
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2019

OR

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

For the transition period from _____ to _____

Commission file number: 001-34391

LOGMEIN, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

320 Summer Street

Boston, Massachusetts

(Address of principal executive offices)

20-1515952

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

02210

(Zip Code)

781-638-9050

(Registrant's telephone number, including area code)

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

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

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

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

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

As of April 22, 2019, there were 49,823,436 shares of the registrant's Common Stock, par value \$0.01 per share, outstanding.

LOGMEIN, INC.

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LogMeIn, Inc.
Condensed Consolidated Balance Sheets
(In thousands, except per share data)

	December 31, 2018	March 31, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 148,652	\$ 145,056
Accounts receivable (net of allowances of \$2,785 and \$3,334 as of December 31, 2018 and March 31, 2019, respectively)	95,354	88,954
Prepaid expenses and other current assets	83,887	80,944
Total current assets	327,893	314,954
Property and equipment, net	98,238	101,445
Operating lease assets (Note 9)	—	108,530
Restricted cash, net of current portion	1,840	1,803
Intangibles, net	1,059,988	1,014,935
Goodwill	2,400,390	2,413,172
Other assets	41,545	46,303
Deferred tax assets	6,059	6,106
Total assets	<u>\$ 3,935,953</u>	<u>\$ 4,007,248</u>
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 35,447	\$ 43,769
Current operating lease liabilities (Note 9)	—	16,024
Accrued liabilities	119,379	145,189
Deferred revenue, current portion	369,780	393,807
Total current liabilities	524,606	598,789
Long-term debt	200,000	200,000
Deferred revenue, net of current portion	9,518	8,488
Deferred tax liabilities	201,212	192,850
Non-current operating lease liabilities (Note 9)	—	98,293
Other long-term liabilities	25,929	13,892
Total liabilities	<u>961,265</u>	<u>1,112,312</u>
Commitments and contingencies (Note 13)		
Preferred stock, \$0.01 par value — 5,000 shares authorized, 0 shares outstanding as of December 31, 2018 and March 31, 2019		
Equity:		
Common stock, \$0.01 par value—150,000 shares authorized; 56,703 and 56,890 shares issued; and 50,692 and 50,166 outstanding as of December 31, 2018 and March 31, 2019, respectively	567	569
Additional paid-in capital	3,316,603	3,322,862
Retained earnings	84,043	58,487
Accumulated other comprehensive income (loss)	2,133	(492)
Treasury stock, at cost - 6,011 and 6,725 shares as of December 31, 2018 and March 31, 2019, respectively	(428,658)	(486,490)
Total equity	<u>2,974,688</u>	<u>2,894,936</u>
Total liabilities and equity	<u>\$ 3,935,953</u>	<u>\$ 4,007,248</u>

See notes to condensed consolidated financial statements.

LogMeIn, Inc.
Condensed Consolidated Statements of Operations
(In thousands, except per share data)

	Three Months Ended March 31,	
	2018	2019
Revenue	\$ 279,217	\$ 307,700
Cost of revenue	62,942	77,688
Gross profit	216,275	230,012
Operating expenses		
Research and development	43,116	40,717
Sales and marketing	88,215	114,634
General and administrative	35,443	33,886
Restructuring charge	—	8,474
Gain on disposition of assets	(33,910)	—
Amortization of acquired intangibles	41,083	39,499
Total operating expenses	173,947	237,210
Income (loss) from operations	42,328	(7,198)
Interest income	673	661
Interest expense	(326)	(2,143)
Other income (expense), net	(240)	(260)
Income (loss) before income taxes	42,435	(8,940)
(Provision for) benefit from income taxes	(12,723)	(99)
Net income (loss)	\$ 29,712	\$ (9,039)
Net income (loss) per share:		
Basic	\$ 0.57	\$ (0.18)
Diluted	\$ 0.56	\$ (0.18)
Weighted average shares outstanding:		
Basic	52,457	50,639
Diluted	53,415	50,639
Cash dividends declared and paid per share	\$ 0.30	\$ 0.325

See notes to condensed consolidated financial statements.

LogMeIn, Inc.
Condensed Consolidated Statements of Comprehensive Income (Loss)
(In thousands)

	<u>Three Months Ended March 31,</u>	
	<u>2018</u>	<u>2019</u>
Net income (loss)	\$ 29,712	\$ (9,039)
Other comprehensive gain (loss):		
Net translation gains (losses)	5,457	(2,625)
Comprehensive income (loss)	<u>\$ 35,169</u>	<u>\$ (11,664)</u>

See notes to condensed consolidated financial statements.

LogMeIn, Inc.
Condensed Consolidated Statements of Equity
(In thousands)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Equity
	Number of Shares	Amount					
Balance at January 1, 2018	52,564	\$ 560	\$ 3,276,891	\$ 50,445	\$ 15,570	\$ (179,725)	\$ 3,163,741
Issuance of common stock upon exercise of stock options	4	—	63	—	—	—	63
Net issuance of common stock upon vesting of restricted stock units	183	2	(11,232)	—	—	—	(11,230)
Stock-based compensation	—	—	15,966	—	—	—	15,966
Treasury stock	(404)	—	—	—	—	(49,039)	(49,039)
Dividends on common stock	—	—	—	(15,738)	—	—	(15,738)
Adoption of ASC 606	—	—	—	21,430	—	—	21,430
Net income (loss)	—	—	—	29,712	—	—	29,712
Cumulative translation adjustments	—	—	—	—	5,457	—	5,457
Balance at March 31, 2018	<u>52,347</u>	<u>\$ 562</u>	<u>\$ 3,281,688</u>	<u>\$ 85,849</u>	<u>\$ 21,027</u>	<u>\$ (228,764)</u>	<u>\$ 3,160,362</u>

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Equity
	Number of Shares	Amount					
Balance at January 1, 2019	50,692	\$ 567	\$ 3,316,603	\$ 84,043	\$ 2,133	\$ (428,658)	\$ 2,974,688
Issuance of common stock upon exercise of stock options	1	—	41	—	—	—	41
Net issuance of common stock upon vesting of restricted stock units	187	2	(8,813)	—	—	—	(8,811)
Stock-based compensation	—	—	15,031	—	—	—	15,031
Treasury stock	(714)	—	—	—	—	(57,832)	(57,832)
Dividends on common stock	—	—	—	(16,517)	—	—	(16,517)
Net income (loss)	—	—	—	(9,039)	—	—	(9,039)
Cumulative translation adjustments	—	—	—	—	(2,625)	—	(2,625)
Balance at March 31, 2019	<u>50,166</u>	<u>\$ 569</u>	<u>\$ 3,322,862</u>	<u>\$ 58,487</u>	<u>\$ (492)</u>	<u>\$ (486,490)</u>	<u>\$ 2,894,936</u>

See notes to condensed consolidated financial statements.

