LogMeIn, Inc.
Form 10-K
February 24, 2012
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2011

or

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

Commission file number 001-34391

LOGMEIN, INC.

(Exact name of registrant as specified in its charter)

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

(781) 638-9050

(Registrant s telephone number, including area code)

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

Title of Each Class	Name of Exchange on Which Registered

Common Stock, $.01 par value	NASDAQ Global Market

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

None.

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

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

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

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

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

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

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold on the NASDAQ Global Select Market on June 30, 2011 was $665,263,305.

As of February 20, 2012, the registrant had 24,567,332 shares of Common Stock, $0.01 par value per share, outstanding.

Portions of the registrant s definitive proxy statement to be filed with the Securities and Exchange Commission for the 2012 annual stockholders meeting to be held on May 24, 2012 are incorporated by reference into Items 10, 11, 12, 13 and 14 of Part III of this Annual Report on Form 10-K.

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Forward-Looking Statements

Matters discussed in this Annual Report on Form 10-K relating to future events or our future performance, including any discussion, express or implied, of our anticipated growth, operating results, future earnings per share, market opportunity, plans and objectives, are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933,as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements are often identified by the words may, will, expect, believe, anticipate, intend, could, estimate, or c similar expressions or variations. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in the section titled Risk Factors, set forth in Item 1A of this Annual Report on Form 10-K and elsewhere in this Report. The forward-looking statements in this Annual Report on Form 10-K represent our views as of the date of this Annual Report on Form 10-K. We anticipate that subsequent events and developments will cause our views to change. However, while we may elect to update these forward-looking statements at some point in the future, we have no current intention of doing so except to the extent required by applicable law. You should, therefore, not rely on these forward-looking statements as representing our views as of any date subsequent to the date of this Annual Report on Form 10-K.

PART I

ITEM 1. ***BUSINESS***

Overview

LogMeIn provides essential cloud-based services for remote access, device management, data management, customer care, and collaboration. Serving small and medium-sized businesses, or SMBs, IT service providers, mobile carriers, customer service centers, original equipment manufacturers, or OEMs, and consumers, we believe our cloud-based services are used to connect more Internet-enabled devices worldwide than any other connectivity platform on the market. Businesses and IT service providers use our services 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. Consumers and mobile workers use our remote connectivity services to access computer resources remotely and to collaborate with other users. A growing number of business-to-consumer and business-to-business OEMs use our services to connect their devices and device-created data to the Internet. Our services, which are deployed and accessed from anywhere with an Internet connection, are secure, scalable and easy for our customers to try, purchase and use.

In February 2003, we incorporated under the laws of Bermuda. In August 2004, we completed a domestication in the State of Delaware under the name 3am Labs, Inc. We changed our name to LogMeIn, Inc. in March 2006. Our principal executive offices are located at 500 Unicorn Park Drive, Woburn, Massachusetts 01801, and our telephone number is (781) 638-9050. Our website address is *www.LogMeIn.com*. We have included our website address in this report solely as an inactive textual reference.

In 2004, we introduced LogMeIn Free, a service that allows users to access computer resources remotely. We believe LogMeIn Free, LogMeIn for iPad/iPhone, LogMeIn Hamachi, join.me, BoldChat Free, and Pachube, our popular free services, provide on-demand remote access, customer care, collaboration and data management for more users, on more Internet-enabled devices, than any other cloud connectivity service. This approach provides a cost-effective means of engaging with a large and diverse group of users and increasing awareness of our fee-based, or premium services. As of December 31, 2011, our users have connected over 150 million smartphones, tablets, computers, and other Internet-enabled devices to a LogMeIn service.

We complement our free services with nine premium services, most of which are sold on a subscription basis, including LogMeIn Rescue, LogMeIn Rescue + Mobile and LogMeIn Central, which are used for remote support, device management, and customer care, as well as LogMeIn Pro, LogMeIn Backup, LogMeIn Hamachi and join.me pro, our premium remote access and collaboration services, while others are sold for a one-time fee. Sales of our premium services are generated through word-of-mouth referrals, web-based advertising, expiring free trials that we convert to paid subscriptions and direct marketing to new and existing customers.

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Nearly all of our free and premium solutions are delivered via the cloud as hosted services, which means that the technology enabling the use of our solutions primarily resides on our servers, data centers, and IT hardware, rather than those of our users. We call the software, hardware and networking technology used to deliver our cloud-based services Gravity. The Gravity proprietary platform consists of software applications, customized databases, data storage clusters, and web servers. Gravity establishes secure connections over the Internet between two or more Internet-enabled devices and manages the direct transmission of data between remotely connected devices. It also uses the same connectivity technology to connect devices with LogMeIn s data services, enabling data to be securely published, accessed, and stored in the cloud. This robust and scalable platform connects over 18 million devices to our services each day.

We believe that our sales model of a high volume of new and renewed subscriptions at low transaction prices increases the predictability of our revenues compared to perpetual licensed-based software businesses. During the fiscal years ended December 31, 2009, 2010, and 2011, we generated revenues of $74.4 million, $101.1 million, and $119.5 million, respectively.

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

Our Services

Our services allow our users to remotely access, support and manage computers and other Internet-enabled devices on demand, as well as to collaborate with other users. We believe our services benefit users in the following ways:

Reduced set-up, support and management costs. Our services enable IT staff to administer, monitor and support computers and other Internet-enabled devices at a remote location. Businesses easily set up our on-demand services with little or no modification to the remote location s network or security systems and without the need for upfront technology or software investment. In addition, our customers lower their support and management costs by performing management-related tasks remotely, reducing or eliminating the costs of on-site support and management.

Increased mobile worker productivity. Our remote-access services allow non-technical users to access and control remote computers and other Internet-enabled devices, increasing their mobility and allowing them to remain productive while away from the office.

Increased end-user satisfaction. Our customers rely on our on-demand services to improve the efficiency and effectiveness of end-user support. Satisfaction with support services is primarily measured by call-handling time and whether or not the problem is resolved on the first call. Our services enable helpdesk technicians to quickly and easily gain control of a remote user s computer. Once connected, the technician can diagnose and resolve problems while interacting with and possibly training the end user. By using our services to support remote users, our customers have reported increased user satisfaction while reducing call handling time by as much as 50% over phone-only support.

Reliable, fast and secure service. Our services possess built-in redundancy of servers and other infrastructure in four data centers, three located in the United States and one located in Europe. Our proprietary platform enables our services to connect and manage devices at enhanced speeds. Our services implement industry-standard security protocols and authenticate and authorize users of our services without storing passwords.

Easy to try, buy and use. Our services are simple to install, which allows our prospective customers to use our services within minutes of registering for a trial. Our customers can use our services to manage their remote systems from any Web browser. In addition, our low service-delivery costs and hosted delivery model allow us to offer each of our services at competitive prices and to offer flexible payment options.

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Our Competitive Strengths

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

Large established user community. As of December 31, 2011, over 38 million registered users have connected over 150 million Internet-enabled devices to a LogMeIn service. These users drive awareness of our services through personal recommendations, blogs, social media and other online communication methods and provide us with a significant audience to which we can market and sell premium services.

Efficient customer acquisition model. We believe our free products and our large installed user base help to generate word-of-mouth referrals, which in turn increases the efficiency of our paid marketing activities, the large majority of which are focused on pay-per-click search engine advertising. Sales of our premium services are generated through word-of-mouth referrals, Web-based advertising, off-line advertising, expiring free trials that we convert to paying customers and marketing to our existing customer and user base. We believe this direct approach to acquiring new customers generates an attractive and predictable return on our sales and marketing expenditures.

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

On-demand, cloud-based delivery. Delivering our services on-demand allows us to serve additional customers with little incremental expense and to deploy new applications and upgrades quickly and efficiently to our existing customers.

High recurring revenue and high transaction volumes. We sell our services on a monthly or annual subscription basis, which provides greater levels of recurring revenues and predictability compared to traditional perpetual, license-based business models. Approximately 95% of our subscriptions have a one-year term. We believe that our sales model of a high volume of new and renewed subscriptions at low transaction prices increases the predictability of our revenues compared to perpetual licensed-based software businesses.

Growth Strategy

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

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

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

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

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Expand internationally. We believe there is a significant opportunity to increase our sales internationally. We offer services in 12 different languages and our services are used in more than 200 countries. We intend to expand our international sales and marketing staff and increase our international marketing expenditures to take advantage of this opportunity.

