortization charges from acquired intangible assets; the fair value adjustment of acquired deferred revenue being recorded primarily in 2014; interest expense on borrowings and lower interest income in connection with the Company funding the acquisition with existing cash and investments and borrowings under its credit facility; the exclusion of acquisition-related costs of the Company and LastPass; the inclusion of expense related to contingent retention-based bonuses assuming full achievement of the financial metric and retention requirements (\$7.0 million in 2014 and \$5.5 million in 2015), offset by the exclusion of LastPass historical bonuses paid to the LastPass shareholders in 2014 of \$4.6 million and paid to LastPass non-shareholder employees in 2015 in connection with the acquisition close of \$6.1 million; and the related tax effects. The pro forma financial information is presented for comparative purposes only and is not necessarily indicative of the results of operations that actually would have been achieved if the acquisition had taken place at the beginning of 2014.

**Unaudited Pro Forma Financial Information**

|                              | Year Ended<br>December 31,                  |            |
|------------------------------|---|------------|
|                              | 2014  | 2015       |
|                              | (in thousands, except<br>per share amounts) |            |
| Revenue                      | \$ 230,477                                  | \$ 281,980 |
| Net income                   | \$ 1,687                                    | \$ 12,038  |
| Earnings per share - Basic   | \$ 0.07                                     | \$ 0.48    |
| Earnings per share - Diluted | \$ 0.07                                     | \$ 0.47    |

*2014 Acquisitions*

*Ionia*

On March 7, 2014, the Company acquired all of the outstanding capital stock of Ionia, a Boston, Massachusetts based systems integrator, for a cash purchase price of \$7.5 million plus contingent retention-based bonuses totaling up to \$4.0 million to employees, including former Ionia stockholders now employed by the Company, on the first and second anniversaries of the acquisition, contingent upon their continued employment and achievement of certain bookings goals. 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 \$2.0 million in March 2015 and expects to pay the remainder in 2016.

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

|                          | <b>Amount</b> |
|--------------------------|---------------|
| Cash                     | \$ 67         |
| Current and other assets | 322           |
| Deferred revenue         | (70)          |
| Other liabilities        | (864)         |
| Customer backlog         | 120           |
| Trade name and trademark | 10            |
| Customer relationships   | 1,340         |
| Documented know-how      | 280           |
| Goodwill                 | 6,295         |
| <br>Total purchase price | <br>\$ 7,500  |

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 Xively platform, customer base, sales force and Internet of Things business plan with Ionia's technical expertise and customer base. All goodwill and intangible assets acquired are not deductible for income tax purposes.

The Company recorded a long-term deferred tax liability of \$0.7 million related to the amortization of intangible assets which cannot be deducted for tax purposes and is included in the accompanying table above as other liabilities.

*Meldium*

On August 27, 2014, the Company acquired Meldium, a San Francisco, California-based provider of single sign-on password management software, through a merger transaction for a cash purchase price of \$10.6 million plus contingent payments totaling up to \$4.6 million to employees, including former Meldium stockholders now employed by the Company. These contingent payments include retention-based bonuses which are expected to be paid in the first two years from the date of acquisition, contingent upon their continued employment and achievement of certain product integration goals. 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 \$2.0 million in contingent payments in 2015 and the remaining \$2.6 million in February 2016.

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

|  | <b>Amount</b> |
|--|---------------|
| Cash                                   | \$ 120        |
| Current and other assets               | 526           |
| Deferred revenue                       | (5)           |
| Other liabilities                      | (935)         |
| Completed technology                   | 1,580         |
| Trade name and trademark               | 30            |
| Customer relationships                 | 100           |
| Goodwill                               | 9,437         |
| <br>Total purchase price               | <br>10,853    |
| Liability for contingent consideration | (216)         |
| <br>Cash paid                          | <br>\$ 10,637 |



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The contingent payments also included payments to non-employee stockholders of \$0.2 million, which the Company has concluded is contingent consideration and is part of the purchase price. This contingent liability was recorded at its fair value of \$216,000 at the acquisition date and was paid in 2015.

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

The Company recorded deferred tax assets of \$0.5 million, primarily related to net operating losses that were acquired as a part of the acquisition and are shown in the accompanying table above as current and other assets. The Company also recorded a long-term deferred tax liability of \$0.7 million related to the amortization of intangible assets which cannot be deducted for tax purposes and are included in the accompanying table above as other liabilities.

*Zamurai*

On September 5, 2014, the Company acquired all of the outstanding capital stock of Zamurai, a San Francisco, California-based collaboration software provider, for a cash purchase price of \$4.5 million plus contingent payments totaling up to \$1.5 million to employees, including former Zamurai stockholders now employed by the Company. These contingent payments include retention-based bonuses which are expected to be paid on the second anniversary of the acquisition, contingent upon their continued employment and achievement of certain product integration goals. 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 following table summarizes the fair value (in thousands) of the assets acquired and liabilities assumed at the date of acquisition:

|  | <b>Amount</b>   |
|--|-----------------|
| Cash                                   | \$ 2            |
| Current and other assets               | 417             |
| Other liabilities                      | (439)           |
| Completed technology                   | 960             |
| Trade name and trademark               | 100             |
| Goodwill                               | 3,484           |
| <b>Total purchase price</b>            | <b>4,524</b>    |
| Liability for contingent consideration | (24)            |
| <b>Cash paid</b>                       | <b>\$ 4,500</b> |

The stock purchase agreement includes contingent payments to non-employee stockholders of \$30,000, which the Company has concluded is contingent consideration and is part of the purchase price. This contingent liability was recorded at its fair value of \$24,000 at the acquisition date. The Company continues to re-measure the fair value of the contingent consideration at each subsequent reporting period and recognizes any adjustments to fair value as part of earnings.

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

The Company recorded a long-term deferred tax asset of \$0.4 million related to net operating losses that were acquired as a part of the acquisition, which is included in the accompanying table above as current and other assets. The Company also recorded a long-term deferred tax liability of \$0.4 million related to the amortization of intangible assets which cannot be deducted for tax purposes and is included in the accompanying table above as other liabilities.