LogMeIn, Inc.
Condensed Consolidated Statements of Cash Flows
(In thousands)

	Three Months Ended March 31,	
	2018	2019
Cash flows from operating activities		
Net income (loss)	\$ 29,712	\$ (9,039)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Stock-based compensation	15,966	15,031
Depreciation and amortization	71,290	75,944
Gain on disposition of assets, excluding transaction costs	(36,281)	-
Benefit from deferred income taxes	(9,353)	(11,651)
Other, net	464	337
Changes in assets and liabilities, excluding effect of acquisitions and dispositions:		
Accounts receivable	9,820	6,024
Prepaid expenses and other current assets	4,767	2,883
Other assets	(2,767)	(6,674)
Accounts payable	9,646	9,344
Accrued liabilities	19,812	19,350
Deferred revenue	38,685	23,820
Other long-term liabilities	2,212	(5,719)
Net cash provided by operating activities	<u>153,973</u>	<u>119,650</u>
Cash flows from investing activities		
Purchases of property and equipment	(7,249)	(12,187)
Intangible asset additions	(7,096)	(8,915)
Cash paid for acquisitions, net of cash acquired	—	(22,463)
Proceeds from disposition of assets	42,394	—
Net cash provided by (used in) investing activities	<u>28,049</u>	<u>(43,565)</u>
Cash flows from financing activities		
Proceeds from issuance of common stock upon option exercises	63	41
Payments of withholding taxes in connection with restricted stock unit vesting	(9,230)	(7,789)
Dividends paid on common stock	(15,738)	(16,517)
Purchase of treasury stock	(46,901)	(54,067)
Net cash used in financing activities	<u>(71,806)</u>	<u>(78,332)</u>
Effect of exchange rate changes on cash, cash equivalents and restricted cash	2,657	(1,385)
Net increase (decrease) in cash, cash equivalents and restricted cash	112,873	(3,632)
Cash, cash equivalents and restricted cash, beginning of period	254,209	150,492
Cash, cash equivalents and restricted cash, end of period	<u>\$ 367,082</u>	<u>\$ 146,860</u>
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ —	\$ 1,906
Cash paid for (refunded from) income taxes	\$ 4,738	\$ (313)
Noncash investing and financing activities		
Purchases of property and equipment included in accounts payable and accrued liabilities	\$ 2,657	\$ 7,704
Withholding taxes in connection with restricted stock unit vesting in accrued liabilities	\$ 1,999	\$ 1,023
Purchases of treasury stock included in accrued liabilities	\$ 2,137	\$ 5,554
Purchases of intangible assets included in accrued liabilities	\$ 2,500	\$ —
Fair value of contingent consideration in connection with acquisition, included in accrued liabilities	\$ —	\$ 3,170

See notes to condensed consolidated financial statements.

LogMeIn, Inc.
Notes to Condensed Consolidated Financial Statements

1. Nature of the Business

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

2. Summary of Significant Accounting Policies

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

Unaudited Interim Condensed Consolidated Financial Statements — The accompanying condensed consolidated financial statements and the related interim information contained within the notes to the condensed consolidated financial statements are unaudited and have been prepared in accordance with GAAP and applicable rules and regulations of the Securities and Exchange Commission for interim financial information. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. The accompanying unaudited condensed consolidated financial statements should be read along with the Company's audited financial statements included in the Company's Annual Report on Form 10-K, filed with the Securities and Exchange Commission on February 21, 2019. The unaudited interim condensed consolidated financial statements have been prepared on the same basis as the audited financial statements and in the opinion of management, reflect all adjustments, consisting of normal and recurring adjustments, necessary for the fair presentation of the Company's financial position, results of operations and cash flows for the interim periods presented. The results for the interim periods presented are not necessarily indicative of future results. The Company considers events or transactions that occur after the balance sheet date but before the financial statements are issued to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure.

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

Costs to Obtain and Fulfill a Contract — The Company's incremental costs of obtaining a contract consist of sales commissions and their related fringe benefits. Sales commissions and fringe benefits paid on renewals are not commensurate with sales commissions paid on the initial contract, but they are commensurate with each other. Sales commissions and fringe benefits are deferred and amortized on a straight-line basis over the period of benefit, which the Company has estimated to be three to four years for initial contracts and amortized over the renewal period for renewal contracts, typically one year. The period of benefit was determined based on an average customer contract term, expected contract renewals, changes in technology and the Company's ability to retain customers. Deferred commissions are classified as current or noncurrent assets based on the timing the expense will be recognized. The current and noncurrent portions of deferred commissions are included in prepaid expenses and other current assets and other assets, respectively, in the Company's condensed consolidated balance sheets. As of December 31, 2018 and March 31, 2019, the Company had \$33.7 million of current deferred commissions and \$31.2 million of noncurrent deferred commissions, and \$36.4 million of current deferred commissions and \$35.2 million of noncurrent deferred commissions, respectively. Commissions expense is primarily included in sales and marketing expense on the condensed consolidated statements of operations. The Company had amortization expense of \$3.3 million and \$8.5 million related to deferred commissions during the three months ended March 31, 2018 and 2019, respectively. Other costs incurred to fulfill contracts have been immaterial to date.

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

The Company determines revenue recognition through the following five steps:

- Identification of the contract, or contracts, with a customer

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

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

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

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

	Three Months Ended March 31,	
	2018	2019
Revenues:		
United States	\$ 211,754	\$ 241,294
International	67,463	66,406
Total revenue	<u>\$ 279,217</u>	<u>\$ 307,700</u>

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

	Three Months Ended March 31,	
	2018	2019
Revenues:		
Unified communications and collaboration	\$ 149,907	\$ 169,957
Identity and access management	84,670	94,179
Customer engagement and support	44,640	43,564
Total revenue	<u>\$ 279,217</u>	<u>\$ 307,700</u>

Performance Obligations

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

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

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

Accounts Receivable, Net — Accounts receivable, net, are amounts due from customers where there is an unconditional right to consideration. Unbilled receivables of \$5.4 million and \$6.4 million are included in this balance at December 31, 2018 and March 31, 2019, respectively. The payment of consideration related to these unbilled receivables is subject only to the passage of time. As of December 31, 2018 and March 31, 2019, lease receivables totaled \$4.9 million (of which, \$2.8 million was long term and in other assets), and \$5.9 million (of which, \$3.0 million was long term and in other assets), respectively.

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

Contract Assets — Contract assets primarily relate to unbilled amounts typically resulting from sales contracts when revenue recognized exceeds the amount billed to the customer, and right to payment is not just subject to the passage of time. The contract assets are transferred to accounts receivable when the rights become unconditional. The Company had contract assets of \$2.3 million as of December 31, 2018 (\$1.3 million included in prepaid and other current assets and \$1.0 million included in other assets) and \$2.9 million as of March 31, 2019 (\$1.6 million included in prepaid and other current assets and \$1.3 million included in other assets).

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

For the three months ended March 31, 2019, revenue recognized related to deferred revenue at January 1, 2019 was approximately \$163 million. As of March 31, 2019 approximately \$572.9 million of revenue is expected to be recognized from remaining performance obligations, including backlog, primarily over the next two years.

Changes in contract balances for the three months ended March 31, 2019 are as follows (in thousands):

	Deferred Revenue		
	Current	Non-Current	Total
Balance as of January 1, 2019	\$ 369,780	\$ 9,518	\$ 379,298
Increase (decrease), net	24,027	(1,030)	22,997
Balance as of March 31, 2019	\$ 393,807	\$ 8,488	\$ 402,295

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

For the three months ended March 31, 2018 and 2019, no customer accounted for more than 10% of revenue. As of December 31, 2018 and March 31, 2019, no customer accounted for more than 10% of accounts receivable.

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

Goodwill — Goodwill is the excess of the acquisition price over the fair value of the tangible and identifiable intangible net assets acquired. The Company does not amortize goodwill but performs an impairment test of goodwill annually or whenever events and circumstances indicate that the carrying amount of goodwill may exceed its fair value. The Company operates as a single operating segment with one reporting unit and consequently evaluates goodwill for impairment based on an evaluation of the fair value of the Company as a whole. As of November 30, 2018, our measurement date, the fair value of the Company as a whole exceeded the carrying amount of the Company. Through March 31, 2019, no events have been identified indicating an impairment.

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

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets, including intangible assets, may not be recoverable. When such events occur, the Company compares the carrying amounts of the assets to their undiscounted expected future cash flows. If this comparison indicates that there is impairment,

the amount of the impairment is calculated as the difference between the carrying value and fair value. Through March 31, 2019, the Company recorded no material impairments.

