LogMeIn, Inc.
Form 10-Q
April 28, 2011

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2011

OR

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

For the transition period from __________ to __________

Commission file number: 001-34391

LOGMEIN, INC.

(Exact name of registrant as specified in its charter)

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

781-638-9050

(Registrant s telephone number, including area code)

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

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

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

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

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

As of April 22, 2011, there were 24,052,007 shares of the registrant s Common Stock, par value $.01 per share, outstanding.

LOGMEIN, INC.
INDEX

Table of Contents

Part I. Financial Information
Item 1. Financial Statements

LogMeIn, Inc.
Condensed Consolidated Balance Sheets

	December 31, 2010	March 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 77,279,987	$ 86,081,727
Marketable securities	90,144,484	90,133,823
Accounts receivable (net of allowance for doubtful accounts of $111,000 as of December 31, 2010 and March 31, 2011)	4,744,392	5,873,614
Prepaid expenses and other current assets (including $9,000 and $0 of non-trade receivable due from related party at December 31, 2010 and March 31, 2011, respectively)	2,905,618	2,440,586
Deferred income tax assets	1,315,529	1,326,923
Total current assets	176,390,010	185,856,673
Property and equipment, net	6,198,487	6,448,220
Restricted cash	350,481	389,201
Intangibles, net	577,815	532,188
Goodwill	615,299	615,299
Other assets	27,019	62,219
Deferred income tax assets	2,518,158	2,519,356
Total assets	$ 186,677,269	$ 196,423,156
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 2,176,390	$ 4,849,366
Accrued liabilities	10,829,310	9,812,013
Deferred revenue, current portion	41,763,138	46,177,082
Total current liabilities	54,768,838	60,838,461
Deferred revenue, net of current portion	1,030,017	1,390,037
Other long-term liabilities	500,156	459,669
Total liabilities	56,299,011	62,688,167
Commitments and contingencies (Note 8)		
Preferred stock, $0.01 par value 5,000,000 shares authorized, 0 shares outstanding as of December 31, 2010 and March 31, 2011		
Stockholders equity:		
Common stock, $0.01 par value 75,000,000 shares authorized as of December 31, 2010 and March 31, 2011; 23,858,514 and 24,021,282 shares outstanding as of December 31, 2010 and March 31, 2011, respectively	238,585	240,213
Additional paid-in capital	133,425,098	136,290,131
Accumulated deficit	(3,084,316)	(3,149,563)

Accumulated other comprehensive income (loss)	(201,109)	354,208
Total stockholders equity	130,378,258	133,734,989
Total liabilities and stockholders equity	$ 186,677,269	$ 196,423,156

See notes to condensed consolidated financial statements.

Table of Contents

LogMeIn, Inc.
Condensed Consolidated Statements of Operations

	Three Months Ended March 31,	
	2010	**2011**
Revenue (including $1,487,000 and $0 from a related party during the three months ended March 31, 2010 and 2011, respectively)	$ 21,324,800	$ 27,038,779
Cost of revenue	2,220,163	2,536,136
Gross profit	19,104,637	24,502,643
Operating expenses		
Research and development	3,553,797	4,317,779
Sales and marketing	9,840,481	12,986,109
General and administrative	2,803,357	6,058,690
Legal settlements		1,250,000
Amortization of acquired intangibles	81,929	92,034
Total operating expenses	16,279,564	24,704,612
Income (loss) from operations	2,825,073	(201,969)
Interest income, net	114,142	210,712
Other expense	(64,037)	(108,811)
Income (loss) before income taxes	2,875,178	(100,068)
(Provision) benefit for income taxes	(139,159)	34,821
Net income (loss)	$ 2,736,019	$ (65,247)
Net income (loss) per share:		
Basic	$ 0.12	$ 0.00
Diluted	$ 0.11	$ 0.00
Weighted average shares outstanding:		
Basic	22,643,963	23,928,310
Diluted	24,350,845	23,928,310

See notes to condensed consolidated financial statements.

Table of Contents

LogMeIn, Inc.
Condensed Consolidated Statements of Cash Flows

	Three Months Ended March 31, 2010	2011
Cash flows from operating activities		
Net income (loss)	$ 2,736,019	$ (65,247)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation and amortization	941,530	1,004,987
Amortization of premium on investments	33,913	59,105
Provision for bad debts	30,000	14,050
Provision for deferred income taxes	4,000	(12,461)
Stock-based compensation	1,026,799	1,745,494
Gain on disposal of equipment	(1,238)	(178)
Changes in assets and liabilities:		
Accounts receivable	780,568	(1,143,272)
Prepaid expenses and other current assets	204,340	465,032
Other assets	(27,901)	(35,200)
Accounts payable	281,745	2,634,892
Accrued liabilities	(842,522)	(1,006,483)
Deferred revenue	2,265,579	4,773,964
Other long-term liabilities	(50,371)	(40,487)
Net cash provided by operating activities	7,382,461	8,394,196
Cash flows from investing activities		
Purchases of marketable securities	(55,331,450)	(30,076,850)
Proceeds from sale or disposal of marketable securities	25,000,000	30,000,000
Purchases of property and equipment	(365,001)	(1,117,622)
Intangible asset additions		(61,738)
Increase in restricted cash and deposits		(25,569)
Net cash used in investing activities	(30,696,451)	(1,281,779)
Cash flows from financing activities		
Payments of issuance costs related to secondary offering of common stock	(210,394)	
Proceeds from issuance of common stock upon option exercises	1,350,413	1,117,686
Net cash provided by financing activities	1,140,019	1,117,686
Effect of exchange rate changes on cash and cash equivalents and restricted cash	(133,907)	571,637
Net increase (decrease) in cash and cash equivalents	(22,307,878)	8,801,740
Cash and cash equivalents, beginning of period	100,290,001	77,279,987
Cash and cash equivalents, end of period	$ 77,982,123	$ 86,081,727

Supplemental disclosure of cash flow information				
Cash paid for interest	$	228	$	118
Cash paid for income taxes	$	16,626	$	23,736
Noncash investing and financing activities				
Purchases of property and equipment included in accounts payable and accrued liabilities	$	817,709	$	418,055
Deferred stock offering costs included in accounts payable and accrued liabilities	$	18,493	$	

See notes to condensed consolidated financial statements.

4

Table of Contents

LogMeIn, Inc.
Notes to Condensed Consolidated Financial Statements

1. Nature of the Business

LogMeIn, Inc. (the Company) develops and markets a suite of remote access, remote support, and collaboration solutions that provide instant, secure connections between Internet enabled devices. The Company s product line includes Gravity™, LogMeIn Free®, LogMeIn Pro²®, LogMeIn® Central™, LogMeIn Rescue®, LogMeIn® Rescue+Mobile™, LogMeIn Backup®, LogMeIn® Ignition SM™, LogMeIn Hamachi²®, join.me™ and RemotelyAnywhere®. The Company is based in Woburn, Massachusetts with wholly-owned subsidiaries in Hungary, The Netherlands, Australia, England and Brazil.

2. Summary of Significant Accounting Policies

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

Unaudited Interim Condensed Consolidated Financial Statements The accompanying condensed consolidated financial statements and the related interim information contained within the notes to the condensed consolidated financial statements are unaudited and have been prepared in accordance with GAAP and applicable rules and regulations of the Securities and Exchange Commission for interim financial information. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. The accompanying unaudited condensed consolidated financial statements should be read along with the Company s audited financial statements included in the Company s Annual Report on Form 10-K, filed with the Securities and Exchange Commission on February 28, 2011. The unaudited interim condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and in the opinion of management, reflect all adjustments, consisting of normal and recurring adjustments, necessary for the fair presentation of the Company s financial position, results of operations and cash flows for the interim periods presented. The results for the interim periods presented are not necessarily indicative of future results. The Company considers events or transactions that occur after the balance sheet date but before the financial statements are issued to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure.

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

Marketable Securities The Company s marketable securities are classified as available-for-sale and are carried at fair value with the unrealized gains and losses, net of tax, reported as a component of accumulated other comprehensive income in stockholders equity. Realized gains and losses and declines in value judged to be other than temporary are included as a component of earnings based on the specific identification method. Fair value is determined based on quoted market prices. At December 31, 2010 and March 31, 2011, marketable securities consisted of U.S. government agency securities that have remaining maturities within two years and have an aggregate amortized cost of $90,119,605 and $90,137,350 and an aggregate fair value of $90,144,484 and $90,133,823, including $65,136 and $52,183 of unrealized gains and $40,257 and $55,711 of unrealized losses, respectively.