**Table of Contents****5. Goodwill and Intangible Assets**

The changes in the carrying amounts of goodwill for the years ended December 31, 2014 and 2015 are due to the addition of goodwill resulting from the acquisitions of Ionia, Meldium, Zamurai and LastPass (See Note 4 to the Consolidated Financial Statements).

Changes in goodwill for the years ended December 31, 2014 and 2015 are as follows (in thousands):

|   |            |
|---|------------|
| Balance, January 1, 2014                        | \$ 18,712  |
| Goodwill related to the acquisition of Ionia    | 6,295      |
| Goodwill related to the acquisition of Meldium  | 9,437      |
| Goodwill related to the acquisition of Zamurai  | 3,484      |
| <br>  |            |
| Balance, December 31, 2014                      | 37,928     |
| Goodwill related to the acquisition of LastPass | 79,617     |
| <br>  |            |
| Balance, December 31, 2015                      | \$ 117,545 |

Intangible assets consist of the following (in thousands):

|                                 | Estimated Useful Life | December 31, 2014     |                          |                     | December 31, 2015     |                          |                     |
|---------------------------------|-----------------------|-----------------------|--------------------------|---------------------|-----------------------|--------------------------|---------------------|
|                                 |                       | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Identifiable intangible assets: |                       |                       |                          |                     |                       |                          |                     |
| Trade names and trademarks      | 1-11 years            | \$ 806                | \$ 682                   | \$ 124              | \$ 3,806              | \$ 824                   | \$ 2,982            |
| Customer relationships          | 5-8 years             | 5,229                 | 2,546                    | 2,683               | 29,129                | 4,089                    | 25,040              |
| Customer backlog                | 4 months              | 120                   | 120                      |                     | 120                   | 120                      |                     |
| Domain names                    | 5 years               | 907                   | 507                      | 400                 | 915                   | 665                      | 250                 |
| Software                        | 4 years               | 299                   | 299                      |                     | 299                   | 299                      |                     |
| Completed technology            | 3-9 years             | 16,903                | 3,981                    | 12,922              | 46,503                | 6,893                    | 39,610              |
| Technology and know-how         | 3 years               | 3,176                 | 3,176                    |                     | 3,176                 | 3,176                    |                     |
| Documented know-how             | 4 years               | 280                   | 57                       | 223                 | 280                   | 127                      | 153                 |
| Non-Compete agreements          | 5 years               | 162                   | 71                       | 91                  | 162                   | 114                      | 48                  |
| Internally developed software   | 3 years               | 4,591                 | 2,051                    | 2,540               | 6,754                 | 3,247                    | 3,507               |
|                                 |                       | \$ 32,473             | \$ 13,490                | \$ 18,983           | \$ 91,144             | \$ 19,554                | \$ 71,590           |

During the year ended December 31, 2015, the Company capitalized \$29.4 million for completed technology, \$23.9 million for customer relationships and \$3.0 million for a trade name and trademark as intangible assets in connection with the LastPass acquisition. The Company also capitalized \$2.1 million and \$2.2 million during the years ended December 31, 2014 and 2015, respectively, of costs related to internally developed computer software to be sold as a service incurred during the application development stage and is amortizing these costs over the expected lives of the related services. The Company also acquired \$0.2 million of intellectual property during the year ended December 31, 2015.

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The Company is amortizing its intangible assets over the estimated lives noted above based upon the pattern in which their economic benefit will be realized, or if this pattern cannot be reliably determined, using the straight-line method over their estimated useful lives. The intangible assets have estimated useful lives which range from four months to eleven years. Amortization expense for intangible assets was \$2.5 million, \$4.9 million and \$6.1 million for the years ended December 31, 2013, 2014 and 2015, respectively. Amortization relating to software, completed technology, technology and know-how, documented know-how, and internally developed software is recorded within cost of revenues and the amortization of trade name and trademark, customer relationships, customer backlog, domain names, and non-compete agreements is recorded within operating expenses. Future estimated amortization expense for intangible assets at December 31, 2015 is as follows (in thousands):

| <b>Amortization Expense (Years Ending December 31)</b> | <b>Amount</b>    |
|--|------------------|
| 2016   | \$ 11,622        |
| 2017   | 11,424           |
| 2018   | 10,894           |
| 2019   | 8,273            |
| 2020   | 7,631            |
| Thereafter   | 21,746           |
| <b>Total</b>   | <b>\$ 71,590</b> |

**6. Property and Equipment**

Property and equipment consisted of the following (in thousands):

|   | <b>December 31,</b> |                  |
|---|---------------------|------------------|
|   | <b>2014</b>         | <b>2015</b>      |
| Computer equipment and software                       | \$ 24,968           | \$ 30,030        |
| Office equipment                                      | 3,624               | 5,428            |
| Furniture & fixtures                                  | 4,075               | 8,448            |
| Construction in progress                              | 684                 | 93               |
| Leasehold improvements                                | 3,752               | 8,121            |
| <b>Total property and equipment</b>                   | <b>37,103</b>       | <b>52,120</b>    |
| <b>Less accumulated depreciation and amortization</b> | <b>(23,627)</b>     | <b>(30,409)</b>  |
| <b>Property and equipment, net</b>                    | <b>\$ 13,476</b>    | <b>\$ 21,711</b> |

Depreciation expense for property and equipment was \$5.2 million, \$6.2 million and \$7.6 million for the years ended December 31, 2013, 2014 and 2015.