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

Derivative Financial Instruments — The Company's earnings and cash flows are subject to fluctuations due to changes in foreign currency exchange rates. The Company uses foreign currency forward contracts to manage exposure to fluctuations in foreign exchange rates that arise from receivables and payables denominated in foreign currencies. The Company does not designate foreign currency forward contracts as hedges for accounting purposes, and changes in the fair value of these instruments are recognized immediately in earnings. Because the Company enters into forward contracts only as an economic hedge, any gain or loss on the underlying foreign-denominated balance would be offset by the loss or gain on the forward contract. Gains and losses on forward contracts and foreign denominated receivables and payables are included in foreign currency net gains and losses.

As of December 31, 2018 and March 31, 2019, the Company had outstanding forward contracts with notional amounts equivalent to the following (in thousands):

Currency Hedged	December 31, 2018	March 31, 2019
Euro / Canadian Dollar	\$ 537	\$ —
Euro / U.S. Dollar	5,203	4,175
Euro / British Pound	3,809	3,681
British Pound / U.S. Dollar	563	—
Euro / Hungarian Forint	—	3,451
U.S. Dollar / Israeli Shekel	—	1,105
U.S. Dollar / Canadian Dollar	4,504	1,303
Total	<u>\$ 14,616</u>	<u>\$ 13,715</u>

Net realized and unrealized foreign currency gains and losses was a net loss of \$0.2 million and \$0.3 million for the three months ended March 31, 2018 and 2019, respectively, which are included in other income (expense), net in the condensed consolidated statements of operations. Excluding the underlying foreign currency exposure being hedged, net realized and unrealized gains and losses on forward contracts included in foreign currency gains and losses was a net gain of \$0.3 million and a net loss of \$0.5 million for the three months ended March 31, 2018 and 2019, respectively.

Stock-Based Compensation — The Company values all stock-based compensation awards, primarily restricted stock units, at fair value on the date of grant and recognizes the expense over the requisite service period, which is generally the vesting period, on a straight-line basis.

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

The Company evaluates its uncertain tax positions based on a determination of whether and how much of a tax benefit taken by the Company in its tax filings is more likely than not to be realized. Potential interest and penalties associated with any uncertain tax positions are recorded as a component of income tax expense.

Guarantees and Indemnification Obligations — As permitted under Delaware law, the Company has agreements whereby the Company indemnifies certain of its officers and directors for certain events or occurrences while the officer or director is, or was, serving at the Company's request in such capacity. The term of the indemnification period is for the officer's or director's lifetime. As permitted under Delaware law, the Company also has similar indemnification obligations under its certificate of incorporation and bylaws. The maximum potential amount of future payments the Company could be required to make under these indemnification

agreements is unlimited; however, the Company has directors' and officers' insurance coverage that the Company believes limits its exposure and enables it to recover a portion of any future amounts paid.

In the ordinary course of business, the Company enters into agreements with certain customers that contractually obligate the Company to provide indemnifications of varying scope and terms with respect to certain matters including, but not limited to, losses arising out of the breach of such agreements, from the services provided by the Company or claims alleging that the Company's products infringe third-party patents, copyrights, or trademarks. The term of these indemnification obligations is generally perpetual. The maximum potential amount of future payments the Company could be required to make under these indemnification obligations is, in many cases, unlimited. Through March 31, 2019, the Company has not experienced any losses related to these indemnification obligations.

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

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

	Three Months Ended March 31,	
	2018	2019
Options to purchase common shares	—	44
Restricted stock units	—	1,335
Total options and restricted stock units	—	1,379

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

	Three Months Ended March 31,	
	2018	2019
Net income (loss)	\$ 29,712	\$ (9,039)
Basic:		
Weighted average common shares outstanding, basic	52,457	50,639
Net income (loss) per share, basic	\$ 0.57	\$ (0.18)
Diluted:		
Weighted average common shares outstanding	52,457	50,639
Add: Common stock equivalents	958	-
Weighted average common shares outstanding, diluted	53,415	50,639
Net income (loss) per share, diluted	\$ 0.56	\$ (0.18)

Recently Adopted Accounting Pronouncements

On January 1, 2019, the Company adopted ASU 2016-02, *Leases* Topic 842, or ASU 2016-02, which requires lessees to recognize most leases on their balance sheet as a right-of-use asset and a lease liability. In general, lease arrangements exceeding a twelve-month term must be recognized as assets and liabilities on the balance sheet. Under ASU 2016-02, a right of use asset and lease obligation is recorded for all leases, whether operating or financing, while the income statement reflects lease expense for operating leases and amortization/interest expense for financing leases. The Financial Accounting Standards Board, or FASB, also issued ASU 2018-10, *Codification Improvements to Topic 842 Leases*, and ASU 2018-11, *Targeted Improvements to Topic 842 Leases*, which allows the new lease standard to be applied as of the adoption date with a cumulative-effect adjustment to the opening balance of retained earnings rather than retroactive restatement of all periods presented.

The Company adopted ASU 2016-02 and related amendments (collectively referred to herein as Topic 842) on January 1, 2019 using the modified retrospective approach applied at the beginning of the period of adoption and recorded operating lease assets of \$117.3 million and operating lease liabilities of \$123.4 million. The operating lease assets are lower than the operating lease liabilities, primarily because previously recorded net deferred rent balances were reclassified into the operating lease assets. There was no impact to retained earnings upon adoption of Topic 842.

The Company elected the package of practical expedients permitted under the transition guidance within the new standard, which, among other things, allowed the Company to carry forward its historical lease classification. In addition, the Company has elected to exempt short term leases that qualify from recognizing right of use assets or lease liabilities, and has elected to not separate lease and non-lease components for all leases of which it is the lessee. The Company's non-lease components are primarily related to maintenance related costs, which are typically variable in nature and are expensed in the period incurred.

The Company accounts for a contract as a lease when it has the right to control the asset for a period of time while obtaining substantially all of the assets' economic benefits. The Company's leases are primarily for office space. The Company determines the initial classification and measurement of its operating right-of-use assets and operating lease liabilities at the lease commencement date and thereafter if modified. The lease term includes any renewal options that the Company is reasonably assured to exercise. The present value of lease payments is determined by using the interest rate implicit in the lease, if that rate is readily determinable; otherwise, the Company uses its estimated incremental borrowing rate for that lease term.

Rent expense for operating leases is recognized on a straight-line basis over the reasonably assured lease term based on the total lease payments and is included in operating expense in the condensed consolidated statements of operations. For finance leases, any interest expense is recognized using the effective interest method and is included within interest expense. Amounts related to finance leases were immaterial as of March 31, 2019.

For all leases, payments that are based on a fixed index or rate are included in the measurement of right-of-use assets and lease liabilities using the index or rate at the lease commencement date. The portion of future payments that vary based on the outcome of future indexes or rates are expensed in the period incurred.

Recently Issued Accounting Pronouncements

In August 2018, the FASB issued ASU 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software: Customers Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*, referred to herein as ASU 2018-15. The amendments in ASU 2018-15 align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by these amendments. The provisions may be adopted prospectively or retrospectively. ASU 2018-15 is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2019. Early adoption is permitted. The Company is currently assessing the potential impact of the adoption of ASU 2018-15 on its condensed consolidated financial statements.

3. Fair Value of Financial Instruments

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

- Level 1: Unadjusted quoted prices for identical assets or liabilities in active markets accessible by the Company at the measurement date.
- Level 2: Inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability and inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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

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

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

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

The Company's Level 3 liability at March 31, 2019 consisted of contingent consideration related to a 2019 acquisition, as described further in Note 4 below. The contingent consideration of up to \$4.0 million was based on the achievement of certain development milestones, the fair value of which was estimated at \$3.2 million as of March 31, 2019. The fair value of contingent consideration was estimated by applying a probability-based model, which utilized inputs that were unobservable in the market.