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

Revenue from the Company s LogMeIn premium services is recognized on a daily basis over the subscription term as the services are delivered, provided that there is persuasive evidence of an arrangement, the fee is fixed or determinable and collectability is deemed reasonably assured. Subscription periods range from monthly to four years, but are generally one year in duration. The Company s software cannot be run on another entity s hardware nor do customers have the right to take possession of the software and use it on their own or another entity s hardware.

The Company recognizes revenue from the bundled delivery of its RemotelyAnywhere software product and related maintenance ratably, on a daily basis, over the term of the maintenance contract, generally one year, when there is persuasive evidence of an arrangement, the product has been provided to the customer, the collection of the fee is probable, and the amount of fees to be paid by the customer is fixed or determinable. The Company currently does not have vendor-specific objective evidence for the fair value of its maintenance arrangements and therefore the license and maintenance are bundled together. The Company recognizes revenue from the sale of its Ignition for iPhone, iPad and Android software product which is sold as a perpetual license and is recognized when there is persuasive evidence of an arrangement, the product has been provided to the customer, the collection of the fee is probable, and the amount of fees to be paid by the customer is fixed or determinable.

The Company s multi-element arrangements typically include multiple deliverables by the Company such as subscription and professional services, including development services. Agreements with multiple element deliverables are analyzed to determine if fair value exists for each element on a stand-alone basis. If the fair value of each deliverable is determinable using objective evidence or best estimate selling price, then revenue is recognized separately when or as the services are delivered, or if applicable, when milestones associated with the deliverable are achieved and accepted by the customer. If the fair value of any of the undelivered performance obligations cannot be determined, the arrangement is accounted for as a single element and the Company recognizes revenue on a straightline basis over the period in which the Company expects to complete its performance obligations under the agreement.

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

As of March 31, 2011, one customer accounted for 17% of accounts receivable, and no customers accounted for more than 10% of revenue for the three months ended March 31, 2010 or 2011. At December 30, 2010, there was one customer that accounted for 14% of accounts receivable.

Foreign Currency Translation The functional currency of operations outside the United States of America is deemed to be the currency of the local country. Accordingly, the assets and liabilities of the Company s foreign subsidiaries are translated into United States dollars using the period-end exchange rate, and income and expense items are translated using the average exchange rate during the period. Cumulative translation adjustments are reflected as a separate component of stockholders equity. Foreign currency transaction gains and losses are charged to operations. The Company had foreign currency losses of approximately $64,000 and $109,000 for the three months ended March 31, 2010 and 2011, respectively.

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

Income Taxes Deferred income taxes are provided for the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, and operating loss carry-forwards and credits using enacted tax rates expected to be in effect in the years in which the differences are expected to reverse. At each balance sheet date, the Company assesses the likelihood that deferred tax assets will be realized, and recognizes a valuation allowance if it is more likely than not that some portion of the deferred tax assets will not be realized. This assessment requires judgment as to the likelihood and amounts of future taxable income by tax jurisdiction. As of December 31, 2010 and March 31, 2011, the Company maintained a full valuation allowance related to the deferred tax assets of its Hungarian subsidiary due to its historical net losses.

The Company evaluates its uncertain tax positions based on a determination of whether and how much of a tax benefit taken by the Company in its tax filings or positions is more likely than not to be realized. Potential interest and penalties associated with any uncertain tax positions are recorded as a component of income tax expense. Through March 31, 2011, the Company has not identified any material uncertain tax positions for which liabilities would be required.

Comprehensive Income Comprehensive income is the change in stockholders equity during a period relating to transactions and other events and circumstances from non-owner sources and currently consists of net income (loss), foreign currency translation adjustments and unrealized gains and losses on available-for-sale securities. Comprehensive income was calculated as follows:

	Three Months Ended March 31,	
	2010	**2011**

Net income (loss)	$ 2,736,019	$ (65,247)
Cumulative translation adjustments	(143,593)	572,460
Unrealized gain on available-for-sale securities	(14,420)	(17,143)
Comprehensive income	$ 2,578,006	$ 490,070

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

The Company excluded 809,575 and 2,939,422 of options to purchase common shares from the computation of diluted net income (loss) per share for the three months ended March 31, 2010 and 2011, respectively, either because they had an anti-dilutive impact or because the Company had a net loss in the period.

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

	Three Months Ended March 31, 2010
Basic:	
Net income	$ 2,736,019
Weighted average common shares outstanding, basic	22,643,963
Net income, basic	$ 0.12
Diluted:	
Net income	$ 2,736,019
Weighted average common shares outstanding	22,643,963
Add: Options to purchase common shares	1,706,882
Weighted average common shares outstanding, diluted	24,350,845
Net income, diluted	$ 0.11

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

Recently Issued Accounting Pronouncements In October 2009, an update was made to *Revenue Recognition Multiple Deliverable Revenue Arrangements.* This update removes the objective-and-reliable-evidence-of-fair-value criterion from the separation criteria used to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting, replaces references to fair value with selling price to distinguish from the fair value measurements required under the *Fair Value Measurements and Disclosures* guidance, provides a hierarchy that entities must use to estimate the selling price, eliminates the use of the residual method for allocation, and expands the ongoing disclosure requirements. The effect of adoption of this standard has only impacted our financial statement disclosure to comply with the additional disclosure requirements as described in Note 2 to the condensed consolidated financial statements. The implementation of this guidance did not have a material impact on our consolidated financial position, results of operations or cash flows.

3. Fair Value of Financial Instruments

The carrying value of the Company s financial instruments, including cash equivalents, restricted cash, accounts receivable, and accounts payable, approximate their fair values due to their short maturities. The Company s financial assets and liabilities are measured using

7

inputs from the three levels of the fair value hierarchy. A financial asset or liability s classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement. The three levels are as follows:

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

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

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

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

		Basis of Fair Value Measurements		
	Balance	Quoted Prices in Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Balance at December 31, 2010				
Cash equivalents money market funds	$48,074,441	$48,074,441	$	$
Cash equivalents bank deposits	5,022,089		5,022,089	
Short-term marketable securities U.S. government agency securities	90,144,484	90,144,484		
Balance at March 31, 2011				
Cash equivalents money market funds	$48,293,829	$48,293,829	$	$
Cash equivalents bank deposits	5,025,591		5,025,591	
Short-term marketable securities U.S. government agency securities	90,133,823	90,133,823		

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

4. Intangible Assets

Acquired intangible assets consist of the following:

		December 31, 2010			March 31, 2011		
	Estimated Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Identifiable intangible assets:							
Trademark	5 years	$ 635,506	$ 563,105	$ 72,401	$ 635,506	$ 594,880	$ 40,626
Customer base	5 years	1,003,068	888,791	114,277	1,003,068	938,944	64,124
Domain names		202,120	10,038	192,082	202,107	20,143	181,964

	5 years						
Software	4 years	298,977	298,977		298,977	298,977	
Technology	4 years	1,361,900	1,361,900		1,361,900	1,361,900	
Internally developed software	3 years	213,942	14,887	199,055	275,693	30,219	245,474
		$ 3,715,513	$ 3,137,698	$ 577,815	$ 3,777,251	$ 3,245,063	$ 532,188

8

Table of Contents

The Company capitalized $61,751 of costs related to internally developed computer software to be sold as a service incurred during the application development stage during the three months ended March 31, 2011 and is amortizing these costs over the expected lives of the related services. No amounts were capitalized during the three months ended March 31, 2010 as the costs incurred during the period were immaterial.

