

LogMeIn, Inc.  
Form 10-Q  
October 26, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2018

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-34391

LOGMEIN, INC.

(Exact name of registrant as specified in its charter)

Delaware	20-1515952
(State or other jurisdiction of	(I.R.S. Employer
incorporation or organization)	Identification No.)
320 Summer Street	
Boston, Massachusetts	02210
(Address of principal executive offices)	(Zip Code)

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

781-638-9050

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of October 22, 2018, there were 51,162,182 shares of the registrant's Common Stock, par value \$0.01 per share, outstanding.

LOGMEIN, INC.

INDEX

	PAGE NUMBER
<b>PART I. FINANCIAL INFORMATION</b>	
ITEM 1: Financial Statements (Unaudited)	
<u>Condensed Consolidated Balance Sheets as of December 31, 2017 and September 30, 2018</u>	3
<u>Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2017 and 2018</u>	4
<u>Condensed Consolidated Statements of Comprehensive Income (Loss) for the three and nine months ended September 30, 2017 and 2018</u>	5
<u>Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2017 and 2018</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7
ITEM 2: <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	26
ITEM 3: <u>Quantitative and Qualitative Disclosures about Market Risk</u>	41
ITEM 4: <u>Controls and Procedures</u>	42
 <b><u>PART II. OTHER INFORMATION</u></b>	
ITEM 1: <u>Legal Proceedings</u>	43
ITEM 1A: <u>Risk Factors</u>	43
ITEM 2: <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	58
ITEM 6: <u>Exhibits</u>	58
<u>Signatures</u>	59

LogMeIn, Inc.

## Condensed Consolidated Balance Sheets

(In thousands, except per share data)

	December 31,	September 30,
	2017	2018
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 252,402	\$ 167,626
Accounts receivable (net of allowance of \$2,031 and \$3,102 as of December 31, 2017 and September 30, 2018, respectively)	93,949	87,673
Prepaid expenses and other current assets	52,473	61,926
Total current assets	398,824	317,225
Property and equipment, net	92,154	92,866
Restricted cash, net of current portion	1,795	1,825
Intangibles, net	1,149,597	1,119,867
Goodwill	2,208,725	2,404,279
Other assets	6,483	38,006
Deferred tax assets	530	719
Total assets	\$ 3,858,108	\$ 3,974,787
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 22,232	\$ 36,658
Accrued liabilities	82,426	112,210
Deferred revenue, current portion	340,570	364,867
Total current liabilities	445,228	513,735
Long-term debt	—	200,000
Deferred revenue, net of current portion	6,735	8,455
Deferred tax liabilities	221,407	218,396
Other long-term liabilities	20,997	25,465
Total liabilities	694,367	966,051
Commitments and contingencies (Note 11)		
Preferred stock, \$0.01 par value — 5,000 shares authorized, 0 shares outstanding as of December 31, 2017 and September 30, 2018		
<b>Equity:</b>		
Common stock, \$0.01 par value—150,000 shares authorized; 56,043 and 56,676 shares issued; and 52,564 and 51,331 outstanding as of December 31, 2017 and September 30, 2018, respectively		
Additional paid-in capital	560	567
Retained earnings (accumulated deficit)	3,276,891	3,300,815
Accumulated other comprehensive income (loss)	50,445	73,957
Treasury stock, at cost - 3,479 and 5,344 shares as of December 31, 2017	15,570	5,790
	(179,725 )	(372,393 )

and September 30, 2018, respectively

Total equity	3,163,741	3,008,736
Total liabilities and equity	\$ 3,858,108	\$ 3,974,787

See notes to condensed consolidated financial statements.

LogMeIn, Inc.

## Condensed Consolidated Statements of Operations

(In thousands, except per share data)

	Three Months Ended		Nine Months Ended	
	September 30, 2017	September 30, 2018	September 30, 2017	September 30, 2018
Revenue	\$269,267	\$308,927	\$713,750	\$893,794
Cost of revenue	55,605	72,853	147,780	208,628
Gross profit	213,662	236,074	565,970	685,166
Operating expenses				
Research and development	42,603	42,220	116,435	129,256
Sales and marketing	89,379	95,041	258,616	282,599
General and administrative	37,906	37,441	120,460	111,990
Gain on disposition of assets	—	—	—	(33,910)
Amortization of acquired intangibles	36,613	44,268	97,187	128,698
Total operating expenses	206,501	218,970	592,698	618,633
Income (loss) from operations	7,161	17,104	(26,728)	66,533
Interest income	405	293	924	1,335
Interest expense	(294)	(2,033)	(1,088)	(4,213)
Other income (expense), net	51	(77)	(27)	(403)
Income (loss) before income taxes	7,323	15,287	(26,919)	63,252
(Provision for) benefit from income taxes	2,597	(2,570)	33,121	(14,269)
Net income (loss)	\$9,920	\$12,717	\$6,202	\$48,983
Net income (loss) per share:				
Basic	\$0.19	\$0.25	\$0.12	\$0.94
Diluted	\$0.19	\$0.24	\$0.12	\$0.93
Weighted average shares outstanding:				
Basic	52,706	51,652	49,697	52,090
Diluted	53,606	52,066	50,735	52,829
Cash dividend declared per common share	\$0.25	\$0.30	\$1.00	\$0.90

See notes to condensed consolidated financial statements.

LogMeIn, Inc.

## Condensed Consolidated Statements of Comprehensive Income (Loss)

(In thousands)

	Three Months Ended		Nine Months Ended	
	September 30, 2017	2018	September 30, 2017	2018
Net income (loss)	\$9,920	\$12,717	\$6,202	\$48,983
Other comprehensive gain (loss):				
Net unrealized gain on marketable securities, (net of tax provision of \$7 and \$5 for the three and nine months ended September 30, 2017, respectively)	11	—	9	—
Net translation gains (losses)	5,996	(1,214 )	17,429	(9,780 )
Total other comprehensive gain (loss)	6,007	(1,214 )	17,438	(9,780 )
Comprehensive income (loss)	\$15,927	\$11,503	\$23,640	\$39,203

See notes to condensed consolidated financial statements.

LogMeIn, Inc.

## Condensed Consolidated Statements of Cash Flows

(In thousands)

	Nine Months Ended September 30,	
	2017	2018
<b>Cash flows from operating activities</b>		
Net income (loss)	\$6,202	\$48,983
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation	49,255	48,820
Depreciation and amortization	158,761	223,181
Gain on disposition of assets, excluding transaction costs	—	(36,281 )
Benefit from deferred income taxes	(47,659 )	(34,062 )
Other, net	1,606	1,282
Changes in assets and liabilities, excluding effect of acquisitions and dispositions:		
Accounts receivable	(6,480 )	16,301
Prepaid expenses and other current assets	(4,607 )	8,474
Other assets	991	(12,830 )
Accounts payable	10,154	13,575
Accrued liabilities	36,586	21,113
Deferred revenue	75,135	28,031
Other long-term liabilities	3,316	4,277
Net cash provided by operating activities	283,260	330,864
<b>Cash flows from investing activities</b>		
Proceeds from sale or disposal or maturity of marketable securities	41,603	—
Purchases of property and equipment	(23,322 )	(21,590 )
Intangible asset additions	(21,893 )	(26,138 )
Cash paid for acquisitions, net of cash acquired	(19,160 )	(342,072)
Restricted cash acquired through acquisitions	988	—
Proceeds from disposition of assets	—	42,394
Net cash used in investing activities	(21,784 )	(347,406)
<b>Cash flows from financing activities</b>		
Borrowings (repayments) under credit facility	(30,000 )	200,000
Proceeds from issuance of common stock upon option exercises	6,363	3,831
Payments of withholding taxes in connection with restricted stock unit vesting	(32,189 )	(29,490 )
Payment of debt issuance costs	(1,993 )	—
Dividends paid on common stock	(39,117 )	(46,900 )
Purchase of treasury stock	(51,075 )	(190,230)
Net cash used in financing activities	(148,011 )	(62,789 )
Effect of exchange rate changes on cash, cash equivalents and restricted cash	7,130	(5,427 )
Net increase (decrease) in cash, cash equivalents and restricted cash	120,595	(84,758 )
Cash, cash equivalents and restricted cash, beginning of period	143,335	254,209
Cash, cash equivalents and restricted cash, end of period	\$263,930	\$169,451
<b>Supplemental disclosure of cash flow information</b>		
Cash paid for interest	\$201	\$2,877
Cash paid for income taxes	\$22,272	\$18,690



Noncash investing and financing activities		
GoTo Business purchase consideration paid in equity	\$2,921,179	\$—
Purchases of property and equipment included in accounts payable and		
accrued liabilities	\$7,006	\$5,504
Purchases of treasury stock included in accrued liabilities	\$—	\$2,438

See notes to condensed consolidated financial statements.

LogMeIn, Inc.

## Notes to Condensed Consolidated Financial Statements

### 1. Nature of the Business

LogMeIn, Inc., which is referred to herein as LogMeIn or the Company, provides a portfolio of cloud-based communication and collaboration, identity and access, and customer engagement and support solutions designed to simplify how people connect with each other and the world around them to drive meaningful interactions, deepen relationships, and create better outcomes for individuals and businesses. The Company is headquartered in Boston, Massachusetts with additional locations in North America, South America, Europe, Asia and Australia.

On January 31, 2017, the Company completed a merger with a wholly-owned subsidiary of Citrix Systems, Inc., or Citrix, pursuant to which the Company combined with Citrix's GoTo family of service offerings known as the GoTo Business, in a Reverse Morris Trust transaction which is referred to herein as the Merger. On April 3, 2018, the Company completed its acquisition of Jive Communications, Inc., or Jive, a provider of cloud-based phone systems and Unified Communications services. For additional information regarding the Jive acquisition and the Merger, see Note 4 below.

### 2. Summary of Significant Accounting Policies

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

**Unaudited Interim Condensed Consolidated Financial Statements** — The accompanying condensed consolidated financial statements and the related interim information contained within the notes to the condensed consolidated financial statements are unaudited and have been prepared in accordance with GAAP and applicable rules and regulations of the Securities and Exchange Commission for interim financial information. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. The accompanying unaudited condensed consolidated financial statements should be read along with the Company's audited financial statements included in the Company's Annual Report on Form 10-K, filed with the Securities and Exchange Commission on February 20, 2018. The unaudited interim condensed consolidated financial statements have been prepared on the same basis as the audited financial statements and in the opinion of management, reflect all adjustments, consisting of normal and recurring adjustments, necessary for the fair presentation of the Company's financial position, results of operations and cash flows for the interim periods presented. The results for the interim periods presented are not necessarily indicative of future results. The Company considers events or transactions that occur after the balance sheet date but before the financial statements are issued to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure.

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

### Recently Adopted Accounting Pronouncements

In January 2017, the Financial Accounting Standards Board, or FASB, issued ASU 2017-04, Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, referred to herein as ASU 2017-04, which

simplifies the accounting for goodwill impairments by eliminating step two from the goodwill impairment test. Instead, if the carrying amount of a reporting unit exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit. ASU 2017-04 also clarifies the requirements for excluding and allocating foreign currency translation adjustments to reporting units related to an entity's testing of reporting units for goodwill impairment, and that an entity should consider income tax effects from any tax-deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. The guidance is effective for annual reporting periods beginning after January 1, 2020 and interim periods within those fiscal years. The Company elected to early adopt this standard as of April 1, 2018. The adoption of this guidance did not have a material impact on the Company's condensed consolidated results of operations, financial position or cash flows.

On January 1, 2018, the Company adopted ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB's EITF), referred to herein as ASU 2016-18, which requires restricted cash to be included with cash and cash equivalents when reconciling the beginning and ending amounts on the statement of cash flows. The adoption of ASU 2016-18 impacted the presentation of the condensed consolidated statement of cash flows with the inclusion of restricted cash for each of the presented periods.

Cash and cash equivalents subject to contractual restrictions and not readily available for use are classified as restricted cash. The Company's restricted cash balances are primarily made up of cash posted as collateral for its worldwide facility leases. The following table provides a reconciliation of cash, cash equivalents and restricted cash as reported in the condensed consolidated balance sheet as of December 31, 2015, 2016 and 2017 and September 30, 2017 and 2018, to the total of the amounts reported in the condensed consolidated statement of cash flows included herein (in thousands):

	As of December 31,			As of September 30,	
	2015	2016	2017	2017	2018
Cash and cash equivalents	\$123,143	\$140,756	\$252,402	\$262,051	\$167,626
Restricted cash, current, included in prepaid expenses and					
other current assets	—	98	12	218	—
Restricted cash, net of current portion	2,468	2,481	1,795	1,661	1,825
Cash, cash equivalents and restricted cash	\$125,611	\$143,335	\$254,209	\$263,930	\$169,451

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, and has since issued several additional amendments thereto (collectively referred to herein as ASC 606) which became effective for the Company on January 1, 2018. ASC 606 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes Accounting Standards Codification Topic 605, Revenue Recognition, including industry-specific guidance. The new standard requires entities to apportion consideration from contracts to performance obligations on a relative standalone selling price basis, based on a five-step model. Under ASC 606, revenue is recognized when a customer obtains control of a promised good or service and is recognized in an amount that reflects the consideration that the entity expects to receive in exchange for the good or service. In addition, ASC 606 also includes subtopic ASC 340-40, Other Assets and Deferred Costs—Contracts with Customers, referred to herein as ASC 340-40, which provides guidance on accounting for certain revenue related costs including costs associated with obtaining and fulfilling a contract, discussed further below.

Revenue recognition from the Company's primary revenue streams remained substantially unchanged following adoption of ASC 606 and therefore did not have a material impact on its revenues. The Company also considered the impact of ASC 606 subtopic ASC 340-40. Prior to the adoption of ASC 606, the Company expensed commission costs and related fringe benefits as incurred. Under ASC 340-40, the Company is required to capitalize and amortize incremental costs of obtaining a contract, such as sales commissions and related fringe benefits, over the period of benefit, which the Company has calculated to be three years. Incremental costs of obtaining a contract are recognized as an asset if the costs are expected to be recovered. The period of benefit was determined based on an average customer contract term, technology changes, and the company's ability to retain customers. Sales commissions for renewal contracts are deferred and amortized on a straight-line basis over the related contractual renewal period. Amortization expense is included in sales and marketing expense on the condensed consolidated statements of operations.

On January 1, 2018, the Company adopted ASC 606 using the modified retrospective transition method which resulted in an adjustment to retained earnings for the cumulative effect of applying the standard to all contracts not

completed as of the adoption date. Upon adoption, prepaid expenses and other current assets increased by \$10.7 million due to the capitalization of the current portion of sales commissions and other assets increased by \$17.3 million due to the capitalization of the noncurrent portion of sales commissions. Deferred tax liabilities increased by \$6.6 million due to temporary differences between the accounting and tax carrying values of the capitalized commissions. Retained earnings increased by \$21.4 million as a net result of these adjustments. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods.

The Company has elected the use of practical expedients in its adoption of the new standard, which includes continuing to record revenue reported net of applicable taxes imposed on the related transaction and the application of the standard to all contracts not completed as of the adoption date.

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

The following tables summarize the impact of adopting ASC 606 on the Company's condensed consolidated financial statements during the three and nine months ended September 30, 2018 (in thousands, except per share data):

		As of September 30, 2018		
		Balance		
		Without		
		As	Adoption of	
		Reported	Adjustments	ASC 606
<b>Condensed Consolidated Balance Sheet</b>				
<b>Assets</b>				
Prepaid expenses and other current assets	\$61,926	\$ (26,633 )	\$ 35,293	
Other assets	38,006	(28,331 )	9,675	
<b>Liabilities</b>				
Deferred tax liabilities	\$218,396	\$ (13,013 )	\$ 205,383	
<b>Equity</b>				
Retained earnings (accumulated deficit)	\$73,957	\$ (41,951 )	\$ 32,006	

  

		Three Months Ended September 30, 2018			Nine Months Ended September 30, 2018		
		Balance			Balance		
		Without			Without		
		As	Adoption of		As	Adoption of	
		Reported	Adjustments	ASC 606	Reported	Adjustments	ASC 606
<b>Condensed Consolidated Statement of Operations</b>							
Sales and marketing	\$95,041	\$ 12,018	\$ 107,059	\$282,599	\$ 27,648	\$ 310,247	
(Provision for) benefit from income taxes	\$(2,570 )	\$ 2,942	\$ 372	\$(14,269 )	\$ 6,577	\$(7,692 )	
Net income (loss)	\$12,717	\$ (9,077 )	\$ 3,640	\$48,983	\$ (21,072 )	\$ 27,911	
<b>Net income (loss) per share:</b>							
Basic	\$0.25	\$ (0.18 )	\$ 0.07	\$0.94	\$ (0.40 )	\$ 0.54	
Diluted	\$0.24	\$ (0.17 )	\$ 0.07	\$0.93	\$ (0.40 )	\$ 0.53	

  

		Nine Months Ended September 30, 2018		
		Balance		
		Without		
		As	Adoption of	
		Reported	Adjustments	ASC 606

Condensed Consolidated Statement of Cash Flows			
Cash flows from operating activities			
Net income (loss)	\$48,983	\$ (21,072 )	\$ 27,911
Benefit from deferred income taxes	(34,062 )	(6,577 )	(40,639 )
Prepaid expenses and other current assets	8,474	16,395	24,869
Other assets	(12,830 )	11,254	(1,576 )
Net cash provided by operating activities	330,864	—	330,864

Costs to Obtain and Fulfill a Contract — The Company's incremental costs of obtaining a contract consist of sales commissions and their related fringe benefits. Sales commissions and fringe benefits paid on renewals are not commensurate with sales commissions paid on the initial contract, but they are commensurate with each other. Sales commissions and fringe benefits are deferred and amortized on a straight-line basis over the period of benefit, which the Company has estimated to be three years, for initial contracts and are amortized over the renewal period for renewal contracts, typically one year. The period of benefit was determined based on an average customer contract term, expected contract renewals, changes in technology and the Company's ability to retain customers. Deferred commissions are classified as current or noncurrent assets based on the timing the expense will be recognized. The current and noncurrent portions of deferred commissions are included in prepaid expenses and other current assets and other assets, respectively, in the Company's condensed consolidated balance sheets. As of September 30, 2018, the Company had \$26.6 million of current deferred commissions and \$28.3 million of noncurrent deferred commissions. Commissions expense is primarily included in sales and marketing expense on the condensed consolidated statements of operations. The Company had amortization expense of \$5.8 million and \$13.5 million related to deferred commissions during the three and nine months ended September 30, 2018, respectively. Other costs incurred to fulfill contracts have been immaterial to date.