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

	Fair Value Measurements at December 31, 2018			
	Level 1	Level 2	Level 3	Total
Financial assets (liabilities):				
Cash equivalents — money market funds	\$ 7,207	\$ 19,943	\$ —	\$ 27,150
Forward contracts (\$14.6 million notional amount)	\$ —	\$ 5	\$ —	\$ 5
	Fair Value Measurements at March 31, 2019			
	Level 1	Level 2	Level 3	Total
Financial assets (liabilities):				
Cash equivalents — money market funds	\$ 2,092	\$ 19,940	\$ —	\$ 22,032
Forward contracts (\$13.7 million notional amount)	\$ —	\$ (35)	\$ —	\$ (35)
Contingent consideration liability	\$ —	\$ —	\$ (3,151)	\$ (3,151)

4. Acquisitions

Acquisition-Related Costs

Acquisition-related costs were \$5.1 million and \$3.9 million for the three months ended March 31, 2018 and 2019, respectively. Acquisition-related costs are associated with the acquisitions of businesses and intellectual property and include transaction, transition and integration-related charges (including legal, accounting and other professional fees, severance, and retention bonuses) and subsequent adjustments to the Company's initial estimated amount of contingent consideration associated with acquisitions. Acquisition-related costs for the three months ended March 31, 2018 were primarily related to \$2.1 million in integration-related severance costs, \$2.0 million of transaction, transition and integration-related expenses primarily for the acquisition of Jive Communications, Inc., or Jive, in April 2018, and \$1.0 million of retention-based bonuses primarily related to the acquisition of Nanorep Technologies Ltd., or Nanorep, in July 2017. Acquisition-related costs for the three months ended March 31, 2019 were primarily related to \$0.9 million of transaction, transition and integration-related costs and \$3.0 million of retention-based bonuses primarily related to the Jive and Nanorep acquisitions.

2019 Acquisitions

On February 6, 2019, the Company acquired substantially all of the assets of an Israeli-based company specializing in artificial intelligence, or A.I., and speech-to-text recognition, pursuant to an asset purchase agreement. The Company completed the acquisition for \$5.0 million in cash and potential acquisition-related contingent consideration totaling up to \$4.0 million payable in 2019 and 2020 contingent upon the achievement of certain development milestones. This contingent liability was recorded at an estimated fair value of \$3.2 million at the acquisition date which is included in accrued expenses on the accompanying consolidated balance sheet as of March 31, 2019. The Company will re-measure the fair value of the contingent consideration at each subsequent reporting period and recognize any adjustments to fair value as part of earnings. Additionally, the Company expects to pay up to \$2.0 million in retention-based bonus payments to certain employees upon the achievement of specified retention milestones over the two-year period following the closing of the transaction. The Company accounted for the acquisition as a business combination. Assets acquired were primarily intellectual property. The Company's preliminary purchase price allocation of the \$8.2 million purchase consideration was \$5.1 million of completed technology and \$3.1 million of goodwill. The allocation of the purchase price is preliminary for the valuation of intangible assets as the Company is still gathering information. The Company plans to finalize the preliminary purchase price allocation in the second quarter of 2019.

On February 21, 2019, the Company acquired a California-based provider of multi-factor and single-sign-on, or SSO, services pursuant to a stock purchase agreement dated February 13, 2019 for \$17.5 million, net of cash acquired. Additionally, the Company expects to pay up to \$4.4 million in retention-based bonus payments to certain employees upon the achievement of specified retention milestones over a three-year period following the closing of the transaction. The Company accounted for the acquisition as a business combination. The Company's preliminary purchase price allocation of the \$17.5 million purchase consideration was \$11.8 million of completed technology, \$9.0 million of goodwill and other current assets of \$0.1 million partially offset by current liabilities of \$0.3 million and a long-term deferred tax liability of \$3.1 million primarily related to the amortization of intangible assets which cannot be deducted for tax purposes. The allocation of the purchase price is preliminary for income taxes and the valuation of intangible assets as the Company is still gathering information. The Company plans to finalize the preliminary purchase price allocation in the second quarter of 2019.

The operating results of these February 2019 acquisitions, which have been included in the Company's results since the date of the acquisitions, are not material. Accordingly, pro forma financial information for these business combinations has not been presented.

2018 Acquisition

Jive Communications, Inc.

On April 3, 2018, the Company acquired all of the outstanding equity of Jive Communications, Inc., a provider of cloud-based phone systems and Unified Communications services for \$342.1 million, net of cash acquired. The Company funded the purchase price through a combination of existing cash on-hand and a \$200.0 million revolving loan borrowed pursuant to its existing credit agreement.

Additionally, the Company expects to pay up to \$15 million in retention-based bonus payments to certain employees of Jive upon the achievement of specified retention milestones over the two-year period following the closing of the transaction, of which \$1.1 million has been paid as of March 31, 2019. At the time of the closing, Jive had approximately 700 employees and fiscal year 2017 revenue was approximately \$80 million. The operating results of Jive have been included in the Company's results since the date of the acquisition. The Company continues to integrate Jive into its business and has begun selling new bundled product offerings. In 2019, stand-alone Jive revenue and operating income are not provided as the continued integration of the business and go-to-market strategy made these metrics incomparable to prior periods.

The acquisition was accounted for under the acquisition method of accounting. The acquisition method of accounting requires, among other things, that assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date. The fair value of assets acquired and liabilities assumed has been recognized based on management's estimates and assumptions using the information about facts and circumstances that existed at the acquisition date. The Company finalized the allocation of purchase price in the fourth quarter of 2018.

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

Cash	\$ 2,571
Accounts receivable	11,986
Property and equipment	2,492
Prepaid expenses and other current assets	2,511
Other assets	2,255
Intangible assets:	
Completed technology (9 years)	35,200
Customer relationships (10 years)	117,500
Trade name (2 years)	900
Deferred revenue	(5,498)
Accounts payable and accrued liabilities	(7,685)
Deferred tax liabilities, net	(25,223)
Goodwill	207,634
Total purchase consideration	344,643
Less: cash acquired	(2,571)
Total purchase consideration, net of cash acquired	<u>\$ 342,072</u>

The useful lives of the identifiable intangible assets acquired range from 2 to 10 years with a weighted average useful life of 9.7 years. The goodwill recorded in connection with this transaction is primarily related to the expected opportunities to be achieved as a result of the Company's ability to leverage its customer base, sales force and business plan with Jive's product, technical expertise and customer base. All goodwill and intangible assets acquired are not deductible for income tax purposes.

The Company recorded a long-term deferred tax liability, net, of \$25.2 million primarily related to definite-lived intangible assets which cannot be deducted for tax purposes, partially offset by deferred tax assets primarily related to net operating losses acquired.

The unaudited financial information in the table below summarizes the combined results of operations of the Company, including Jive, on a pro forma basis, as though the acquisition had been consummated as of the beginning of 2017, including amortization charges from acquired intangible assets, interest expense on borrowings and lower interest income in connection with the Company's funding of the acquisition with existing cash and cash equivalents and borrowings under its credit facility, the inclusion of expense related to retention-based bonuses assuming full achievement of the retention requirements, the reclassification of acquisition-related costs of the Company and Jive incurred up to the transaction closing date, the effect of acquisition accounting on the fair value of acquired deferred revenue and the related tax effects. Any impact on the Jive pro forma net deferred tax liabilities as a result of the reduction in the federal corporate tax rate resulting from the Tax Cuts and Jobs Act of 2017, or the U.S. Tax Act, enacted on December 22, 2017 has been excluded. The pro forma financial information is presented for comparative purposes only and is not necessarily indicative of the results of operations that would have been achieved had the acquisition taken place at the beginning of 2017.