The Company is amortizing the intangible assets on a straight-line basis over the estimated useful lives noted above. Amortization expense for intangible assets was $185,733 and $107,365 for the three months ended March 31, 2010 and 2011, respectively. Amortization relating to software, technology and internally developed software is recorded within cost of revenues and the amortization of trademark, customer base, and domain names is recorded within operating expenses. Future estimated amortization expense for intangible assets is as follows at March 31, 2011:

Amortization Expense (Years Ending December 31)	**Amount**
2011	$ 203,999
2012	132,331
2013	117,444
2014	48,085
2015	30,329

5. Accrued Expenses

Accrued expenses consisted of the following:

	December 31, 2010	**March 31, 2011**
Marketing programs	$ 3,265,692	$ 2,069,731
Payroll and payroll related	4,535,322	2,940,553
Professional fees	745,834	1,228,635
Legal settlements (see Note 8)		1,250,000
Other accrued liabilities	2,282,462	2,323,094
Total accrued expenses	$ 10,829,310	$ 9,812,013

6. Income Taxes

The Company recorded a benefit for federal, state and foreign income taxes of approximately $35,000 for the three months ended March 31, 2011. The Company s tax provision for the three months ended March 31, 2010 primarily consists of alternative minimum taxes and foreign income taxes, as well as a deferred provision related to the book and tax basis differences of goodwill. During the three months ended March 31, 2010, the Company maintained a full valuation allowance against all of its net deferred tax assets. However, the Company reversed the valuation allowance against primarily all of its net deferred tax assets at June 30, 2010 and therefore its tax provision and effective tax rate has increased year-over-year.

Deferred income taxes are provided for the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, and operating loss carry-forwards and credits using enacted tax rates expected to be in effect in the years in which the differences are expected to reverse. At each balance sheet date, the Company assesses the likelihood that deferred tax assets will be realized, and recognizes a valuation allowance if it is more likely than not that some portion of the deferred tax assets will not be realized. This assessment requires judgment as to the likelihood and amounts of future taxable income by tax jurisdiction. As of December 31, 2010 and March 31, 2011, the Company maintained a full valuation allowance related to the deferred tax assets of its Hungarian subsidiary.

The Company files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. The Company s income tax returns since inception are open to examination by federal, state, and foreign tax authorities. The Company has no amount recorded for any unrecognized tax benefits as of December 31, 2010 or March 31, 2011. The Company s policy is to record estimated interest and penalty related to the underpayment of income taxes or unrecognized tax benefits as a component of its income tax provision. During the three months ended March 31, 2010 and 2011, the Company did not recognize any interest or penalties in its statements of operations, and there are no accruals for interest or penalties at December 31, 2010 or March 31, 2011.

The Company has performed an analysis of its ownership changes as defined by Section 382 of the Internal Revenue Code and has determined that an ownership change as defined by Section 382 occurred in October 2004 and March 2010 resulting in approximately $219,000 and $12,800,000, respectively, of net operating losses (NOLs) being subject to limitation. As of December 31, 2010 and March 31, 2011, the Company believes all NOLs generated by the Company, including those subject to limitation, are available for utilization given the Company s large annual limitation amount. Subsequent ownership changes as defined by Section 382 could potentially limit the amount of net operating loss carry-forwards that can be utilized annually to offset future taxable income.

7. Stock Option Plans

On June 9, 2009, the Company s Board of Directors approved the 2009 Stock Incentive Plan (the 2009 Plan) which became effective upon the closing of the Company s initial public offering, or IPO. A total of 800,000 shares of common stock, subject to increase on an annual basis, were reserved for future issuance under the 2009 Plan. Shares of common stock reserved for issuance under the 2007 Stock Incentive Plan that remained available for issuance at the time of effectiveness of the 2009 Plan and any shares of common stock subject to awards under the 2007 Plan that expire, terminate, or are otherwise forfeited, canceled, or repurchased by the Company were added to the number of shares available under the 2009 Plan. The 2009 Plan is administered by the Board of Directors and Compensation Committee, which have the authority to designate participants and determine the number and type of awards to be granted, the time at which awards are exercisable, the method of payment and any other terms or conditions of the awards. Options generally vest over a four-year period and expire ten years from the date of grant. Certain

Table of Contents

options provide for accelerated vesting if there is a change in control. On January 1, 2010, subject to the provisions of the 2009 Plan, 448,996 shares were added to the shares available for grant under the 2009 Plan. On May 27, 2010, the Company s stockholders approved a 2,000,000 share increase to the shares available for grant under the 2009 Plan and removed the annual automatic share increase provision from the 2009 Plan. There were 1,760,803 shares available for grant under the 2009 Plan as of March 31, 2011.

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

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

	Three Months Ended March 31,	
	2010	2011
Expected dividend yield	0.00%	0.00%
Risk-free interest rate	2.46%	2.28%
Expected term (in years)	6.25	5.56-6.25
Volatility	75%	60%

The following table summarizes stock option activity, including performance-based options:

	Number of Shares	**Weighted Average Exercise Price**	**Weighted Average Remaining Contractual Term (Years)**	**Aggregate Intrinsic Value**
Outstanding, January 1, 2011	2,564,315	$ 12.76	7.3	$ 80,983,495
Granted	649,550	40.07		
Exercised	(162,768)	7.17		$ 5,068,951
Forfeited	(111,675)	28.26		
Outstanding, March 31, 2011	2,939,422	$ 18.51	7.6	$ 69,503,812
Exercisable at December 31, 2010	1,246,838	$ 5.36	5.7	$ 48,600,697
Exercisable at March 31, 2011	1,331,187	$ 7.18	5.7	$ 46,570,232

The aggregate intrinsic value was calculated based on the positive differences between the estimated fair value of the Company s common stock on December 31, 2010, of $44.34, and $42.16 per share on March 31, 2011, or at time of exercise, and the exercise price of the options.

The weighted average grant date fair value of stock options issued or modified was $14.63 per share for the year ended December 31, 2010, and $23.09 for the three months ended March 31, 2011.

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

Table of Contents

	Three Months Ended, March 31,	
	2010	2011
Cost of revenue	$ 32,170	$ 89,052
Research and development	135,963	280,116
Sales and marketing	235,520	562,535
General and administrative	623,146	813,791
	$ 1,026,799	$ 1,745,494

As of March 31, 2011, there was approximately $23,415,000 of total unrecognized share-based compensation cost, net of estimated forfeitures, related to unvested stock option grants which are expected to be recognized over a weighted average period of 3.2 years. The total unrecognized share-based compensation cost will be adjusted for future changes in estimated forfeitures.

Of the total stock options issued subject to the plans, certain stock options have performance-based vesting. These performance-based options granted during 2004 and 2007 were granted at-the-money, contingently vest over a period of two to four years depending upon the nature of the performance goal, and have a contractual life of ten years. The performance-based stock option activity is summarized below:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding, January 1, 2011	532,932	$ 1.25	4.6	$ 22,964,040
Granted				
Exercised	(30,000)	1.25		1,143,000
Forfeited				
Outstanding, March 31, 2011	502,932	1.25	4.3	20,574,948
Exercisable at December 31, 2010	532,932	1.25	4.6	22,964,040
Exercisable at March 31, 2011	502,932	1.25	4.3	20,574,948

The aggregate intrinsic value was calculated based on the positive differences between the estimated fair value of the Company s common stock on December 31, 2010, of $44.34 per share, and $42.16 per share on March 31, 2011, or at the time of exercise, and the exercise price of the options.

8. Commitments and Contingencies

Operating Leases The Company has operating lease agreements for offices in Massachusetts, Hungary, The Netherlands, Australia and England that expire in 2012 through 2016. The lease agreement for the Massachusetts office requires a security deposit of $125,000 in the form of a letter of credit which is collateralized by a certificate of deposit in the same amount. The lease agreement for one of the Company s Hungarian offices requires a security deposit, which totaled approximately $239,068 (170,295 Euro) at March 31, 2011. The lease for the Company s Australian office requires a bank guarantee which totaled $25,133 (24,375 AUD) at March 31, 2011, whereby the bank agrees to pay the lessor this amount should the Company default under the terms of the lease. The certificate of deposit, the security deposit and bank guarantee are classified as restricted cash. The Netherlands and Budapest, Hungary leases contain termination options which allow the Company to terminate the leases pursuant to certain lease provisions.

In February 2011, the Company entered into a lease for new office space for its Australian office. The term of the new office space began in February 2011 and extends through January 2014. The approximate annual lease payments for the new office space are $91,000.

In April 2011, the Company entered into a lease for new office space for its England office. The term of the new office space began in April 2011 and extends through April 4, 2016. The approximate annual lease payments for the new office space are $231,000. The lease contains a termination option which allows the Company to terminate the lease pursuant to certain lease provisions.

Table of Contents

Rent expense under all leases was approximately $518,000 and $660,000 for the three months ended March 31, 2010 and 2011, respectively. The Company records rent expense on a straight-line basis for leases with scheduled escalation clauses or free rent periods.