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

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

Services and Technology

Our services are accessed on the Web and delivered on-demand via our service delivery platform, Gravity. Our services generally fall into one of three categories:

Remote user access services. These services allow users to access computers and other Internet-enabled devices in order to continue working while away from the office or to access personal systems while away from home. These services include free remote access offerings and premium versions that include additional features.

Remote support, customer care and device management services. These services are used by internal IT departments, by external service and support organizations, and by customer service teams to deliver web-based remote service, support and management of customers and their Internet enabled devices.

Remote collaboration. These services are used by business users and consumers to conduct online meetings and share documents, images and their desktop with other users to enable fast, affordable and secure online collaboration.

Remote User Access Services

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

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

High Definition (HD) remote control and content streaming. A user can watch multimedia content (video, games, etc.) playing on a remote computer on any other iOS device (iPad, iPhone, iPad) or computer. Remote viewing includes higher resolution views and rates compared with LogMeIn Free.

File transfer. Files and folders can be moved easily between computers using drag-and-drop or dual-pane file transfer capabilities.

Remote sound. A user can hear on his local computer e-mail notifications, music and podcasts originating from a remote PC.

File share. Large files can be distributed by sending a link that permits remote third parties to download a file directly from a LogMeIn subscriber s computer.

Remote to local printing. Files from a remote PC are automatically printed to a local printer without downloading drivers or manually configuring printer settings.

Desktop sharing. A remote third-party user can be invited to view or control a LogMeIn user s desktop for online meetings and collaboration.

File sync. Files and folders can be synchronized between remote and local computers.

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Drive mapping. Drives on a remote PC can be accessed as if they are local.

Wake On Lan. Wake a remote computer that is sleeping or turn one on that is off right from a web browser.

LogMeIn for iPad/iPhone is a free mobile application for iOS devices, including the iPad, iPhone and iPod touch. It is used in combination with either LogMeIn Free or LogMeIn Pro to access remote computers, including files and applications, from an iOS-based mobile device. The mobile application is available on the Apple iTunes App Store and can be used to connect to an unlimited number of Windows or Mac OSX based computers. When used in combination with LogMeIn Free, the app provides remote viewing and control over remote computers from a mobile device. When used in combination with LogMeIn Pro, the file sharing, file transfer and HD remote control capabilities available in LogMeIn Pro are extended to the users mobile device, including the ability to save computer files locally on an iOS device. In addition, when used with Pro, iOS users are able to save and transfer files to and from 3rd party Cloud-based storage and syncing services like Google Docs and Dropbox.

LogMeIn Hamachi is a hosted virtual private network, or VPN, service that sets up a computer network among remote computers. It typically works with existing network and firewall configurations and can be managed from a web browser or the user s software. Using LogMeIn Hamachi, users can securely communicate over the Internet as if their computers are on the same local area network, allowing for remote access and virtual networking. LogMeIn Hamachi is offered both as a free service for 1-8 computers and as a paid service, with tiered pricing based on number of devices connected.

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

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

Customer Care, Remote Support and Device Management Services

LogMeIn Rescue is a Web-based remote support and customer care service used by helpdesk professionals to support remote tablets, smartphones and computers and applications and assist computer users via the Internet. LogMeIn Rescue enables the delivery of interactive support to a remote computer without having pre-installed software. The end user grants permission to the help desk technician before the technician can access, view or control the end user s computer. Using LogMeIn Rescue, support and service professionals can communicate with end users through an Internet chat window while diagnosing and repairing computer problems. If given additional permission by the computer user, the support professional can take over keyboard and mouse control of the end user s computer to take necessary support actions and to train the end user on the use of software and operating system applications. Upon completion of the session, all LogMeIn software is removed from the remote computer. LogMeIn Rescue is used by companies of varying sizes, from one-person support organizations to Fortune 100 companies servicing employees and customers.

LogMeIn Rescue includes the following features:

Rapid incident resolution. Helpdesk professionals can gain access to the target PC quickly, often in under 60 seconds, and can take advantage of our remote control capabilities to perform support functions available through a technician console, including: reading critical system information, deploying scripts, copying files through drag and drop and rebooting the machine. Includes the ability to quickly access remote distributed devices, as well as one-click access to on-lan systems.

Seamless end-user experience. LogMeIn Rescue facilitates an end user s receipt of customer support. End users remain in control of the support session and can initiate a session in a variety of ways, such as by clicking a link on a website or in an email or by entering a pin code provided by the support provider. The end user then sees a chat window, branded with the support provider s logo, and responds to a series of access and control requests while chatting with the support provider.

Support session and queue management. The helpdesk professional can use the LogMeIn Technician Console to manage a queue of support incident requests and up to ten simultaneous live remote sessions. The support queue can be shared and current live sessions can be transferred to other co-workers as needed.

Administration Center. The Administration Center is used to create and assign permissions for groups of support technicians. It is also used to create support channels the web-based links and/or icons that automatically connect customers to technicians and assign them to specific groups. Support managers use the Administration Center to generate reports about individual sessions, post-session survey data and technician activity.

Integrated security. LogMeIn Rescue includes security features designed to safeguard the security and privacy of both the support provider and the end user. All data transmission is encrypted using industry-standard encryption often used by financial institutions. Sessions can be recorded by the support provider and will create a record of each level of access permission granted by the end user. Any files transferred between computers are uniquely identified to demonstrate that no changes were made to original files.

LogMeIn Rescue+Mobile is an add-on of LogMeIn Rescue s web-based remote support service that allows call center technicians and IT professionals to remotely access and support smartphones and tablet computers. Mobile users requesting help will receive a text message from a technician to download a small software application onto the smartphone. Once installed, the user enters a code connecting the device to the technician. After the user grants the technician permission, the technician can remotely access and control the phone or tablet from their Rescue+Mobile Technician Console to remotely control and update the phone s configuration settings, access system information, file transfer and reboot the device. Customers of this service can support Blackberry, Symbian, iOS and Android devices.

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

Proactive Chat: BoldChat offers chat operators the ability to both create an ability reactive website to chat with an agent as well as prompt end users to chat proactively. Proactive chat invitations can be serviced through an automatic rules based engine or manually.

Multi-channel communications console: BoldChat allows an administrator to configure the operator console not only to handle chats but also emails to a specific email address and SMS messages.

Co-browsing: BoldChat enables chat operators to initiate a live co-browsing session with website visitors. During the session, operators can control the prospect s browser, highlight areas of interest, and assist with form-filling.

Real time visitor monitoring: Using BoldChat, chat operators are provided with intelligent analytics about the visitor, including how the visitor arrived on the site, their time spent on the site, current URL and previous visits. Additionally, this information can be utilized in creating intelligence based routing and proactive chat invitations.

Routing & Automatic Chat Distribution: Using BoldChat, administrators can set up routing rules to ensure the right chats get to the right agent or group of agents. Additionally, BoldChat provides an automatic chat distribution capability that assigns chats to the most available agent based on a set of intelligent rules.

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Reporting: BoldChat provides the ability to report on chat activity across a single or multiple sites to determine the following; proper staffing, identify successful proactive chat invites, track agent responsiveness, measure chat effectiveness and overall chat knowledge performance indicators, or KPI s.

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

User management. LogMeIn Central provides account holders with the ability to manage additional users for an account, including user access controls and permissions.

Software deployment. LogMeIn Central allows the deployment of LogMeIn host software over the web.

Reporting. LogMeIn Central provides the ability to report on account, device and session data.

Integrated security. LogMeIn Central utilizes industry-standard encryption and authentication methods. In addition, LogMeIn Central also supports detailed account audit logging, including changes to account email addresses, failed attempts to login and changes to account security settings.

Host configuration. LogMeIn Central enables the configuration of LogMeIn host software, including access settings, network restrictions and other compliance options.

Computer grouping and account personalization. LogMeIn Central allows users to organize their devices into specific groups, and personalize the console to meet specific needs, including the saved searches, links to resources and customized charting and graphing.

One2Many tasks and commands. LogMeIn Central, when combined with LogMeIn Pro host software, enables users to push software updates, scripts and common management tasks to multiple devices simultaneously ensuring rapid batch updates to dozens, hundreds or even thousands of devices.