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

	Three Months Ended March 31, 2018		
	Reported	(unaudited)	Pro Forma
Revenue	\$	279.2	\$ 301.8
Net income	\$	29.7	\$ 19.7
Net income per share:			
Basic	\$	0.57	\$ 0.38
Diluted	\$	0.56	\$ 0.37
Weighted average shares outstanding:			
Basic		52.5	52.5
Diluted		53.4	53.4

5. Divestitures
Divestiture of Xively

On February 9, 2018, the Company and certain of its subsidiaries entered into an agreement to sell its Xively business. On March 20, 2018, the Company completed the sale for consideration of \$49.9 million, comprised of \$42.4 million of cash received in the first quarter of 2018 and \$7.5 million of receivables held back as an escrow by the buyer as an exclusive security in the event of the Company's breach of any of the representations and warranties in the definitive agreement. The \$7.5 million receivable, due in September 2019, had a net present value of \$7.4 million as of March 31, 2019, and is included in prepaids and other current assets on the condensed consolidated balance sheet.

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

6. Goodwill and Intangible Assets

The changes in the carrying amounts of goodwill during the three months ended March 31, 2019 are primarily due to 2019 acquisitions. For additional information regarding these acquisitions, see Note 4 to the condensed consolidated financial statements.

Changes in goodwill for the three months ended March 31, 2019 are as follows (in thousands):

Balance, January 1, 2019	\$	2,400,390
Goodwill resulting from 2019 acquisitions		12,040
Foreign currency translation adjustments		742
Balance, March 31, 2019	\$	<u>2,413,172</u>

Intangible assets consist of the following (in thousands):

	December 31, 2018			March 31, 2019			Weighted Average Life Remaining (in years)
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	
Identifiable intangible assets:							
Customer relationships	\$ 920,265	\$ 294,362	\$ 625,903	\$ 917,747	\$ 330,147	\$ 587,600	6.3
Technology	481,776	132,895	348,881	497,449	153,436	344,013	6.8
Trade names and trademarks	70,985	20,685	50,300	70,757	23,157	47,600	6.8
Other	3,577	1,319	2,258	3,576	1,398	2,178	6.8
Internally developed software	66,361	33,715	32,646	74,989	41,445	33,544	1.4
	<u>\$ 1,542,964</u>	<u>\$ 482,976</u>	<u>\$ 1,059,988</u>	<u>\$ 1,564,518</u>	<u>\$ 549,583</u>	<u>\$ 1,014,935</u>	

During the three months ended March 31, 2019, the Company capitalized \$16.9 million for technology as intangible assets in connection with its 2019 acquisitions. During the three months ended March 31, 2018 and 2019, the Company capitalized \$7.1 million and \$8.9 million, respectively, of costs related to internally developed software to be sold as a service incurred during the application development stage and is amortizing these costs over the expected lives of the related services.

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

	Three Months Ended March 31,	
	2018	2019
Cost of revenue:		
Amortization of internally developed software	\$ 4,394	\$ 8,034
Amortization of acquired intangibles (1)	17,885	20,970
Sub-Total amortization of intangibles in cost of revenue	22,279	29,004
Amortization of acquired intangibles (1)	41,083	39,499
Total amortization of intangibles	<u>\$ 63,362</u>	<u>\$ 68,503</u>

(1) Total amortization of acquired intangibles was \$59.0 million and \$60.5 million for the three months ended March 31, 2018 and 2019, respectively. Future estimated amortization expense for intangible assets at March 31, 2019 is as follows (in thousands):

<u>Amortization Expense (Years Ending December 31)</u>	<u>Amount</u>
2019 (nine months ending December 31)	\$ 201,864
2020	225,045
2021	181,495
2022	144,668
2023	114,738
2024	89,221
Thereafter	57,904
Total	<u>\$ 1,014,935</u>

7. Accrued Liabilities

Accrued liabilities consisted of the following (in thousands):

	December 31, 2018	March 31, 2019
Marketing programs	\$ 13,857	\$ 14,089
Compensation and benefits-related	42,024	45,683
Acquisition-related (1)	6,407	9,374
Other accrued liabilities	57,091	76,043
Total accrued liabilities	<u>\$ 119,379</u>	<u>\$ 145,189</u>

(1) Acquisition-related costs include transaction, transition and integration-related fees and expenses and acquisition retention-based bonus costs.

8. Restructuring Charges

On February 11, 2019, the Company's Board of Directors approved a global restructuring plan, including a reduction in force which will result in the termination of approximately 4% of the Company's workforce and the consolidation of certain leased facilities. By restructuring, the Company seeks to streamline its organization and reallocate resources to better align with the Company's current growth acceleration goals. The Company expects to incur pre-tax restructuring charges of approximately \$16 million, primarily

attributable to termination benefits and related costs and consolidation of certain leased facilities. In the first quarter of 2019, the Company recorded restructuring charges of \$8.5 million for termination benefits associated with approximately 110 employees and related costs. The Company expects leased facility consolidations to occur in the second half of 2019.

The following table summarizes restructuring accrual activity, included in accrued liabilities, for the three months ended March 31, 2019 (in thousands):

	Employee severance and related costs
Balance, January 1, 2019	\$ —
Charges to operations, net	8,474
Cash disbursements	(1,859)
Foreign exchange impact	(35)
Balance, March 31, 2019	<u>\$ 6,580</u>

9. Leases

On January 1, 2019, the Company adopted Topic 842 using the modified retrospective approach. The Company recorded operating lease assets (right-of-use assets) of \$117.3 million and operating lease liabilities of \$123.4 million. There was no impact to retained earnings upon adoption of Topic 842. The underlying assets of the Company's leases are primarily office space. The Company determines if an arrangement qualifies as a lease at its inception.

As a practical expedient permitted under Topic 842, the Company has elected to account for the lease and non-lease components as a single lease component for all leases of which it is the lessee. Lease payments, which may include lease and non-lease components, are included in the measurement of the Company's lease liabilities to the extent that such payments are either fixed amounts or variable amounts that depend on a rate or index as stipulated in the lease contract. When the Company cannot readily determine the rate implicit in the lease, the Company determines its incremental borrowing rate by using the rate of interest that it would have to pay to borrow on a collateralized basis over a similar term, an amount equal to the lease payments in a similar economic environment. On January 1, 2019, the discount rate used on existing operating leases at adoption, which had remaining lease terms between 2 and 12 years, ranged from 4.8-6.7%. For new or renewed leases starting in 2019, the discount rate is determined based on the Company's incremental borrowing rate adjusted for the lease term including any reasonably certain renewal periods.

The Company enters into lease agreements with terms generally ranging from 2-15 years. Some of the Company's lease agreements include Company options to either extend and/or early terminate the lease, the costs of which are included in our operating lease liabilities to the extent that such options are reasonably certain of being exercised. Leases with renewal options allow the Company to extend the lease term typically between 1 and 5 years. When determining the lease term, renewal options reasonably certain of being exercised are included in the lease term. When determining if a renewal option is reasonably certain of being exercised, the Company considers several economic factors, including but not limited to, the significance of leasehold improvements incurred on the property, whether the asset is difficult to replace, underlying contractual obligations, or specific characteristics unique to that particular lease that would make it reasonably certain that the Company would exercise such option. Renewal and termination options were generally not included in the lease term for the Company's existing operating leases.

As of March 31, 2019, operating lease assets were \$108.5 million and operating lease liabilities were \$114.3 million. Amounts related to financing leases were immaterial. The maturity of the Company's operating lease liabilities as of March 31, 2019 are as follows (in thousands) :

	As of March 31, 2019	
2019 (nine months ending December 31)	\$	16,132
2020		23,640
2021		22,158
2022		20,189
2023		15,193
2024		10,555
Thereafter		35,697
Total future minimum lease payments		143,564
Less imputed interest		29,247
Total operating lease liabilities	\$	114,317
Included in the condensed consolidated balance sheet:		
Current operating lease liabilities	\$	16,024
Non-current operating lease liabilities		98,293
Total operating lease liabilities	\$	114,317

For the three months ended March 31, 2019, the total lease cost is comprised of the following amounts (in thousands):

	Three months ended March 31, 2019	
Operating lease expense	\$	5,923
Variable lease expense		1,058
Short-term lease expense		147
Total lease expense	\$	7,128

The following information represents supplemental disclosure for the statement of cash flows related to operating leases (in thousands):

	Three months ended March 31, 2019	
Operating cash flows from operating leases	\$	(5,298)

During the first quarter of 2019, the Company reassigned one of its leases located in Dublin, Ireland and was relieved of its obligation, which resulted in a reduction of its right of use asset of \$3.5 million and a reduction of the operating lease liability of \$3.8 million.