The Company also enters into hosting services agreements with third-party data centers and internet service providers that are subject to annual renewal. Hosting fees incurred under these arrangements aggregated approximately $359,000 and $496,000 for the three months ended March 31, 2010 and 2011, respectively.

Future minimum lease payments under non-cancelable operating leases including one year commitments associated with the Company s hosting services arrangements are approximately as follows at March 31, 2011:

Years Ending December 31	
2011 (nine months ending December 31)	$ 3,040,000
2012	2,912,000
2013	1,432,000
2014	375,000
2015	231,000
Thereafter	58,000
Total minimum lease payments	$ 8,048,000

Litigation On September 8, 2010, 01 Communique Laboratory, Inc., or 01, filed a complaint that named the Company as a defendant in a lawsuit in the U.S. District Court for the Eastern District of Virginia (Civil Action No. 1:10cv1007). The Company received service of the complaint on September 10, 2010. The complaint alleged that the Company infringed U.S. Patent No. 6,928,479, which allegedly is owned by 01 and has claims directed to a particular application or system for providing a private communication portal from one computer to a second computer. The complaint sought damages in an unspecified amount and injunctive relief. On April 1, 2011, the U.S. District Court for the Eastern District of Virginia granted the Company's motion for summary judgment of non-infringement and the trial tentatively scheduled for the second quarter of 2011 was removed from the court s calendar. The Company expects the court will issue a written order regarding this decision. 01 has indicated that it intends to appeal the court's ruling granting summary judgment.

On November 3, 2010, Gemini IP LLC, or Gemini, filed a complaint that named the Company as a defendant in a lawsuit in the U.S. District Court for the Eastern District of Texas (Civil Action No. 4:07-cv-521). The Company received service of the complaint on November 10, 2010. The complaint alleged that the Company infringed U.S. Patent No. 6,117,932, which allegedly is owned by Gemini and has claims related to a system for operating an IT helpdesk. The complaint sought damages in an unspecified amount and injunctive relief. On April 25, 2011, the Company and Gemini entered into a License Agreement which granted the Company a fully-paid license that covers the patent at issue in the action and mutually released each party from all claims. The Company paid Gemini a one-time licensing fee of $1,250,000 in connection with the License Agreement. As a result, the Company expects the action to be dismissed by the court in May 2011.

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.

Other Contingencies The Company was contacted by a representative from a state tax assessor s office requesting remittance of uncollected sales taxes. The Company does not believe it was responsible for collecting sales taxes in this state and is investigating this request and intends to vigorously defend this position. If the Company does not prevail in its position, uncollected sales taxes due for the period from 2005 to the present could amount to approximately $1.1 million excluding interest or penalties.

9. Related Party Transactions

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

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

At December 31, 2010 and March 31, 2011, Intel owed the Company approximately $9,000 and $0, respectively, recorded as a non-trade receivable relating to this agreement. The Company recognized approximately $1,487,000 and $0 of net revenue relating to these agreements for the three months ended March 31, 2010 and 2011, respectively. As of December 31, 2010 and March 31, 2011, the Company had recorded $0 related to this agreement as deferred revenue.

Table of Contents

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 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, 2010 included in our Annual Report on Form 10-K , filed with the Securities and Exchange Commission, or SEC, on February 28, 2011. 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 provides SaaS-based, on-demand, remote-connectivity, collaboration and support solutions to SMBs, IT service providers, mobile carriers, and consumers. Businesses and IT service providers use our solutions to deliver remote, end-user support and to access and manage computers and other Internet-enabled devices more effectively and efficiently from a remote location, or remotely. Consumers and mobile workers use our remote connectivity solutions to access computer resources remotely and to collaborate with other users, thereby facilitating their mobility and increasing their productivity. SMBs and mobile professionals use our solutions to meet online and quickly collaborate on projects. Our solutions, which are deployed and accessed from anywhere through a web browser, or on-demand, are secure, scalable and easy for our customers to try, purchase and use.

We offer three free services and nine premium services. Sales of our premium services are generated through word-of-mouth referrals, web-based advertising, expiring free trials that we convert to paid subscriptions and direct marketing to new and existing customers.

We derive our revenue principally from subscription fees from SMBs, IT service providers, mobile carriers and consumers. The majority of our customers subscribe to our services on an annual basis. Our revenue is driven primarily by the number and type of our premium services for which our paying customers subscribe. For the three months ended March 31, 2011, we generated revenues of $27.0 million, compared to $21.3 million for the three months ended March 31, 2010, an increase of approximately 27%. In fiscal 2010, we generated revenues of $101.1 million.

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 set forth in Part II, Item 1A of this Quarterly Report on Form 10-Q and elsewhere in this report.

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

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

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

Sources of Revenue

We derive our revenue principally from subscription fees from SMBs, IT service providers, mobile carriers and consumers. Our revenue is driven primarily by the number and type of our premium services for which our paying customers subscribe and is not concentrated within one customer or group of customers. The majority of our customers subscribe to our services on an annual basis and pay in advance, typically with a credit card, for their subscription. A smaller percentage of our customers subscribe to our services on a monthly basis through either month-to-month commitments or annual commitments that are then paid monthly with a credit card. We initially record a subscription fee as deferred revenue and then recognize it ratably, on a daily basis, over the life of the subscription period. Typically, a subscription automatically renews at the end of a subscription period unless the customer specifically terminates it prior to the end of the period.

In addition to our subscription fees, to a lesser extent, we also generate revenue from license and annual maintenance fees from the licensing of our RemotelyAnywhere product. We license RemotelyAnywhere to our customers on a perpetual basis. Because we do not have vendor specific objective evidence of fair value, or VSOE, for our maintenance arrangements, we record the initial license and maintenance fee as deferred revenue and recognize the fees as revenue ratably, on a daily basis, over the initial maintenance period. We also initially record maintenance fees for subsequent maintenance periods as deferred revenue and recognize revenue ratably, on a daily basis, over the maintenance period. We also generate revenue from the license of our Ignition for iPhone, iPad and Android product which is sold as a perpetual license and is recognized as delivered. Revenue from RemotelyAnywhere, Ignition for iPhone, iPad and Android represented approximately 7% of our revenue for the three months ended March 31, 2011.

Employees

We have increased our number of full-time employees to 417 at March 31, 2011 as compared to 415 at December 31, 2010 and 353 at March 31, 2010.

Cost of Revenue and Operating Expenses

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

Cost of Revenue. Cost of revenue consists primarily of costs associated with our data center operations and customer support centers, including wages and benefits for personnel, telecommunication and hosting fees for our services, equipment maintenance, maintenance and license fees for software licenses and depreciation. Additionally, amortization expense associated with the acquired software and technology as well as internally developed software is included in cost of revenue. The expenses related to hosting our services and supporting our free and premium customers is related to the number of customers who subscribe to our services and the complexity and redundancy of our services and hosting infrastructure. We expect these expenses to increase in absolute dollars as we continue to increase our number of customers over time but, in total, to remain relatively constant as a percentage of revenue.

Research and Development. Research and development expenses consist primarily of wages and benefits for development personnel, professional fees associated with outsourced development projects and depreciation associated with assets used in development. We have focused our research and development efforts on both improving ease of use and functionality of our existing services, as well as developing new offerings. The majority of our research and development employees are located in our development centers in Hungary. Therefore, a majority of research and development expense is subject to fluctuations in foreign exchange rates. During the three months ended

March 31, 2011, we capitalized approximately $0.1 million of costs related to internally developed computer software to be sold as a service, which was incurred during the application development stage. No amounts were capitalized for the three months ended March 31, 2010 as the costs incurred during such stage were immaterial. As a result, the majority of research and development costs have been expensed as incurred. We expect that research and development expenses will increase in both absolute dollars and as a percentage of revenue as we continue to enhance and expand our services.

Sales and Marketing. Sales and marketing expenses consist primarily of online search and advertising costs, wages, commissions and benefits for sales and marketing personnel, offline marketing costs such as media advertising and trade shows, professional fees and credit card processing fees. Online search and advertising costs consist primarily of pay-per-click payments to search engines and other online advertising media such as banner ads. Offline marketing costs include radio and print advertisements as well as the costs to create and produce these advertisements, and tradeshows, including the costs of space at tradeshows and costs to design and construct tradeshow booths. Advertising costs are expensed as incurred. In order to continue to grow our business and awareness of our services, we expect that we will continue to

Table of Contents

commit resources to our sales and marketing efforts. We expect that sales and marketing expenses will increase in absolute dollars but decrease as a percentage of revenue over time as our revenue increases.