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

Revenue Recognition — The Company derives its revenue primarily from subscription fees for its premium subscription software services and, to a lesser extent, usage fees from audio services. Revenue is reported net of applicable sales and use tax, value-added tax and other transaction taxes imposed on the related transaction including mandatory government charges that are passed through to the Company’s customers. Revenue is recognized when control of these services is transferred to the Company’s customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those services.

The Company determines revenue recognition through the following five steps:

- 1 Identification of the contract, or contracts, with a customer
- 2 Identification of the performance obligations in the contract
- 3 Determination of the transaction price
- 4 Allocation of the transaction price to the performance obligations in the contract
- 5 Recognition of revenue when, or as, performance obligations are satisfied

The Company accounts for a contract when it has approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable.

Disaggregated Revenue — The Company disaggregates revenue from contracts with customers by geography and product grouping, as it believes it best depicts how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

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

	Three Months Ended		Nine Months Ended	
	September 30, 2017	September 30, 2018	September 30, 2017	September 30, 2018
<b>Revenues:</b>				
United States	\$204,831	\$241,630	\$545,117	\$690,097
United Kingdom	13,371	13,883	37,318	42,336
International — all other	51,065	53,414	131,315	161,361
<b>Total revenue</b>	<b>\$269,267</b>	<b>\$308,927</b>	<b>\$713,750</b>	<b>\$893,794</b>

The Company’s revenue by product grouping is as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2017	September 30, 2018	September 30, 2017	September 30, 2018
<b>Revenues:</b>				
Communications and collaboration	\$146,808	\$175,045	\$377,780	\$498,142
Identity and access	76,380	89,762	208,487	262,197
Customer engagement and support	46,079	44,120	127,483	133,455
<b>Total revenue</b>	<b>\$269,267</b>	<b>\$308,927</b>	<b>\$713,750</b>	<b>\$893,794</b>



Performance Obligations

Premium Subscription Services — Revenue from the Company's premium subscription services represents a single promise to provide continuous access (i.e., a stand-ready obligation) to its software solutions and their processing capabilities in the form of a service through one of the Company's data centers. The Company's software cannot be run on another entity's hardware and customers do not have the right to take possession of the software and use it on their own or another entity's hardware.

As each day of providing access to the software is substantially the same and the customer simultaneously receives and consumes the benefits as access is provided, the Company has determined that its premium subscription services arrangements include a single performance obligation comprised of a series of distinct services. Revenue from the Company's premium subscription services is recognized over time on a ratable basis over the contract term beginning on the date that our service is made available to the customer. Subscription periods range from monthly to multi-year, with the majority of contracts being one year, billed annually in advance and non-cancelable.

**Audio Services** — Revenue from the Company's audio services represent a single promise to stand-ready to provide access to the Company's platform. As each day of providing audio services is substantially the same and the customer simultaneously receives and consumes the benefits as access is provided, the Company has determined that its audio services arrangements include a single performance obligation comprised of a series of distinct services. These audio services may include fixed consideration, variable consideration or a combination of the two. Variable consideration in these arrangements is typically a function of the corresponding rate per minute. The Company allocates the variable amount to each distinct service period within the series and recognize revenue as each distinct service period is performed (i.e., recognized as incurred).

**Accounts Receivable, Net** — Accounts receivable, net, are amounts due from customers where there is an unconditional right to consideration. Unbilled receivables of \$5.1 million and \$3.2 million are included in this balance at December 31, 2017 and September 30, 2018, respectively. The payment of consideration related to these unbilled receivables is subject only to the passage of time.

**Contract Assets and Contract Liabilities** — Contract assets and contract liabilities (deferred revenue) are reported net at the contract level for each reporting period.

**Contract Assets** — Contract assets primarily relate to unbilled amounts typically resulting from sales contracts when revenue recognized exceeds the amount billed to the customer, and right to payment is not just subject to the passage of time. The contract assets are transferred to accounts receivable when the rights become unconditional. The Company had no contract assets as of December 31, 2017 and \$1.1 million of contract assets as of September 30, 2018, of which \$0.6 million is included in prepaid and other current assets and \$0.5 million is included in other assets.

**Contract Liabilities (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 its services in advance on a monthly and annual basis. The Company initially records subscription fees as deferred revenue and then recognizes revenue as performance obligations are satisfied over the subscription period. Typically, subscriptions automatically renew at the end of the subscription period unless the customer specifically terminates it prior to the end of the period. Deferred revenue to be recognized within the next twelve months is included in current deferred revenue, and the remaining amount is included in long-term deferred revenue in the condensed consolidated balance sheets.

For the three and nine months ended September 30, 2018, revenue recognized related to deferred revenue at January 1, 2018 was approximately \$62 million and \$312 million, respectively. Approximately \$493 million of revenue is expected to be recognized from remaining performance obligations as of September 30, 2018.

Changes in contract balances for the nine months ended September 30, 2018 are as follows (in thousands):

	Deferred Revenue	
	Current	Non-Current
Balance as of January 1, 2018	\$340,570	\$ 6,735
Increase (decrease), net	24,297	1,720

Balance as of September 30, 2018 \$364,867 \$ 8,455

Concentrations of Credit Risk and Significant Customers — The Company's principal credit risk relates to its cash, cash equivalents, 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. To manage accounts receivable credit risk, the Company regularly evaluates the creditworthiness of its customers and maintains allowances for potential credit losses. To date, losses resulting from uncollected receivables have not exceeded management's expectations.

For the three and nine months ended September 30, 2017 and 2018, no customer accounted for more than 10% of revenue. As of December 31, 2017 and September 30, 2018, no customer accounted for more than 10% of accounts receivable.

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

**Marketable Securities** — The Company's marketable securities are classified as available-for-sale and are carried at fair value with the unrealized gains and losses, net of tax, reported as a component of accumulated other comprehensive income in equity. Realized gains and losses and declines in value judged to be other than temporary are included as a component of earnings based on the specific identification method. Fair value is determined based on quoted market prices. At September 30, 2017, marketable securities consisted of U.S. government agency securities and corporate bonds that had remaining maturities within two years and have an aggregate amortized cost and an aggregate fair value of \$14.0 million, including \$11,000 of unrealized losses. The Company did not have any marketable securities as of December 31, 2017 or September 30, 2018.

**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 November 30, 2017, our measurement date, the fair value of the Company as a whole exceeded the carrying amount of the Company. Through September 30, 2018, no events have been identified indicating an impairment.

**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 September 30, 2018, the Company recorded no material impairments.

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

**Derivative Financial Instruments** — The Company's earnings and cash flows are subject to fluctuations due to changes in foreign currency exchange rates. The Company uses foreign currency forward contracts to manage exposure to fluctuations in foreign exchange rates that arise from receivables and payables denominated in foreign currencies. The Company does not designate foreign currency forward contracts as hedges for accounting purposes, and changes in the fair value of these instruments are recognized immediately in earnings. Because the Company enters into forward

contracts only as an economic hedge, any gain or loss on the underlying foreign-denominated balance would be offset by the loss or gain on the forward contract. Gains and losses on forward contracts and foreign denominated receivables and payables are included in net foreign currency gains and losses.

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

As of December 31, 2017 and September 30, 2018, the Company had outstanding forward contracts with notional amounts equivalent to the following (in thousands):

	December 31, September 30,	
Currency Hedged	2017	2018
Euro / Canadian Dollar	\$ 556	\$ 456
Euro / U.S. Dollar	4,208	4,038
Euro / British Pound	5,926	5,199
British Pound / U.S. Dollar	—	638
Israeli Shekel / Hungarian Forint	8,008	—
U.S. Dollar / Brazilian Real	—	2,488
U.S. Dollar / Canadian Dollar	—	4,385
Total	\$ 18,698	\$ 17,204

Net realized and unrealized foreign currency gains and losses was a net gain of \$47,000 and a net loss of \$28,000 for the three and nine months ended September 30, 2017, respectively, and net losses of \$0.1 million and \$0.4 million for the three and nine months ended September 30, 2018, respectively, which are included in other income (expense), net in the condensed consolidated statements of operations. Excluding the underlying foreign currency exposure being hedged, net realized and unrealized gains and losses on forward contracts included in foreign currency gains and losses was a net loss of \$0.4 million and \$0.3 million for the three and nine months ended September 30, 2017, respectively, and a net loss of \$40,000 and a net gain of \$0.5 million for the three and nine months ended September 30, 2018, respectively.

**Stock-Based Compensation** — The Company values all stock-based compensation awards, primarily 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, on a straight-line basis.

**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 carryforwards 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.

**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 bylaws. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited; however, the Company has directors' and officers' 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 September 30, 2018, the Company has not experienced any losses related to these indemnification obligations.

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

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

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

	Three Months Ended		Nine Months Ended	
	September 30, 2017	September 30, 2018	September 30, 2017	September 30, 2018
Options to purchase common shares	—	—	—	—
Restricted stock units	36	853	59	113
Total options and restricted stock units	36	853	59	113

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

	Three Months Ended		Nine Months Ended	
	September 30, 2017	September 30, 2018	September 30, 2017	September 30, 2018
Net income (loss)	\$9,920	\$12,717	\$6,202	\$48,983
Basic:				
Weighted average common shares outstanding, basic	52,706	51,652	49,697	52,090
Net income (loss) per share, basic	\$0.19	\$0.25	\$0.12	\$0.94
Diluted:				
Weighted average common shares outstanding	52,706	51,652	49,697	52,090
Add: Common stock equivalents	900	414	1,038	739
Weighted average common shares outstanding, diluted	53,606	52,066	50,735	52,829
Net income (loss) per share, diluted	\$0.19	\$0.24	\$0.12	\$0.93

#### Recently Issued Accounting Pronouncements

On February 25, 2016, the FASB issued ASU 2016-02, Leases, or ASU 2016-02, which will require lessees to recognize most leases on their balance sheet as a right-of-use asset and a lease liability. In general, lease arrangements exceeding a twelve-month term must now be recognized as assets and liabilities on the balance sheet. Under ASU 2016-02, a right of use asset and lease obligation will be recorded for all leases, whether operating or financing, while the income statement will reflect lease expense for operating leases and amortization/interest expense for financing leases. This guidance is effective for the Company as of the first quarter of its fiscal year ending December 31, 2019. Along with ASU 2016-02, the Company is also evaluating Accounting Standards Update 2018-10, Codification Improvements to Topic 842 Leases, or ASU 2018-10, and Accounting Standards Update 2018-11, Targeted Improvements to Topic 842 Leases, or ASU 2018-11, which allows the new lease standard to be applied as of the adoption date with a cumulative-effect adjustment to the opening balance of retained earnings rather than retroactive restatement of all periods presented. Upon adoption, the Company also expects to elect the transition package of practical expedients permitted within the new standard, which among other things, allows the carryforward of the historical lease classification. The Company has formed a project team focused on the implementation of the new accounting standard. The Company continues to evaluate which other, if any, practical expedients will be elected and



is currently formalizing processes and controls to identify, classify, and measure its leases in accordance with ASU 2016-02. While the Company continues to evaluate the effect of adopting this guidance on its consolidated financial statements and related disclosures, it is expected that at a minimum, the obligations under existing operating leases, as disclosed in Note 11 to the condensed consolidated financial statements, will be reported in the consolidated balance sheet upon adoption.

On February 15, 2018, the FASB issued ASU 2018-02, Income Statement—Reporting Comprehensive Income—Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (Topic 220), or ASU 2018-02, which allows for a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017, or the U.S. Tax Act. The guidance is effective for annual reporting periods beginning after December 15, 2018 and interim periods within those fiscal years, and early adoption is permitted. The Company is currently assessing the potential impact of adoption of ASU 2018-02 on its condensed consolidated financial statements and related disclosures.

### 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.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Money market funds and time deposits are classified within Level 1 of the fair value hierarchy because they are valued based on quoted market prices in active markets.

Certificates of deposit, commercial paper and certain U.S. government agency securities are classified within Level 2 of the fair value hierarchy. These instruments are valued based on quoted prices in markets that are not active or based on other observable inputs consisting of market yields, reported trades and broker/dealer quotes.

The principal market in which the Company executes foreign currency contracts is the institutional market in an over-the-counter environment with a relatively high level of price transparency. The market participants are usually large financial institutions. The Company's foreign currency contracts' valuation inputs are based on quoted prices and quoted pricing intervals from public data sources and do not involve management judgment. These contracts are typically classified within Level 2 of the fair value hierarchy.

The Company's significant financial assets and liabilities are measured at fair value in the table below (in thousands), which excludes cash on hand and assets and liabilities that are measured at historical cost or any basis other than fair value.

	Fair Value Measurements at December 31, 2017			
	Level 1	Level 2	Level 3	Total
<b>Financial assets (liabilities):</b>				
Cash equivalents — money market funds	\$ 148,120	\$ 10,000	\$ —	\$ 158,120
Forward contracts (\$18.7 million notional amount)	\$ —	\$ 29	\$ —	\$ 29
	Fair Value Measurements at September 30, 2018			
	Level 1	Level 2	Level 3	Total
<b>Financial assets (liabilities):</b>				

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

Cash equivalents — money market funds	\$7,900	\$—	\$ —	\$7,900
Forward contracts (\$17.2 million notional amount)	\$—	\$(122 )	\$ —	\$(122 )

## 4. Acquisitions

### Acquisition-Related Costs

Acquisition-related costs were \$51.4 million and \$19.1 million for the nine months ended September 30, 2017 and 2018, respectively. Acquisition-related costs are associated with the acquisitions of businesses and intellectual property and include transaction, transition and integration-related charges (including legal, accounting and other professional fees, severance, and retention bonuses) and subsequent adjustments to the Company's initial estimated amount of contingent consideration associated with acquisitions. Acquisition-related costs for the nine months ended September 30, 2017 were primarily related to the Merger and included \$26.2 million in transaction, transition and integration-related expenses, \$10.1 million in integration-related severance costs and \$15.1 million of retention-based bonuses, of which \$9.7 million was related to the Merger. Acquisition-related costs for the nine months ended September 30, 2018 were primarily related to \$7.6 million of transaction and integration-related costs, primarily for the acquisition of Jive Communications, Inc., which closed on April 3, 2018, \$3.5 million of integration-related severance costs, and \$8.0 million of retention-based bonuses primarily related to the Jive Communications, Inc. and Nanorep Technologies Ltd. acquisitions described below.

### 2018 Acquisition

#### Jive Communications, Inc.

On April 3, 2018, the Company acquired all of the outstanding equity of Jive Communications, Inc., or Jive, a provider of cloud-based phone systems and Unified Communications services for a purchase price of \$342.1 million in cash, which includes a \$1.3 million working capital adjustment received during the third quarter of 2018. The Company funded the purchase price through a combination of existing cash on-hand and a \$200 million revolving loan borrowed pursuant to its existing credit agreement.

Additionally, the Company is expected to pay up to \$15 million in contingent cash retention payments to certain employees of Jive upon the achievement of specified retention milestones over the two-year period following the closing of the transaction, of which \$0.4 million has been paid as of September 30, 2018. At the time of closing, Jive had approximately 700 employees and fiscal year 2017 revenue was approximately \$80 million. The operating results of Jive have been included in the Company's results since the date of the acquisition. During the nine months ended September 30, 2018, the Company recorded revenue of \$50.3 million, including a \$0.7 million effect of acquisition accounting on the fair value of acquired deferred revenue, and expenses of \$75.8 million, including amortization of acquired intangibles of \$6.4 million, acquisition-related transaction and integration-related costs of \$6.9 million, integration-related severance costs of \$0.9 million and retention-based bonus expense of \$5.3 million.