**7. Accrued Liabilities**

Accrued liabilities consisted of the following (in thousands):

|                             | <b>December 31,</b> |             |
|-----------------------------|---------------------|-------------|
|                             | <b>2014</b>         | <b>2015</b> |
| Marketing programs          | \$ 7,626            | \$ 4,323    |
| Payroll and payroll related | 14,873              | 18,239      |
| Professional fees           | 1,961               | 1,944       |



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|                           |           |           |
|---------------------------|-----------|-----------|
| Other accrued liabilities | 5,022     | 7,168     |
| Total accrued liabilities | \$ 29,482 | \$ 31,674 |

**Table of Contents****8. Income Taxes**

The domestic and foreign components of (loss) income before provision for income taxes are as follows (in thousands):

|  | 2013              | December 31,<br>2014 | 2015             |
|--|-------------------|----------------------|------------------|
| Domestic   | \$ 10,389         | \$ (4,462)           | \$ 1,059         |
| Foreign  | (11,857)          | 13,856               | 16,459           |
| <b>Total (loss) income before provision for income taxes</b> | <b>\$ (1,468)</b> | <b>\$ 9,394</b>      | <b>\$ 17,518</b> |

The provision for income taxes is as follows (in thousands):

|   | Years Ended December 31, |                 |                 |
|---|--------------------------|-----------------|-----------------|
|   | 2013                     | 2014            | 2015            |
| <b>Current</b>                          |                          |                 |                 |
| Federal                                 | \$ 5,480                 | \$ 2,804        | \$ 2,521        |
| State                                   | 1,346                    | 1,184           | 274             |
| Foreign                                 | 952                      | 1,052           | 1,227           |
| <b>Total</b>                            | <b>7,778</b>             | <b>5,040</b>    | <b>4,022</b>    |
| <b>Deferred</b>                         |                          |                 |                 |
| Federal                                 | (1,379)                  | (3,069)         | (1,281)         |
| State                                   | (177)                    | (748)           | 278             |
| Foreign                                 | (8)                      | 216             | (59)            |
| <b>Total</b>                            | <b>(1,564)</b>           | <b>(3,601)</b>  | <b>(1,062)</b>  |
| <b>Total provision for income taxes</b> | <b>\$ 6,214</b>          | <b>\$ 1,439</b> | <b>\$ 2,960</b> |

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

|   | Years Ended December 31, |              |              |
|---|--------------------------|--------------|--------------|
|   | 2013                     | 2014         | 2015         |
| Statutory tax rate                      | 35.0%                    | 35.0%        | 35.0%        |
| Change in valuation allowance           |                          |              |              |
| Impact of permanent differences         | (9.3)                    | 1.6          | 1.1          |
| Non-deductible stock-based compensation | (73.0)                   | 14.6         | 8.4          |
| Foreign tax rate differential           | (346.9)                  | (39.1)       | (26.7)       |
| Research and development credits        | 23.1                     | (2.6)        | (1.3)        |
| State taxes, net of federal benefit     | (51.9)                   | 2.9          | 2.4          |
| Impact of uncertain tax positions       | (3.6)                    | 3.8          | 1.4          |
| Other                                   | 3.4                      | (0.8)        | (3.4)        |
| <b>Effective tax rate</b>               | <b>(423.2)%</b>          | <b>15.4%</b> | <b>16.9%</b> |

The Company recorded a tax provision for income taxes of \$1.4 million on profit before income taxes of \$9.4 million and \$3.0 million on profit before income taxes of \$17.5 million for the years ended December 31, 2014 and 2015, respectively. The Company recorded a provision as a result of taxable income, excluding the direct effects of windfall tax deductions, generated in the United States as well as in certain foreign

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jurisdictions. The Company's effective tax rates for the years ended December 31, 2014 and 2015 were lower than the U.S. federal statutory rate of 35% due to profits earned in certain foreign jurisdictions, primarily by our Irish subsidiaries, which are subject to significantly lower tax rates than the U.S. federal statutory rate.

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For the year ended December 31, 2013, the Company recorded a tax provision for federal, state and foreign income taxes of \$6.2 million on a loss before income taxes of \$1.5 million as a result of income generated in the United States offset by losses incurred in certain foreign jurisdictions where there is no corresponding benefit.

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

|  | <b>December 31,</b> |                   |
|--|---------------------|-------------------|
|  | <b>2014</b>         | <b>2015</b>       |
| <b>Deferred tax assets:</b>            |                     |                   |
| Net operating loss carryforwards       | \$ 2,783            | \$ 4,033          |
| Deferred revenue                       | 775                 | 583               |
| Amortization                           | 1,806               | 2,287             |
| Stock-based compensation               | 11,584              | 10,268            |
| Accrued bonus                          | 3,579               | 4,032             |
| Other                                  | 1,278               | 2,311             |
| <br>                                   |                     |                   |
| Total deferred tax assets              | 21,805              | 23,514            |
| Deferred tax asset valuation allowance | (2,203)             | (1,829)           |
| <br>                                   |                     |                   |
| Net deferred tax assets                | 19,602              | 21,685            |
| <br>                                   |                     |                   |
| <b>Deferred tax liabilities:</b>       |                     |                   |
| Depreciation                           | (1,234)             | (466)             |
| Goodwill amortization                  | (1,963)             | (2,638)           |
| Acquired intangibles not deductible    | (1,677)             | (23,561)          |
| Other                                  | (45)                | (634)             |
| <br>                                   |                     |                   |
| Total deferred tax liabilities         | (4,919)             | (27,299)          |
| <br>                                   |                     |                   |
| <b>Total</b>                           | <b>\$ 14,683</b>    | <b>\$ (5,614)</b> |

Deferred tax assets, related valuation allowances, current tax liabilities, and deferred tax liabilities are determined separately by tax jurisdiction. In making these determinations, the Company estimates deferred tax assets, current tax liabilities, and deferred tax liabilities, and the Company assesses temporary differences resulting from differing treatment of items for tax and accounting purposes. As of December 31, 2015, the Company maintained a full valuation allowance against the deferred tax assets of its Hungarian subsidiary. This entity has historical tax losses and the Company concluded it was not more likely than not that these deferred tax assets are realizable. The valuation allowance decreased by \$0.4 million as a result of a tax return to provision adjustment which decreased the net operating loss carryforwards.