Windows software updates automation. LogMeIn Central, when combined with LogMeIn Pro host software on Windows-based computers, enables users to schedule and push Microsoft Windows updates to one or more computers, even if those computers are not connected to a corporate local area network.

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

We also offer a systems administration product called RemotelyAnywhere. RemotelyAnywhere is used to manage personal computers and servers from within the IT system of an enterprise. Unlike our LogMeIn services, RemotelyAnywhere is licensed to our customers on a perpetual basis, and we offer maintenance covering upgrades and service supporting this application.

LogMeIn Backup is a service that subscribers install on two or more computers to create a backup network and is generally sold as a complement to the LogMeIn Central or LogMeIn Pro services. LogMeIn Backup is easy to install and provides IT service providers a simple backup alternative to offer their customers using storage capacity that they control. Users can transfer specified files and folders from one computer to another either manually or automatically in accordance with a pre-determined schedule. Files can be stored on, and restored to, any PC that the subscriber chooses, using industry-standard encryption protocols for the transmission and storage of the data.

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Remote Collaboration Services

join.me and *join.me pro* are browser-based online meeting and screen sharing services that give users the ability to quickly and securely share their computer desktop with up to 250 other people. Both services can be initiated either through a visit to the *http://join.me* website or through a small downloadable desktop application. Users start or host a collaboration session by clicking a share button which generates a 9-digit numeric code. They then provide this code to other users (attendees or viewers) who enter it at the join.me website and click join . Within a few seconds, the attendees are viewing the host s screen. Like LogMeIn Free and LogMeIn Pro, join.me is offered in a free-to-paid model where the free service encourages widespread awareness and word-of-mouth referrals and the pro version introduces additional functionality and benefits for a monthly or annual subscription.

join.me free includes the following features:

Screen sharing. join.me enables users to share their local computer screen with up to 250 other people for online meetings or ad hoc collaboration.

Chat. A simple text chat option that provides users with the ability to chat with all meeting participants or with individual participants.

File sharing. join.me allows users to transfer or share files from one computer to another.

Remote control. Allows host users to give attendees remote control of their screen and computer.

Toll-based conference line. join.me offers a complementary teleconference line uniquely associated with each meeting or screen sharing session.

Mobile viewers . join.me offers free mobile applications for Android and iOS (iPhone, iPad, iPod touch) devices that allow people to attend a join.me meeting or screen sharing session from their tablet or smartphone.

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

Presenter switching. Provides join.me meeting hosts and attendees to switch who is controlling a join.me session and whose screen is being viewed.

Personal meeting IDs. Allows meeting hosts to create and use personalized meeting codes and links for use with attendees in place of the nine digit numeric codes.

Meeting scheduler. Enables hosts to schedule and invite people to meetings or planned events through an in-product calendaring and notification system.

Meeting lock . Allows hosts to lock or secure their meetings, requiring attendees to ask for permission to join before seeing the host s screen.

User management. join.me pro gives hosts and account holders the ability to create and manage new host accounts for co-workers or colleagues.

LogMeIn Gravity Service Delivery Platform

The Gravity proprietary platform consists of software applications, customized databases and web servers. Gravity establishes secure connections over the Internet between remote computers and other Internet-enabled devices and manages the direct transmission of data between remotely connected devices. This patented platform reduces our bandwidth and other infrastructure requirements, which we believe makes our services faster and less expensive to deliver as compared to competing services. Gravity consists of proprietary software applications that run on standard hardware servers and operating systems and is designed to be scalable and serve our large-scale user community at low cost.

The infrastructure-related costs of delivering our services include bandwidth, power, server depreciation and co-location fees. Gravity transmits data using a combination of methods working together to relay data via our data centers and to transmit data over the Internet directly between end-point devices. During the twelve months ended December 31, 2011, more than 93% of the data transmitted by our services was transmitted directly between end-point devices, reducing our bandwidth and bandwidth-related costs.

Gravity is physically hosted in four separate data centers. We lease space in co-location hosting facilities operated by third parties. Three of our Gravity data centers are located in the United States, and the fourth is located in Europe. During the twelve months ended December 31, 2011, we averaged 18 million devices connecting to our Gravity service each day. Our goal is to maintain sufficient excess capacity such that any one of the data centers could fail, and the remaining data centers could handle the load without extensive disruption to our service. During the twelve months ended December 31, 2011, our Gravity service was available 99.99% of the time.

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

Sales and Marketing

Our sales and marketing efforts are designed to attract prospects to our website, enroll them in free trials of our services and convert them to and retain them as paying customers. We also expend sales and marketing resources to attract users of our free services. We acquire new customers through a combination of paid and unpaid sources. We also invest in public relations to broaden the general awareness of our services and to highlight the quality and reliability of our services for specific audiences. We are constantly seeking and employing new methods to reach more users and to convert them to paying customers.

Paid Sources of Demand Generation

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

Tradeshows and Events. We showcase our suite of services at technology and industry-specific tradeshows and events. Our participation in these shows ranges from elaborate presentations in front of large groups to one-on-one discussions and demonstrations at manned booths. In 2011, we attended approximately 40 trade shows and events in the United States, Europe and Australia.

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

Unpaid Sources of Demand Generation

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

Direct Advertising Into Our User Community. We have a large existing community of free users and paying customers. Users of most of our services, including our most popular service, LogMeIn Free, come to our website each time they initiate a new remote access session. We use this opportunity to promote additional premium services to them.

Other Marketing Initiatives

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

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

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

Sales Efforts and Other Initiatives

New Account Sales. Our sales are typically preceded by a trial of one of our services, and 98% of our purchase transactions are settled via credit card. Our sales operations team determines whether or not a trial should be managed by a telephone-based sales representative or handled via our e-commerce sales process. As of December 31, 2011, we employed 127 telephone-based sales representatives to manage newly generated trials. In addition, a small sales and business development team concentrates on sales to larger organizations and the formulation of strategic technology partnerships that are intended to generate additional sales.

International Sales. We currently have sales teams located in Europe, Asia, and Australia focusing on international sales. In the years ended December 31, 2009, 2010 and 2011, we generated approximately 30%, 32% and 34%, respectively, of our revenue outside of the United States. As of December 31, 2009, 2010 and 2011, approximately 38%, 37% and 39% of our long-lived assets were located outside of the United States.

For the twelve months ended December 31, 2009, 2010 and 2011, we spent $35.8 million, $45.9 million and $57.2 million, respectively, on sales and marketing.

Research and Development

We have made and intend to continue making significant investments in research and development in order to continue to improve the efficiency of our service delivery platform, improve existing services and bring new services to market. Our primary engineering organization is based in Budapest, Hungary, where the first version of our service was developed. Our founding engineering team has worked together for over 10 years, designing and running highly large-scale Internet services. Approximately 43% of our employees, as of December 31, 2011, work in research and development. Research and development expenses totaled $13.1 million in 2009, $15.2 million in 2010, and $20.8 million in 2011.

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

Competition

The market for remote-access based products and services is evolving, and we expect to face additional competition in the future. We believe that the key competitive factors in the market include:

- service reliability;
- ease of initial setup and use;
- fitness for use and the design of features that best meet the needs of the target customer;
- the ability to support multiple device types and operating systems;

cost of customer acquisition;

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- product and brand awareness;
- the ability to reach large fragmented groups of users;
- cost of service delivery; and
- pricing flexibility.

We believe that our large-scale user base, efficient customer acquisition model and low service delivery costs enable us to compete effectively.

Citrix s Online division and Cisco s WebEx division are our two most significant competitors. Both companies offer a service that provides hosted remote access, collaboration and remote access-based services.

Both of these competitors attract new customers through traditional marketing and sales efforts, while we have focused first on building a large-scale community of users. Our approach is differentiated from both Citrix and WebEx because we believe we reach significantly more users which allows us to attract paying customers efficiently.

In addition, certain of our solutions, including our free remote access service, also compete with current or potential services offered by Adobe, Apple, Cisco/WebEx, Citrix, Google, LivePerson, Microsoft and Oracle. Certain of our competitors may also offer, currently or in the future, lower priced, or free, products or services that compete with our solutions.

We believe our large user base also gives us an advantage over smaller competitors and potential new entrants into the market by making it more expensive for them to gain general market awareness. We currently compete against several smaller competitors, including NTRglobal, TeamViewer, Splashtop and Bomgar. In addition, potential customers may look to software-based and free solutions, including Symantec s pcAnywhere and Microsoft s Remote Desktop, which comes bundled into most current versions of the Microsoft operating system, and others.