The acquisition is being accounted for under the acquisition method of accounting. The acquisition method of accounting requires, among other things, that assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date. The preliminary determination of the fair value of assets acquired and liabilities assumed has been recognized based on management's estimates and assumptions using the information about facts and circumstances that existed at the acquisition date. While the Company uses its best estimates and assumptions as part of the purchase price allocation process to value the assets acquired and liabilities assumed on the acquisition date, its estimates and assumptions are subject to refinement. Fair value estimates are based on a complex series of judgments about future events and uncertainties and rely heavily on estimates and assumptions. The judgments used to determine the estimated fair value assigned to each class of assets acquired and liabilities assumed, as well as asset lives, can materially impact the Company's results of operations. The allocation of the purchase price is preliminary for income taxes and the valuation of intangible assets as the Company is still gathering information. The Company expects to finalize the purchase price allocation by the end of 2018.



The following table summarizes the Company's preliminary purchase price allocation (in thousands):

Cash	\$2,571
Accounts receivable	11,986
Property and equipment	2,492
Prepaid expenses and other current assets	2,511
Other assets	2,255
Intangible assets:	
Completed technology (9 years) <sup>(1)</sup>	34,200
Customer relationships (10 years) <sup>(1)</sup>	114,800
Trade name (2 years)	900
Deferred revenue	(5,498 )
Accounts payable and accrued liabilities <sup>(1)</sup>	(7,685 )
Deferred tax liabilities, net <sup>(1)</sup>	(24,721 )
Goodwill <sup>(1)</sup>	210,832
Total purchase consideration	344,643
Less: cash acquired	(2,571 )
Total purchase consideration, net of cash acquired	\$342,072

(1) During the three months ended September 30, 2018, the Company identified measurement period adjustments that impacted the estimated fair value of the assets and liabilities assumed as of the date of acquisition. The table above, which summarizes the allocation of the purchase price for the entities acquired, has been updated to reflect these measurement period adjustments. The total measurement period adjustments resulted in an increase in intangible assets of \$1.5 million (\$1.4 million in completed technology and \$0.1 million in customer relationships), an increase in accrued liabilities of \$0.4 million, an increase in deferred tax liabilities, net, of \$0.4 million, and a decrease in goodwill of \$0.7 million. This change to the provisional fair value amounts of the assets and liabilities assumed had no impact on the Company's results of operations for the three months ended September 30, 2018.

The useful lives of the identifiable intangible assets acquired range from 2 to 10 years with a weighted average useful life of 9.7 years. The goodwill recorded in connection with this transaction is primarily related to the expected opportunities to be achieved as a result of the Company's ability to leverage its customer base, sales force and business plan with Jive'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 liability, net, of \$24.7 million primarily related to the amortization of intangible assets which cannot be deducted for tax purposes, partially offset by deferred tax assets primarily related to net operating losses acquired.

The unaudited financial information in the table below summarizes the combined results of operations of the Company, including Jive, on a pro forma basis, as though the acquisition had been consummated as of the beginning of 2017, including amortization charges from acquired intangible assets, interest expense on borrowings and lower interest income in connection with the Company's funding of the acquisition with existing cash and cash equivalents and borrowings under its credit facility, the inclusion of expense related to retention-based bonuses assuming full achievement of the retention requirements, the reclassification of acquisition-related costs of the Company and Jive incurred up to the transaction closing date, the effect of acquisition accounting on the fair value of acquired deferred revenue and the related tax effects. We have excluded any impact on the Jive pro forma net deferred tax liabilities as a result of the reduction in the federal corporate tax rate resulting from the U.S. Tax Act enacted on December 22, 2017.

The pro forma financial information is presented for comparative purposes only and is not necessarily indicative of the results of operations that would have been achieved had the acquisition taken place at the beginning of 2017.

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

Unaudited Pro Forma Financial Information (in millions except per share amounts)

	Three Months Ended	Nine Months Ended	
	September 30, (unaudited) 2017	September 30, (unaudited) 2017 2018	
Pro forma revenue	\$ 289.4	\$770.6	\$917.7
Pro forma net income (loss)	\$ 2.6	\$(18.1 )	\$39.7
Pro forma net income (loss) per share:			
Basic	\$ 0.05	\$(0.36 )	\$0.76
Diluted	\$ 0.05	\$(0.36 )	\$0.75
Weighted average shares outstanding:			
Basic	52.7	49.7	52.1
Diluted	53.6	49.7	52.8

#### 2017 Acquisitions

##### Nanorep Technologies Ltd.

On July 31, 2017, the Company acquired all of the outstanding equity interests in Nanorep Technologies Ltd., or Nanorep, an Israeli provider of artificial intelligence, chatbot and virtual assistant services, for \$43.2 million, net of cash acquired. Additionally, the Company expects to pay up to \$5 million in cash to certain employees of Nanorep contingent upon their continued service over the two-year period following the closing of the acquisition and, in some cases, the achievement of specified performance conditions, of which \$2.4 million has been paid as of September 30, 2018. At the time of the acquisition, Nanorep had approximately 55 employees and annualized revenue of approximately \$5 million. The operating results of Nanorep, which have been included in the Company's results since the date of the acquisition are not material. Accordingly, pro forma financial information for the business combination has not been presented.

##### GoTo Merger

On January 31, 2017, the Company completed its Merger with a wholly-owned subsidiary of Citrix, pursuant to which the Company acquired Citrix's GoTo Business. In connection with the Merger, the Company issued 26.9 million shares of its common stock to Citrix stockholders and an additional 0.4 million of the Company's restricted stock units in substitution for certain outstanding Citrix restricted stock units held by the GoTo Business employees. Based on the Company's closing stock price of \$108.10 on January 31, 2017 as reported by the NASDAQ Global Select Market, the total value of the shares of LogMeIn common stock issued to Citrix stockholders in connection with the Merger was \$2.9 billion. In October 2017, pursuant to the terms of the merger agreement, the Company paid \$3.3 million of additional purchase price for final adjustments related to defined targets for cash and cash equivalents and non-cash working capital.

The operations of the GoTo Business are included in the Company's operating results since the date of acquisition. Since the Merger, the operating costs of the GoTo Business have been integrated with the operating costs of the Company and therefore, the Company has not provided operating income for the GoTo Business. Further, in 2018,



stand-alone GoTo Business revenue will not be reported as the Company's continued integration of its go-to-market strategy has made this metric not comparable to prior periods. During the nine months ended September 30, 2017 and 2018, the Company recorded amortization of acquired intangibles of \$119.8 million and \$168.3 million, respectively, and acquisition-related transaction, transition and integration costs directly attributable to the Merger of \$41.5 million and \$3.2 million, respectively, within its condensed consolidated financial statements.

The unaudited financial information in the table below summarizes the combined results of operations for the Company and the GoTo Business, on a pro forma basis, as though the Merger had been consummated as of the beginning of 2016, including amortization charges from acquired intangible assets, the effect of acquisition accounting on the fair value of acquired deferred revenue, the inclusion of expense related to retention-based bonuses assuming full achievement of the retention requirements, the reclassification of all acquisition-related costs incurred by the Company and the GoTo Business as of the beginning of 2016 through the first quarter of 2017 (the quarter the Merger was completed), 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 would have been achieved if the acquisition had taken place at the beginning of 2016.

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

Unaudited Pro Forma Financial Information (in millions except per share amounts)

	Nine Months Ended	
	September 30, 2017 (unaudited)	
	As Reported	Pro Forma
Revenue	\$713.8	\$784.7
Net income (loss)	\$6.2	\$36.0
Net income (loss) per share:		
Basic	\$0.12	\$0.68
Diluted	\$0.12	\$0.67
Pro forma weighted average shares outstanding:		
Basic	49.7	52.7
Diluted	50.7	53.7

## 5. Divestitures

### Divestiture of Xively

On February 9, 2018, the Company and certain of its subsidiaries entered into an agreement to sell its Xively business. On March 20, 2018, the Company completed the sale for consideration of \$49.9 million, comprised of \$42.4 million of cash received in the first quarter of 2018 and \$7.5 million of receivables held back as an escrow by the buyer as an exclusive security in the event of the Company's breach of any of the representations and warranties in the definitive agreement. The \$7.5 million receivable, due in September 2019, was recorded at a net present value of \$7.3 million, which was reclassified from other assets to prepaids and other current assets on the condensed consolidated balance sheet during the quarter.

The Xively disposition resulted in a gain of \$33.9 million recorded in the first quarter of 2018, comprised of the present value of the \$49.6 million received as consideration less net assets disposed of \$13.3 million and transaction costs of \$2.4 million. The net assets disposed are primarily comprised of \$14.0 million of goodwill allocated to the Xively business. In fiscal year 2017, the Company recorded approximately \$3 million of revenue and \$13 million of operating expense directly related to its Xively business. The sale of the Xively business does not constitute a significant strategic shift that will have a material impact on the Company's ongoing operations and financial results. Accordingly, pro forma information for the divestiture of Xively has not been presented.

## 6. Goodwill and Intangible Assets

The changes in the carrying amounts of goodwill during the nine months ended September 30, 2018 are primarily due to the acquisition of the Jive business and the reduction of goodwill resulting from the divestiture of the Xively business. For additional information regarding the acquisition of Jive, see Note 4 to the condensed consolidated financial statements. For additional information regarding the Xively divestiture, see Note 5 to the condensed consolidated financial statements.

Changes in goodwill for the nine months ended September 30, 2018 are as follows (in thousands):

Balance, January 1, 2018	\$2,208,725
Goodwill resulting from the divestiture of Xively	(14,000 )
Goodwill resulting from the acquisition of Jive	210,832
Foreign currency translation adjustments	(1,278 )
Balance, September 30, 2018	\$2,404,279

Intangible assets consist of the following (in thousands):

	December 31, 2017		September 30, 2018		Weighted Average Life Remaining (in years)		
	Gross Carrying Amount	Net Accumulated Amortization Amount	Gross Carrying Amount	Net Accumulated Amortization Amount			
Identifiable intangible assets:							
Customer relationships	\$810,779	\$135,715	\$675,064	\$919,378	\$253,784	\$665,594	6.8
Technology	453,372	64,021	389,351	481,798	114,747	367,051	7.2
Trade names and trademarks	70,630	10,073	60,557	71,131	17,994	53,137	7.3
Other	1,360	1,323	37	3,577	1,238	2,339	7.3
Internally developed software	38,153	13,565	24,588	58,295	26,549	31,746	1.4
	\$1,374,294	\$224,697	\$1,149,597	\$1,534,179	\$414,312	\$1,119,867	

During the nine months ended September 30, 2018, the Company capitalized \$0.9 million for trade names and trademarks, \$114.8 million for customer relationships and \$34.2 million for technology as intangible assets in connection with the acquisition of Jive. During the nine months ended September 30, 2018, the Company also entered into an agreement to acquire a domain name for \$2.5 million, which was paid in April 2018. The Company also capitalized \$7.9 million and \$8.2 million during the three months ended September 30, 2017 and 2018, respectively, and \$22.0 million and \$23.5 million during the nine months ended September 30, 2017 and 2018, respectively, of costs related to internally developed software to be sold as a service incurred during the application development stage and is amortizing these costs over the expected lives of the related services.

The Company is amortizing its intangible assets based upon the pattern in which their economic benefit will be realized, or if this pattern cannot be reliably determined, using the straight-line method over their estimated useful lives. Amortization relating to technology and internally developed software is recorded within cost of revenue and the amortization of trade names and trademarks, customer relationships, and domain names (other) is recorded within operating expenses. Amortization expense for intangible assets consisted of the following (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2017	September 30, 2018	September 30, 2017	September 30, 2018
Cost of revenue:				
Amortization of internally developed software	\$2,594	\$6,105	\$4,937	\$15,554

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

Amortization of acquired intangibles <sup>(1)</sup>	13,229	18,216	35,416	54,388
Sub-Total amortization of intangibles in cost of revenue	15,823	24,321	40,353	69,942
Amortization of acquired intangibles <sup>(1)</sup>	36,613	44,268	97,187	128,698
Total amortization of intangibles	\$52,436	\$68,589	\$137,540	\$198,640

(1) Total amortization of acquired intangibles was \$49.8 million and \$62.5 million for the three months ended September 30, 2017 and 2018, respectively, and \$132.6 million and \$183.1 million for the nine months ended September 30, 2017 and 2018, respectively.

Future estimated amortization expense for intangible assets at September 30, 2018 is as follows (in thousands):

Amortization Expense (Years Ending December 31)	Amount
2018 (three months ending December 31)	\$68,580
2019	260,927
2020	216,012
2021	179,100
2022	142,393
Thereafter	252,855
Total	\$1,119,867

## 7. Accrued Liabilities

Accrued liabilities consisted of the following (in thousands):

	December 31, September 30,	
	2017	2018
Marketing programs	\$ 6,883	\$ 8,342
Payroll and payroll-related	30,204	39,577
Professional fees	5,353	6,046
Acquisition-related	6,783	6,008
Other accrued liabilities	33,203	52,237
Total accrued liabilities	\$ 82,426	\$ 112,210

Acquisition-related costs include transaction, transition and integration-related fees and expenses and contingent retention-based bonus costs.

## 8. Income Taxes

For the three months ended September 30, 2017 and 2018, the Company recorded a benefit for federal, state and foreign taxes of \$2.6 million on a profit before income taxes of \$7.3 million and a provision of \$2.6 million on a profit before income taxes of \$15.3 million, respectively. For the nine months ended September 30, 2017 and 2018, the Company recorded a benefit for federal, state and foreign taxes of \$33.1 million on a loss before income taxes of \$26.9 million and a provision of \$14.3 million on a profit before income taxes of \$63.3 million, respectively. The effective income tax rates for the nine months ended September 30, 2017 and 2018 were impacted by profits earned in certain foreign jurisdictions, primarily the Company's Irish subsidiaries, which are subject to significantly lower tax rates than the U.S. federal statutory rate. The effective income tax rate for the nine months ended September 30, 2017 and 2018 was also impacted by \$15.7 million and \$4.1 million, respectively, of excess tax deductions on stock compensation recorded as discrete tax benefits and a \$3.8 million tax benefit and a \$1.4 million tax provision, respectively, related to discrete integration activities. During the nine months ended September 30, 2018, the Company recorded a discrete income tax benefit of \$3.4 million as a result of the re-measurement of deferred tax assets and liabilities due to a decrease in the state tax rate from the acquisition of Jive and a discrete income tax provision of \$9.2 million on a pre-tax gain on disposition of assets of \$33.9 million as a result of the divestiture of the Xively business.

As a result of the Tax Cuts and Jobs Act of 2017, or the U.S. Tax Act, in the fourth quarter of 2017, the Company calculated its best estimation of the impact of the U.S. Tax Act and recognized a one-time mandatory transition tax of \$14.8 million on cumulative foreign subsidiary earnings, remeasured the Company's U.S. deferred tax assets and liabilities, which resulted in a benefit from income taxes of \$105.1 million, and reassessed the net realizability of the Company's deferred tax assets and liabilities, which resulted in a tax provision of \$4.7 million.

On December 22, 2017, Staff Accounting Bulletin No. 118, or SAB 118, was issued to address the application of GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the U.S. Tax Act. The ultimate impact of the U.S. Tax Act may differ from this estimate, possibly materially, due to changes in interpretations and assumptions, guidance that may be issued and actions the Company may take in response to the U.S. Tax Act. The U.S. Tax Act is highly complex and the Company will continue to assess the impact that various provisions will have on its business. Any subsequent adjustment to these amounts will be recorded to current tax

expense in the quarter of 2018 when the analysis is complete. During the nine months ended September 30, 2018, the Company decreased the transition tax estimate and recorded a \$2.2 million tax benefit to decrease its one-time mandatory transition tax estimate to \$12.6 million (from \$14.8 million recorded in the fourth quarter of 2017 and \$15.5 million in the second quarter of 2018).

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 September 30, 2018, the Company maintained a full valuation allowance against the deferred tax assets of its Hungarian subsidiary (this entity has historical tax losses) and for a portion of its California and Massachusetts state net operating losses. The Company concluded it was not more likely than not that these deferred tax assets are realizable.

The Company files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. The Company's income tax returns are open to examination by federal, state, and/or foreign tax authorities. The United States federal income tax returns are open to examination from 2014. In the normal course of business, the Company and its subsidiaries are examined by various taxing authorities. The Company regularly assesses the likelihood of additional assessments by tax authorities and provides for these matters as appropriate. Audits by tax authorities typically involve examination of the deductibility of certain permanent items, limitations on net operating losses and tax credits.

Although the Company believes its tax estimates are appropriate, the final determination of tax audits could result in material changes in its estimates. The Company has recorded a liability related to uncertain tax positions of \$5.1 million and \$5.6 million as of December 31, 2017 and September 30, 2018, respectively. The Company's policy is to record estimated interest and penalties related to the underpayment of income taxes or unrecognized tax benefits as a component of its income tax provision, which was \$31,000 and \$0.1 million of interest expense for the nine months ended September 30, 2017 and 2018, respectively.