General and Administrative. General and administrative expenses consist primarily of wages and benefits for management, human resources, internal IT support, finance and accounting personnel, professional fees, insurance and other corporate expenses. We expect that general and administrative expenses will decrease significantly primarily due to a reduction in the legal costs associated with our defense against the patent infringement claims made by 01 Communique. Additionally, general and administrative expenses will increase as we continue to add personnel, enhance our internal information systems to align with the growth of our business and expenses related to audit, accounting and insurance costs. We expect that our general and administrative expenses will significantly decrease in both absolute dollars and as a percentage of revenue when compared to the quarter ended March 31, 2011 and in increase in absolute dollars but remain constant as a percentage of revenue as compared to prior historical quarters.

Critical Accounting Policies

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

Revenue recognition;

Income taxes;

Stock-based compensation; and

Loss contingencies.

During the three months ended March 31, 2011, there were no significant changes in our critical accounting policies or estimates. See Notes 2, 6, 7 and 8 to our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q and included in our Annual Report on Form 10-K for the year ended December 31, 2010, as filed with the SEC on February 28, 2011, for additional information about these critical accounting policies, as well as a description of our other significant accounting policies.

Results of Consolidated Operations

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

	Three Months Ended March 31,	
	2010	**2011**
Revenue	100%	100%
Cost of revenue	10	9
Gross profit	90	91
Operating expenses:		
Research and development	17	16
Sales and marketing	46	48

General and administrative	13	22
Legal settlements		5
Amortization of acquired intangibles		
Total operating expenses	76	91
Income (loss) from operations	13	
Interest and other (income) expense, net		
Income (loss) before provision for income taxes	13	
(Provision) benefit for income taxes		
Net income (loss)	13%	%

Three Months Ended March 31, 2011 and 2010

15

Revenue. Revenue for the three months ended March 31, 2011 was $27.0 million, an increase of $5.7 million, or 27%, over revenue of $21.3 million for the three months ended March 31, 2010. Of the 27% increase in revenue, the majority of the increase was due to an increase in revenue from new customers, as our total number of premium accounts increased to approximately 685,000 at March 31, 2011 from approximately 340,000 premium accounts at March 31, 2010, and incremental add-on revenues from our existing customer base. Included in the revenue for the three months ended March 31, 2010 was $1.5 million related to the service and marketing agreement with Intel compared to $0 for the three months ended March 31, 2011.

Cost of Revenue. Cost of revenue for the three months ended March 31, 2011 was $2.5 million, an increase of $0.3 million, or 14%, over cost of revenue of $2.2 million for the three months ended March 31, 2010. As a percentage of revenue, cost of revenue was 9% and 10% for the three months ended March 31, 2011 and 2010, respectively. The increase in absolute dollars resulted primarily from an increase in both the number of customers using our premium services and the total number of devices that connected to our services, including devices owned by free users, which resulted in increased hosting and customer support costs. Of the increase in cost of revenue, $0.2 million resulted from increased data center costs associated with managing our data centers and the hosting of our services. The increase in data center costs was due to the expansion of our data center facilities as we added capacity to our hosting infrastructure. Additionally, $0.2 million of the increase in cost of revenue was due to the increased costs in our customer support organization, primarily as a result of hiring new employees to support our customer growth.

Research and Development Expenses. Research and development expenses for the three months ended March 31, 2011 were $4.3 million, an increase of $0.8 million, or 22%, over research and development expenses of $3.6 million for the three months ended March 31, 2010. As a percentage of revenue, research and development expenses were 16% and 17% for the three months ended March 31, 2011 and 2010, respectively. The increase in absolute dollars was primarily due to a $0.6 million increase in personnel-related costs as we hired additional employees to improve the ease of use and functionality of our existing services as well as develop new service offerings. The increase in personnel-related costs was offset by the capitalization of approximately $0.1 million of costs incurred during the application development stage related to new product development and development of significant new functionality to existing products during the three months ended March 31, 2011. No amounts were capitalized during the three months ended March 31, 2010 as the costs incurred in the period were immaterial.

Sales and Marketing Expenses. Sales and marketing expenses for the three months ended March 31, 2011 were $13.0 million, an increase of $3.1 million, or 32%, over sales and marketing expenses of $9.8 million for the three months ended March 31, 2010. As a percentage of revenue, sales and marketing expenses were 48% and 46% for the three months ended March 31, 2011 and 2010, respectively. The increase in absolute dollars was primarily due to a $1.6 million increase in marketing program costs and a $1.2 million increase in personnel-related and recruiting costs from additional employees hired to support our growth in sales and expand our marketing efforts. The increase was also due to a $0.1 million increase in credit card processing fees, a $0.1 million increase in travel-related costs and a $0.1 million increase in rent costs primarily related to the expansion of our corporate headquarters.

General and Administrative Expenses. General and administrative expenses for the three months ended March 31, 2011 were $6.1 million, an increase of $3.3 million, or 116%, over general and administrative expenses of $2.8 million for the three months ended March 31, 2010. As a percentage of revenue, general and administrative expenses were 22% and 13% for the three months ended March 31, 2010 and 2010, respectively. The increase in absolute dollars was primarily due to a $2.9 million increase in legal costs associated with our defense against the patent infringement claims made by 01 Communique. The increase was also due to $0.4 million increase in personnel-related costs as we increased the number of general and administrative employees to support our overall growth.

Legal Settlement Expenses. Legal settlement expenses were $1.3 million for the three months ended March 31, 2011, compared to $0 for the three months ended March 31, 2010. The legal settlement expenses for the three months ended March 31, 2011 are related to the License Agreement entered into by the Company and Gemini IP LLC on April 25, 2011 (see Note 8).

Amortization of Acquired Intangibles. Amortization of acquired intangibles for the three months ended March 31, 2011 and 2010 was $0.1 million and related primarily to the value of intangible assets acquired in our July 2006 acquisition of Applied Networking, Inc.

Interest Income, Net. Interest income, net for the three months ended March 31, 2011 was income of approximately $0.2 million, compared to income of approximately $0.1 million for the three months ended March 31, 2010. The change was mainly due to an increase in interest income resulting from an increase in the balance of funds invested in higher yielding marketable securities.

Other Expense. Other expense for the three months ended March 31, 2011 and 2010 was $0.1 million and related to foreign currency losses.

Income Taxes. During the three months ended March 31, 2011, we recorded a benefit for federal, state and foreign income taxes of approximately $35,000. For the three months ended March 31, 2010, we recorded a provision primarily for alternative minimum taxes and foreign income taxes, as well as a deferred provision related to the book and tax basis differences of goodwill of approximately $0.1 million. During the three months ended March 31, 2010, we maintained a full valuation allowance against all of our net deferred tax assets. However, we reversed the valuation allowance against primarily all of our net deferred tax assets at June 30, 2010 and therefore our tax provision and effective tax rate has increased year-over-year. At each balance sheet date, we assesses the likelihood that deferred tax assets will be realized, and recognize a valuation allowance if it is more likely than not that some portion of the deferred tax assets will not be realized. This assessment requires judgment as to the likelihood and amounts of future taxable income by tax jurisdiction. As of December 31, 2010 and March 31, 2011, we maintained a full valuation allowance related to the deferred tax assets of our Hungarian subsidiary due to its historical net losses.

Liquidity and Capital Resources

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

	Three Months Ended March 31,	
	2010	2011
	(In thousands)	
Net cash provided by operations	$ 7,382	$ 8,394
Net cash used in investing activities	(30,696)	(1,282)
Net cash provided by financing activities	1,140	1,118
Effect of exchange rate changes	(134)	572
Net increase (decrease) in cash	$ (22,308)	$ 8,802

At March 31, 2011, our principal source of liquidity was cash and cash equivalents and short-term marketable securities totaling $176.2 million.

Cash Flows From Operating Activities

Net cash inflows from operating activities during the three months ended March 31, 2011 were mainly due to a $4.8 million increase in deferred revenue associated with the increase in subscription sales orders and customer growth. Net cash inflows from operating activities were also due to non-cash operating expenses, including $1.0 million for depreciation and amortization and $1.8 million for stock compensation. The net cash inflows from operating activities were also due to a $1.6 million increase in current liabilities and a $0.5 million decrease in prepaid expenses and other current assets. These were offset by a $1.1 million increase in accounts receivable. We expect that our future cash flows from operating activities will be impacted by the legal costs associated with our defense against the patent infringement claim made by 01 Communique.