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

Intellectual Property

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

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

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

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

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

Employees

As of December 31, 2011, we had 482 full-time employees. None of our employees are represented by labor unions or covered by collective bargaining agreements. We consider our relationship with our employees to be good.

Segments

We have determined that we have one operating segment. For more information about our segments, see Note 2 to our consolidated financial statements, *Summary of Significant Accounting Policies Segment Data.*

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

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

RISKS RELATED TO OUR BUSINESS

We may be unable to maintain profitability.

We experienced net losses of $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, $21.1 million for 2010 and $5.8 million for 2011. We cannot predict if we will sustain this profitability or, if we fail to sustain this profitability, attain profitability again in the near future or at all. We expect to continue making significant future expenditures to develop and expand our business. 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 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.

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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, please refer to Part I, Item 3 entitled Legal Proceedings and Note 12 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 includes acquiring complementary services, technologies or businesses. For example, in July 2011 we acquired substantially all of the assets and liabilities of Connected Environments (BVI) Ltd and Connected Environments Ltd and their Pachube service and in January 2012 we acquired substantially all of the assets and liabilities of Bold Software, LLC and its BoldChat service. We also may enter into relationships with other businesses to expand our portfolio of services or our ability to provide our services in foreign jurisdictions, which could involve preferred or exclusive licenses, additional channels of distribution, discount pricing or investments in other companies. Negotiating these transactions can be time-consuming, difficult and expensive, and our ability to close these transactions may often be subject to conditions or approvals that are beyond our control. Consequently, these transactions, even if undertaken and announced, may not close.

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

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

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

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

The integration of an acquired company such as our recent acquisition of substantially all of the assets and liabilities of Connected Environments (BVI) Ltd and Connected Environments Ltd and their Pachube service and our recent acquisition of substantially all of the assets and liabilities of Bold Software, LLC and its BoldChat service, will require, among other things, coordination of administrative, sales and marketing, accounting and finance functions and expansion of information and management systems. Integration may prove to be difficult initially due to the necessity of coordinating geographically separate organizations and integrating personnel with disparate business backgrounds and corporate cultures. We may not be able to retain key employees of Connected Environments, Bold Software or any other acquired company. Additionally, the process of integrating a new product or service may require a disproportionate amount of time and attention of our management and financial and other resources. Any difficulties or problems encountered in the integration of a new product or service could have a material adverse effect on our business.

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

In addition, we may only be able to conduct limited due diligence on an acquired company s operations. Following an acquisition, we may be subject to unforeseen liabilities arising from an acquired company s past or present operations. These liabilities may be greater than the warranty and indemnity limitations we negotiate. Any unforeseen liability that is greater than these warranty and indemnity limitations could have a negative impact on our financial condition.

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

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

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

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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.

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

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

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

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

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

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

Industry consolidation may result in increased competition.

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

Original equipment manufacturers may adopt solutions provided by our competitors.

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

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

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

- our ability to renew existing customers, increase sales to existing customers and attract new customers;
- the amount and timing of operating costs and capital expenditures related to the operation, maintenance and expansion of our business;
- service outages or security breaches;
- whether we meet the service level commitments in our agreements with our customers;
- changes in our pricing policies or those of our competitors;
- the timing and success of new application and service introductions and upgrades by us or our competitors;
- changes in sales compensation plans or organizational structure;
- the timing of costs related to the development or acquisition of technologies, services or businesses;
- seasonal variations or other 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

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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 $119.5 million in 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;

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- 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, 2011. 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

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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

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sales by us or our resellers and other partners. A successful assertion that we should be collecting sales or other related taxes on our services could result in substantial tax liabilities for past sales, discourage customers from purchasing our services or otherwise harm our business and operating results. In September 2011, we agreed to make a payment in the amount of $1.3 million to resolve uncollected sales tax claims with a state tax assessor s office.

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

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

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

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RISKS RELATED TO OWNERSHIP OF OUR COMMON STOCK

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

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

- develop or enhance our services;
- continue to expand our development, sales and marketing organizations;
- acquire complementary technologies, products or businesses;
- expand our operations, in the United States or internationally;
- hire, train and retain employees; or
- respond to competitive pressures or unanticipated working capital requirements.

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

Prior to the completion of our initial public offering, or IPO, in July 2009, there was no public market for shares of our common stock. During the period from our IPO until February 24, 2012, our common stock has traded as high as $49.50 and as low as $15.15. An active, liquid and orderly market for our common stock may not develop or be sustained, which could depress the trading price of our common stock. Some of the factors that may cause the market price of our common stock to fluctuate include:

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

- success of competitive products or services;
- changes in our capital structure, such as future issuances of securities or the incurrence of debt;
- announcements by us or our competitors of significant services, contracts, acquisitions or strategic alliances;
- regulatory developments in the United States, foreign countries or both;
- litigation involving our company, our general industry or both;
- 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.

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

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

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

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

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

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

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

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

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

As a public company, we incur significant legal, accounting and other expenses 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;

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- limiting the ability of our stockholders to call and bring business before special meetings and to take action by written consent in lieu of a meeting;
- requiring advance notice of stockholder proposals for business to be conducted at meetings of our stockholders and for nominations of candidates for election to our board of directors;
- controlling the procedures for the conduct and scheduling of board of directors and stockholder meetings;
- providing the board of directors with the express power to postpone previously scheduled annual meetings and to cancel previously scheduled special meetings;
- limiting the determination of the number of directors on our board of directors and the filling of vacancies or newly created seats on the board to our board of directors then in office; and
- providing that directors may be removed by stockholders only for cause.

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

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

ITEM 1B. *UNRESOLVED STAFF COMMENTS*

None.

ITEM 2. *PROPERTIES*

Our principal facilities consist of approximately 45,813 square feet of office space located at 500 Unicorn Park Drive, Woburn, Massachusetts, and approximately 37,725 square feet of space at our development facility located in Hungary. We also have leased additional office space in Hungary, The Netherlands, Australia, the United Kingdom and Japan. We believe our facilities are sufficient to support our needs through 2012 and that additional space will be available in the future on commercially reasonable terms as needed.

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

ITEM 3. *LEGAL PROCEEDINGS*

On September 8, 2010, 01 Communiqué 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. The court issued a written order regarding this decision on May 4, 2011. On May 13, 2011, 01 filed a notice of appeal appealing the court s ruling granting summary judgment. The U.S. Court of Appeals for the Federal Circuit heard oral argument regarding 01   s appeal of the summary judgment ruling on February 6, 2012.

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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 effect on our consolidated financial statements.

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

None.

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PART II

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

Certain Information Regarding the Trading of Our Common Stock

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

	High	Low
2009		
Third Quarter	$ 20.99	$ 15.15
Fourth Quarter	$ 23.50	$ 16.59
2010		
First Quarter	$ 21.05	$ 16.71
Second Quarter	$ 29.99	$ 20.02
Third Quarter	$ 38.62	$ 24.82
Fourth Quarter	$ 47.54	$ 33.00
2011		
First Quarter	$ 47.85	$ 33.35
Second Quarter	$ 49.50	$ 35.72
Third Quarter	$ 39.47	$ 26.74
Fourth Quarter	$ 44.60	$ 30.57

Holders of Our Common Stock

As of February 20, 2012, there were 13 holders of record of shares of our common stock.

Dividends

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

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

(a) Recent Sales of Unregistered Securities

We did not sell any unregistered securities during the year ended December 31, 2011.