The following summarizes additional information related to operating leases:

	As of March 31, 2019	
Weighted-average remaining lease term — operating leases		7.1
Weighted-average discount rate — operating leases		6.0%

As previously disclosed in our 2018 Annual Report on Form 10-K and under the previous lease accounting standard, ASC 840, *Leases*, the total commitment for non-cancelable operating leases was \$153.7 million as of December 31, 2018 (in thousands):

Years Ending December 31	Lease Commitments	
2019	\$	23,969
2020		24,079
2021		22,253
2022		20,165
2023		14,986
Thereafter		48,290
Total	\$	153,742

10. Income Taxes

For the three months ended March 31, 2018 and 2019, the Company recorded a provision for federal, state and foreign taxes of \$12.7 million on a profit before income taxes of \$42.4 million and a provision of \$0.1 million on a loss before income taxes of \$8.9 million, respectively. The effective income tax rates for the three months ended March 31, 2018 and 2019 were impacted by profits earned in certain foreign jurisdictions, primarily the Company's Irish subsidiaries, which are subject to lower tax rates than the U.S. federal statutory rate. The effective income tax rate for the three months ended March 31, 2018 was also impacted by \$1.7 million of excess tax deductions on stock compensation recorded as discrete tax benefits. During the three months ended March 31, 2018, the Company recorded discrete income tax provisions of \$1.4 million related to discrete integration activities, \$9.2 million on a pre-tax gain on disposition of assets of \$33.9 million as a result of the divestiture of its Xively business, and \$0.7 million to increase its one-time mandatory transition tax estimate as a result of the U.S. Tax Act.

Deferred tax assets, related valuation allowances, current tax liabilities and deferred tax liabilities are determined separately by tax jurisdiction. In making these determinations, the Company estimates deferred tax assets, current tax liabilities and deferred tax liabilities, and the Company assesses temporary differences resulting from differing treatment of items for tax and accounting purposes. As of March 31, 2019, the Company maintained a full valuation allowance against the deferred tax assets of its Hungarian subsidiary (this entity has historical tax losses) and for a portion of its California and Massachusetts state net operating losses. The Company concluded it was not more likely than not that these deferred tax assets are realizable.

The Company files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. In the normal course of business, the Company and its subsidiaries are examined by various taxing authorities, including the Internal Revenue Service in the United States. The United States federal income tax returns are open to examination from 2017. The Company regularly assesses the likelihood of additional assessments by tax authorities and provides for these matters as appropriate. Audits by tax authorities typically involve examination of the deductibility of certain permanent items, limitations on net operating losses and tax credits.

Although the Company believes its tax estimates are appropriate, the final determination of tax audits could result in material changes in its estimates. The Company has recorded a liability related to uncertain tax positions of \$4.8 million and \$5.4 million as of December 31, 2018 and March 31, 2019, respectively. The Company's policy is to record estimated interest and penalties related to the underpayment of income taxes or unrecognized tax benefits as a component of its income tax provision, which was \$25,000 and \$44,000 of interest expense for the three months ended March 31, 2018 and 2019, respectively.

11. Common Stock and Equity

On February 23, 2017, the Company's Board of Directors approved a three-year capital return plan intended to return up to \$700 million to stockholders through a combination of share repurchases and dividends. During the first quarter of 2019, the Company paid a cash dividend of \$0.325 per share on March 12, 2019 to stockholders of record as of February 25, 2019. The Company's Board of Directors will continue to review this capital return plan for potential modifications based on the Company's financial performance, business outlook and other considerations. The timing and number of shares to be repurchased and/or the amount of cash dividends to be paid to the Company's stockholders pursuant to the capital return plan will depend upon prevailing market conditions and other factors. Additionally, the Company's credit facility contains certain financial and operating covenants that may restrict its ability to pay dividends in the future.

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

	Year Ended December 31, 2018		Year Ended December 31, 2019	
	Dividends Per Share	Amount (in millions)	Dividends Per Share	Amount (in millions)
First quarter	\$ 0.30	\$ 15.7	\$ 0.325	\$ 16.5
Second quarter	0.30	15.6		
Third quarter	0.30	15.5		
Fourth quarter	0.30	15.3		
Total cash dividends paid	\$ 1.20	\$ 62.2		

For the three months ended March 31, 2018 and 2019, the Company repurchased 404,022 and 713,985 shares of its common stock at an average price of \$121.38 and \$81.00 per share, for a total cost of \$49.0 million and \$57.8 million, respectively.

1 2 . Stock Incentive Plan

The Company's 2009 Stock Incentive Plan, referred to herein as the 2009 Plan, is administered by the Board of Directors and the Compensation Committee, which have the authority to designate participants and determine the number and type of awards to be granted and any other terms or conditions of the awards. The Company awards restricted stock units as its principal equity incentive award. Restricted stock units with time-based vesting conditions generally vest over a three-year period while restricted stock units with market-based or performance-based vesting conditions generally vest over two- or three-year periods. Until 2012, the Company generally granted stock options as the principal equity incentive award. Options generally vested over a four-year period and expire ten years from the date of grant. Certain stock-based awards provide for accelerated vesting if the Company experiences a change in control. As of March 31, 2019, 6.4 million shares remained available for grant under the 2009 Plan.

As of March 31, 2019, 44,154 stock options were outstanding with a weighted average exercise price of \$29.79, aggregate intrinsic value of \$2.2 million and weighted average remaining contractual term of approximately three years. The aggregate intrinsic value was calculated based on the positive differences between the fair value of the Company's common stock of \$80.10 per share on March 31, 2019 and the exercise price of the options.

During the three months ended March 31, 2019, the Company granted the following restricted stock unit awards (in thousands):

Type of Award	Number of Restricted Stock Units
Time-based (1)	106

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

The following table summarizes restricted stock unit activity, including market-based TSR Units during the three months ended March 31, 2019 (shares in thousands):

	Number of Restricted Stock Units	Weighted Average Grant Date Fair Value
Unvested as of January 1, 2019	1,548	\$ 100.55
Restricted stock units granted	106	82.27
Restricted stock units earned	14	
Restricted stock units vested	(286)	86.60
Restricted stock units forfeited	(47)	105.37
Unvested as of March 31, 2019	<u>1,335</u>	<u>\$ 101.53</u>

Market-based restricted stock units granted to certain key executives vest equally upon the achievement of a relative total shareholder return, or TSR, target as measured over a two- and three-year performance period versus the TSR realized for that same period by a specified stock index. The number of shares earned can range from 0% to 200% of the target shares awarded depending on the Company's level of achievement. These market-based awards are referred to herein as TSR Units and are also tied to the individual executive's continued employment with the Company throughout the applicable performance period. As of March 31, 2019, 135,313 TSR Units were outstanding.

In February 2019, 63,955 restricted stock units with performance-based vesting conditions vested. These performance-based awards were granted in February 2017 and vesting was based on the achievement of certain financial performance metrics for fiscal years 2017 and 2018 established by the Board of Directors at the time of grant. Also, a total of 18,750 target TSR Units, which were awarded in 2016, vested at 176% of the target TSR Units granted (an additional 14,250 were earned and vested). These TSR Units were measured against the Russell 2000 Index for that same period.