## 9. Common Stock and Equity

On February 23, 2017, the Company's Board of Directors approved a three-year capital return plan intended to return up to \$700 million to stockholders through a combination of share repurchases and dividends. During the third quarter of 2018, the Company paid a cash dividend of \$0.30 per share on August 24, 2018 to stockholders of record as of August 8, 2018. The Company's Board of Directors will continue to review this capital return plan for potential modifications based on the Company's financial performance, business outlook and other considerations. The timing and number of shares to be repurchased and/or the amount of cash dividends to be paid to the Company's stockholders pursuant to the capital return plan will depend upon prevailing market conditions and other factors. Additionally, the Company's credit facility contains certain financial and operating covenants that may restrict its ability to pay dividends in the future.

The Company paid cash dividends per share during the periods presented as follows:

	Year Ended December 31, 2017		Year Ended December 31, 2018	
	Dividend Amount		Dividend Amount	
	Per Share	(in millions)	Per Share	(in millions)
First quarter <sup>(1)</sup>	\$0.50	\$ 12.8	\$0.30	\$ 15.7
Second quarter	0.25	13.2	0.30	15.6
Third quarter	0.25	13.2	0.30	15.5
Fourth quarter	0.25	13.2		
Total cash dividends paid	\$1.25	\$ 52.40		

(1) The dividend paid in the first quarter of fiscal 2017 was the third of three special cash dividends announced and paid in anticipation of the completion of the Merger. The first two special cash dividends were declared and paid in 2016.

For the three months ended September 30, 2017 and 2018, the Company repurchased 191,618 and 846,233 shares of its common stock at an average price of \$111.99 and \$88.78 per share, for a total cost of \$21.5 million and \$75.1 million, respectively. For the nine months ended September 30, 2017 and 2018, the Company repurchased 471,206



and 1,865,106 shares of its common stock at an average price of \$108.39 and \$103.30 per share, for a total cost of \$51.1 million and \$192.7 million, respectively.

#### 10. Stock Incentive Plan

The Company's 2009 Stock Incentive Plan, or 2009 Plan, is administered by the Board of Directors and the Compensation Committee, which have the authority to designate participants and determine the number and type of awards to be granted and any other terms or conditions of the awards. The Company awards restricted stock units as its principal equity incentive award. Restricted stock units with time-based vesting conditions generally vest over a three-year period while restricted stock units with market-based or performance-based vesting conditions generally vest over two- or three-year periods. Until 2012, the Company generally granted stock options as the principal equity incentive award. Options generally vested over a four-year period and expire ten years from the date of grant. Certain stock-based awards provide for accelerated vesting if the Company experiences a change in control. As of September 30, 2018, 6.7 million shares remained available for grant under the 2009 Plan.

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

The following table summarizes stock option activity during the nine months ended September 30, 2018 (shares and intrinsic value in thousands):

	Number of Options	Weighted Average Exercise Price	Weighted Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding, January 1, 2018	172	\$ 30.33	3.7	\$ 14,520
Granted	—	—	—	—
Exercised	(126 )	30.42	—	\$ 7,704
Forfeited	—	—	—	—
Outstanding, September 30, 2018	46	\$ 30.06	3.5	\$ 2,743

The aggregate intrinsic value was calculated based on the positive differences between the fair value of the Company's common stock of \$114.50 per share on December 31, 2017 and \$89.10 per share on September 30, 2018, or at time of exercise, and the exercise price of the options.

During the nine months ended September 30, 2018, the Company granted the following restricted stock unit awards (in thousands):

Type of Award	Number of Shares
Time-based <sup>(1)</sup>	621
Market-based <sup>(2)</sup>	67
Total awards granted during the nine months ending September 30, 2018	688

(1) Time-based restricted stock units generally vest one-third every year for three years and are valued on the grant date using the grant date closing price of the underlying shares.

(2) Market-based restricted stock units vest equally upon the achievement of a relative total shareholder return, or TSR, target as measured over a two- and three-year performance period versus the TSR realized for that same period by a specified stock index. The number of shares earned can range from 0% to 200% of the target shares awarded depending on the Company's level of achievement. The fair values of these market-based restricted stock units granted in May 2018 and July 2018 were determined using a Monte Carlo simulation model including assumptions used (but not limited to) of risk-free interest rates of 2.64% and 2.74%, respectively, expected volatilities of 34% and 38%, respectively, and expected dividend yields of 1.08% and 1.48%, respectively.

Since 2013, the Company has granted to certain key executives restricted stock unit awards with market-based vesting conditions, which are referred to herein as TSR Units. These TSR Units 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 a well-known stock index. The number of shares that may vest under these TSR Units may range from 0% to 200% of the target number of shares granted depending on the Company's level of achievement of its TSR goal. 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 level of achievement of the market-based vesting condition. For the TSR Units awarded in May 2015, February 2016 and May 2016, the Company achieved 200% of its TSR goal for the three-year and two-year performance periods ended in February and May 2018, resulting in an additional 57,250 shares being earned and vested during the nine months ended September 30, 2018.

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

The following table summarizes restricted stock unit activity, including market-based TSR Units during the nine months ended September 30, 2018 (shares in thousands):

	Number of Shares	Weighted Average
	Underlying Restricted	Grant Date Fair
	Stock Units	Value
Unvested as of January 1, 2018	1,689	\$ 90.91
Restricted stock units granted	688	108.40
Restricted stock units earned	57	
Restricted stock units vested	(763 )	82.39
Restricted stock units forfeited	(246 )	96.62
Unvested as of September 30, 2018	1,425	\$ 102.40

As of September 30, 2018, 126,567 TSR Units and 63,955 restricted stock units with performance-based vesting conditions were outstanding.

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2018	2017	2018
Cost of revenue	\$1,612	\$1,278	\$3,911	\$3,755
Research and development	6,405	4,174	16,042	14,232
Sales and marketing	4,312	3,492	12,108	11,788
General and administrative	6,436	6,744	17,194	19,045
	\$18,765	\$15,688	\$49,255	\$48,820

As of September 30, 2018, there was \$105.4 million of total unrecognized share-based compensation cost related to unvested stock awards which are expected to be recognized over a weighted average period of 2.0 years.

## 11. Commitments and Contingencies

**Operating Leases** — As of September 30, 2018, the Company had operating lease agreements for offices in the United States, Hungary, Germany, Australia, the United Kingdom, Ireland, Israel, India, Canada, Brazil, Guatemala, and Mexico that expire at various dates through 2030.

Rent expense under all leases was \$5.5 million and \$5.8 million for the three months ended September 30, 2017 and 2018, respectively, and \$16.0 million and \$16.4 million for the nine months ended September 30, 2017 and 2018, 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 totaled \$7.0 million and \$11.4 million for the three months ended September 30, 2017 and 2018, respectively and \$25.2 million and \$29.5 million for the nine months ended September 30, 2017 and 2018, respectively.

The Company is currently assessing the impact of the FASB's new lease standard, herein referred to as ASC 842, on its consolidated financial statements and related disclosures, as described further in Note 2 to the condensed consolidated financial statements. The total commitment for non-cancelable operating leases was \$156.1 million as of September 30, 2018.

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 August 20, 2018, a securities class action lawsuit was initiated by purported stockholders of the Company in the U.S. District Court for the Central District of California against the Company and certain of its officers, entitled *Wasson v. LogMeIn, Inc. et al.*, (Case No. 2:18-cv-07285). The lawsuit asserts claims under Sections 10(b) and 20(a) of the Securities and Exchange Act of 1934 based on alleged misstatements or omissions concerning renewal rates for the Company's subscription contracts. The complaint seeks unspecified damages, fees and costs. The Company believes the lawsuit lacks merit and intends to defend it vigorously. Given the inherent unpredictability of litigation and the fact that this litigation is still in its early stages, the Company is unable to predict the outcome of this litigation or reasonably estimate a possible loss or range of loss associated with this litigation at this time.

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.

## 12. Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) consists of foreign currency translation adjustments and changes in unrealized losses and gains (net of tax) on marketable securities. The Company has determined that the undistributed earnings of all of its foreign subsidiaries, except for 100% of the current and prior year earnings and foreign currency translation adjustments related to those earnings, will continue to be indefinitely reinvested outside the United States for any additional outside basis differences inherent in these entities. Accumulated other comprehensive income (loss) is reported as a component of stockholders' equity and, as of December 31, 2017 and September 30, 2018, was comprised of cumulative translation adjustment gains of \$15.6 million and \$5.8 million, respectively. There were no material reclassifications to earnings in the nine months ended September 30, 2017 and 2018.

## 13. Credit Facility

On February 1, 2017, the Company entered into an Amended and Restated Credit Agreement, or the Amended Credit Agreement, which increased the Company's secured revolving credit facility from \$150 million to \$400 million in the aggregate and permits the Company to increase the revolving credit facility and/or enter into one or more tranches of term loans up to an additional \$200 million. On March 23, 2018, the Company entered into a borrower accession agreement with its wholly-owned subsidiary, LogMeIn USA, Inc. and JPMorgan Chase Bank, N.A. acting in its capacity as administrative agent, pursuant to which LogMeIn USA, Inc. became a borrower under the Company's existing multi-currency Amended and Restated Credit Agreement. The credit facility matures February 1, 2022. The Company may prepay the loans or terminate or reduce the commitments in whole or in part at any time, without premium or penalty. 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. On April 2, 2018, the Company borrowed \$200.0 million under the Amended Credit Agreement to partially fund the acquisition of Jive. See Note 4 to the condensed consolidated financial statements. The Company had an outstanding debt balance of \$200.0 million as of September 30, 2018.

Loans under the Amended Credit Agreement 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 October 9, 2018, the annual rate on the \$200.0 million outstanding debt balance was 3.563%, which will reset on November 9, 2018. The average interest rate on borrowings outstanding for the nine months ended September 30, 2018 was 3.310%. The quarterly commitment fee on the undrawn portion of the credit facility ranges from 0.15% to 0.30% per annum, based upon the Company's total leverage ratio.

The Amended Credit Agreement contains customary affirmative and negative covenants, subject to customary and other exceptions for a credit facility of this size and type, each as further described in the Amended Credit Agreement. As of September 30, 2018, the Company was in compliance with all financial and operating covenants of the

Amended Credit Agreement.

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

As of December 31, 2017 and September 30, 2018, the Company had \$2.3 million and \$1.8 million, respectively, of origination costs recorded in other assets on the accompanying condensed consolidated balance sheet. The Company presents debt issuance costs related to the revolving debt arrangement as an asset and subsequently amortizes the deferred debt issuance costs ratably over the term of the credit facility.

14. Subsequent Events

Cash Dividend

On October 23, 2018, the Company's Board of Directors declared a cash dividend of \$0.30 per share of common stock. The dividend is payable on November 30, 2018 to stockholders of record as of November 14, 2018.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the unaudited condensed consolidated financial statements and the related notes thereto included elsewhere in this Quarterly Report on Form 10-Q and the audited condensed consolidated financial statements and notes thereto and management's discussion and analysis of financial condition and results of operations for the year ended December 31, 2017 included in our Annual Report on Form 10-K, filed with the Securities and Exchange Commission, or SEC, on February 20, 2018. This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. These statements are often identified by the use of words such as "may," "will," "expect," "believe," "anticipate," "intend," "could," "estimate," or "continue," and similar expressions or variations. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in the section titled "Risk Factors," set forth in Part II, Item 1A of this Quarterly Report on Form 10-Q and elsewhere in this Report. The forward-looking statements in this Quarterly Report on Form 10-Q represent our views as of the date of this Quarterly Report on Form 10-Q. We anticipate that subsequent events and developments will cause our views to change. However, while we may elect to update these forward-looking statements at some point in the future, we have no current intention of doing so except to the extent required by applicable law. You should, therefore, not rely on these forward-looking statements as representing our views as of any date subsequent to the date of this Quarterly Report on Form 10-Q.

### Overview

LogMeIn simplifies how people connect with each other and the world around them to drive meaningful interactions, deepen relationships, and create better outcomes for individuals and businesses. A market leader in communication and collaboration, identity and access, and customer engagement and support solutions, LogMeIn has millions of customers spanning virtually every country across the globe. LogMeIn is headquartered in Boston, Massachusetts with additional locations in North America, South America, Europe, Asia and Australia.

We offer both free and fee-based, or premium, subscription software services. Sales of our premium services are generated through online search, word-of-mouth referrals, web-based advertising, off-line advertising, broadcast advertising, public relations, 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 our customers, who range from individual consumers to small and medium businesses, or SMBs, and multi-national enterprises. Our revenue is driven primarily by the number and type of our premium services to which our paying customers subscribe.

On January 31, 2017, we completed our Merger with a wholly-owned subsidiary of Citrix, pursuant to which we combined with Citrix's GoTo family of service offerings known as the GoTo Business. Following the completion of the Merger, our revenue grew to over \$1 billion on an annualized basis in fiscal 2017 and we added over 1,600 employees. On April 3, 2018, we completed our acquisition of Jive Communications, Inc., or Jive, a provider of cloud-based phone systems and Unified Communications services. At the time of closing, Jive had approximately 700 employees and its fiscal year 2017 revenue was approximately \$80 million.

### Operating Results

In the nine months ended September 30, 2018, we recognized revenues of \$893.8 million and generated cash flows from operating activities of \$330.9 million, and we ended the quarter with \$167.6 million of cash and cash equivalents and \$200.0 million of outstanding borrowings under our credit facility. We recorded net income of \$49.0 million in the nine months ended September 30, 2018, including a gain of \$33.9 million in the first quarter of 2018 related to the divestiture of our Xively business; amortization of acquired intangible assets of \$183.1 million; and acquisition-related transaction, transition and integration-related fees and expenses of \$19.1 million, primarily related



to the Merger and our acquisition of Jive. On January 1, 2018, we adopted ASU 2014-09, Revenue from Contracts with Customers, referred to herein as ASC 606. The adoption of ASC 606 did not have any impact on our revenue recognition, however, we are required to capitalize and amortize incremental costs of obtaining a contract such as sales commissions and related fringe benefits over the period of benefit. The impact of ASC 606 on the first nine months of 2018 was lower sales and marketing expense of \$27.6 million than it would have been under prior accounting guidance.

In the nine months ended September 30, 2017, we generated revenues of \$713.8 million and cash flows from operating activities of \$283.3 million, and we ended with \$276.0 million of cash, cash equivalents and short-term marketable securities and no outstanding borrowings under our credit facility. We recorded net income of \$6.2 million in the nine months ended September 30, 2017, including amortization of acquired intangible assets of \$132.6 million and acquisition-related transaction, transition and integration-related fees and expenses of \$51.4 million, primarily related to the Merger.

## Acquisition of Jive Communications, Inc.

On April 3, 2018, we completed our acquisition of Jive Communications, Inc., or Jive, a provider of cloud-based phone systems and Unified Communications services, for \$342.1 million in cash, which includes a \$1.3 million working capital adjustment received during the third quarter of 2018. Additionally, we expect to pay up to \$15 million in cash contingent payments to certain employees of Jive upon their achievement of specified retention milestones over the two-year period following the closing, of which we have paid \$0.4 million as of September 30, 2018. We funded the acquisition through a combination of cash on-hand and \$200.0 million of borrowings under our credit facility. The operating results of Jive have been included in our results since the date of the acquisition.

## Capital Returns

On February 23, 2017, our Board of Directors approved a three-year capital return plan intended to return up to \$700 million to stockholders through a combination of share repurchases and dividends. As of September 30, 2018, we have returned \$348.3 million to stockholders under this capital return plan, including \$239.6 million during the first nine months of 2018 comprised of the following:

- A total of \$192.7 million spent to repurchase 1,865,106 shares of our common stock at an average price of \$103.30 per share.
- A total of \$46.9 million paid in cash dividends (\$0.30 per share of our common stock paid in each of the first three quarters of 2018).

On October 23, 2018, our Board of Directors declared a cash dividend of \$0.30 per share of common stock. The dividend is payable on November 30, 2018 to stockholders of record as of November 14, 2018. While we currently intend to pay quarterly cash dividends during the remainder of 2018, our Board of Directors will continue to review this capital return plan for potential modifications and will determine whether to declare dividends on a quarterly basis based on our financial performance, business outlook and other considerations.

We repurchase our shares 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. The timing and number of shares to be repurchased pursuant to this capital return plan will depend upon prevailing market conditions and other factors. Additionally, our credit facility contains certain financial and operating covenants that may restrict our ability to pay dividends in the future.

## Certain Trends and Uncertainties

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

- There is frequent litigation in the software and technology industries based on allegations of infringement or other violations of intellectual property rights. We have been, and may in the future be, subject to third party patent infringement or other intellectual property-related lawsuits as we face increasing competition and become increasingly visible. Any adverse determination related to intellectual property claims or litigation could adversely affect our business, financial condition and operating results.
- The risk of a data security breach or service disruption caused by computer hackers and cyber criminals has increased as the frequency, intensity and sophistication of attempted attacks and intrusions from around the world have increased. Our services and systems have been, and may in the future be, the target of various forms of cyberattacks. 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.