Securities Authorized for Issuance Under Equity Compensation Plans

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

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

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

	Years Ended December 31,				
	2007	2008	2009	2010	2011
	(In thousands, except for per share data)				
Consolidated Statement of Operations Data:					
Revenue	$ 26,998	$ 51,723	$ 74,408	$ 101,057	$ 119,461
Cost of revenue(1)	3,925	5,970	7,508	9,124	10,574
Gross profit	23,073	45,753	66,900	91,933	108,887
Operating expenses:					
Research and development(1)	6,661	11,997	13,149	15,214	20,780
Sales and marketing(1)	19,488	31,631	35,821	45,869	57,156
General and administrative(1)	3,611	6,583	8,297	12,319	19,975
Legal settlements	2,225	600			1,250
Amortization of acquired intangibles(1)	328	328	328	338	228
Total operating expenses	32,313	51,139	57,595	73,740	99,389
Income (loss) from operations	(9,240)	(5,386)	9,305	18,193	9,498
Interest, net	260	217	128	634	861
Other income (expense), net	(25)	(111)	(294)	(219)	564
Income (loss) before provision for income taxes	(9,005)	(5,280)	9,139	18,608	9,795
Benefit (provision) for income taxes	(50)	(122)	(342)	2,491	(4,034)
Net income (loss)	(9,055)	(5,402)	8,797	21,099	5,761
Accretion of redeemable convertible preferred stock	(1,919)	(2,348)	(1,311)		
Net income (loss) attributable to common stockholders	$ (10,974)	$ (7,750)	$ 7,486	$ 21,099	$ 5,761
Net income (loss) attributable to common stockholders per share:	$ (2.98)	$ (1.97)	$ 0.39	$ 0.91	$ 0.24
Basic	$ (2.98)	$ (1.97)	$ 0.37	$ 0.85	$ 0.23
Diluted					
Weighted average shares outstanding:	3,686	3,933	12,990	23,244	24,176
Basic	3,686	3,933	14,835	24,840	25,155

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

	Years Ended December 31,				
	2007	2008	2009	2010	2011
	(in thousands)				
Cost of revenue:					
Stock-based compensation	$ 10	$ 64	$ 54	$ 261	$ 316
Intangible amortization	415	415	415	251	566
Research and development:					
Stock-based compensation	105	419	537	638	1,477
Sales and marketing:					
Stock-based compensation	177	962	932	1,553	2,700
General and administrative:					
Stock-based compensation	222	1,304	1,399	2,540	4,432
Amortization of acquired intangibles:					
Intangible amortization	328	328	328	338	228

	As of December 31,				
	2007	2008	2009(1)	2010	2011
	(In thousands)				
Consolidated Balance Sheet Data:					
Cash and cash equivalents and short-term marketable securities	$ 18,676	$ 22,913	$ 130,246	$ 167,424	$ 198,644
Total assets	28,302	37,415	142,859	186,677	232,057
Deferred revenue, including long-term portion	16,104	28,358	34,103	42,793	58,264
Long-term debt, including current portion	1,192				
Total liabilities	23,238	35,191	44,349	56,299	76,251
Redeemable convertible preferred stock	32,495	34,843			
Total equity (deficit)	(27,431)	(32,619)	98,509	130,378	155,806

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

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

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

Overview

LogMeIn provides essential cloud-based services for remote access, device management, data management customer care, and collaboration. Serving small and medium-sized businesses, or SMBs, IT service providers, mobile carriers, customer service centers, original equipment manufacturers, or OEMs, and consumers, we believe our cloud-based services are used to connect more Internet-enabled devices worldwide than any other connectivity platform on the market. Businesses and IT service providers use our services 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. Consumers and mobile workers use our remote connectivity services to access computer resources remotely and to collaborate with other users. A growing number of business-to-consumer and business-to-business OEMs use our services to connect their devices and device-created data to the Internet. Our services, which are deployed and accessed from anywhere with an Internet connection, are secure, scalable and easy for our customers to try, purchase and use.

We offer six 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 year ended December 31, 2011, we generated revenues of $119.5 million, compared to $101.1 million for the year ended December 31, 2010, an increase of approximately 18%.

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

Through December 31, 2011, we have primarily funded our operations through the sale of redeemable convertible preferred stock which resulted in proceeds of approximately $27.8 million and cash flows from operations. We earned net income of $8.8 million for 2009, $21.1 million for 2010 and $5.8 million for 2011. We expect to continue making significant future expenditures to develop and expand our business.

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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 should be considered along with the factors identified in the section titled *Risk Factors* of this Annual Report on Form 10-K.

- We continue to closely monitor current adverse economic conditions, particularly as they impact SMBs, IT service providers, mobile carriers 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 year ended December 31, 2011. In the fourth quarter of 2011, we migrated Ignition for iPhone and iPad from a perpetually based licensing model to a subscription based business model, which could impact the business performance of, and will impact the revenue recognition from, our Ignition product.

Employees

We have increased our number of full-time employees to 482 at December 31, 2011 as compared to 415 at December 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.

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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 due to amortization of acquired intangibles and 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, facilities rent and depreciation associated with assets used in development. We have focused our research and development efforts on both improving ease of use and functionality of our existing services, as well as developing new offerings. The majority of our research and development employees are located in our development centers in Europe. Therefore, a majority of research and development expense is subject to fluctuations in foreign exchange rates. The majority of research and development costs have been expensed as incurred. However, we capitalized approximately $0.3 million and $0.2 million for the years ended December 31, 2011 and 2010, respectively, of costs related to internally developed computer software to be sold as a service, which was incurred during the application development stage. We expect that research and development expenses will increase in both absolute dollars and as a percentage of revenue primarily as a result of contingent payment costs associated with acquisitions and as we continue to enhance and expand our services.

Sales and Marketing. Sales and marketing expenses consist primarily of wages, commissions and benefits for sales and marketing personnel, online search and advertising costs, 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, television and print advertisements as well as the costs to create and produce these advertisements, and tradeshows, including the costs of space at tradeshows and costs to design and construct tradeshow booths. Advertising costs are expensed as incurred. In order to continue to grow our business and awareness of our services, we expect that we will continue to commit resources to our sales and marketing efforts. We expect that sales and marketing expenses will increase in both absolute dollars and as a percentage of revenue as we continue to expand our sales capacity and marketing efforts.

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. Also included in general and administrative expenses for the year ended December 31, 2011, was $1.3 million related to a state sales tax settlement. We expect general and administrative expenses to increase as we continue to add personnel, enhance our internal information systems and incur additional expenses related to audit, accounting and insurance costs but remain relatively constant as a percentage of revenue. If 01 Communique is successful in their appeal of the summary judgment ruling granted to us in May 2011, we expect that general and administrative expense will increase in both absolute dollars and as a percentage of revenue.

Critical Accounting Policies

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

Revenue Recognition. We derive our revenue primarily from subscription fees related to our premium services, the licensing of our Ignition for iPhone, iPad and Android software products, and the licensing of our RemotelyAnywhere software and its related maintenance.

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

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

Our multi-element arrangements typically include subscription and professional services, which include development services. We have determined that the delivered items within our multi-element arrangements do not have value to the customer on a stand-alone basis as the services are not sold by any other vendor and the customer would not be able to resell such services. As a result, the deliverables within these arrangements do not qualify for treatment as separate units of accounting. Accordingly, we account for fees received under these multi-element arrangements as a single unit of accounting and recognizes the entire arrangement consideration ratably over the term of the related agreement, or the customer life, commencing when all the significant performance obligation have been delivered and when all the revenue recognition criteria have been met.

Income Taxes. We are subject to federal, state, and foreign income taxes for jurisdictions in which we operate, and we use estimates in determining our provision for these income taxes and deferred tax assets. Deferred tax assets, related valuation allowances, current tax liabilities and deferred tax liabilities are determined separately by tax jurisdiction. In making these determinations, we estimate deferred tax assets, related valuation allowances, current tax liabilities and deferred tax liabilities, and we assess temporary differences resulting from differing treatment of items for tax and accounting purposes. At December 31, 2011 and 2010, our deferred tax assets consisted primarily of net operating losses, research and development credit carryforwards, and stock option compensation expense. We assess the likelihood that deferred tax assets will be realized, and we recognize a valuation allowance if it is more likely than not that some portion of the deferred tax assets will not be realized. This assessment requires judgment as to the likelihood and amounts of future taxable income by tax jurisdiction. During 2010, we reassessed the need for a valuation allowance against our deferred tax assets and concluded that it was more likely than not that we would be able to realize certain of our deferred tax assets primarily as a result of continued profitability, achieving three years of cumulative profitability and forecasted future earnings. Accordingly, we reversed the valuation allowance related to our U.S. and certain foreign deferred tax assets of $8.6 million during the year ended December 31, 2010. As of December 31, 2011 and 2010, we maintained a full valuation allowance against the deferred tax assets of our Hungarian subsidiary. Additionally, as of December 31, 2011, we maintained a full valuation allowance against the deferred tax assets of our Pachube subsidiary. These entities have historical losses and we concluded it was not more likely than not that these deferred tax assets are realizable.