On April 1, 2019, the Company granted restricted stock units to employees, including some of our executive officers, as summarized in the following table (in thousands):

	Time-Based RSUs (1)	Performance-Based RSUs (2)	Market-Based TSR Units (3)
Number of restricted stock units granted	793	54	54

- (1) Time-based restricted stock units generally vest one-third every year for three years and are valued on the grant date using the grant date closing price of the underlying shares.
- (2) Performance-based restricted stock units are eligible to vest in March 2021 based upon attainment of a fiscal 2020 financial target. The number of shares earned can range from 0% to 200% of the target shares awarded depending on the Company's level of achievement.
- (3) Market-based TSR Units are eligible to vest in April 2022 based upon our achievement of a total stockholder return target relative to the TSR realized for that same period by a specified stock index. The number of shares earned can range from 0% to 200% of the target shares awarded depending on the Company's level of achievement.

The Company recognizes stock compensation expense on a straight-line basis over the requisite service period of the restricted stock unit, which is generally three years. Compensation cost for TSR Units is recognized on a straight-line basis over the requisite service period and is recognized, regardless of the actual number of awards that are earned, based on the level of achievement of the market-based vesting condition. The Company recognized stock-based compensation expense within the accompanying condensed consolidated statements of operations as summarized in the following table (in thousands):

	Three Months Ended March 31,	
	2018	2019
Cost of revenue	\$ 1,216	\$ 980
Research and development	4,943	4,705
Sales and marketing	3,695	3,148
General and administrative	6,112	6,198
Total stock-based compensation expense	<u>\$ 15,966</u>	<u>\$ 15,031</u>

As of March 31, 2019, there was approximately \$91 million of total unrecognized share-based compensation cost related to unvested stock awards which are expected to be recognized over a weighted average period of 2.0 years.

13. Commitments and Contingencies

Operating Leases — As of March 31, 2019, the Company had operating lease agreements for offices in the United States, Hungary, Germany, Australia, the United Kingdom, Ireland, Israel, India, Canada, Brazil, Guatemala, and Mexico, see Note 9 to the condensed consolidated financial statements for additional information regarding the Company's leases.

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

On August 20, 2018, a securities class action lawsuit, referred to herein as the Securities Class Action, was initiated by purported stockholders of the Company in the U.S. District Court for the Central District of California against the Company and certain of its officers, entitled *Wasson v. LogMeIn, Inc. et al.* (Case No. 2:18-cv-07285). On November 6, 2018 the case was transferred to the District of Massachusetts (Case No. 1:18-cv-12330). The lawsuit asserts claims under Sections 10(b) and 20(a) of the Securities and Exchange Act of 1934 based on alleged misstatements or omissions concerning renewal rates for the Company's subscription contracts. The Company believes the lawsuit lacks merit and intends to defend it vigorously.

On January 30, 2019, a derivative action, referred to herein as the Derivative Action, was filed in the District of Massachusetts against the Company's Board of Directors, entitled *Schlagel v. Wagner et al.* (Case No. 1:19-cv-10204) alleging breach of fiduciary duty, waste of corporate assets, and violation of Sections 10(b) and 14(a) of the Securities and Exchange Act of 1934 related to the same allegations as the Securities Class Action. The complaint seeks unspecified damages, fees and costs. The Derivative Action currently is stayed during the pleadings phase of the Securities Class Action. The Company intends to defend the lawsuit vigorously.

Given the inherent unpredictability of litigation and the fact that the Securities Class Action and the Derivative Action are still in early stages, the Company is unable to predict the outcome of these actions or reasonably estimate a possible loss or range of loss associated with them at this time.

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

14. Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) consists of foreign currency translation adjustments. The Company has determined that the undistributed earnings of all of its foreign subsidiaries, except for 100% of the current and prior year earnings and foreign currency translation adjustments related to those earnings, will continue to be indefinitely reinvested outside the United States for any additional outside basis differences inherent in these entities. Accumulated other comprehensive income (loss) is reported as a component of stockholders' equity and, as of December 31, 2018 and March 31, 2019, was comprised of cumulative translation adjustment gains of \$2.1 million and cumulative translation adjustment losses of \$0.5 million, respectively. There were no material reclassifications to earnings in the three months ended March 31, 2018 and 2019.

15. Credit Facility

On February 1, 2017, the Company entered into an Amended and Restated Credit Agreement, or the Amended Credit Agreement, which increased the Company's secured revolving credit facility from \$150 million to \$400 million in the aggregate and permits the Company to increase the revolving credit facility and/or enter into one or more tranches of term loans up to an additional \$200 million. On March 23, 2018, the Company entered into a borrower accession agreement with its wholly-owned subsidiary, LogMeIn USA, Inc. and JPMorgan Chase Bank, N.A. acting in its capacity as administrative agent, pursuant to which LogMeIn USA, Inc. became a borrower under the Company's existing multi-currency Amended Credit Agreement. The credit facility matures February 1, 2022. The Company may prepay the loans or terminate or reduce the commitments in whole or in part at any time, without premium or penalty. The Company and its subsidiaries expect to use the credit facility for general corporate purposes, including, but not limited to, the potential acquisition of complementary products or businesses, share repurchases, as well as for working capital. On April 2, 2018, the Company borrowed \$200.0 million under the Amended Credit Agreement to partially fund the acquisition of Jive, described further in Note 4 to the condensed consolidated financial statements. The Company had an outstanding debt balance of \$200.0 million as of March 31, 2019.

Loans under the Amended Credit Agreement bear interest at variable rates which reset every 30 to 180 days depending on the rate and period selected by the Company, as described below. As of April 11, 2019, the annual rate on the \$200.0 million outstanding debt balance was 3.75%, which will reset on May 13, 2019. The average interest rate on borrowings outstanding for the three months ended March 31, 2019 was 3.8%. The quarterly commitment fee on the undrawn portion of the credit facility ranges from 0.15% to 0.30% per annum, based upon the Company's total leverage ratio.

The Amended Credit Agreement contains customary affirmative and negative covenants, subject to customary and other exceptions for a credit facility of this size and type, each as further described in the Amended Credit Agreement. As of March 31, 2019, the Company was in compliance with all financial and operating covenants of the Amended Credit Agreement.

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

As of December 31, 2018 and March 31, 2019, the Company had \$1.7 million and \$1.5 million, respectively, of origination costs recorded in other assets on the accompanying condensed consolidated balance sheet. The Company presents debt issuance costs related to the revolving debt arrangement as an asset and subsequently amortizes the deferred debt issuance costs ratably over the term of the credit facility.

16. Subsequent Events

Cash Dividend

On April 25, 2019, the Company announced that its Board of Directors declared a cash dividend of \$0.325 per share of common stock. The dividend is payable on May 24, 2019 to stockholders of record as of May 8, 2019.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the unaudited condensed consolidated financial statements and the related notes thereto included elsewhere in this Quarterly Report on Form 10-Q and the audited condensed consolidated financial statements and notes thereto and management's discussion and analysis of financial condition and results of operations for the year ended December 31, 2018 included in our Annual Report on Form 10-K, filed with the Securities and Exchange Commission, or SEC, on February 21, 2019. This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. These statements are often identified by the use of words such as "may," "will," "expect," "believe," "anticipate," "intend," "could," "estimate," or "continue," and similar expressions or variations. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in the section titled "Risk Factors," set forth in Part II, Item 1A of this Quarterly Report on Form 10-Q and elsewhere in this Report. The forward-looking statements in this Quarterly Report on Form 10-Q represent our views as of the date of this Quarterly Report on Form 10-Q. We anticipate that subsequent events and developments will cause our views to change. However, while we may elect to update these forward-looking statements at some point in the future, we have no current intention of doing so except to the extent required by applicable law. You should, therefore, not rely on these forward-looking statements as representing our views as of any date subsequent to the date of this Quarterly Report on Form 10-Q.

Overview

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

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

In April 2018, we completed our acquisition of Jive Communications, Inc., or Jive, a provider of cloud-based phone systems and unified communications services. At the time of closing, Jive had approximately 700 employees and its fiscal year 2017 revenue was approximately \$80 million.