Net cash inflows from operating activities during the three months ended March 31, 2010 were mainly due to $2.7 million of net income for the period, non-cash operating expenses, including $0.9 million for depreciation and amortization and $1.0 million for stock compensation, as well as a $0.8 million decrease in accounts receivable, a $0.2 million decrease in prepaid expenses and other current assets, a $2.3 million increase in deferred revenue associated with the increase in subscription sales orders and a $0.3 million increase in accounts payable, offset by a $0.9 million decrease in accrued liabilities.

Cash Flows From Investing Activities

Net cash used in investing for the three months ended March 31, 2011 was primarily related to the addition of $1.1 million in property and equipment mainly related to the expansion and upgrade of our data center capacity and also related to the expansion and upgrade of our internal IT infrastructure. Net cash used in investing activities was also related to the purchase of $30.1 million of marketable securities offset by proceeds of $30.0 million from sale or disposal of marketable securities.

Net cash used in investing activities during the three months ended March 31, 2010 was mainly due to the purchase of $55.3 million of marketable securities offset by proceeds of $25.0 million from maturity of marketable securities. Net cash used in investing activities was also due to $0.4 million from purchases of property and equipment mainly for use in our existing data centers.

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

Cash Flows From Financing Activities

Net cash flows provided by financing activities were $1.1 million for the three months ended March 31, 2011 and were related to proceeds received from the issuance of common stock upon exercise of stock options.

Net cash provided by financing activities for the three months ended March 31, 2010 was due to $1.3 million in proceeds received from the issuance of common stock upon exercise of stock options offset by $0.2 million in payments made in connection with our secondary public offering.

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

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

Off-Balance Sheet Arrangements

We do not engage in any off-balance sheet financing activities, nor do we have any interest in entities referred to as variable interest entities.

Table of Contents

Contractual Obligations

The following table summarizes our contractual obligations at March 31, 2011 and the effect such obligations are expected to have on our liquidity and cash flow in future periods.

	Payments Due by Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Operating lease obligations	$ 7,119,000	$ 2,905,000	$ 3,752,000	$ 462,000	$
Hosting service agreements	929,000	929,000			
Total	$ 8,048,000	$ 3,834,000	$ 3,752,000	$ 462,000	$

The commitments under our operating leases shown above consist primarily of lease payments for our Woburn, Massachusetts corporate headquarters, our international sales and marketing offices located in The Netherlands, Australia and England and our research and development offices in Hungary and contractual obligations related to our data centers.

The table above includes the leases for our new spaces for our Australia and England offices. In February 2011, we entered into a lease for new office space for our Australian office. The term of the new office space began in February 2011 and extends through January 2014. The approximate annual lease payments for the new office space are $91,000. In April 2011, we entered into a lease for new office space for our England office. The term of the new office space began in April 2011 and extends through April 4, 2016. The approximate annual lease payments for the new office space are $231,000.

Recent Accounting Pronouncements

In October 2009, an update was made to Revenue Recognition Multiple Deliverable Revenue Arrangements. This update removes the objective-and-reliable-evidence-of-fair-value criterion from the separation criteria used to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting, replaces references to fair value with selling price to distinguish from the fair value measurements required under the Fair Value Measurements and Disclosures guidance, provides a hierarchy that entities must use to estimate the selling price, eliminates the use of the residual method for allocation, and expands the ongoing disclosure requirements. The effect of adoption of this standard has only impacted our financial statement disclosure to comply with the additional disclosure requirements as described in Note 2 to the condensed consolidated financial statements. The implementation of this guidance did not have a material impact on our consolidated financial position, results of operations or cash flows.

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 a result of the majority of our research and development expenditures being made from our Hungarian research and development facilities, and in our international sales and marketing offices in The Netherlands, England, Australia and Brazil. In the three months ended March 31, 2011, approximately 13%, 4%, 3%, 2% and less than 1% of our operating expenses occurred in our operations in Hungary, The Netherlands, England, Australia and Brazil, respectively. In the three months ended March 31, 2010, approximately 16%, 12%, 1% and 3% of our operating expenses occurred in our operations in Hungary, The Netherlands, England and Australia, respectively.

Additionally, an increasing percentage of our sales outside the United States are denominated in local currencies and, thus, are also subject to fluctuations due to changes in foreign currency exchange rates. To date, changes in foreign currency exchange rates have not had a material impact on our operations, and a future change of 20% or less in foreign currency exchange rates would not materially affect our operations. At this time, we do not, but may in the future, enter into any foreign currency hedging programs or instruments that would hedge or help offset such foreign currency exchange rate risk.

Interest Rate Sensitivity. Interest income is sensitive to changes in the general level of U.S. interest rates. However, based on the nature and current level of our cash and cash equivalents, which are primarily invested in deposits and money market funds, 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.

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 March 31, 2011. The term disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, 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 March 31, 2011, 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 changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the quarter ended March 31, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

On September 8, 2010, 01 Communique Laboratory, Inc., or 01, filed a complaint that named us as a defendant in a lawsuit in the U.S. District Court for the Eastern District of Virginia (Civil Action No. 1:10cv1007). We received service of the complaint on September 10, 2010. The complaint alleged that we infringed U.S. Patent No. 6,928,479, which allegedly is owned by 01 and has claims directed to a particular application or system for providing a private communication portal from one computer to a second computer. The complaint sought damages in an unspecified amount and injunctive relief. On April 1, 2011, the U.S. District Court for the Eastern District of Virginia granted our motion for summary judgment of non-infringement and the trial tentatively scheduled for the second quarter of 2011 was removed from the court s calendar. We expect the court will issue a written order regarding this decision. 01 has indicated that it intends to appeal the court s ruling granting summary judgment.

On November 3, 2010, Gemini IP LLC, or Gemini, filed a complaint that named us as a defendant in a lawsuit in the U.S. District Court for the Eastern District of Texas (Civil Action No. 4:07-cv-521). We received service of the complaint on November 10, 2010. The complaint alleged that we infringed U.S. Patent No. 6,117,932, which allegedly is owned by Gemini and has claims related to a system for operating an IT helpdesk. The complaint sought damages in an unspecified amount and injunctive relief. On April 25, 2011, we entered into a License Agreement with Gemini which granted us a fully-paid license that covers the patent at issue in the action and mutually released each party from all claims. We paid Gemini a one-time licensing fee of $1,250,000 in connection with the License Agreement. As a result, we expect the action to be dismissed by the court in May of 2011.

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

Item 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 on 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

We may be unable to achieve or maintain profitability.

We experienced net losses of $9.1 million for 2007, and $5.4 million for 2008. In the quarter ended September 30, 2008, we achieved profitability and reported net income for the first time. We reported net income of $8.8 million for 2009 and $21.1 million for 2010. For the three months ended March 31, 2011, we experienced a net loss of $0.1 million due primarily to patent litigation defense costs and costs related to a one-time legal settlement. We cannot predict if we will again achieve profitability or sustain profitability if achieved. We expect to continue making significant future expenditures to develop and expand our business. In addition, as a public company, we incur additional significant legal, accounting and other expenses that we did not incur as a private company. These increased expenditures make it harder for us to maintain future profitability. Our recent growth in revenue and customer base may not be sustainable, and we may not achieve sufficient revenue to achieve or maintain profitability. We may incur significant losses in the future for a number of reasons, including due to the other risks described in this report and we may encounter unforeseen expenses, difficulties, complications and delays and other unknown events. Accordingly, we may not be able to again achieve or maintain profitability, and we may incur significant losses for the foreseeable future.

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

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

Assertions by a third party that our services 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 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 high court awards that are difficult predict, it is not unusual to find even arguably unmeritorious claims settled for significant amounts. In addition, many of our service agreements require us to indemnify our customers from certain third-party intellectual property infringement claims, which could increase our costs as a result of defending such claims and may require that we pay damages if there were an adverse ruling related to any such claims. These types of claims could harm our relationships with our customers, deter future customers from subscribing to our services or expose us to further litigation. Any adverse determination related to intellectual property claims or litigation could prevent us from offering all or a portion of our services to customers due to an injunction or require us to pay damages or license fees, which could adversely affect our business, financial condition and operating results.