Failure to successfully integrate acquisitions could adversely impact the market price of our common stock as well as our business and operating results. This risk is identified further in “Risk Factors — Risks Related to our Business” of this Quarterly Report on Form 10-Q and elsewhere in this report.

27

---

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

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

#### Sources of Revenue

We derive our revenue primarily from subscription fees for our premium services from enterprise customers, SMBs, IT service providers, mobile carriers, customer service centers, OEMs and consumers and to a lesser extent, from usage fees from our audio services. Our customers who subscribe to our services generally pay in advance and typically pay with a credit card for their subscription. 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.

We calculate our gross renewal rate on an annualized dollar basis across all product lines as of the end of each period. For the three months ended September 30, 2018, our gross annualized renewal rate increased to approximately 80%. During the three months ended September 30, 2018, we implemented a number of changes designed to improve the renewal rates in our communication and collaboration business. We have been encouraged by the initial results from these changes in the three months ended September 30, 2018 and will continue to monitor our renewal rates across all of our products. Additionally, as we continue to integrate the GoTo Business and the recently acquired Jive business, we will monitor and assess our renewal rate calculation and methodology to ensure that it is appropriate.

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2018	2017	2018
<b>Revenues:</b>				
Communications and collaboration	\$ 146,808	\$ 175,045	\$ 377,780	\$ 498,142
Identity and access	76,380	89,762	208,487	262,197
Customer engagement and support	46,079	44,120	127,483	133,455
<b>Total revenue</b>	<b>\$ 269,267</b>	<b>\$ 308,927</b>	<b>\$ 713,750</b>	<b>\$ 893,794</b>

#### Employees

Our number of full-time employees was 3,515 at September 30, 2018, compared to 2,760 at December 31, 2017 and 2,823 at September 30, 2017.

#### Cost of Revenue and Operating Expenses

We allocate certain overhead expenses, such as rent and utilities, to expense categories primarily based on headcount allocations. As a result, an overhead allocation associated with these costs is reflected in the cost of revenue and each operating expense category.

**Cost of Revenue.** Cost of revenue consists primarily of costs associated with our data center operations and customer support centers. Included in these costs are wages and benefits for personnel, telecommunications, hosting fees, hardware and software maintenance costs, outsourced customer support staffing costs, telecommunications product costs, and depreciation associated with our data centers. Additionally, amortization expense associated with the acquired software, technology, and internally developed software to be sold as a service 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.

**Research and Development.** Research and development expenses consist primarily of wages and benefits for development personnel, retention-based bonus expense related to our acquisitions, facility expense, cloud computing services, 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. More than half of our research and development employees are located internationally in our development centers in Hungary, Germany, Canada, Israel and India. Therefore, a large portion of research and development expense is subject to fluctuations in foreign exchange rates. We capitalized costs of \$22.0 million and \$23.5 million for the nine months ended September 30, 2017 and 2018, respectively, related to internally developed software to be sold as a service, which were incurred during the application development stage. The majority of research and development costs have been expensed as incurred. We expect that research and development expenses will 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, facility 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 remain relatively consistent as a percentage of revenue.

**General and Administrative.** General and administrative expenses consist primarily of wages and benefits for management, human resources, internal IT support, legal, finance and accounting personnel, professional fees, insurance and other corporate expenses, including acquisition-related expenses. We expect that general and administrative expenses related to personnel, recruiting, internal information systems, audit, accounting and insurance costs will remain relatively constant as a percentage of revenue as we continue to support the growth of our business. Further, we expect to continue to incur acquisition-related costs, and general and administrative expenses could increase if we incur litigation-related expenses associated with our defense against legal claims.

#### Critical Accounting Policies

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

- Revenue recognition;
- Income taxes;
- Goodwill and acquired intangible assets;
- Stock-based compensation; and
- Loss contingencies.

On January 1, 2018, we adopted Accounting Standard Update 2014-09, Revenue from Contracts with Customers, as amended, or ASC 606. The following provides an update on the impact of adopting ASC 606 on our revenue recognition.

Revenue Recognition — ASC 606 replaces existing revenue recognition rules with a comprehensive revenue measurement and recognition standard and expanded disclosure requirements. See Note 2 of our condensed consolidated financial statements for additional information regarding our recently adopted accounting pronouncements.

We derive our revenue primarily from subscription fees for our premium services, and, to a lesser extent, usage fees from our audio services. Revenue is reported net of applicable sales and use tax, value-added tax and other transaction taxes imposed on the related transaction including mandatory government charges that are billed to our customers. Revenue is recognized when control of these services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those services.

We determine revenue recognition through the following five steps:

- Identification of the contract, or contracts, with a customer
- Identification of the performance obligations in the contract
- Determination of the transaction price
- Allocation of the transaction price to the performance obligations in the contract
- Recognition of revenue when, or as, performance obligations are satisfied

We account for a contract when it has approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable.

Revenue from our premium services represents a single promise to provide continuous access (i.e. a stand-ready obligation) to our software solutions and their processing capabilities in the form of a service through one of our data centers. Our software cannot be run on another entity's hardware and customers do not have the right to take possession of the software and use it on their own or another entity's hardware. As each day of providing access to the software is substantially the same and the customer simultaneously receives and consumes the benefits as access is provided, we determined that our premium subscription services arrangements include a single performance obligation comprised of a series of distinct services. Revenue from our premium subscription services is recognized over time on a ratable basis over the contract term beginning on the date that our service is made available to the customer. Subscription periods range from monthly to multi-year, with the majority of our contracts being one year, billed annually in advance, and non-cancelable.

Revenue from our audio services represent a single promise to stand-ready to provide access to our audio platform. As each day of providing audio services is substantially the same and the customer simultaneously receives and consumes the benefits as access is provided, we have determined that our audio services arrangements include a single performance obligation comprised of a series of distinct services. Our audio services may include fixed consideration, variable consideration or a combination of the two. Variable consideration in these arrangements is typically a function of the corresponding rate per minute. We allocate the variable amount to each distinct service period within the series and recognize revenue as each distinct service period is performed (i.e., recognized as incurred).

### Results of Consolidated Operations

The following table sets forth selected condensed consolidated statements of operations data for each of the periods indicated (dollar amounts in thousands):

	Three Months Ended September 30,					Nine Months Ended September 30,				
	2017		2018			2017		2018		
	Amount	Percent of Revenue	Amount	Revenue	Change	Amount	Revenue	Amount	Revenue	Change
Revenue	\$269,267	100 %	\$308,927	100 %	15 %	\$713,750	100 %	\$893,794	100 %	25 %
Cost of revenue	55,605	21 %	72,853	24 %	31 %	147,780	21 %	208,628	23 %	41 %
Gross profit	213,662	79 %	236,074	76 %	10 %	565,970	79 %	685,166	77 %	21 %
Operating expenses										
Research and development	42,603	16 %	42,220	14 %	(1) %	116,435	16 %	129,256	14 %	11 %
Sales and marketing	89,379	33 %	95,041	31 %	6 %	258,616	36 %	282,599	32 %	9 %



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

General and administrative	37,906	14 %	37,441	12 %	(1 )%	120,460	17 %	111,990	13 %	(7 )%
Gain on disposition of assets	—		—	0 %	0 %	—	0 %	(33,910 )	(4 )%	(100 )%
Amortization of acquired intangibles	36,613	14 %	44,268	14 %	21 %	97,187	14 %	128,698	14 %	32 %
Total operating expenses	206,501	77 %	218,970	71 %	6 %	592,698	83 %	618,633	69 %	4 %
Income (loss) from operations	\$7,161	3 %	\$17,104	6 %	139 %	\$(26,728 )	(4 )%	\$66,533	7 %	(349 )%

	As of		Percent	
	September 30,	September 30,	Change	
	2017	2018		
<b>Employees:</b>				
Cost of revenue	471	690	46	%
Research and development	1,022	1,147	12	%
Sales and marketing	974	1,179	21	%
General and administrative	356	499	40	%
Total headcount at end of period	2,823	3,515	25	%

## Three Months Ended September 30, 2017 and 2018

**Revenue.** Revenue increased \$39.6 million, or 15%, from \$269.3 million for the three months ended September 30, 2017 to \$308.9 million for the three months ended September 30, 2018. The effect of acquisition accounting on the fair value of acquired deferred revenue was \$6.9 million and \$0.7 million for the GoTo Business in the three months ended September 30, 2017 and 2018, respectively. Revenue derived from the Jive business in the three months ended September 30, 2018 was \$27.4 million.

**Cost of Revenue.** Cost of revenue increased \$17.3 million, or 31%, from \$55.6 million for the three months ended September 30, 2017 to \$72.9 million for the three months ended September 30, 2018 and as a percentage of revenue was 21% and 24%, respectively. The increase in cost of revenue as a percentage of revenue is primarily attributable to an increase in amortization of acquired intangible assets from \$13.2 million to \$18.2 million for the three months ended September 30, 2017 and 2018, respectively. This increase is primarily attributable to the acquired intangibles of the GoTo Business, as well as the inclusion of Jive since the acquisition date. We amortize our acquired intangible assets based upon the pattern in which their economic benefit will be realized. Cost of revenue for the three months ended September 30, 2017 and 2018, includes personnel-related costs, including salary, bonus, recruiting, relocation, travel, training, benefits and taxes of \$14.6 million and \$17.5 million, respectively; facility-related costs of \$1.9 million and \$2.0 million, respectively; depreciation, maintenance, and amortization of internally developed software of \$9.4 million and \$13.5 million, respectively; professional services expense of \$3.6 million and \$2.1 million, respectively; and data center, telecommunications and cloud computing service costs of \$12.0 million and \$14.0 million, respectively. Further, telecommunication product costs totaled \$4.6 million for the three months ended September 30, 2018. The increase in cost of revenue as a percentage of revenue is primarily attributable to the inclusion of Jive since the acquisition date, as well as an increase in amortization of acquired intangible assets and internally developed software. Included in personnel-related costs in both the three months ended September 30, 2017 and 2018 is \$1.6 million and \$1.3 million, respectively, of stock-based compensation expense and \$0.5 million and \$0.3 million, respectively, of acquisition-related retention-based bonuses.

**Research and Development Expenses.** Research and development expenses were \$42.6 million for the three months ended September 30, 2017 and remained relatively flat at \$42.2 million for the three months ended September 30, 2018 and as a percentage of revenue was 16% and 14%, respectively. Research and development expenses for the three months ended September 30, 2017 and 2018, includes personnel-related costs, including salary, bonus, recruiting, relocation, travel, training, benefits and taxes of \$31.9 million and \$31.6 million, respectively; facility-related costs of \$3.2 million and \$3.0 million, respectively; cloud computing services of \$1.5 million and \$2.4 million, respectively; depreciation and maintenance expense of \$4.2 million and \$4.0 million, respectively; and professional services expense of \$1.4 million and \$1.3 million, respectively. We capitalized \$7.9 million and \$8.2 million of personnel-related costs noted above during the three months ended September 30, 2017 and 2018, respectively, for internally developed software to be sold as a service incurred during the application development stage. Also included in personnel-related costs in the three months ended September 30, 2017 and 2018 is \$6.4 million and \$4.2 million, respectively, of stock-based compensation expense and \$2.0 million and \$1.6 million, respectively, of acquisition-related retention-based bonuses.

**Sales and Marketing Expenses.** Sales and marketing expenses increased \$5.6 million, or 6%, from \$89.4 million for the three months ended September 30, 2017 to \$95.0 million for the three months ended September 30, 2018 and as a percentage of revenue was 33% and 31%, respectively. Sales and marketing expenses for the three months ended September 30, 2017 and 2018, includes personnel-related costs, including salary, commissions, bonus, recruiting, relocation, travel, training, benefits and taxes of \$43.5 million and \$46.4 million, respectively; marketing costs of \$31.1 million and \$31.0 million, respectively; credit card transaction fees of \$5.4 million and \$5.6 million, respectively; facility-related costs of \$4.2 million and \$3.8 million, respectively; depreciation and maintenance expense of \$4.0 million and \$4.7 million, respectively; and professional services expense of \$0.5 million and

\$2.6 million, respectively. We adopted ASC 606 on January 1, 2018 on the modified retrospective transition method which included the capitalization and amortization of incremental costs of obtaining contracts (commissions and related fringe benefits). For the three months ended September 30, 2018, commissions expense was lower by \$12.0 million than it would have been under pre-ASC 606 accounting guidance. Included in personnel-related costs in the three months ended September 30, 2017 and 2018 is \$4.3 million and \$3.5 million, respectively, of stock-based compensation expense and \$0.6 million and \$0.7 million, respectively, of acquisition-related retention-based bonuses.

**General and Administrative Expenses.** General and administrative expenses were \$37.9 million for the three months ended September 30, 2017 and remained relatively flat at \$37.4 million for the three months ended September 30, 2018 and as a percentage of revenue was 14% and 12%, respectively. For three months ended September 30, 2017 and 2018, general and administrative expenses included acquisition-related costs of \$7.4 million and \$2.0 million, respectively, primarily related to transaction, transition and integration-related costs and retention-based bonuses. General and administrative expenses for the three months ended September 30, 2017 and 2018, included personnel-related costs, including salary, bonus, recruiting, relocation, travel, training, benefits and taxes of \$20.2 million and \$24.3 million, respectively; professional services of \$5.8 million and \$6.0 million, respectively; facility-related costs of \$2.1 million and \$2.2 million, respectively; and depreciation and maintenance expense of \$1.3 million and \$2.6 million, respectively. Included in personnel-related costs is \$6.4 million and \$6.7 million of stock-based compensation expense for the three months ended September 30, 2017 and 2018, respectively.

**Amortization of Acquired Intangibles.** Amortization of acquired intangibles was \$36.6 million and \$44.3 million for the three months ended September 30, 2017 and 2018, respectively. The increase was primarily related to the intangible assets acquired from the acquisition of Jive on April 3, 2018. We amortize our acquired intangible assets based upon the pattern in which their economic benefit will be realized.

**Interest Income.** Interest income was \$0.4 million and \$0.3 million for the three months ended September 30, 2017 and 2018, respectively, and was primarily attributable to interest income earned on marketable securities and money market funds.

**Interest Expense.** Interest expense was \$0.3 million and \$2.0 million for the three months ended September 30, 2017 and 2018, respectively, and was primarily associated with interest expense attributable to our credit facility and the amortization of deferred financing fees. The increase in interest expense for the three months ended September 30, 2018 was due to \$200.0 million of borrowings under our credit facility used to partially fund the Jive acquisition.

**Other Income (Expense), Net.** Other income, net was \$0.1 million and other expense, net was \$0.1 million for the three months ended September 30, 2017 and 2018, respectively, comprised primarily of realized and unrealized foreign currency gains and losses resulting from multi-currency settlements and re-measurements occurring during the quarter.

**Income Taxes.** We recorded a benefit for federal, state and foreign taxes of \$2.6 million on a profit before income taxes of \$7.3 million and a provision for federal, state, and foreign taxes of \$2.6 million on a profit before income taxes of \$15.3 million for the three months ended September 30, 2017 and 2018, respectively. The effective income tax rates for three months ended September 30, 2017 and 2018 were impacted by 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. The effective income tax rate for the three months ended September 30, 2017 and 2018 was also impacted by \$1.8 million and \$1.1 million, respectively, of excess tax deductions on stock compensation recorded as discrete tax benefits. Additionally, the three months ended September 30, 2018 was impacted by a \$2.9 million discrete tax benefit related to the decrease from its one-time mandatory transition tax estimate. Our effective tax rate in the future will depend upon the proportion of income before provision for income taxes earned in the United States and in jurisdictions with a tax rate lower than the U.S. statutory rate, as well as several other factors, including excess tax benefits from share-based compensation, changes to our provisional accounting for the effects of the U.S. Tax Act during the measurement period, and the impact of new legislation.

#### Nine Months Ended September 30, 2017 and 2018

**Revenue.** Revenue increased \$180.0 million, or 25%, from \$713.8 million for the nine months ended September 30, 2017 to \$893.8 million for the nine months ended September 30, 2018. This increase includes GoTo Business revenue for nine months in the 2018 period versus eight months in the 2017 period; revenue derived from the Jive business since the acquisition date on April 3, 2018 of \$50.3 million; and the effect of acquisition accounting on the fair value

of acquired deferred revenue for the GoTo Business of \$30.4 million and \$2.5 million in the nine months ended September 30, 2017 and 2018, respectively, and \$0.7 million for Jive for the nine months ended September 30, 2018.