For U.S. tax return purposes, net operating losses and tax credits are normally available to be carried forward to future years, subject to limitations as discussed below. As of December 31, 2015, the Company had federal and state net operating loss carryforwards of \$8 million and \$22 million, respectively, which expire on various dates from 2025 through 2035.

The Company has performed an analysis of its ownership changes as defined by Section 382 of the Internal Revenue Code and has determined that the net operating loss carryforwards acquired from the acquisitions of Meldium, Zamurai, and LastPass are subject to limitation. As of December 31, 2015, all net operating loss carryforwards generated by the Company, including those subject to limitation, are available for utilization. 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.

As of December 31, 2015, the Company had foreign net operating loss carryforwards of \$17.3 million. These net operating loss carryforwards are related to the Company's Hungarian subsidiary, are not subject to expiration, and the Company has recognized a full valuation allowance against these carryforwards.



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In November 2015, the FASB issued ASU 2015-17, *Income Taxes (Topic 740), Balance Sheet Classification of Deferred Taxes*, to simplify the presentation of deferred income taxes. Under the new standard, both deferred tax liabilities and deferred tax assets are required to be classified as non-current on the consolidated balance sheet. ASU 2015-17 will become effective for fiscal years, and the interim periods within those years, beginning after December 15, 2016 with early adoption permitted. During 2015, the Company elected to early adopt ASU 2015-17, prospectively, as permitted, thus reclassifying \$5.8 million of deferred tax assets and \$29,000 of current deferred tax liabilities to non-current on the accompanying consolidated balance sheet. The prior reporting period was not retroactively adjusted. The adoption of the guidance had no impact on the Company's consolidated results of income and comprehensive income.

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, 2015, the Company has not provided for federal income tax on \$27 million 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. In the normal course of business, the Company and its subsidiaries are examined by various tax authorities, including the IRS in the United States. As of December 31, 2015 we remained subject to examination in the following major tax jurisdictions for the years indicated:

| <b>Major Tax Jurisdictions</b> | <b>Open Tax Years</b> |
|--------------------------------|-----------------------|
| United States (Federal)        | 2012-2015             |
| United States (State)          | 2010-2015             |
| Hungary                        | 2010-2015             |
| Ireland                        | 2012-2015             |

The Company incurred expenses related to stock-based compensation in 2013, 2014 and 2015 of \$19.7 million, \$24.8 million and \$26.5 million, respectively. Accounting for the tax effects of stock-based awards requires the recording of a deferred tax asset as the compensation is recognized for financial reporting prior to recognizing the tax deductions. Upon the settlement of the stock-based awards (i.e., exercise, vesting, forfeiture or cancellation), the actual tax deduction is compared with the cumulative financial reporting compensation cost and any excess tax deduction is considered a windfall tax benefit and is tracked in a windfall tax benefit pool to offset any future tax deduction shortfalls and will be recorded as increases to APIC in the period when the tax deduction reduces income taxes payable. The Company follows the with-and-without approach for the direct effects of windfall tax deductions to determine the timing of the recognition of benefits for windfall tax deductions. In 2015, the Company recorded a windfall tax benefit to additional paid-in capital of \$6.9 million, due in part to the Company's intention to carryback federal net operating losses and research and development credits to prior tax years. The Company has recorded a receivable of \$4.4 million in other current assets on the consolidated balance sheet to reflect the estimated cash refund. As of December 31, 2015, the windfall tax benefit pool available to offset future shortfalls was \$21 million.

As of December 31, 2014 and 2015, the Company has provided a liability of \$0.7 million and \$0.9 million, respectively, for uncertain tax positions. These uncertain tax positions would impact the Company's effective tax rate if recognized.

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The Company has provided liabilities for uncertain tax provisions as follows (in thousands):

|  | Years Ended December 31, |        |
|--|--------------------------|--------|
|  | 2014                     | 2015   |
| Balance beginning of period              | \$ 304                   | \$ 652 |
| Tax positions related to prior periods:  |                          |        |
| Increases                                | 7                        | 2      |
| Decreases                                | (11)                     | (3)    |
| Tax positions related to current period: |                          |        |
| Increases                                | 397                      | 428    |
| Settlements                              | (45)                     | (195)  |
| Statute expiration                       |                          |        |
| Balance end of period                    | \$ 652                   | \$ 884 |

The Company's policy is to record estimated interest and penalties related to the underpayment of income taxes or unrecognized tax benefits as a component of its income tax provision. The Company recognized \$11,000 and \$3,000 of interest expense during the years ended December 31, 2014 and 2015, respectively.

**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 million and authorized 5 million shares of undesignated preferred stock.

*Common Stock Reserved* As of December 31, 2014 and 2015, the Company has reserved shares of common stock for the exercise of stock options and restricted stock units of 4.9 million and 4.8 million, respectively.

On August 13, 2013, the Board of Directors approved a \$50 million share repurchase program and approved an additional \$75 million share repurchase program on October 20, 2014. Share repurchases are made from time-to-time in the open market, in privately negotiated transactions or otherwise, in accordance with applicable securities laws and regulations. The timing and amount of any share repurchases are determined by the Company's management based on its evaluation of market conditions, the trading price of the stock, regulatory requirements and other factors. The share repurchase program may be suspended, modified or discontinued at any time at the Company's discretion without prior notice.

During the year ended December 31, 2014 and 2015, the Company repurchased 843,574 and 297,461 shares of its common stock at an average price of \$43.27 and \$60.81 per share for a total cost of \$36.5 million and \$18.1 million, respectively. At December 31, 2015, \$56.3 million remained available under the Company's current share repurchase program.

**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 with time-based vesting conditions generally vest over a three-year period while restricted stock units with market-based vesting conditions generally vest over two or three-year periods. Certain stock-based awards provide for accelerated vesting if the Company experiences a change in control. On May 21, 2015, the Company's stockholders approved an amendment to the 2009 Plan that increased the shares available for grant under the plan by 1.3 million shares. As of December 31, 2015, there were 2.6 million shares available for grant under the 2009 Plan.