For information concerning pending patent infringement cases in which we are involved, please refer to Part II, Item 1 entitled Legal Proceedings and Note 8 of the Notes to Condensed Consolidated Financial Statements.

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

Many of our customers locate our website through search engines, such as Google. Search engines typically provide two types of search results, algorithmic and purchased listings, and we rely on both types.

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

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

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

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

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

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

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

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

Our business strategy may include acquiring complementary services, technologies or businesses. We also may enter into relationships with other businesses to expand our portfolio of services or our ability to provide our services in foreign jurisdictions, which could involve preferred or exclusive licenses, additional channels of distribution, discount pricing or investments in other companies. Negotiating these transactions can be time-consuming, difficult and expensive, and our ability to close these transactions may often be subject to conditions or approvals that are beyond our control. Consequently, these transactions, even if undertaken and announced, may not close.

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

- issue additional equity securities that would dilute our stockholders;
- use cash that we may need in the future to operate our business;
- incur debt on terms unfavorable to us or that we are unable to repay;
- incur large charges or substantial liabilities;
- encounter difficulties retaining key employees of the acquired company or integrating diverse software codes or business cultures; and
- become subject to adverse tax consequences, substantial depreciation or deferred compensation charges.

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

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

We host our services and serve all of our customers from four third-party data center facilities, of which three are located in the United States and one is located in Europe. We do not control the operation of these facilities. The owners of our data center facilities have no obligation to renew their agreements with us on commercially reasonable terms, or at all. If we are unable to renew these agreements on commercially reasonable terms, we may be required to transfer to new data center facilities, and we may incur significant costs and possible service interruption in connection with doing so.

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

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

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

Our system stores our customers confidential information, including credit card information and other critical data. Any accidental or willful security breaches or other unauthorized access could expose us to liability for the loss of such information, time-consuming and expensive litigation and other possible liabilities as well as negative publicity. Techniques used to obtain unauthorized access or to sabotage systems change frequently and generally are difficult to recognize and react to. We and our third-party data center facilities may be unable to anticipate these techniques or to implement adequate preventative or reactionary measures.

In addition, many states have enacted laws requiring companies to notify individuals of data security breaches involving their personal data. These mandatory disclosures regarding a security breach often lead to widespread negative publicity, which may cause our customers to lose confidence in the effectiveness of our data security measures. Any security breach, whether successful or not, would harm our reputation, and it could cause the loss of customers.

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

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

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

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

- have high failure rates;
- are price sensitive;
- are difficult to reach with targeted sales campaigns;
- have high churn rates in part because of the scale of their businesses and the ease of switching services; and
- generate less revenues per customer and per transaction.

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

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

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

The on-demand, remote-connectivity solutions market is characterized by rapid technological change, frequent new service introductions and evolving industry standards. Our ability to attract new customers and increase revenue from existing customers will depend in large part on our ability to enhance and improve our existing services, introduce new services and sell into new markets. To achieve market acceptance for our services, we must effectively anticipate and offer services that meet changing customer demands in a timely manner. Customers may require features and capabilities that our current services do not have. If we fail to develop services that satisfy customer preferences in a timely and cost-effective manner, our ability to renew our services with existing customers and our ability to create or increase demand for our services will be harmed.

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

Table of Contents

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

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

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

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

We compete with Citrix Systems, WebEx (a division of Cisco Systems) and others. Certain of our solutions, including our free remote access service, also compete with current or potential services offered by Microsoft and Apple. Many of our actual and potential competitors enjoy competitive advantages over us, such as greater name recognition, longer operating histories, more varied services and larger marketing budgets, as well as greater financial, technical and other resources. In addition, many of our competitors have established marketing relationships and access to larger customer bases, and have major distribution agreements with consultants, system integrators and resellers. If we are not able to compete effectively, our operating results will be harmed.

Industry consolidation may result in increased competition.

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

Original equipment manufacturers may adopt solutions provided by our competitors.

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

Our quarterly operating results may fluctuate in the future. As a result, we may fail to meet or exceed the expectations of research analysts or investors, which could cause our stock price to decline.

Our quarterly operating results may fluctuate as a result of a variety of factors, many of which are outside of our control. If our quarterly operating results or guidance fall below the expectations of research analysts or investors, the price of our common stock could decline substantially. Fluctuations in our quarterly operating results or guidance may be due to a number of factors, including, but not limited to, those listed below:

- our ability to renew existing customers, increase sales to existing customers and attract new customers;
- the amount and timing of operating costs and capital expenditures related to the operation, maintenance and expansion of our business;
- service outages or security breaches;

whether we meet the service level commitments in our agreements with our customers;

changes in our pricing policies or those of our competitors;

Table of Contents

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

changes in sales compensation plans or organizational structure;

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

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

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

the purchasing and budgeting cycles of our customers;

the financial condition of our customers; and

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

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

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

Our services enable direct remote access to third-party computer systems. We do not control the use or content of information accessed by our customers through our services. If our services are used to commit fraud or other bad or illegal acts, such as posting, distributing or transmitting any software or other computer files that contain a virus or other harmful component, interfering or disrupting third-party networks, infringing any third party s copyright, patent, trademark, trade secret or other proprietary rights or rights of publicity or privacy, transmitting any unlawful, harassing, libelous, abusive, threatening, vulgar or otherwise objectionable material, or accessing unauthorized third-party data, we may become subject to claims for defamation, negligence, intellectual property infringement or other matters. As a result, defending such claims could be expensive and time-consuming, and we could incur significant liability to our customers and to individuals or businesses who were the targets of such acts. As a result, our business may suffer and our reputation will be damaged.

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

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

We have experienced rapid growth in recent periods. If we fail to manage our growth effectively, we may be unable to execute our business plan, maintain high levels of service or address competitive challenges adequately.

We increased our revenue from $51.7 million in 2008 to $74.4 million in 2009 to $101.1 million in 2010 and to $27.0 million in the three months ended March 31, 2011. Our growth has placed, and may continue to place, a significant strain on our managerial, administrative, operational, financial and other resources. We intend to further expand our overall business, customer base, headcount and operations both domestically and internationally. Creating a global organization and managing a geographically dispersed workforce will require substantial management effort and significant additional investment in our infrastructure. We will be required to continue to improve our operational, financial and management controls and our reporting procedures and we may not be able to do so effectively. As such, we may be unable to manage our expenses effectively in the future, which may negatively impact our gross profit or operating expenses in any particular quarter.

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

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

Our sales cycles for enterprise customers, which currently account for approximately 10 to 15% of our overall sales, can be long, unpredictable and require considerable time and expense, which may cause our operating results to fluctuate.

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

Our long-term success depends, in part, on our ability to expand the sales of our services to customers located outside of the United States, and thus our business is susceptible to risks associated with international sales and operations.

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

These risks include:

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

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

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

Because our services are designed to work over the Internet, our revenue growth depends on our customers high-speed access to the Internet, as well as the continued maintenance and development of the Internet infrastructure. The future delivery of our services will depend on third-party Internet service providers to expand high-speed Internet access, to maintain a reliable network with the necessary speed, data capacity and security, and to develop complementary products and services, including high-speed modems, for providing reliable and timely

Internet access and services. The success of our business depends directly on the continued accessibility, maintenance and improvement of the Internet as a convenient means of customer interaction, as well as an efficient medium for the delivery and distribution of information by businesses to their employees. All of these factors are out of our control.

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

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

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

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

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

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

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

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

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

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

Ensuring that we have adequate internal financial and accounting controls and procedures in place so that we can produce accurate financial statements on a timely basis is a costly and time-consuming effort. Our internal controls over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles in the United States of America. In addition, Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, requires an annual management assessment of the effectiveness of our internal controls over financial reporting and a report from our independent registered public accounting firm addressing the effectiveness of our internal controls over financial reporting. We have documented, tested and improved, to the extent necessary, our internal controls over financial reporting for the year ended December 31,

2010. If in the future we are not able to comply with the requirements of Section 404 of the Sarbanes-Oxley Act in a timely manner, or if as part of our process of documenting and testing our internal controls over financial reporting, we or our independent registered public accounting firm identify deficiencies or areas for further attention and improvement, implementing appropriate changes to our internal controls may distract our officers and employees, entail substantial costs to modify our existing processes and take significant time to complete. These changes may not, however, be effective in maintaining the adequacy of our internal controls, and any failure to maintain that adequacy, or consequent inability to produce accurate financial statements on a timely basis, could increase our operating costs and harm our business. In addition, investors perceptions that our internal controls are inadequate or that we are unable to produce accurate financial statements on a timely basis may harm our stock price and make it more difficult for us to effectively market and sell our services to new and existing customers.