**Cost of Revenue.** Cost of revenue increased \$60.8 million, or 41%, from \$147.8 million for the nine months ended September 30, 2017 to \$208.6 million for the nine months ended September 30, 2018. As a percentage of revenue, cost of revenue was 21% and 23% for the nine months ended September 30, 2017 and 2018, respectively. The increase in cost of revenue as a percentage of revenue is primarily attributable to an increase in amortization of acquired intangible assets from \$35.4 million to \$54.4 million for the nine months ended September 30, 2017 and 2018, respectively. This increase is primarily attributable to the acquired intangibles of the GoTo Business, as well as the inclusion of Jive since the acquisition date. We amortize our acquired intangible assets based upon the pattern in which their economic benefit will be realized. Cost of revenue for the nine months ended September 30, 2017 and 2018 also includes personnel-related costs, including salary, bonus, recruiting, relocation, travel, training, benefits and taxes of \$38.9 million and \$51.2 million, respectively; facility-related costs of \$5.0 million and \$5.7 million, respectively; depreciation, maintenance, and amortization of internally developed software expense of \$24.1 million and \$37.1 million, respectively; professional services expense of \$9.4 million and \$8.8 million, respectively; data center, telecommunications and cloud computing service costs of \$32.7 million and \$40.4 million, respectively; and royalty expenses of \$1.5 million and \$1.7 million, respectively. Further, telecommunication product costs totaled \$8.2 million for the nine months ended September 30, 2018. Included in personnel-related costs in the nine months ended September 30, 2017 and 2018, is \$3.9 million and \$3.8 million, respectively, of stock-based compensation expense and \$1.1 million and \$0.7 million, respectively, of acquisition-related retention-based bonuses.

**Research and Development Expenses.** Research and development expenses increased \$12.9 million, or 11%, from \$116.4 million for the nine months ended September 30, 2017 to \$129.3 million for the nine months ended September 30, 2018. As a percentage of revenue, research and development expenses were 16% and 14% for the nine months ended September 30, 2017 and 2018, respectively. Research and development expenses for the nine months ended September 30, 2017 and 2018, includes personnel-related costs, including salary, bonus, recruiting, relocation, travel, training, benefits and taxes of \$88.8 million and \$98.1 million, respectively; facility-related costs of \$9.0 million and \$8.9 million, respectively; cloud computing services of \$3.9 million and \$6.3 million, respectively; depreciation and maintenance expense of \$10.5 million and \$12.1 million, respectively; and professional services expense of \$3.5 million and \$3.8 million, respectively. We capitalized \$22.0 million and \$23.5 million of personnel-related costs noted above during the nine months ended September 30, 2017 and 2018, respectively, for internally developed software to be sold as a service incurred during the application development stage. Also included in personnel-related costs in the nine months ended September 30, 2017 and 2018 is \$16.0 million and \$14.2 million, respectively, of stock-based compensation expense and \$6.5 million and \$4.4 million, respectively, of acquisition-related retention-based bonuses.

**Sales and Marketing Expenses.** Sales and marketing expenses increased \$24.0 million, or 9%, from \$258.6 million for the nine months ended September 30, 2017 to \$282.6 million for the nine months ended September 30, 2018. As a percentage of revenue, sales and marketing expenses were 36% and 32% for the nine months ended September 30, 2017 and 2018, respectively. Sales and marketing expenses for the nine months ended September 30, 2017 and 2018, includes personnel-related costs, including salary, bonus, recruiting, relocation, travel, training, benefits and taxes of \$128.2 million and \$132.1 million, respectively; marketing costs of \$89.1 million and \$100.8 million, respectively; credit card transaction fees of \$15.5 million and \$17.4 million, respectively; facility-related costs of \$11.4 million and \$10.6 million, respectively; depreciation and maintenance expense of \$10.1 million and \$13.1 million, respectively; and professional services expense of \$2.3 million and \$6.0 million, respectively. We adopted ASC 606 on January 1, 2018 on the modified retrospective transition method which included the capitalization and amortization of incremental costs of obtaining contracts (commissions and related fringe benefits). For the nine months ended September 30, 2018, commissions expense was lower by \$27.6 million than it would have been under pre-ASC 606 accounting guidance. Included in personnel-related costs in the nine months ended September 30, 2017 and 2018 is \$12.1 million and \$11.8 million, respectively, of stock-based compensation expense and \$3.2 million and \$1.6 million, respectively, of acquisition-related retention-based bonuses.

**General and Administrative Expenses.** General and administrative expenses decreased \$8.5 million, or 7%, from \$120.5 million for the nine months ended September 30, 2017 to \$112.0 million for the nine months ended September 30, 2018. As a percentage of revenue, general and administrative expenses were 17% and 13% for the nine months ended September 30, 2017 and 2018, respectively. For the nine months ended September 30, 2017 and 2018, general and administrative expenses included acquisition-related costs of \$40.4 million and \$12.3 million, respectively, primarily related to transaction, transition and integration-related costs and retention-based bonuses. General and administrative expenses for the nine months ended September 30, 2017 and 2018, included personnel-related costs, including salary, bonus, recruiting, relocation, travel, training, benefits and taxes of \$53.7 million and \$70.0 million, respectively; professional services of \$14.5 million and \$15.3 million, respectively; facility-related costs of \$5.3 million and \$6.4 million, respectively; and depreciation and maintenance expense of \$4.3 million and \$6.8 million, respectively. Included in personnel-related costs is \$17.2 million and \$19.0 million of stock-based compensation expense for the nine months ended September 30, 2017 and 2018, respectively.

**Gain on Disposition of Assets.** We recorded a gain on the disposition of assets of \$33.9 million in the nine months ended September 30, 2018 related to the gain on the sale of our Xively business.

**Amortization of Acquired Intangibles.** Amortization of acquired intangibles was \$97.2 million and \$128.7 million for the nine months ended September 30, 2017 and 2018, respectively. The increase is primarily related to the intangible assets acquired as a result of the Merger on January 31, 2017 and the acquisition of Jive on April 3, 2018. We amortize our acquired intangible assets based upon the pattern in which their economic benefit will be realized.

Interest Income. Interest income was \$0.9 million and \$1.3 million for the nine months ended September 30, 2017 and 2018, respectively, and was primarily attributable to interest income earned on marketable securities and money market funds.

Interest Expense. Interest expense was \$1.1 million and \$4.2 million for the nine months ended September 30, 2017 and 2018, respectively, and was primarily associated with interest expense attributable to our credit facility and the amortization of financing fees. The increase in interest expense for the nine months ended September 30, 2018 was due to \$200.0 million of borrowings under our credit facility used to partially fund the Jive acquisition.

Other Expense, Net. Other expense, net was \$27,000 and \$0.4 million for the nine months ended September 30, 2017 and 2018, respectively, comprised primarily of realized and unrealized foreign currency gains and losses resulting from multi-currency settlements and re-measurements occurring during the quarter.

Income Taxes. We recorded a benefit for federal, state and foreign taxes of \$33.1 million on a loss before income taxes of \$26.9 million and a provision of \$14.3 million on a profit before income taxes of \$63.3 million for the nine months ended September 30, 2017 and 2018, respectively. The effective income tax rates for the nine months ended September 30, 2017 and 2018 were impacted by 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. The effective income tax rate for the nine months ended September 30, 2017 and 2018 was also impacted by the expected non-deductibility of certain transaction costs related to the Merger and the acquisition of Jive, respectively, and \$15.7 million and \$4.1 million, respectively, of excess tax deductions on stock compensation recorded as discrete tax benefits, as well as \$3.8 million and \$2.0 million, respectively, of discrete tax benefits related to integration and acquisition activity. Our effective tax rate in the future will depend upon the proportion of income before provision for income taxes earned in the United States and in jurisdictions with a tax rate lower than the U.S. statutory rate, as well as several other factors, including excess tax benefits from share-based compensation, changes to our provisional accounting for the effects of the U.S. Tax Act during the measurement period, and the impact of new legislation.

### Liquidity and Capital Resources

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

	Nine Months Ended	
	September 30, 2017	2018
Net cash provided by operating activities	\$283,260	\$330,864
Net cash used in investing activities	(21,784 )	(347,406)
Net cash used in financing activities	(148,011)	(62,789 )
Effect of exchange rate changes on cash, cash equivalents and restricted cash	7,130	(5,427 )
Net increase (decrease) in cash, cash equivalents and restricted cash	\$120,595	\$(84,758 )

At September 30, 2018, our principal source of liquidity was cash and cash equivalents totaling \$167.6 million, of which \$27.2 million was held in the United States and \$140.4 million was held by our international subsidiaries. On April 3, 2018, we used approximately \$145 million of cash held in the United States, and we borrowed \$200.0 million under our credit facility to fund the acquisition of Jive.

### Cash Flows From Operating Activities

Net cash inflows from operating activities for the nine months ended September 30, 2018 fully included the GoTo Business operations as compared to eight months for the comparable 2017 period.



Net cash inflows from operating activities during the nine months ended September 30, 2017 were mainly attributable to a \$75.1 million increase in deferred revenue associated with upfront payments received from our customers, a \$36.6 million increase in accrued liabilities, and a \$10.2 million increase in accounts payable. These cash inflows were partially offset by a \$6.5 million increase in accounts receivable and a \$4.6 million increase in prepaid expenses and other current assets. The increase in prepaid expenses and other current assets is due to an increase in prepaid taxes of \$12.1 million, partially offset by amortization of prepaid expenses. Accrued liabilities and accounts payable as of September 30, 2017 included \$8.8 million in Merger acquisition-related professional fees, including transaction, transition, and integration-related fees and expenses, and \$11.2 million in retention-based bonus accruals related to our 2015 and 2016 acquisitions. Additionally, included in net cash inflows from operating activities were add-backs of non-cash charges, including \$158.8 million for depreciation and amortization, \$49.3 million for stock-based compensation expense, and \$47.7 million benefit from deferred income taxes primarily attributable to the amortization of intangible assets which cannot be deducted for tax purposes.

Net cash inflows from operating activities during the nine months ended September 30, 2018 were mainly attributable to a \$28.0 million increase in deferred revenue associated with upfront payments received from our customers, a \$21.1 million increase in accrued liabilities, a \$16.3 million decrease in accounts receivable due to strong collections, a \$13.6 million increase in accounts payable, a \$4.3 million increase in other long-term liabilities, and an \$8.5 million decrease in prepaid and other current assets primarily due to a decrease in prepaid taxes partially offset by an increase in deferred commissions. These cash inflows were partially offset by a \$12.8 million increase in other assets primarily due to an increase in deferred commissions. Accrued liabilities and accounts payable included \$2.8 million in acquisition-related professional fees, including transaction, transition, and integration-related fees and expenses, and \$3.8 million in retention-based bonus accruals related to our acquisitions. Additionally, included in net

cash inflows from operating activities were add-backs and reductions of non-cash charges, including \$223.2 million for depreciation and amortization, \$36.3 million for the gain on disposition of assets related to the divestiture of the Xively business net of transaction costs, \$48.8 million for stock-based compensation expense, and \$34.1 million benefit from deferred income taxes primarily attributable to the amortization of intangible assets which cannot be deducted for tax purposes.

#### Cash Flows From Investing Activities

Net cash used in investing activities for the nine months ended September 30, 2017 was primarily attributable to purchases of \$23.3 million in property and equipment related to our internal IT infrastructure, data centers, and our offices, \$21.9 million in intangible asset additions for capitalized costs related to internally developed computer software to be sold as a service which were incurred during the application development stage, and \$19.2 million of net cash paid for acquisitions, including \$43.4 million related to the Nanorep acquisition, partially offset by \$24.2 million of cash acquired from the Merger. These cash outflows were partially offset by \$41.6 million in net proceeds from maturities and sales of marketable securities and \$1.0 million of acquired restricted cash. In addition, in October 2017, we made a cash payment of \$3.3 million of additional purchase price to Citrix for final adjustments related to defined targets for cash and cash equivalents and non-cash working capital pursuant to the terms of the merger agreement.

Net cash used in investing activities for the nine months ended September 30, 2018 was primarily attributable to the acquisition of Jive on April 3, 2018 for \$342.1 million, net of cash acquired, \$26.1 million in intangible asset additions for capitalized costs related to internally developed software to be sold as a service which were incurred during the application development stage, and purchases of \$21.6 million in property and equipment related to our internal IT infrastructure, data centers, and our offices. This cash outflow was partially offset by \$42.4 million of proceeds received from the divestiture of the Xively business.

#### Cash Flows From Financing Activities

Net cash used in financing activities for the nine months ended September 30, 2017 related to purchases of \$51.1 million of treasury stock, dividend payments of \$39.1 million, the payment of \$32.2 million for payroll taxes related to vesting of restricted stock units, the repayment of \$30.0 million of borrowings under our credit facility, and \$2.0 million for payment of issuance costs associated with the Amended Credit Agreement. These payments were partially offset by \$6.4 million in proceeds received from the issuance of common stock upon exercise of stock options.

Net cash used in financing activities for the nine months ended September 30, 2018 was attributable to the purchase of \$190.2 million of treasury stock, dividend payments of \$46.9 million, and the payment of \$29.5 million for payroll taxes related to the vesting of restricted stock units. These cash inflows were partially offset by \$200.0 million of borrowings under our credit facility which was drawn on April 2, 2018 in order to partially fund our acquisition of Jive, as well as \$3.8 million in proceeds received from the issuance of common stock upon exercise of stock options.

We have available a multi-currency credit facility with a syndicate of banks, financial institutions and other lending entities that provides for a secured revolving line of credit of up to \$400 million, which may be increased by an additional \$200 million subject to further commitment from the lenders. The credit facility matures on February 1, 2022 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 13 to our condensed consolidated financial statements for additional details). As of September 30, 2018, we had \$200.0 million outstanding borrowings under the credit facility.

#### Future Expectations

At September 30, 2018, cash and cash equivalents totaled \$167.6 million, of which \$27.2 million was held in the United States and \$140.4 million was held by our international subsidiaries. We believe that our current cash and cash equivalents, together with cash generated from operations and our credit facility, will be sufficient to meet our ongoing operations working capital and capital expenditure requirements.

We have been purchasing shares of our common stock since 2013 pursuant to share repurchase programs approved by our Board of Directors. On February 23, 2017, our Board of Directors approved a three-year capital return plan, pursuant to which we intend to return to stockholders approximately 75% of our free cash flow over the period, up to \$700 million, through a combination of share repurchases and dividends. As of September 30, 2018, \$261.9 million in share repurchases and \$86.4 million in cash dividend payments to our stockholders have been made under this \$700 million capital return plan, and \$351.7 million remained. We have continued to repurchase shares since September 30, 2018 and on October 23, 2018, our Board of Directors declared a \$0.30 per share cash dividend to be paid on November 30, 2018 to stockholders of record as of November 14, 2018, totaling approximately \$15.3 million. Our Board of Directors will continue to review this capital return plan for potential modifications based on our financial

performance, business outlook and other considerations. Our ability to repurchase our shares and/or pay cash dividends to our stockholders is subject to our having sufficient cash available and our maintaining compliance with our credit facility covenants.

We may elect to raise additional capital through the sale of additional equity or debt securities or expand our credit facility to develop or enhance our services, to fund expansion, to respond to competitive pressures or to acquire complementary products, businesses or technologies. If we elect to do so, additional financing may not be available in amounts or on terms that are favorable to us, if at all.

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.

#### Non-GAAP Financial Measures

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

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

- "Non-GAAP revenue," which we define as GAAP revenue adding back the impact of the fair value acquisition accounting adjustment on acquired deferred revenue;
- "Non-GAAP operating income," which we define as GAAP net income (loss) from operations adding back the impact of the fair value acquisition accounting adjustment on acquired deferred revenue, acquisition-related costs and amortization, litigation-related expense and stock-based compensation expense, gain on disposition of assets, as well as including amortization expense for acquired internally capitalized software development costs adjusted in acquisition accounting;
- "EBITDA," which we define as GAAP net income (loss) excluding interest and other expense, net, income taxes and depreciation and amortization expenses;
- "Adjusted EBITDA," which we define as EBITDA adding back the impact of the fair value acquisition accounting adjustment on acquired deferred revenue, acquisition-related costs, litigation-related expense, stock-based compensation expense, and gain on disposition of assets, as well as including amortization expense for acquired internally developed capitalized software development costs adjusted in acquisition accounting;
- "Non-GAAP provision for (benefit from) income taxes," which we define as GAAP provision for (benefit from) income taxes excluding the tax impact from the fair value adjustment on acquired deferred revenue, acquisition-related costs and amortization, litigation-related expense, stock-based compensation expense, gain on disposition of assets, the tax impact related to the enactment of the U.S. Tax Cut and Jobs Act of 2017, and discrete integration-related tax items, and including the tax impact of amortization expense for acquired internally capitalized software development costs adjusted in acquisition accounting;
- "Non-GAAP net income," which we define as GAAP net income (loss) excluding the adjustments noted in non-GAAP operating income and non-GAAP provision for incomes taxes above; and
- "Non-GAAP net income per diluted share," which we define as non-GAAP net income divided by fully-diluted weighted average shares outstanding.

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

• Fair value adjustment on acquired deferred revenue is an acquisition accounting adjustment recorded to reduce acquired deferred revenue to the fair value of the remaining obligation.