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The Company generally issues previously unissued shares of common stock for the exercise of stock options and restricted stock units. The Company received \$3.8 million, \$17.6 million and \$17.8 million in cash from stock option exercises during the years ended December 31, 2013, 2014 and 2015, respectively.

The Company uses the Black-Scholes option-pricing model to estimate the grant date fair value of stock options. 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 option 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 option forfeiture rates. The compensation expense is amortized on a straight-line basis over the requisite service period of the stock option, which is generally four years.

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

|                          | Years Ended December 31, |       |         |
|--------------------------|--------------------------|-------|---------|
|                          | 2013                     | 2014  | 2015(1) |
| Expected dividend yield  | -%                       | -%    | -%      |
| Risk-free interest rate  | 0.87 - 1.36%             | 1.48% | -%      |
| Expected term (in years) | 6.25                     | 6.25  | -       |
| Volatility               | 55%                      | 55%   | -%      |

(1) There were no stock options granted during the twelve months ended December 31, 2015. The following table summarizes stock option activity (shares and intrinsic value in thousands):

|   | Number<br>of Options | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term<br>(Years) | Aggregate<br>Intrinsic<br>Value |
|---|----------------------|--|--|---------------------------------|
| Outstanding, January 1, 2015                    | 1,407                | \$ 30.02                                 | 6.2  |                                 |
| Granted   |                      |  |  |                                 |
| Exercised                                       | (612)                | 29.08                                    |  | \$ 19,779                       |
| Forfeited                                       | (27)                 | 30.74                                    |  |                                 |
| Outstanding, December 31, 2015                  | 768                  | \$ 30.74                                 | 5.4  | \$ 27,942                       |
| Exercisable at December 31, 2015                | 598                  | \$ 30.54                                 | 5.0  | \$ 21,881                       |
| Vested or expected to vest at December 31, 2015 | 765                  | \$ 30.77                                 | 5.4  | \$ 27,774                       |

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, 2015 of \$67.10 per share or at time of exercise, and the exercise price of the options.



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The weighted average grant date fair value of stock options granted was \$11.60 and \$21.78 per share for the years ended December 31, 2013 and 2014, respectively. There were no stock options granted in the twelve months ended December 31, 2015.

During the year ended December 31, 2015, the Company granted 942,090 restricted stock units, which contained time-based vesting conditions. Restricted stock units with time-based vesting conditions are valued on the grant date using the grant date closing price of the underlying shares. The Company recognizes the expense on a straight-line basis over the requisite service period of the restricted stock unit, which is generally three years.

In August 2013, May 2014 and May 2015, the Company granted to certain key executives restricted stock unit awards with market-based vesting conditions, which are tied to the individual executive's continued employment with the Company throughout the applicable performance period and the level of the Company's achievement of a pre-established relative total shareholder return, or TSR, goal, as measured over an applicable performance period ranging from two to three years as compared to the TSR realized for that same period by the Russell 2000 Index (the "TSR Units"). The target number of shares underlying the August 2013, May 2014 and May 2015 TSR Units were a total of 74,000, 71,000 and 85,000 shares, respectively. The number of shares that may be earned under these TSR Units can range from 0% to 200% of the target number of shares awarded, or up to 148,000, 142,000 and 170,000 shares for the August 2013, May 2014 and May 2015 grants, respectively, based on the Company's level of achievement of its relative TSR goal for the applicable performance period. Compensation cost for TSR Units is recognized on a straight-line basis over the requisite service period and is recognized regardless of the actual number of awards that are earned based on the market condition. As of December 31, 2015, 20,000 shares from the August 2013 TSR Unit grant, 42,000 shares from the May 2014 TSR Unit grant, and 25,000 shares from the May 2015 TSR Unit grant have been forfeited or are expected to be forfeited.

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

|                         | August 2013 Grant | May 2014 Grant | May 2015 Grant |
|-------------------------|-------------------|----------------|----------------|
| Risk-free interest rate | 0.62%             | 0.78%          | 0.93%          |
| Volatility              | 54%               | 54%            | 50%            |

In August 2015, the first performance period for the August 2013 grant ended and, based on the Company's level of achievement of its relative TSR goal, 200% of the shares granted from the August 2013 grant were earned and 54,000 shares were issued as a result.

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

|                                  | Number of Shares<br>Underlying Restricted<br>Stock Units | Weighted Average<br>Grant Date<br>Fair Value |
|----------------------------------|--|--|
| Unvested as of January 1, 2015   | 1,279  | \$ 37.42                                     |
| Restricted stock units granted   | 942  | 63.49  |
| Restricted stock units vested    | (551)  | 35.11  |
| Restricted stock units forfeited | (232)  | 45.19  |
| Unvested as of December 31, 2015 | 1,438  | \$ 54.37                                     |

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

|                            | Years Ended December 31, |           |           |
|----------------------------|--------------------------|-----------|-----------|
|                            | 2013                     | 2014      | 2015      |
| Cost of revenue            | \$ 706                   | \$ 1,107  | \$ 1,560  |
| Research and development   | 3,761                    | 3,653     | 5,188     |
| Sales and marketing        | 7,242                    | 9,033     | 11,090    |
| General and administrative | 8,005                    | 10,976    | 8,661     |
|                            | \$ 19,714                | \$ 24,769 | \$ 26,499 |

As of December 31, 2015, there was approximately \$55.1 million of total unrecognized stock-based compensation cost, net of estimated forfeitures, related to unvested stock awards which are expected to be recognized over a weighted average period of 2.1 years. The total unrecognized stock-based compensation cost will be adjusted for future changes in estimated forfeitures.

**11. Commitments and Contingencies**

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

In December 2015, the Company amended its current lease for its Budapest, Hungary office space to provide for an expansion of leased space and to extend the term of the lease. The term of the amended lease will begin on February 26, 2016 and will extend through April 29, 2021. The aggregate amount of minimum lease payments to be made over the term of the lease is approximately \$8.5 million (EUR 7.8 million). The lease agreement required a bank guarantee of \$0.4 million (EUR 0.4 million). The bank guarantee is classified as restricted cash.