We evaluate our uncertain tax positions based on a determination of whether and how much of a tax benefit we have taken in our tax filings or positions is more likely than not to be realized. Potential interest and penalties associated with any uncertain tax positions are recorded as a component of income tax expense. As of December 31, 2011, we provided a liability of approximately $198,000 for uncertain tax positions. Although we believe that our tax estimates are reasonable, the ultimate tax determination involves significant judgment that is subject to audit by tax authorities in the ordinary course of business.

Goodwill and acquired intangible assets We record goodwill as the excess of the acquisition price over the fair value of the net tangible and identifiable intangible assets acquired. We do not amortize goodwill, but perform an annual impairment test of goodwill on the last day of our fiscal year and whenever events and circumstances indicate that the carrying amount of goodwill may exceed its fair value. We operate as a single operating segment with one reporting unit and consequently evaluate goodwill for impairment based on an

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evaluation of the fair value of the Company as a whole. As of December 31, 2011, our fair value as a whole significantly exceeds our carrying value. No impairments have been recorded through December 31, 2011.

We record intangible assets at their respective estimated fair values at the date of acquisition. Intangible assets are being amortized using the straight-line method over their estimated useful lives, which range from three to five years.

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

Determining the appropriate fair value model and calculating the fair value of stock-based payment awards requires the use of highly subjective estimates and assumptions, including the estimated fair value of common stock, expected life of the stock-based payment awards and stock price volatility. Because there was no public market for our common stock prior to our IPO, our Board of Directors determined the fair value of common stock at each option grant date, taking into account our most recently available independent valuation of common stock, as well as a number of objective and subjective factors, including peer group trading multiples, the amount of preferred stock liquidation preferences, the illiquid nature of our common stock and our size and lack of historical profitability. Beginning in 2006 and through our IPO in July 2009, we obtained independent common stock valuations to assist our Board of Directors in determining the fair value of our common stock. Determining the fair value of share-based awards requires the use of highly subjective assumptions, including the expected term of the award and expected stock price volatility.

The assumptions used in determining the fair value of share-based awards represent management s best estimates, but these estimates involve inherent uncertainties and the application of management s judgment. As a result, if factors change, and we use different assumptions, our share-based compensation could be materially different in the future. The risk-free interest rate used for each grant is based on a U.S. Treasury instrument with a term similar to the expected term of the share-based award. The expected term of options has been estimated utilizing the vesting period of the option, the contractual life of the option and our option exercise history. We estimate the expected volatility of our common stock at the date of grant based on the historical volatility of comparable public companies over the option s expected term as well as our own stock price volatility since our IPO. We recognize compensation expense for only the portion of options that are expected to vest. Accordingly, we have estimated expected forfeitures of stock options based on our historical forfeiture rate and we use these rates to develop future forfeiture rates. If our actual forfeiture rate varies from our historical rates and estimates, additional adjustments to compensation expense may be required in future periods. Past fair value of option grants may not be a reliable indicator of future fair values as assumptions such as volatility may change over time.

Loss Contingencies. We are currently involved in various legal claims and legal proceedings and may be subject to additional legal claims and proceedings in the future that arise in the ordinary course of business. We consider the likelihood of a loss or the incurrence of a liability, as well as our ability to reasonably estimate the amount of loss, in determining loss contingencies. An estimated loss contingency is accrued when we believe that it is both probable that a liability has been incurred and the amount of loss can be reasonably estimated. Significant judgment is required to determine both probability and the estimated amount. We regularly evaluate current information available and reflect the impact of negotiations, settlements, rulings, advice of legal counsel, and updated information to determine whether such accruals should be adjusted and whether new accruals are required and update our disclosures accordingly. Litigation is inherently unpredictable and is subject to significant uncertainties, some of which are beyond our control. Should any of these estimates and assumptions change or prove to have been incorrect, it could have a material adverse effect on our results of operations, financial position and cash flows. See Note 12 to the Consolidated Financial Statements in Part II, Item 8 for a further discussion of litigation and contingencies as well as Legal Proceedings in Part I, Item 3.

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Results of Consolidated Operations

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

	Years Ended December 31,		
	2009	**2010**	**2011**
Operations Data:			
Revenue	100%	100%	100%
Cost of revenue	10	9	9
Gross profit	90	91	91
Operating expenses:			
Research and development	18	15	17
Sales and marketing	48	46	48
General and administrative	11	12	17
Legal settlements			1
Amortization of acquired intangibles			
Total operating expenses	77	73	83
Income from operations	13	18	8
Interest and other income (expense), net	(1)		
Income before income taxes	12	18	8
Benefit (provision) for income taxes		3	(3)
Net income	12%	21%	5%

Years Ended December 31, 2011 and 2010

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

Cost of Revenue. Cost of revenue for the year ended December 31, 2011 was $10.6 million, an increase of $1.4 million, or 16%, over cost of revenue of $9.1 million for the year ended December 31, 2010. As a percentage of revenue, cost of revenue was 9% for the years ended December 31, 2011 and 2010. The increase in absolute dollars resulted primarily from an increase in both the number of customers using our premium services and the total number of devices that connected to our services, including devices owned by free users, which resulted in increased hosting and customer support costs. The increase in cost of revenue was primarily due to a $0.7 million increase in costs associated with managing our data centers and the hosting of our services. The increase was also due to a $0.3 million increase in amortization of intangible assets primarily due to the Pachube acquisition in July 2011 and a $0.2 million increase in personnel-related costs, including a $0.1 million increase in stock-based compensation, as we increased the number of customer support employees to support our overall growth.

Research and Development Expenses. Research and development expenses for the year ended December 31, 2011 were $20.7 million, an increase of $5.6 million, or 37%, over research and development expenses of $15.2 million for the year ended December 31, 2010. As a percentage of revenue, research and development expenses were 17% and 15% for the year ended December 31, 2011 and 2010, respectively. The increase in absolute dollars was primarily due to a $4.5 million increase in personnel-related costs as we hired additional employees to improve the ease of use and functionality of our existing services and develop new service offerings, retained employees from the Pachube acquisition in July 2011, recognition of $1.5 million of contingent payment costs also associated with the Pachube

acquisition (see note 4 to the consolidated financial statements) and a $0.8 million increase in stock-based compensation primarily resulting from our decision to issue stock options to our Hungarian employees in 2011. The increase was also due to $0.4 million increase in professional fees, a $0.3 million increase in depreciation expense, a $0.1 million increase in travel-related costs, a $0.1 million increase in rent costs, a $0.1 million increase in hardware and software maintenance costs and $0.1 million increase in telecom costs. These were offset by a $0.2 million increase in costs related to internally developed computer software to be sold as a service which was incurred during the application development stage and therefore capitalized rather than expensed.

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

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

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

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

Interest and Other Income, Net. Interest and other income, net was income of approximately $0.3 million and $0.4 million for the years ended December 31, 2011 and 2010, respectively. The change was mainly due to an increase in interest income resulting from an increase in the balance of funds invested in higher yielding marketable securities, offset by an increase in foreign currency losses.

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

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

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

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

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

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

Years Ended December 31, 2010 and 2009

Revenue. Revenue for the year ended December 31, 2010 was $101.1 million, an increase of $26.6 million, or 36%, over revenue of $74.4 million for the year ended December 31, 2009. Of the 36% 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 585,000 at December 31, 2010 from approximately 300,000 premium accounts at December 31, 2009, and incremental add-on revenues from our existing customer base. The increase in revenue was also due to approximately $3.6 million of incremental revenue from Intel related to the one-time termination payment and acceleration of development fees recognized as revenue related to the early termination of our sales and marketing agreement in December 2010.

Cost of Revenue. Cost of revenue for the year ended December 31, 2010 was $9.1 million, an increase of $1.6 million, or 22%, over cost of revenue of $7.5 million for the year ended December 31, 2009. As a percentage of revenue, cost of revenue was 9% and 10% for the years ended December 31, 2010 and 2009, 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, $0.9 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, $0.8 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 year ended December 31, 2010 were $15.2 million, an increase of $2.1 million, or 16%, over research and development expenses of $13.1 million for the year ended December 31, 2009. As a percentage of revenue, research and development expenses were 15% and 18% for the year ended December 31, 2010 and 2009, respectively. The increase in absolute dollars was primarily due to a $1.5 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 $0.2 million of costs related to new product development incurred during the application development stage during the year ended December 31, 2010. No amounts were capitalized in year ended December 31, 2009

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as the costs incurred in the period were immaterial. The increase was also due to a $0.3 million increase in rent costs primarily related to our new office space in Hungary, a $0.3 million increase in travel-related costs and a $0.1 million increase in depreciation expense. These were offset by a $0.2 million decrease in professional fees.