• Acquisition-related costs relate to costs associated with the acquisitions of intellectual property and businesses and include transaction, transition and integration-related fees and expenses (including legal, accounting and other professional fees, severance, retention bonuses) and subsequent adjustments to our initial estimated amount of contingent consideration associated with acquisitions.

36

---

• Acquisition-related costs and amortization relate to acquisition-related costs, as defined above, and the amortization of acquired intangible assets.

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

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

• Gain on disposition of assets relates to the gain on the sale of the Xively business.

• Acquisition accounting on internally capitalized software development relates to the amortization of acquired internally developed capitalized software development costs that were adjusted in acquisition accounting with the recording of a completed technology intangible asset.

• Depreciation and amortization expense relates to costs associated with the depreciation and amortization of fixed and intangible assets.

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

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

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

	Three Months Ended		Nine Months Ended	
	September 30, 2017	2018	September 30, 2017	2018
	(in thousands)		(in thousands)	
GAAP Revenue	\$269,267	\$308,927	\$713,750	\$893,794
Add Back:				
Effect of acquisition accounting on fair value of acquired				
deferred revenue	6,856	654	30,427	3,186
Non-GAAP Revenue	\$276,123	\$309,581	\$744,177	\$896,980

	Three Months Ended		Nine Months Ended	
	September 30, 2017	2018	September 30, 2017	2018
	(In thousands)		(In thousands)	
GAAP Net income (loss) from operations	\$7,161	\$17,104	\$(26,728)	\$66,533
Add Back:				
Effect of acquisition accounting on fair value of acquired				
deferred revenue	6,856	654	30,427	3,186
Stock-based compensation expense	18,765	15,688	49,255	48,820
Acquisition-related costs	10,455	4,698	51,391	19,074
Litigation-related expenses	622	199	1,360	476
Amortization of acquired intangibles	49,842	62,484	132,603	183,086
Less:				
Gain on disposition of assets	—	—	—	(33,910)
Effect of acquisition accounting on internally capitalized				
software development costs	(5,080)	(1,505)	(16,025)	(7,636)
Non-GAAP Operating income	88,621	99,322	222,283	279,629
Interest and other income (expense), net	162	(1,817)	(191)	(3,281)
Non-GAAP Income before income taxes	88,783	97,505	222,092	276,348
Non-GAAP Provision for income taxes <sup>(1)</sup>	(26,638)	(24,637)	(67,404)	(68,811)
Non-GAAP Net income (loss)	\$62,145	\$72,868	\$154,688	\$207,537

	Three Months Ended		Nine Months Ended	
	September 30, 2017	2018	September 30, 2017	2018
	(in thousands)		(in thousands)	
GAAP Net income (loss)	\$9,920	\$12,717	\$6,202	\$48,983

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

Add Back:

Interest and other income (expense), net	(162 )	1,817	191	3,281
Income tax provision (benefit)	(2,597 )	2,570	(33,121 )	14,269
Amortization of acquired intangibles	49,842	62,484	132,603	183,086
Depreciation and amortization expense	10,333	14,337	26,158	40,096
EBITDA	67,336	93,925	132,033	289,715

Add Back:

Effect of acquisition accounting on fair value of acquired

deferred revenue	6,856	654	30,427	3,186
Stock-based compensation expense	18,765	15,688	49,255	48,820
Acquisition-related costs	10,455	4,698	51,391	19,074
Litigation-related expenses	622	199	1,360	476

Less:

Gain on disposition of assets	—	—	—	(33,910 )
Adjusted EBITDA	\$104,034	\$115,164	\$264,466	\$327,361



	Three Months Ended		Nine Months Ended	
	September 30, 2017 2018		September 30, 2017 2018	
	(In thousands, except		(In thousands, except	
	per share data)		per share data)	
GAAP Net income per diluted share	\$0.19	\$0.24	\$0.12	\$0.93
Add Back:				
Effect of acquisition accounting on fair value of acquired				
deferred revenue	0.13	0.01	0.60	0.06
Stock-based compensation expense	0.35	0.30	0.97	0.92
Acquisition-related costs and amortization	1.12	1.29	3.63	3.83
Litigation-related expenses	0.01	—	0.03	0.01
Less:				
Gain on disposition of assets	—	—	—	(0.64 )
Effect of acquisition accounting on internally capitalized				
software development costs	(0.09 )	(0.03 )	(0.32 )	(0.14 )
Income tax effect of non-GAAP items <sup>(1)</sup>	(0.55 )	(0.41 )	(1.98 )	(1.04 )
Non-GAAP Net income per diluted share	\$1.16	\$1.40	\$3.05	\$3.93
Shares used in computing diluted non-GAAP net income per share	53,606	52,066	50,735	52,829

(1) The non-GAAP provision for income taxes excludes the tax impact of non-GAAP items as well as a discrete integration-related net tax benefit of \$3.8 million and \$2.0 million in the nine months ended September 30, 2017 and 2018, respectively, and a net tax benefit of \$2.9 million and \$2.2 million in the three and nine months ended September 30, 2018, respectively, related to the enactment of the U.S. Tax Act.

## 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 September 30, 2018 and the effect such obligations are expected to have on our liquidity and cash flow in future periods.

	Payments Due by Period (in thousands) <sup>(1)</sup>				
	Total	Less Than			More Than
		1 Year	1-3 Years	4-5 Years	5 Years
Operating lease obligations	\$156,133	\$21,810	\$44,289	\$38,738	\$51,296
Credit Facility <sup>(2)</sup>	200,000	—	—	200,000	—
Other purchase obligations	32,538	18,773	13,487	278	—
Total	\$388,671	\$40,583	\$57,776	\$239,016	\$51,296

(1) Excluded from the table above is \$5.6 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 2022, when all amounts outstanding will be due and payable. Excluded from the table above are the quarterly commitment fees on the undrawn portion that range from 0.15% to 0.30% per annum and interest payable on any outstanding borrowings based upon our total leverage ratio.

The commitments in the table above consist of lease payments for our corporate headquarters located in Boston, Massachusetts, our other United States locations, and our international locations (see Note 11 to the condensed consolidated financial statements).

Our purchase orders represent authorizations to purchase rather than binding agreements and therefore are not included in the table above. The contractual commitment amounts in the table above are associated with agreements that are enforceable and legally binding. Obligations under contracts that we can cancel without significant penalty are not included in the table above.

As of September 30, 2018, we had letters of credit and bank guarantees of \$8.7 million (\$1.8 million of which was collateralized and classified as restricted cash), primarily related to our corporate headquarters in Boston, Massachusetts.

## New Accounting Pronouncements

See Note 2, "Summary of Significant Accounting Policies" to the condensed consolidated financial statements for our discussion about new accounting pronouncements adopted and those pending.



## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

**Foreign Currency Exchange Risk.** Our results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates as our non-U.S. sales are recorded by our subsidiaries located in Ireland, the United Kingdom Australia and Brazil and as we incur significant operating expenses in our foreign subsidiaries including our research and development facilities in Hungary, Germany and Canada and our sales and marketing operations in Ireland, Germany, the United Kingdom and Australia. For the nine months ended September 30, 2017 and 2018, 24% and 23%, respectively, of our revenue was generated by customers outside of the United States and 20% and 22%, respectively, of our operating expenses occurred in our international subsidiaries.

Currently, our largest exposure to foreign currency exchange rate risk relates to the Euro, British Pound, Hungarian Forint, the Brazilian Real and the Canadian Dollar. To date, changes in foreign currency exchange rates have not had a material impact on our operations, and we estimate that a change of 10% or less in foreign currency exchange rates would not materially affect our operations.

As of December 31, 2017 and September 30, 2018, we had outstanding forward contracts with notional amounts equivalent to the following (in thousands):

	December 31,    September 30,	
	2017	2018
Currency Hedged		
Euro / Canadian Dollar	\$ 556	\$ 456
Euro / U.S. Dollar	4,208	4,038
Euro / British Pound	5,926	5,199
British Pound / U.S. Dollar	—	638
Israeli Shekel / Hungarian Forint	8,008	—
U.S. Dollar / Brazilian Real	—	2,488
U.S. Dollar / Canadian Dollar	—	4,385
Total	\$ 18,698	\$ 17,204

Net realized and unrealized foreign currency gains and losses was a net gain of \$47,000 and a net loss of \$28,000 for the three and nine months ended September 30, 2017, respectively, and net losses of \$0.1 million and \$0.4 million for the three and nine months ended September 30, 2018, respectively, which are included in other income (expense), net in the condensed consolidated statements of operations. Excluding the underlying foreign currency exposure being hedged, net realized and unrealized gains and losses on forward contracts included in foreign currency gains and losses was a net loss of \$0.4 million and \$0.3 million for the three and nine months ended September 30, 2017, respectively, and a net loss of \$40,000 and a net gain of \$0.5 million for the three and nine months ended September 30, 2018, respectively.

At September 30, 2018, cash and cash equivalents totaled \$167.6 million, of which \$27.2 million was held in the United States and \$140.4 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 condensed consolidated cash balances were impacted favorably by \$7.1 million and unfavorably by \$5.4 million for the nine months ended September 30, 2017 and 2018, respectively, due to changes in foreign currencies relative to the U.S. dollar, particularly the Euro.

**Interest Rate Sensitivity.** Interest income is sensitive to changes in the general level of U.S. interest rates. However, based on the nature and current level of our cash and cash equivalents, which typically consist of cash, money market instruments and corporate debt securities with maturities of three months or less, we believe there is no material risk of exposure to changes in the fair value of our cash and cash equivalents 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 September 30, 2018, we had \$200.0 million outstanding under our variable-rate credit facility. Interest rates on this loan will be adjusted at each rollover date to the extent such amounts are not repaid. As of September 30, 2018, the annual rate on the loan was 3.375%. If there was a hypothetical 100 basis point change in interest rates, the annual net impact to earnings and cash flows would be \$2.0 million. This hypothetical change in cash flows and earnings has been calculated based on borrowings outstanding at September 30, 2018 and a 100 basis point per annum change in interest rate applied over a one-year period.

#### ITEM 4. CONTROLS AND PROCEDURES

**Evaluation of Disclosure Controls and Procedures.** Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2018. 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 September 30, 2018, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

**Changes in Internal Controls.** No 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 September 30, 2018 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

On August 20, 2018, a securities class action lawsuit was initiated by purported stockholders of LogMeIn in the U.S. District Court for the Central District of California against us and certain of our officers, entitled *Wasson v. LogMeIn, Inc. et al.*, (Case No. 2:18-cv-07285). The lawsuit asserts claims under Sections 10(b) and 20(a) of the Securities and Exchange Act of 1934 based on alleged misstatements or omissions concerning renewal rates for our subscription contracts. The complaint seeks unspecified damages, fees and costs. We believe the lawsuit lacks merit and intend to defend it vigorously.

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

### Item 1A. Risk Factors

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

## RISKS RELATED TO OUR BUSINESS

Our 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 operating results may fluctuate as a result of a variety of factors, many of which are outside of our control. If our 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 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;
- changes in our pricing policies or those of our competitors;
- our ability to successfully implement strategic business model changes;
- the timing and success of new services, features and upgrades by us or our competitors;
- changes in sales compensation plans or organizational structure;
- the timing of costs related to the development or acquisition of technologies, services or businesses;
- seasonal variations or other cyclicity in the demand for our services;
- general economic, industry and market conditions and those conditions specific to Internet usage and online businesses;

litigation, including class action litigation, involving us and our services or the industry in which we operate, in general;  
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.

43

---



We believe that our revenue and operating results may continue to vary in the future and that period-to-period comparisons of our operating results may not be meaningful.

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.

Cyberattacks 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 cyberattacks 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 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.

Our business strategy continues to contemplate us making strategic acquisitions of, or strategic investments in, complementary businesses, services, technologies and intellectual property rights. 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, 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 unfavorable terms or that we are unable to repay;
- incur large charges or substantial liabilities; and
- become subject to adverse tax consequences, substantial depreciation or deferred compensation charges.

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

- difficulties and delays integrating the employees, culture, technologies, products and systems of the acquired companies;
- an uncertain revenue and earnings stream from the acquired company, which could dilute our earnings;

- being subject to unfavorable revenue recognition or other accounting treatment as a result of an acquired company's practices;
- difficulties retaining the customers of any acquired business due to changes in management or otherwise;
- our ongoing business may be disrupted and our management's attention may be diverted by acquisition, transition or integration activities;
- the potential loss of key employees of the acquired company;
- undetected errors or unauthorized use of a third-party's code in products of the acquired companies;
- unforeseen or unanticipated legal liabilities which are not discovered by due diligence during the acquisition process, including stockholder litigation related to the acquisition, third party intellectual property claims or claims for potential violations of applicable law, rules and regulations, arising from prior or ongoing acts or omissions by the acquired businesses;
- entry into markets in which we have no or limited direct prior experience and where competitors have stronger market positions and which are highly competitive; and
- assuming pre-existing contractual relationships of an acquired company that we would not have otherwise entered into, the termination or modification of which may be costly or disruptive to our business.

If we fail to successfully integrate and manage the companies and technologies we acquire, or if an acquisition does not further our business strategy as expected, 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.

The integration of the GoTo Business presents significant challenges.

On January 31, 2017, we completed our acquisition of the GoTo family of service offerings, or the GoTo Business, from a wholly-owned subsidiary of Citrix Systems, Inc., or Citrix, via a Reverse Morris Trust transaction, which we refer to herein as the Merger.

In connection with the Merger, there is a significant degree of difficulty inherent in the process of integrating the GoTo Business with our company. These difficulties include:

- the integration of the GoTo Business with our current businesses while carrying on the ongoing operations of all businesses;
- managing a significantly larger company than before the consummation of the Merger;
- coordinating geographically separate organizations;
- integrating the business cultures of both companies, which may prove to be incompatible;
- creating uniform standards, controls, procedures, policies and information systems and controlling the costs associated with such matters;
- integrating certain information technology, purchasing, accounting, finance, sales, billing, human resources, payroll and regulatory compliance systems; and
- the potential difficulty in retaining key officers and personnel.

The process of integrating operations could cause an interruption of, or loss of momentum in, the activities in one or more of our businesses. Members of our senior management may be required to devote considerable amounts of time to this integration process, which will decrease the time they will have to manage the business of our company, serve the existing businesses, or develop new products or strategies. If our senior management is not able to effectively manage the integration process, or if any significant business activities are interrupted as a result of the integration process, our business could suffer.

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

Depending upon the facts and circumstances, we may be obligated to indemnify Citrix for certain taxes and certain tax-related losses.

In connection with the Merger, Citrix distributed shares of its GoTo subsidiary to Citrix stockholders on a pro rata basis, which we refer to as the Distribution. The U.S. federal income tax consequences of the Distribution and Merger to Citrix and Citrix stockholders depend

45

---

upon whether the contribution of specified assets and liabilities of the GoTo Business, which we refer to herein as the Contribution and the Distribution, taken together, qualify as a reorganization under Sections 368(a) and 355 of the Internal Revenue Code of 1986, as amended, or the Code, and the Merger qualifies as a reorganization under Section 368(a) of the Code, in each case based on the applicable facts and circumstances that existed on the date of the Distribution and the Merger. If each of the Distribution and Merger so qualify, then (i) Citrix stockholders will generally not recognize any gain or loss for U.S. federal income tax purposes as a result of the Distribution or the Merger, except for any gain or loss attributable to the receipt of cash in lieu of fractional shares of our common stock, and (ii) except for taxable income or gain possibly arising as a result of certain internal reorganization transactions undertaken prior to or in anticipation of the Distribution, Citrix will not recognize any gain or loss. Citrix received a tax opinion in connection with the Contribution and Distribution, which we refer to as the Distribution Tax Opinion, that provides in part that the Contribution and Distribution, taken together, qualify as a reorganization under Sections 368(a)(1)(D) and 355 of the Code. LogMeIn and Citrix have received opinions from our respective outside legal counsel that provide in part that the Merger qualifies as a reorganization under Section 368(a) of the Code. These opinions are not binding on the Internal Revenue Service, or the IRS, or the courts, and the IRS or the courts may not agree with the conclusions reached in these opinions. There can be no assurance that the IRS will not successfully assert that either or both of the Distribution and the Merger are taxable transactions, and that a court will not sustain such assertion, which could result in tax being incurred by Citrix stockholders and Citrix.

Even if the Contribution and Distribution, taken together, otherwise qualify as a reorganization under Sections 368(a) and 355 of the Code, the Distribution will nonetheless be taxable to Citrix (but not to Citrix stockholders) pursuant to Section 355(e) of the Code if 50% or more of the stock of either Citrix or LogMeIn is acquired, directly or indirectly (taking into account our stock acquired by Citrix stockholders in the

Merger), as part of a plan or series of related transactions that includes the Distribution. In that regard, because Citrix stockholders owned more than 50% of our stock immediately following the Merger, the Merger standing alone will not cause the Distribution to be taxable under Section 355(e) of the Code, and the Distribution Tax Opinion so provided. However, if the IRS were to determine that other acquisitions of Citrix stock or our stock are part of a plan or series of related transactions that includes the Distribution, such determination could result in the recognition of gain by Citrix (but not by Citrix stockholders) for U.S. federal income tax purposes, and the amount of taxes on such gain would likely be substantial.