In December 2014, the Company entered into a lease for new office space in Boston, Massachusetts. The landlord was obligated to rehabilitate the existing building and the lease term began in December 2015 and will extend through June 2028. The aggregate amount of minimum lease payments to be made over the term of the lease is approximately \$47 million. Pursuant to the terms of the lease, the landlord was responsible for making certain improvements to the leased space up to an agreed upon cost to the landlord. Any excess costs for these improvements will be billed by the landlord to the Company as additional rent. The Company estimates these excess costs to be \$4 million, of which \$2.1 million was paid as of December 31, 2015. The lease required a security deposit of approximately \$3.3 million in the form of an irrevocable, unsecured standby letter of credit. The lease includes an option to extend the original term of the lease for two successive five year periods.

In December 2014, the Company entered into a lease for new office space in San Francisco, California. The term of the new office space began in February 2015 and extends through April 2020. The aggregate amount of minimum lease payments to be made over the term of the lease is approximately \$2.4 million. The lease required a security deposit of \$41,000. The security deposit is classified as a long-term deposit.

Rent expense under all leases was \$6.0 million, \$7.1 million and \$8.2 million for the years ended December 31, 2013, 2014 and 2015, 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 \$4.7 million, \$5.1 million and \$6.9 million for the years ended December 31, 2013, 2014 and 2015, respectively.

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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, 2015 (in thousands):

| <b>Years Ending December 31</b>     |                   |
|-------------------------------------|-------------------|
| 2016                                | \$ 14,568         |
| 2017                                | 11,213            |
| 2018                                | 11,014            |
| 2019                                | 10,966            |
| 2020                                | 10,781            |
| Thereafter                          | 45,211            |
| <b>Total minimum lease payments</b> | <b>\$ 103,753</b> |

In May 2015, the Company entered into an agreement to sublease a portion of the office space it currently leases in Dublin, Ireland. The sublease term began in May 2015 and extends to August 2017 which aligns with the non-cancelable term of the Company's head lease. The tenant will pay \$0.2 million per year, which recovers the Company's costs under the remaining term.

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

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

On August 28, 2014, a putative class action complaint was filed against the Company in the U.S. District Court for the Eastern District of California (Case No. 1:14-cv-01355) by an individual on behalf of himself and purportedly on behalf of all other similarly situated individuals, or collectively, the Ignition Plaintiffs. The Ignition Plaintiffs amended their initial complaint on February 17, 2015, May 6, 2015 and September 18, 2015. The amended complaint included claims made under California's False Advertising Law and Unfair Competition Law relating to the Company's sale of its Ignition for iOS application, or the App, and the Ignition Plaintiffs' continued use of the App. On January 27, 2016, the U.S. District Court for the Eastern District of California granted the Company's motion for summary judgment and dismissed all of the Ignition Plaintiffs' claims.

On June 29, 2015, a putative class action complaint was filed against the Company in the U.S. District Court for the Central District of California (Case No. 5:15-cv-01258) by an individual on behalf of himself and purportedly on behalf of all other similarly situated individuals, or collectively, the Central Plaintiffs, under California's Automatic Purchase Renewal Statute and Unfair Competition Law related to pricing changes and billing practices for subscriptions to the Company's LogMeIn Central service. On October 7, 2015, the Company entered into a Settlement Agreement resolving the matter in exchange for a one-time settlement payment of \$25,000. As a result, the U.S. District Court for the Central District of California dismissed the class action complaint on October 30, 2015.

The Company is from time to time subject to various other legal proceedings and claims, either asserted or unasserted, which arise in the ordinary course of business. While the outcome of these other claims cannot be predicted with certainty, management does not believe that the outcome of any of these other legal matters will have a material adverse effect on the Company's consolidated financial statements.

**Table of Contents****12. 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, 2015.

**13. Accumulated Other Comprehensive Loss**

Accumulated other comprehensive loss consists of foreign currency translation adjustments and changes in unrealized losses and gains (net of tax) on marketable securities. For the purposes of comprehensive income disclosures, we do not record tax provisions or benefits for the net changes in the foreign currency translation adjustment, as we intend to reinvest permanently undistributed earnings of our foreign subsidiaries. Accumulated other comprehensive loss is reported as a component of stockholders' equity and, as of December 31, 2014 and 2015, was comprised of cumulative translation adjustment losses of \$3.0 million and \$5.2 million, respectively, and unrealized losses (net of tax) on marketable securities of \$0.1 million and \$27,000, respectively. There were no material reclassifications to earnings in the years ended December 31, 2014 or 2015.

**14. Credit Facility**

On February 18, 2015, the Company entered into a multi-currency credit agreement with a syndicate of banks, financial institutions and other lending entities (the "Credit Agreement"), pursuant to which a secured revolving credit facility of up to \$100 million in the aggregate was made available to the Company. On January 22, 2016, the Company exercised its option to increase the credit facility to up to \$150 million with the existing lenders and an additional lender. The credit facility is available to the Company on a revolving basis during the period from February 18, 2015 through February 18, 2020. The Company may prepay the loans or terminate or reduce the commitments in whole or in part at any time, without premium or penalty, subject to certain conditions and costs in the case of Eurodollar rate loans. The Company and its subsidiaries expect to use the credit facility for general corporate purposes, including, but not limited to, the potential acquisition of complementary products or businesses, share repurchases, as well as for working capital. As of December 31, 2015, the Company had borrowed \$60 million under the credit facility in order to partially fund the LastPass acquisition.

Loans under the credit facility bear interest at variable rates which reset every 30 to 180 days depending on the rate and period selected by the Company as described below. As of December 31, 2015, the annual rate on the \$60 million revolving loan was 1.875% and was reset to 1.9375% on January 19, 2016. As of December 31, 2015, the fair value of the credit facility approximated its book value.