Sales and Marketing Expenses. Sales and marketing expenses for the year ended December 31, 2010 were $45.9 million, an increase of $10.0 million, or 28%, over sales and marketing expenses of $35.8 million for the year ended December 31, 2009. As a percentage of revenue, sales and marketing expenses were 46% and 48% for the year ended December 31, 2010 and 2009, respectively. The increase in absolute dollars was primarily due to a $6.4 million increase in marketing program costs and a $2.6 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 $0.4 million increase in credit card processing fees, a $0.2 million increase in hardware and software maintenance costs, a $0.2 million increase in travel-related costs and a $0.1 increase in rent costs primarily related to the expansion of our corporate headquarters.

General and Administrative Expenses. General and administrative expenses for the year ended December 31, 2010 were $12.3 million, an increase of $4.0 million, or 48%, over general and administrative expenses of $8.3 million for the year ended December 31, 2009. As a percentage of revenue, general and administrative expenses were 12% and 11% for the year ended December 31, 2010 and 2009, respectively. The increase in absolute dollars was primarily due to a $2.3 million increase in personnel-related costs as we increased the number of general and administrative employees to support our overall growth. The increase was also due to a $0.6 million increase in legal fees, a $0.4 million increase in audit and accounting costs, a $0.3 million increase in corporate insurance costs and a $0.2 million increase in professional fees.

Amortization of Acquired Intangibles. Amortization of acquired intangibles for the year ended December 31, 2010 and 2009 was $0.3 million and related primarily to the value of intangible assets acquired in our July 2006 acquisition of Applied Networking, Inc.

Interest and Other Income (Expense), Net. Interest and other income (expense), net for the year ended December 31, 2010 was income of approximately $0.4 million, compared to an expense of approximately $0.2 million for the year ended December 31, 2009. The change was mainly due to an increase in interest income resulting from an increase in the amount of funds invested in higher yielding marketable securities as well as a decrease in foreign currency losses.

Income Taxes. Our effective income tax rate for the year ended December 31, 2010 was a benefit of 13% on pre-tax income of $18.6 million. Our effective rate for the period is lower than the statutory federal income tax rate of 35% due primarily to the $8.6 million reversal during 2010 of our beginning of the year valuation allowance related to our domestic and certain foreign deferred tax assets. As of December 31, 2009 and through the first quarter of 2010, we provided a full valuation allowance related to our deferred tax assets as we believed the objective and verifiable evidence of our historical pre-tax net losses outweighed the existing positive evidence.

During 2010, we reassessed the need for a valuation allowance against our deferred tax assets and concluded that it was more likely than not that we would be able to realize certain of our deferred tax assets primarily as a result of continued profitability and forecasted future results. Accordingly, we reversed our valuation allowance related to our U.S. and certain foreign deferred tax assets. As of December 31, 2010, we maintained a full valuation allowance related to the deferred tax assets of our Hungarian subsidiary.

Net Income. We recognized net income of $21.1 million for the year ended December 31, 2010 compared to net income of $8.8 million for the year ended December 31, 2009. The $12.3 million increase in net income for the year ended December 31, 2010, is primarily due to a $26.6 million increase in revenue partially offset by a $1.6 million increase in cost of revenue and a $16.1 million increase in operating expense. The increase in net income is also due to a $2.5 million tax benefit for the year ended December 31, 2010, compared to a $0.3 million tax provision for the year ended December 31, 2009.

The $26.6 million increase in revenue is primarily due to a $23.0 million increase in revenue from new customers and add-on revenues from our existing customer base and $3.6 million of incremental revenue related to the one-time termination payment and acceleration of development fees recognized as revenue related to the early termination of the Intel agreement in December 2010.

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The $1.6 million increase in cost of revenue is primarily due to a $0.9 million increase in costs to manage our data centers and the hosting of our services and an $0.8 million increase in customer support costs which primarily relate to increased personnel-related costs.

The $16.1 million increase in operating expenses is primarily due to a $6.4 million increase in marketing program costs, a $4.6 million increase in personnel-related costs, a $1.8 million increase in stock-based compensation, a $1.0 million increase in professional fees, a $0.5 million increase in travel-related costs, and a $0.4 million increase in rent costs.

For the year ended December 31, 2010, we recorded a tax benefit of $2.5 million which consists of a $6.1 provision for federal, state, and foreign income taxes, offset by an $8.6 million tax benefit associated with the reversal of our valuation allowance against our domestic and certain foreign deferred tax assets. For the year ended December 31, 2009, we recorded a tax provision of $0.3 million for alternative minimum taxes, state and foreign income taxes.

Liquidity and Capital Resources

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

	Years Ended December 31,		
	2009	2010	2011
		(In thousands)	
Net cash provided by operations	$ 24,339	$ 36,469	$ 32,871
Net cash used in investing activities	(33,165)	(65,003)	(17,760)
Net cash provided by financing activities	86,157	5,789	12,094
Effect of exchange rate changes	46	(265)	(881)
Net increase (decrease) in cash	$ 77,237	$ (23,010)	$ 26,324

At December 31, 2011, our principal source of liquidity was cash and cash equivalents and short-term marketable securities totaling $198.6 million. Total cash and cash equivalents held by our foreign subsidiaries totaled approximately $6.4 million at December 31, 2011.

Cash Flows From Operating Activities

Net cash provided by operating activities was $32.9 million, $36.5 million, and $24.3 million for the years ended December 31, 2011, 2010 and 2009, respectively.

Net cash inflows from operating activities during the year ended December 31, 2011 were mainly attributable to a $15.5 million increase in deferred revenue associated with the increase in subscription sales orders and customer growth. Net cash inflows from operating activities were also attributable to non-cash operating expenses, including $8.9 million for stock compensation, $4.4 million for depreciation and amortization, and a $3.8 million provision from deferred income taxes, offset by non-cash benefits, primarily including a $5.9 million income tax benefit from the exercise of stock options. The increase in net cash inflows from operating activities were also attributable to a $3.3 million increase in accounts payable and accrued expenses, a $0.1 million increase in other long-term liabilities and a $0.1 million decrease in prepaid expenses and other current assets, offset by a $4.1 million increase in accounts receivable and a $0.2 increase in other assets. We expect that our future cash flows from operating activities will be impacted by the contingent payments associated with the Pachube and Bold Software acquisitions. Also, if 01 Communique is successful in their appeal of the summary judgment ruling granted to us in May 2011, we may continue to incur significant legal costs, which could impact our future cash flows from operating activities.

Net cash inflows from operating activities during the year ended December 31, 2010 were mainly due to $21.1 million of net income for the period. Net cash inflows from operating activities were also due to non-cash operating expenses, including $3.7 million for depreciation and amortization, $5.0 million for stock compensation and $0.2 million for amortization of premium on investments, offset by non-cash benefits, including a

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$2.7 million benefit from deferred income taxes and a $1.1 million income tax benefit from the exercise of stock options. The net cash inflows from operating activities were also due to an $8.7 million increase in deferred revenue associated with the increase in subscription sales orders and customer growth and a $3.3 million increase in current liabilities. These were offset by a $1.1 million increase in prepaid expenses and other current assets and a $0.7 million increase in accounts receivable.

Cash Flows From Investing Activities

Net cash used in investing activities was $17.8 million, $65.0 million and $33.2 million for the years ended December 31, 2011, 2010 and 2009, respectively.

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

Net cash used in investing for the year ended December 31, 2010 was primarily related to the purchase of $185.3 million of marketable securities offset by proceeds of $125.0 million from sale or disposal of marketable securities. We invested an additional $4.2 million in property and equipment mainly related to the expansion and upgrade of our data center capacity and also related to the expansion of our corporate headquarters. We also had $0.4 million in intangible asset additions related to the purchase of domain names, trademarks and internally developed software.

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

Cash Flows From Financing Activities

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

Net cash flows provided by financing activities were $5.8 million for the year ended December 31, 2010 and were mainly related to $4.8 million in proceeds received from the issuance of common stock upon exercise of stock options as well as a $1.1 million income tax benefit from the exercise of stock options offset by $0.2 million in payments made in connection with our secondary public offering.