Under the Amended and Restated Tax Matters Agreement that we entered into with Citrix in connection with the Merger, which we refer to as the Tax Matters Agreement, which provides for, among other things, the allocation between Citrix, on the one hand, and LogMeIn, on the other hand, of certain tax assets and liabilities, LogMeIn may be obligated, in certain cases, to indemnify Citrix against taxes and certain tax-related losses on the Distribution that arise as a result of LogMeIn's actions, or failure to act. Any such indemnification obligation would be substantial and would likely have a material adverse effect on us. In addition, even if we are not responsible for tax liabilities of Citrix under the Tax Matters Agreement, LogMeIn nonetheless could be liable under applicable law for such liabilities if Citrix were to pay such taxes.

Under the Tax Matters Agreement, we are restricted from taking certain actions that may adversely affect the intended U.S. federal income tax treatment of the Contribution, the Distribution, the Merger and certain related transactions consummated in connection with Citrix's internal reorganization, and such restrictions may significantly impair our ability to implement strategic initiatives that otherwise would be beneficial.

The Tax Matters Agreement generally restricts us from taking certain actions after the Merger that may adversely affect the intended U.S. federal income tax treatment of the Merger and certain related transactions consummated in connection with Citrix's internal reorganization. Failure to adhere to these restrictions, including in certain circumstances that may be outside of our control, could result in tax being imposed on Citrix for which we could bear responsibility and for which we could be obligated to indemnify Citrix. In addition, even if we are not responsible for tax liabilities of Citrix under the Tax Matters Agreement, we nonetheless could be liable under applicable tax law for

such liabilities if Citrix were to fail to pay such taxes. Because of these provisions in the Tax Matters Agreement, we are restricted from taking certain actions, particularly for the two years following the Merger, including (among other things) the ability to freely issue stock, to make acquisitions and to raise additional equity capital. These restrictions could have a material adverse effect on our liquidity and financial condition, and otherwise could impair our ability to implement strategic initiatives. Also, our indemnity obligation to Citrix might discourage, delay or prevent a change of control that our stockholders may consider favorable.

A significant portion of our historical revenues have come from the sale of remote access and support products and a 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 the sale of remote access and remote support services 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;
- 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.

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 relationship with our customers, deter future customers from subscribing to our services or expose us to further litigation. These costs, monetary or otherwise, associated with defending against third party allegations of infringement could have negative effects on our business, financial condition and operating results.

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

Certain services offered by us enable users to remotely access 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 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.

47

---



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. 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.

The services offered by us are generally sold pursuant to agreements that are one year in duration. 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 free users to paying customers, our revenue and financial results will be harmed.

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

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

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

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 such as WebEx (a division of Cisco Systems), and certain of our services also compete with current or potential services offered by companies like Adobe, AgileBits, Amazon, Apple, BlueJeans Networks, Dashlane, GFI, Google, IBM, KeePass, LivePerson, Microsoft, OKTA, Oracle, Splashtop, TeamViewer and Zoom Video Communications. Our audio services also compete with solutions from 8x8, AT&T, BT, InterCall, PGI, RingCentral, Verizon and Vonage. Many of our actual and potential competitors enjoy competitive advantages over us, such as greater name recognition, longer operating histories, more varied services and larger marketing budgets, as well as substantially greater financial, technical and other resources. In addition, many of our competitors have established marketing relationships, access to larger customer bases and have major distribution agreements with consultants, system integrators and resellers.

If we are unable to compete effectively for any of these reasons, our operating results will be harmed.

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

Our business strategy involves identifying emerging market opportunities which we can capitalize on by successfully developing and introducing new services designed to address those market opportunities. We have made and expect to continue to make significant investments in research and development in an effort to capitalize on potential emerging market opportunities that we have identified. Emerging markets and opportunities often take time to fully develop, and they attract a significant number of competitors. If the emerging markets we have targeted 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 solutions, we may not be able to generate the revenue and earnings we anticipated, and our business and results of operations would be adversely affected.

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.

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 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 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 compliance with applicable credit card processing and documentation standards adopted by the major credit card issuers, 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 small and medium-sized business, or SMB, customers purchase our services online with a credit card, and our business depends substantially upon the 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 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 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 Economic Area, or EEA, 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.

For example, the new EEA-wide General Data Protection Regulation, or GDPR, became applicable on May 25, 2018, replacing the data protection laws of each EEA member state. The GDPR implemented more stringent operational requirements for processors and controllers of personal data, including, for example, expanded disclosures about how personal information is to be used, limitations on retention of information, increased requirements to erase an individual's information upon request, mandatory data breach notification requirements and higher standards for data controllers to demonstrate that they have obtained valid consent for certain data processing activities. It also significantly increases penalties for non-compliance, including where we act as a service provider (e.g. data processor). If our privacy or data security measures fail to comply with applicable current or future laws and regulations, we may be subject to litigation, regulatory investigations, enforcement notices requiring us to change the way we use personal data or our marketing practices, fines, for example, of up to 20 million Euros or up to 4% of the total worldwide annual turnover of the preceding financial year (whichever is higher) under the GDPR, or other liabilities, as well as negative publicity and a potential loss of business.

We are also subject to evolving EEA laws on data export, as we may transfer personal data from the EEA to other jurisdictions. We currently rely upon the EU-U.S. Privacy Shield Framework and Swiss Privacy Shield as a means for legitimizing the transfer of personally identifiable information from the EEA to the United States. However, there is currently litigation against this framework as well as litigation challenging other EU mechanisms for adequate data transfers (e.g. the standard contractual clauses), and it is uncertain whether the Privacy Shield framework and/or the standard contractual clauses will be similarly invalidated by the European courts. We rely on a mixture of mechanisms to transfer data to/from the EEA to the U.S., and we could be impacted by changes in law as a result of the current challenges to these mechanisms in the European courts which may lead to governmental enforcement actions,

litigation, fines and penalties or adverse publicity which could have an adverse effect on our reputation and business.

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 United States 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.

Certain of our services are subject to regulation in the United States and various foreign countries, and future legislative, regulatory or judicial actions could adversely affect our business and expose us to liability.

In the United States, certain of our services are subject to various requirements and regulations of the Federal Communications Commission, or FCC, and state public utility commissions, including, but not limited to, regulations related to privacy, disabilities access, telephone number porting, rural call completion, contributions to federal and state Universal Service Funds, or USFs, regulatory fee payments, emergency call services, obligations under the Communications Assistance for Law Enforcement Act, or CALEA, and other requirements. FCC or state actions, including decisions extending additional regulations and/or classifying other LogMeIn services as regulated services, could result in our incurring additional regulatory obligations that could require us to change the way we conduct our business, increase our operating expenses, or otherwise harm our results of operations. If we fail to comply with applicable rules and regulations, including any future rules and regulations that may be adopted, we could be subject to enforcement actions, fines, loss of licenses, and other restrictions on our ability to operate or offer certain of our services. Any enforcement actions, which may be public, could also hurt our reputation, impair our ability to sell certain services to customers and could have a material adverse effect on our business, financial condition or operating results.

Additionally, as we continue to expand our operations internationally, these services may also be subject to similar country-specific laws and regulations. We may be required to incur additional expenses to meet applicable international regulatory requirements, to obtain special licensing or registrations, or we may be altogether prohibited from providing certain services in certain international countries.

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 to become immediately due and payable or prevent us from borrowing under the facility.

We have a credit agreement with a syndicate of banks pursuant to which we have a \$400 million secured revolving credit facility which is available to us through February 1, 2022, at which time any amounts outstanding will be due and payable in full. On April 2, 2018, we borrowed \$200 million under the credit facility to partially fund our acquisition of Jive Communications, Inc. We may wish to borrow amounts under the facility in the future for general corporate purposes, including, but not limited to, the potential acquisition of complementary products or businesses, and share repurchases, as well as for working capital.

Under our credit agreement, we are, or will be, required to comply with certain financial and operating covenants which will 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 credit 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.

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 their employment 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 than we have 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;
- dependence on certain third parties, including channel partners with whom we do not have extensive experience;
- the burdens of complying with a wide variety of foreign laws and legal standards;
- increased financial accounting and reporting burdens and complexities;
- political, social and economic instability abroad, terrorist attacks and security concerns in general; and
- reduced or varied protection for intellectual property rights in some countries.

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

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 and maintain profitability will be harmed.

If we fail to meet the minimum service level commitments offered to some of our customers, we could be obligated to issue credits for future services or pay penalties to customers, which could significantly harm our revenue.

Some of our current customer agreements provide minimum service level commitments addressing 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.

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 these 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 patent, copyright, service mark, trademark and trade secret laws, as well as confidentiality procedures and contractual restrictions, to establish and protect our intellectual property rights, all of which provide only limited protection. In addition, we have patented certain technologies used to provide our services and have additional patents pending. We cannot assure you that any patents will issue from our currently pending patent applications in a manner that gives us the protection sought, if at all, or that any future patents issued will not be challenged, invalidated or circumvented. Any patents that may issue in the future from pending or future patent applications may not provide sufficiently broad protection or they may not prove to be enforceable in actions against alleged infringers. Also, we cannot assure you that any future service mark or trademark registrations will be issued for pending or future applications or that any registered service marks or trademarks will be enforceable or provide adequate protection of our proprietary rights.

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

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

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

A portion of the technologies 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 that 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 customers;
- loss of existing customers and difficulty in attracting new customers;
- diversion of development resources;
- reputational harm; 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, telecommunications and other communications technologies could harm our business and operating results.

As Internet commerce and telecommunications continue to evolve, increasing regulation by federal, state or foreign governments and agencies becomes more likely. Any increase in regulation 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 or utilizing telecommunications services may also be imposed. Any regulation imposing greater fees for Internet use or restricting the exchange of information over the Internet could diminish the viability of our 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 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.

Given our levels of share-based compensation, our effective tax rate may vary significantly depending on our stock price.

The tax effects of the accounting for share-based awards may significantly impact our effective tax rate from period to period. In periods in which our stock price is higher than the grant price of the share-based awards vested or expired in that period, we will recognize excess tax benefits that will decrease our effective tax rate. For example, in 2017, excess tax benefits recognized from share-based awards resulted in a benefit from income taxes of \$16.0 million. In future periods in which our stock price is lower than the grant price of the share-based awards vested or expired in that period, our effective tax rate may increase. The amount and value of share-based awards vested or expired relative to our earnings in a period will also affect the magnitude of the impact of share-based awards on our effective tax rate. These tax effects are dependent on our stock price, which we do not control, and a decline in our stock price could significantly increase our effective tax rate and adversely affect our financial results.

Uncertainties in the interpretation and application of the Tax Cuts and Jobs Act of 2017 could materially affect our tax obligations and effective tax rate.

The Tax Cuts and Jobs Act of 2017 was enacted on December 22, 2017 and has affected U.S. tax law by changing U.S. federal income taxation of U.S. corporations, including by reducing the U.S. corporate income tax rate, limiting interest deductions, permitting immediate expensing of certain capital expenditures, adopting elements of a territorial tax system, imposing a one-time transition tax, or repatriation tax, on all undistributed earnings and profits of certain U.S.-owned foreign corporations, revising the rules governing net operating losses and the rules governing foreign tax credits, and introducing new anti-base erosion provisions. The U.S. Department of Treasury has broad authority to issue regulations and interpretative guidance that may significantly impact how we will apply the law and impact our results of operations in the period issued.

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

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

Our operating results may be harmed if we are required to collect sales or other related taxes for our subscription services or pay regulatory fees 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, regulatory fees 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 or paying regulatory fees could result in substantial tax liabilities for past sales, discourage customers from purchasing our services or otherwise harm our business and operating results.

Our reported financial results may be adversely affected by changes in accounting principles generally accepted in the United States.

Generally accepted accounting principles in the United States, or GAAP, are subject to interpretation by the Financial Accounting Standards Board, or FASB, the SEC and various bodies formed to promulgate and interpret appropriate accounting principles. A change in accounting principles or interpretations could have a significant effect on our reported financial results for subsequent periods and prior periods, if retrospectively adopted. Additionally, the adoption of new standards may potentially require enhancements or changes in our systems and may require significant time and cost on behalf of our financial management. The prescribed periods of adoption of new standards and other pending changes in accounting principles generally accepted in the United States, are further discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations — Recently Issued Accounting Pronouncements."

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 services;
- continue to expand our development, sales and marketing organizations;

55

---



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 initial public offering in July 2009 through October 22, 2018, our common stock has traded as high as \$134.80 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:

- the success or failure of acquisitions as well as our ability to realize anticipated growth opportunities and other financial and operating benefits therefrom;
- 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;
- 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.

There can be no assurance that we will continue to pay dividends or repurchase stock.

On February 23, 2017, our Board of Directors approved a three-year capital return plan. Pursuant to this plan, we intend to return up to \$700 million to our stockholders through a combination of share repurchases and dividends. As part of this capital return plan, we intend to pay a quarterly cash dividend, subject to quarterly declarations by our Board of Directors. Any future declarations, amount and timing of any dividends and/or the amount and timing of any stock repurchases are subject to capital availability and determinations by our Board of Directors that cash dividends and/or stock repurchases are in the best interest of our stockholders. Our ability to repurchase our shares and/or pay dividends to our stockholders is also subject to our maintaining compliance with our credit facility covenants as well as any potential tax restrictions which may be imposed on us related to the Merger. Our ability to pay dividends and/or repurchase stock will depend upon, among other factors, our cash balances and potential future capital requirements for strategic transactions, including acquisitions, debt service requirements, results of operations, financial condition and other factors beyond our control that our Board of Directors may deem relevant. A reduction in or elimination of our dividend payments, our dividend program and/or stock repurchases could have a negative effect on our stock price.



If securities or industry analysts who cover us, our business or our market 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.

Certain stockholders could attempt to influence changes within the Company which could adversely affect our 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 stockholder 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, and could disrupt our operations and divert the attention of our Board of Directors and senior management from the pursuit of our 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:

- establishing that our Board of Directors is divided into three classes, with each class serving three-year staggered terms;
- 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 our Board of Directors and stockholder meetings;
- providing our Board of Directors with the express power to postpone previously scheduled annual meetings and to cancel previously scheduled special meetings;
- restricting the forum for certain litigation brought against us to Delaware;
- providing our Board of Directors with the exclusive right to determine the number of directors on our Board of Directors and the filling of any vacancies or newly created seats on our Board of Directors; 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 generally prevents certain interested stockholders, including a person who beneficially owns 15% or more of our outstanding common stock, from engaging in certain business combinations with us within three years after the person becomes an interested stockholder unless certain approvals are obtained. 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.

57

---

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) Sales of Unregistered Securities

We did not sell any unregistered securities in the nine months ended September 30, 2018.

(b) Use of Proceeds

We did not receive any proceeds from the sale of unregistered securities in the nine months ended September 30, 2018.

(c) Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum
				Number (or Approximate Dollar Value) of Shares that may yet be Purchased Under the Plans or Programs (1)
July 1, 2018 — July 31, 2018	233,582	\$ 102.55	233,582	\$418,408,962
August 1, 2018 — August 31, 2018	342,371	\$81.86	342,371	\$374,860,331 (2)
September 1, 2018 — September 30, 2018	270,280	\$85.65	270,280	\$351,711,152
Total	846,233	\$88.78	846,233	

(1) On February 23, 2017, our Board of Directors approved a three-year capital return plan, pursuant to which we intend to return to stockholders approximately 75% of our free cash flow over the period, up to \$700 million, through a combination of share repurchases and dividends. Share repurchases under this plan 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 nine months ended September 30, 2018, we repurchased 1,865,106 shares of our common stock.

(2) This amount has been reduced by an additional \$15.5 million which was used by the Company to pay a cash dividend of \$0.30 per share on August 24, 2018 to stockholders of record as of August 8, 2018.

Item 6. Exhibits

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

EXHIBIT INDEX

Exhibit

No.	Description
10.1	<u>Separation Agreement, dated July 23, 2018, by and between the Registrant and Christopher Battles</u>
31.1	<u>Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by Chief Executive Officer.</u>
31.2	<u>Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by Chief Financial Officer.</u>
32.1	<u>Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by Chief Executive Officer.</u>
32.2	<u>Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by Chief Financial Officer.</u>
101	The following materials from LogMeIn, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2018, formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Operations, (iii) the Condensed Consolidated Statements of Comprehensive Income (Loss), (iv) the Condensed Consolidated Statements of Cash Flows, and (v) Notes to Condensed Consolidated Financial Statements.

SIGNATURES

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

LOGMEIN, INC.

Date: October 26, 2018 By: /s/ William R. Wagner  
William R. Wagner  
President & Chief Executive Officer  
(Principal Executive Officer)

Date: October 26, 2018 By: /s/ Edward K. Herdiech  
Edward K. Herdiech  
Chief Financial Officer  
(Principal Financial Officer)