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

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

- a reduction in sales or delay in market acceptance of our services;
- sales credits or refunds to our customers;
- loss of existing customers and difficulty in attracting new customers;
- diversion of development resources;
- harm to our reputation; and
- increased insurance costs.

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

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

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

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

States.

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

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

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

Table of Contents

We are highly dependent upon the continued service and performance of our senior management team and key technical and sales personnel, including our President and Chief Executive Officer, Chief Financial Officer and Chief Technical Officer. These officers are not party to an employment agreement with us, and they may terminate employment with us at any time with no advance notice. The replacement of these officers likely would involve significant time and costs, and the loss of these officers may significantly delay or prevent the achievement of our business objectives.

We face intense competition for qualified individuals from numerous technology, software and manufacturing companies. For example, our competitors may be able 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.

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, or a reduction in IT spending even if economic conditions improve, would likely adversely impact our business, operating results and financial condition in a number of ways, including by lengthening sales cycles, lowering prices for our services and reducing sales.

Our limited operating history makes it difficult to evaluate our current business and future prospects.

Our company has been in existence since 2003, and much of our growth has occurred in recent periods. Our limited operating history may make it difficult for you to evaluate our current business and our future prospects. We have encountered and will continue to encounter risks and difficulties frequently experienced by growing companies in rapidly changing industries, including increasing expenses as we continue to grow our business. If we do not manage these risks successfully, our business will be harmed.

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

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

RISKS RELATED TO OWNERSHIP OF OUR COMMON STOCK

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

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

- develop or enhance our services;
- continue to expand our development, sales and marketing organizations;
- acquire complementary technologies, products or businesses;

expand our operations, in the United States or internationally;

hire, train and retain employees; or

Table of Contents

respond to competitive pressures or unanticipated working capital requirements.

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

Prior to the completion of our initial public offering, or IPO, in July 2009, there was no public market for shares of our common stock. During the period from our IPO until April 22, 2011, our common stock has traded as high as $49.50 and as low as $15.15. An active, liquid and orderly market for our common stock may not be sustained, which could depress the trading price of our common stock. Some of the factors that may cause the market price of our common stock to fluctuate include:

- fluctuations in our quarterly financial results or the quarterly financial results of companies perceived to be similar to us;
- fluctuations in our recorded revenue, even during periods of significant sales order activity;
- changes in estimates of our financial results or recommendations by securities analysts;
- failure of any of our services to achieve or maintain market acceptance;
- changes in market valuations of similar companies;
- success of competitive products or services;
- changes in our capital structure, such as future issuances of securities or the incurrence of debt;
- announcements by us or our competitors of significant services, contracts, acquisitions or strategic alliances;
- regulatory developments in the United States, foreign countries or both;
- the initiation of, or material developments regarding, litigation involving our company;
- litigation involving our industry;
- additions or departures of key personnel;
- general perception of the future of the remote-connectivity market or our services;
- investors general perception of us; and
- changes in general economic, industry and market conditions.

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

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

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

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

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

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

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

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

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

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

As a public company, we incur significant legal, accounting and other expenses that we did not incur as a private company, including costs associated with public company reporting requirements.

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

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

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

- authorizing blank check preferred stock, which could be issued with voting, liquidation, dividend and other rights superior to our common stock;
- limiting the liability of, and providing indemnification to, our directors and officers;
- limiting the ability of our stockholders to call and bring business before special meetings and to take action by written consent in lieu of a meeting;
- requiring advance notice of stockholder proposals for business to be conducted at meetings of our stockholders and for nominations of candidates for election to our board of directors;
- controlling the procedures for the conduct and scheduling of board of directors and stockholder meetings;
- providing the board of directors with the express power to postpone previously scheduled annual meetings and to cancel previously scheduled special meetings;
- limiting the determination of the number of directors on our board of directors and the filling of vacancies or newly created seats on the board to our board of directors then in office; and
- providing that directors may be removed by stockholders only for cause.

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

As a Delaware corporation, we are also subject to provisions of Delaware law, including Section 203 of the Delaware General Corporation law, which prevents some stockholders holding more than 15% of our outstanding common stock from engaging in certain business combinations without approval of the holders of substantially all of our outstanding common stock. Any provision of our certificate of incorporation or bylaws or Delaware law that has the effect of delaying or deterring a change in control could limit the opportunity for our stockholders to receive a premium for their shares of our common stock, and could also affect the price that some investors are willing to pay for our common stock.

Table of Contents

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 three months ended March 31, 2011.

(b) Use of Proceeds from Public Offerings of Common Stock

On July 7, 2009, we closed our IPO, in which 7,666,667 shares of common stock were sold at a price to the public of $16.00 per share. We sold 5,750,000 shares of our common stock in the offering and selling stockholders sold 1,916,667 of the shares of common stock in the offering. The aggregate offering price for all shares sold in the offering, including shares sold by us and the selling stockholders, was $122.7 million. The offer and sale of all of the shares in the IPO were registered under the Securities Act pursuant to a registration statement on Form S-1 (File No. 333-148620), which was declared effective by the SEC on June 30, 2009. We raised approximately $83.0 million in net proceeds after deducting underwriting discounts and commissions of $6.4 million and other estimated offering costs of $2.7 million. No payments were made by us to directors, officers or persons owning ten percent or more of our common stock or to their associates, or to our affiliates, other than payments in the ordinary course of business to officers for salaries and to non-employee directors as compensation for board or board committee service, or as a result of sales of shares of common stock by selling stockholders in the offering. From the effective date of the registration statement through March 31, 2011, we have not used any of the net proceeds of the IPO. We intend to use the net proceeds for general corporate purposes, including financing our growth, developing new products, acquiring new customers, funding capital expenditures and, potentially, the acquisition of, or investment in, businesses, technologies, products or assets that complement our business. Pending these uses, we have invested the funds in a registered money market. There has been no material change in the planned use of proceeds from our IPO as described in our final prospectus filed with the SEC pursuant to Rule 424(b).

On November 19, 2009, we closed a secondary public offering of our common stock. On December 16, 2009, we closed the sale of additional shares of common stock issued in the offering upon the exercise of the underwriters over-allotment option. In aggregate, a total of 3,326,609 shares of common stock were sold at a price to the public of $18.50 per share. We sold 99,778 shares of our common stock in the offering and selling stockholders sold an additional 3,226,831 shares of common stock in the offering. The aggregate offering price for all shares sold in the offering, including shares sold by us and the selling stockholders, was $61.5 million. The offer and sale of all of the shares in the secondary offering were registered under the Securities Act pursuant to a registration statement on Form S-1 (File No. 333-162936), which was declared effective by the SEC on November 19, 2009. We raised approximately $1.2 million in net proceeds after deducting underwriting discounts and commissions of $0.1 million and other estimated offering costs of $0.5 million. No payments were made by us to directors, officers or persons owning ten percent or more of our common stock or to their associates, or to our affiliates, other than payments in the ordinary course of business to officers for salaries and to non-employee directors as compensation for board or board committee service, or as a result of sales of shares of common stock by selling stockholders in the offering. From the effective date of the registration statement through March 31, 2011, we have not used any of the net proceeds received from our secondary public offering. We intend to use the net proceeds for general corporate purposes, including financing our growth, developing new products, acquiring new customers, funding capital expenditures and, potentially, the acquisition of, or investment in, businesses, technologies, products or assets that complement our business. There has been no material change in the planned use of proceeds from our secondary public offering as described in our final prospectus filed with the SEC pursuant to Rule 424(b).

Item 6. Exhibits

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

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: April 28, 2011	By: /s/ Michael K. Simon Michael K Simon President and Chief Executive Officer (Principal Executive Officer)
Date: April 28, 2011	By: /s/ James F. Kelliher James F. Kelliher Chief Financial Officer (Principal Financial Officer)

Table of Contents

EXHIBIT INDEX

Listed and indexed below are all Exhibits filed as part of this report.

Exhibit No.	Description
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by Chief Executive Officer.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by Chief Financial Officer.
32.1	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.
32.2	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.