The currencies that are currently available for borrowing under the credit facility are U.S. Dollars, Euros, and British Pound Sterling. Additional currencies may be added with the approval of all lenders under the credit facility. The maximum amount of borrowings in currencies other than U.S. Dollars is \$20 million. Interest rates for U.S. Dollar loans under the credit facility are determined, at the option of the Company, by reference to a Eurodollar rate or a base rate, and range from 1.50% to 2.00% above the Eurodollar rate for Eurodollar-based borrowings or from 0.50% to 1.00% above the defined base rate for base rate borrowings, in each case based upon the Company's total leverage ratio. Interest rates for loans in currencies other than U.S. Dollars range from 1.50% to 2.00% above the respective London Interbank Offered Rates, or LIBOR, for those currencies, also based on the Company's total leverage ratio. The quarterly commitment fee on the undrawn portion of the credit facility ranges from 0.20% to 0.30% per annum, based upon the Company's total leverage ratio.

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

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December 31, 2015, the total leverage ratio was 0.85:1.00, the minimum interest coverage ratio was 63.9:1.00 and the Company was in compliance with all financial and operating covenants of the Credit Agreement.

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

The Company incurred \$1.0 million of origination costs in 2015 in connection with entering into the Credit Agreement. These origination costs were recorded as deferred debt issuance costs when incurred and are being expensed over the remaining term of the credit facility. The average interest rate on borrowings outstanding during 2015 was approximately 1.78%.

**15. Subsequent Event**

On January 22, 2016, the Company entered into the First Amendment to the Credit Agreement dated February 18, 2015. The First Amendment to the Credit Agreement amends the existing Credit Agreement to, among other things:

Exercise the Company's option to increase the existing credit facility made available under the Credit Agreement by an additional \$50 million, so that the Company now has access to a credit facility of up to \$150 million in the aggregate;

Provide the Company with an option to further increase the credit facility by an additional \$50 million, subject to further commitment from the lenders or additional lenders, which, if exercised, would provide the Company with access to a secured revolving credit facility of up to \$200 million in the aggregate; and

Add a fifth bank to the Credit Agreement as an augmenting lender.

We incurred \$0.3 million of origination costs in connection with the First Amendment to the Credit Agreement.

**16. Quarterly Information (Unaudited)**

|   | For the Three Months Ended |                  |                       |                      |                   |                  |                       |                      |
|---|----------------------------|------------------|-----------------------|----------------------|-------------------|------------------|-----------------------|----------------------|
|   | March 31,<br>2014          | June 30,<br>2014 | September 30,<br>2014 | December 31,<br>2014 | March 31,<br>2015 | June 30,<br>2015 | September 30,<br>2015 | December 31,<br>2015 |
| (in thousands, except for per share data) |                            |                  |                       |                      |                   |                  |                       |                      |
| <b>Statement of Operations Data:</b>      |                            |                  |                       |                      |                   |                  |                       |                      |
| Revenue                                   | \$ 49,020                  | \$ 54,975        | \$ 58,062             | \$ 59,899            | \$ 61,109         | \$ 64,834        | \$ 69,573             | \$ 76,084            |
| Gross profit                              | 42,900                     | 47,578           | 50,728                | 52,018               | 53,127            | 56,299           | 60,895                | 65,821               |
| Income (loss) from operations             | 1,598                      | 782              | 2,771                 | 3,536                | (964)             | 2,549            | 7,844                 | 6,620                |
| Net income                                | 1,004                      | 1,330            | 2,308                 | 3,313                | 372               | 2,388            | 5,563                 | 6,235                |
| Net income per share-basic                | \$ 0.04                    | \$ 0.05          | \$ 0.09               | \$ 0.14              | \$ 0.02           | \$ 0.10          | \$ 0.22               | \$ 0.25              |
| Net income per share-diluted              | \$ 0.04                    | \$ 0.05          | \$ 0.09               | \$ 0.13              | \$ 0.01           | \$ 0.09          | \$ 0.22               | \$ 0.24              |

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**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, 2015. 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, 2015, 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, 2015, based on criteria for effective internal control over financial reporting established in *Internal Control - Integrated Framework (2013)* 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, 2015 based on the specified criteria.



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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, 2015.

**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, 2015 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.



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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Stockholders and Board of Directors of

LogMeIn, Inc.

Boston, Massachusetts

We have audited the internal control over financial reporting of LogMeIn, Inc. and subsidiaries (the Company) as of December 31, 2015, based on criteria established in *Internal Control – Integrated Framework (2013)* 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, 2015, based on the criteria established in *Internal Control – Integrated Framework (2013)* 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, 2015 of the Company and our report dated February 19, 2016 expressed an unqualified opinion on those financial statements.

/s/ Deloitte & Touche LLP

Boston, Massachusetts

February 19, 2016

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**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 2016 Annual Meeting of Stockholders, which we will file with the Securities and Exchange Commission within 120 days of December 31, 2015.

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/> 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 2016 Annual Meeting of Stockholders, which we will file with the Securities and Exchange Commission within 120 days of December 31, 2015.

**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 2016 Annual Meeting of Stockholders, which we will file with the Securities and Exchange Commission within 120 days of December 31, 2015.

**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 2016 Annual Meeting of Stockholders, which we will file with the Securities and Exchange Commission within 120 days of December 31, 2015.

**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 2016 Annual Meeting of Stockholders, which we will file with the Securities and Exchange Commission within 120 days of December 31, 2015.

**PART IV**

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

(a) (1) *Financial Statements*

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

(a) (2) *Financial Statement Schedules*

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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 of this Annual Report on Form 10-K, which is incorporated into this item by reference.