On July 7, 2009, we closed our IPO raising net proceeds of approximately $82.9 million after deducting underwriting discounts and commissions and offering costs. On December 16, 2009, we closed our secondary public offering raising net proceeds of approximately $1.2 million after deducting underwriting discounts and commissions and offering costs. While we believe that our current cash and cash equivalents will be sufficient to meet our working capital and capital expenditure requirements for at least the next twelve months, we may elect to raise additional capital through the sale of additional equity or debt securities or obtain a credit facility to develop or enhance our services, to fund expansion, to respond to competitive pressures or to acquire complementary products, businesses or technologies. If we elect, additional financing may not be available in amounts or on terms that are favorable to us, if at all. If we raise additional funds through the issuance of equity or convertible debt securities, our existing stockholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our common stock.

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

Off-Balance Sheet Arrangements

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

Contractual Obligations

The following table summarizes our contractual obligations at December 31, 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	$ 8,418,000	$ 2,666,000	$ 3,050,000	$ 2,444,000	$ 258,000
Hosting service agreements	$ 1,094,000	$ 1,094,000			
Total	$ 9,512,000	$ 3,760,000	$ 3,050,000	$ 2,444,000	$ 258,000

The commitments under our operating leases shown above consist primarily of lease payments for our Woburn, Massachusetts corporate headquarters, our international offices located in Hungary, The Netherlands, Australia, the United Kingdom and Japan, and contractual obligations related to our data centers.

Recent Accounting Pronouncements

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

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

In May 2011, the FASB issued ASU No. 2011-04, Fair Value Measurement (Topic 820) Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (ASU 2011-04), to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between GAAP and International Financial Reporting Standards. ASU 2011-04 changes certain fair value measurement principles and enhances the disclosure requirements particularly for Level 3 fair value measurements (as defined in Note 4). ASU 2011-04 is effective for us in our first quarter of fiscal 2012 and should be applied prospectively. We do not expect the adoption of ASU 2011-04 to have a material impact on our financial position, results of operations or cash flows.

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

Foreign Currency Exchange Risk. Our results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates as a result of the majority of our research and development expenditures being made from our Hungarian research and development facilities, and in our international sales and marketing offices in The Netherlands, the United Kingdom, Australia, Japan, Brazil and India. In the year ended December 31, 2011, approximately 15%, 4%, 6% and 2% of our operating expenses occurred in our operations in Hungary, The Netherlands, the United Kingdom and Australia, respectively, and less than 1% each in Japan, Brazil and India. In the year ended December 31, 2010, approximately 15%, 9%, 3%, 4% and less than 1% of our operating expenses occurred in our operations in Hungary, The Netherlands, Australia, the United Kingdom and Brazil, respectively.

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

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

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

LogMeIn, Inc.

Index to Consolidated Financial Statements

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors of

LogMeIn, Inc.

Woburn, Massachusetts

We have audited the accompanying consolidated balance sheets of LogMeIn, Inc. and subsidiaries (the Company) as of December 31, 2010 and 2011, and the related consolidated statements of income, redeemable convertible preferred stock, equity and comprehensive income, and cash flows for each of the three years in the period ended December 31, 2011. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of LogMeIn, Inc. and subsidiaries as of December 31, 2010 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of December 31, 2011, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 24, 2012 expressed an unqualified opinion on the Company s internal control over financial reporting.

/s/ Deloitte & Touche LLP

Boston, Massachusetts

February 24, 2012

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LogMeIn, Inc.

Consolidated Balance Sheets

	December 31, 2010	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 77,279,987	$ 103,603,684
Marketable securities	90,144,484	95,040,045
Accounts receivable (net of allowance for doubtful accounts of $111,000 and $109,000 as of December 31, 2010 and December 31, 2011, respectively)	4,744,392	8,747,104
Prepaid expenses and other current assets (including $9,000 and $0 of non-trade receivable due from related party at December 31, 2010 and December 31, 2011, respectively)	2,905,618	2,411,640
Deferred income tax assets	1,315,529	1,980,342
Total current assets	176,390,010	211,782,815
Property and equipment, net	6,198,487	5,202,721
Restricted cash	350,481	369,792
Intangibles, net	577,815	3,260,612
Goodwill	615,299	7,258,743
Other assets	27,019	242,122
Deferred income tax assets	2,518,158	3,940,312
Total assets	$ 186,677,269	$ 232,057,117
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 2,176,390	$ 6,275,163
Accrued liabilities	10,829,310	10,472,805
Deferred revenue, current portion	41,763,138	55,961,859
Total current liabilities	54,768,838	72,709,827
Deferred revenue, net of current portion	1,030,017	2,302,465
Other long-term liabilities	500,156	1,239,136
Total liabilities	56,299,011	76,251,428
Commitments and contingencies (Note 12)		
Preferred stock, $0.01 par value 5,000,000 shares authorized, 0 shares outstanding as of December 31, 2010 and December 31, 2011		
Equity:		
Common stock, $0.01 par value 75,000,000 shares authorized as of December 31, 2010 and December 31, 2011; 23,858,514 and 24,551,641 shares issued and outstanding as of December 31, 2010 and December 31, 2011, respectively	238,585	245,516
Additional paid-in capital	133,425,098	154,440,369
(Accumulated deficit) retained earnings	(3,084,316)	2,677,128
Accumulated other comprehensive loss	(201,109)	(1,557,324)
Total equity	130,378,258	155,805,689
Total liabilities and equity	$ 186,677,269	$ 232,057,117

See notes to consolidated financial statements.

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LogMeIn, Inc.

Consolidated Statements of Income

	Years Ended December 31, 2009	2010	2011
Revenue (including $6,007,000, $9,580,000 and $0 from a related party during the years ended December 31, 2009, 2010 and 2011, respectively)	$ 74,408,660	$ 101,057,207	$ 119,460,926
Cost of revenue	7,508,376	9,124,645	10,573,781
Gross profit	66,900,284	91,932,562	108,887,145
Operating expenses			
Research and development	13,148,986	15,213,902	20,780,061
Sales and marketing	35,820,996	45,868,817	57,155,727
General and administrative	8,297,399	12,319,316	19,975,048
Legal settlements			1,250,000
Amortization of acquired intangibles	327,716	337,753	228,138
Total operating expenses	57,595,097	73,739,788	99,388,974
Income from operations	9,305,187	18,192,774	9,498,171
Interest income	129,485	634,657	862,966
Interest expense	(1,766)	(1,000)	(1,207)
Other expense	(294,116)	(218,816)	(564,466)
Income before income taxes	9,138,790	18,607,615	9,795,464
(Provision) benefit for income taxes	(341,537)	2,491,029	(4,034,020)
Net income	8,797,253	21,098,644	5,761,444
Accretion of redeemable convertible preferred stock	(1,311,225)		
Net income attributable to common stockholders	$ 7,486,028	$ 21,098,644	$ 5,761,444
Net income attributable to common stockholders per share:			
Basic	$ 0.39	$ 0.91	$ 0.24
Diluted	$ 0.37	$ 0.85	$ 0.23
Weighted average shares outstanding:			
Basic	12,989,943	23,244,479	24,175,621
Diluted	14,835,314	24,839,905	25,154,599

See notes to consolidated financial statements.

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LogMeIn, Inc.

Consolidated Statements of Redeemable Convertible Preferred Stock, Equity and Comprehensive Income

deemable Preferred ck	Series B Redeemable Convertible Preferred Stock		Series B-1 Redeemable Convertible Preferred Stock		Total Redeemable Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	(Accumulated Deficit) Retained Earnings	Accumul Othe Comprehe Incon (Loss
Amount	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount			
12,500,967	11,668,703	11,628,984	2,222,223	10,713,318	30,901,339	34,843,269	3,980,278	39,803	311,048	(32,980,213)	9,9
							258,229	2,582	514,027		
							5,750,000	57,500	82,830,086		
							99,778	998	1,235,057		
509,072		399,206		402,947		1,311,225			(1,311,225)		
(13,010,039)	(11,668,703)	(12,028,190)	(2,222,223)	(11,116,265)	(30,901,339)	(36,154,494)	12,360,523	123,605	36,030,889		
									2,855,490		
										8,797,253	
											(53,6
											46,1
							22,448,808	224,488	122,465,372	(24,182,960)	2,4