**Table of Contents****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/ William R. Wagner  
 William R. Wagner  
 President & Chief Executive Officer  
 (Principal Executive Officer)

Date: February 19, 2016

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.

| Signature  | Title  | Date              |
|--|--|-------------------|
| /s/ WILLIAM R. WAGNER<br>William R. Wagner           | President, Chief Executive Officer and Director<br>(Principal Executive Officer) | February 19, 2016 |
| /s/ EDWARD K. HERDIECH<br>Edward K. Herdiech         | Chief Financial Officer<br>(Principal Financial and Accounting Officer)          | February 19, 2016 |
| /s/ STEVEN J. BENSON<br>Steven J. Benson             | Director   | February 19, 2016 |
| /s/ STEVEN G. CHAMBERS<br>Steven G. Chambers         | Director   | February 19, 2016 |
| /s/ MICHAEL J. CHRISTENSON<br>Michael J. Christenson | Director   | February 19, 2016 |
| /s/ EDWIN J. GILLIS<br>Edwin J. Gillis               | Director   | February 19, 2016 |
| /s/ GREGORY W. HUGHES<br>Gregory W. Hughes           | Director   | February 19, 2016 |
| /s/ MARILYN MATZ<br>Marilyn Matz                     | Director   | February 19, 2016 |

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/s/ IRFAN SALIM

Director

February 19, 2016

Irfan Salim

/s/ MICHAEL K. SIMON

Director

February 19, 2016

Michael K. Simon

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**EXHIBIT INDEX**

| <b>Exhibit<br/>Number</b> | <b>Description</b>   |
|---------------------------|--|
| 2.1(13)                   | Stock Purchase Agreement, dated October 8, 2015, by and among the Registrant, Marvasol, Inc. (d/b/a LastPass ), the Stockholders set forth on Exhibit A thereto and Joseph Siegrist in his capacity as the representative of the Stockholders, as amended. |
| 3.1(1)                    | Restated Certificate of Incorporation of the Registrant  |
| 3.2(2)                    | Second 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(3)                  | Indemnification Agreement, dated as of August 10, 2010, between the Registrant and Michael Christenson   |
| 10.13(3)                  | Indemnification Agreement, dated as of January 19, 2011, between the Registrant and Greg Hughes  |
| 10.14(8)                  | Indemnification Agreement, dated as of August 26, 2014, between the Registrant and Steven G. Chambers  |
| 10.15(8)                  | Indemnification Agreement, dated as of August 27, 2014, between the Registrant and Marilyn Matz  |
| 10.16(3)                  | Form of Director Indemnification Agreement   |
| 10.17(4)                  | Lease Agreement, dated April 11, 2012, between Lincoln Summer Street Venture, LLC and the Registrant   |
| 10.18(9)                  | Lease Agreement, dated December 19, 2014, between DWF III Synergy, LLC and the Registrant  |
| 10.19(1)                  | Form of Management Incentive Stock Option Agreement under the 2009 Stock Incentive Plan  |
| 10.20(1)                  | Form of Management Nonstatutory Stock Option Agreement under the 2009 Stock Incentive Plan   |
| 10.21(1)                  | Form of Director Nonstatutory Stock Option Agreement under the 2009 Stock Incentive Plan   |
| 10.22(1)                  | Form of Employment Offer Letter  |
| 10.23(5)                  | Form of Restricted Stock Unit Agreement under the 2009 Stock Incentive Plan  |
| 10.24(6)                  | Form of Director Restricted Stock Unit Agreement under the 2009 Stock Incentive Plan   |

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| <b>Exhibit<br/>Number</b> | <b>Description</b>  |
|---------------------------|---|
| 10.25(7)                  | Form of Restricted Stock Unit Agreement (Performance-based Vesting) under the 2009 Stock Incentive Plan   |
| 10.26(10)                 | Credit Agreement dated February 18, 2015, by and among the Company and LogMeIn Ireland Holding Company Limited, each of the lenders party thereto, JPMorgan Chase Bank, N.A., as Administrative Agent, J.P. Morgan Securities LLC and Wells Fargo Securities, LLC, as Joint Bookrunners, and J.P. Morgan Securities LLC as Sole Lead Arranger.  |
| 10.27(11)                 | Amended and Restated 2009 Stock Incentive Plan  |
| 10.28(12)                 | Transition Agreement, dated September 30, 2015, by and between the Registrant and Michael Simon   |
| 10.29(14)                 | First Amendment to the Credit Agreement, dated by and among the Registrant and LogMeIn Ireland Holding Company Limited, JPMorgan Chase Bank, N.A., as Administrative Agent, and each of the lenders and guarantors party thereto.   |
| 21.1*                     | Subsidiaries of the Registrant  |
| 23.1*                     | Consent of Independent Registered Public Accounting Firm  |
| 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, 2015, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Comprehensive (Loss) Income, (iv) the Consolidated Statements of Equity, (v) the Consolidated Statements of Cash Flows, and (vi) 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 the Registrant s Current Report on Form 8-K dated March 15, 2013 (001-34391)
- (3) Incorporated by reference to Registrant s Form 10-K for the fiscal year ended December 31, 2010 (001-34391)
- (4) Incorporated by reference to Registrant s Form 10-Q for the quarter ended March 31, 2012 (001-34391)
- (5) Incorporated by reference to Registrant s Form 10-Q for the quarter ended June 30, 2012 (001-34391)
- (6) Incorporated by reference to Registrant s Current Report on Form 8-K dated June 24, 2013 (001-34391)
- (7) Incorporated by reference to Registrant s Current Report on Form 8-K dated August 20, 2013 (001-34391)
- (8) Incorporated by reference to Registrant s Form 10-Q for the quarter ended September 30, 2014 (001-34391)

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- (9) Incorporated by reference to Registrant's Form 10-K for the fiscal year ended December 31, 2014 (001-34391)
- (10) Incorporated by reference to Registrant's Current Report on Form 8-K dated February 24, 2015 (001-34391)
- (11) Incorporated by reference to Registrant's Current Report on Form 8-K dated May 22, 2015 (001-34391)
- (12) Incorporated by reference to Registrant's Form 10-Q for the quarter ended September 30, 2015 (001-34391)
- (13) Incorporated by reference to Registrant's Current Report on Form 8-K dated October 16, 2015 (001-34391)
- (14) Incorporated by reference to Registrant's Current Report on Form 8-K dated January 27, 2016 (001-34391)