Investing in Growth

In February 2019, we announced a strategic growth plan that included incremental investments to fund additional sales capacity, marketing programs and research and development initiatives, designed to further accelerate revenue growth. As part of this investment plan, we announced a global restructuring, including a reduction in force which will result in the termination of approximately 4% of our workforce and the consolidation of certain leased facilities. By restructuring, we are seeking to streamline our organization and reallocate resources to better align with our current growth acceleration goals and to partially fund our incremental investments. We expect to incur pre-tax restructuring charges of approximately \$16 million and to substantially complete the restructuring by the end of fiscal year 2019. As of March 31, 2019, we recorded a restructuring charge of \$8.5 million, which includes one-time employee termination benefits and related costs. As a result of this strategic plan, we expect an increase in sales and marketing investments in 2019 which will increase sales and marketing expenses as a percentage of revenue compared to 2018.

Operating Results

In the three months ended March 31, 2019, we recognized revenues of \$307.7 million and generated cash flows from operating activities of \$119.7 million, and we ended the quarter with \$145.1 million of cash and cash equivalents and \$200.0 million of outstanding borrowings under our credit facility. We recorded a net loss of \$9.0 million in the three months ended March 31, 2019, including amortization of acquired intangible assets of \$60.5 million, a restructuring charge of \$8.5 million, and acquisition-related transaction, transition and integration-related fees and expenses of \$3.9 million, primarily related to our acquisition of Jive Communications, Inc.

In the three months ended March 31, 2018, we recognized revenues of \$279.2 million and generated cash flows from operating activities of \$154.0 million, and we ended the quarter with \$365.2 million of cash and cash equivalents and no outstanding borrowings under our credit facility. We recorded net income of \$29.7 million in the three months ended March 31, 2018, including a gain of \$33.9 million related to the divestiture of our Xively business; amortization of acquired intangible assets of \$59.0 million; and acquisition-related transaction, transition and integration-related fees and expenses of \$5.1 million, primarily related to the acquisition of the GoTo family of service offerings, or the GoTo Business, from a wholly-owned subsidiary of Citrix Systems, Inc., which we refer to herein as the Merger, and our acquisition of Jive Communications, Inc.

Earnings in the first quarter of 2019 as compared to the first quarter of 2018 are lower due primarily to the gain related to the divestiture of our Xively business in the first quarter of 2018, the restructuring charge recorded in the first quarter of 2019, and the planned investments announced in February 2019.

Capital Returns

On February 23, 2017, our Board of Directors approved a three-year capital return plan intended to return up to \$700 million to stockholders through a combination of share repurchases and dividends. As of March 31, 2019, we have returned \$494.2 million to stockholders under this capital return plan, including \$74.3 million during the first three months of 2019 comprised of the following:

- A total of \$57.8 million spent to repurchase 713,985 shares of our common stock at an average price of \$81.00 per share.
- A total of \$16.5 million paid in cash dividends (\$0.325 per share of our common stock paid on March 12, 2019 to stockholders of record as of February 25, 2019).

On April 25, 2019, we announced that our Board of Directors declared a cash dividend of \$0.325 per share of common stock. The dividend is payable on May 24, 2019 to stockholders of record as of May 8, 2019. While we currently intend to pay quarterly cash dividends during the remainder of 2019, our Board of Directors will continue to review this capital return plan for potential modifications and will determine whether to declare dividends on a quarterly basis based on our financial performance, business outlook and other considerations.

We repurchase our shares from time-to-time in the open market, which may include the use of 10b5-1 trading plans, or in privately negotiated transactions, in accordance with applicable securities and stock exchange rules. The timing and number of shares to be repurchased pursuant to this capital return plan will depend upon prevailing market conditions and other factors. Additionally, our credit facility contains certain financial and operating covenants that may restrict our ability to pay dividends in the future.

Certain Trends and Uncertainties

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

- There is frequent litigation in the software and technology industries based on allegations of infringement or other violations of intellectual property rights. We have been, and may in the future be, subject to third party patent infringement or other intellectual property-related lawsuits as we face increasing competition and become increasingly visible. Any adverse determination related to intellectual property claims or litigation could adversely affect our business, financial condition and operating results.
- The risk of a data security breach or service disruption caused by computer hackers and cyber criminals has increased as the frequency, intensity and sophistication of attempted attacks and intrusions from around the world have increased. Our services and systems have been, and may in the future be, the target of various forms of cyberattacks. While we make significant efforts to maintain the security and integrity of our services and computer systems, our cybersecurity measures and the cybersecurity measures taken by our third-party data center facilities may be unable to anticipate, detect or prevent all attempts to compromise our systems. Any security breach, whether successful or not, could harm our reputation, subject us to lawsuits and other potential liabilities and ultimately could result in the loss of customers.
- Failure to successfully integrate acquisitions could adversely impact the market price of our common stock as well as our business and operating results. This risk is identified further in “Risk Factors — Risks Related to our Business” of this Quarterly Report on Form 10-Q and elsewhere in this report.

- We believe that competition will continue to increase. Increased competition could result from existing competitors or new competitors that enter the market because of the potential opportunity. We will continue to closely monitor competitive activity and respond accordingly. Increased competition could have an adverse effect on our financial condition and results of operations.
- We believe that as we continue to grow revenue at expected rates, our cost of revenue and operating expenses, including sales and marketing, research and development and general and administrative expenses will increase in absolute dollar amounts. For a description of the general trends we anticipate in various expense categories, see “Cost of Revenue and Operating Expenses” below.

Sources of Revenue

We derive our revenue primarily from subscription fees for our premium services from enterprise customers, SMBs, IT service providers, mobile carriers, customer service centers, OEMs and consumers and to a lesser extent, from usage fees from our audio services. Our customers who subscribe to our services generally pay in advance and typically pay with a credit card for their subscription. We initially record a subscription fee as deferred revenue and then recognize it ratably, on a daily basis, over the life of the subscription period. Typically, a subscription automatically renews at the end of a subscription period unless the customer specifically terminates it prior to the end of the period.

We calculate our gross renewal rate on an annualized dollar basis across all product lines as of the end of each period. For the three months ended March 31, 2019, our gross annualized renewal rate was approximately 80%. We will continue to monitor and assess our renewal rate calculation and methodology to ensure that it is appropriate.

Revenue by product grouping is as follows (in thousands):

	Three Months Ended March 31,	
	2018	2019
Revenues:		
Unified communications and collaboration	\$ 149,907	\$ 169,957
Identity and access management	84,670	94,179
Customer engagement and support	44,640	43,564
Total revenue	\$ 279,217	\$ 307,700

Employees

Our number of full-time employees was 3,554 at March 31, 2019, compared to 3,515 at December 31, 2018 and 2,676 at March 31, 2018.

Cost of Revenue and Operating Expenses

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

Cost of Revenue . Cost of revenue consists primarily of costs associated with our data center operations and customer support centers. Included in these costs are wages and benefits for personnel, telecommunications, hosting fees, hardware and software maintenance costs, outsourced customer support staffing costs, telecommunications product costs, and depreciation associated with our data centers. Additionally, amortization expense associated with the acquired software, technology, and internally developed software to be sold as a service is included in cost of revenue. The expenses related to hosting our services and supporting our free and premium customers are dependent on the number of customers who subscribe to our services and the complexity and redundancy of our services and hosting infrastructure.

Research and Development. Research and development expenses consist primarily of wages and benefits for development personnel, retention-based bonus expense related to our acquisitions, facility expense, cloud computing services, consulting fees associated with outsourced development projects, travel-related costs for development personnel, and depreciation of assets used in development. Our research and development efforts are focused on both improving ease of use and functionality of our existing services, as well as developing new offerings. More than half of our research and development employees are located internationally in our development centers in Hungary, Germany, Canada, Israel and India. Therefore, a large portion of research and development expense is subject to fluctuations in foreign exchange rates. We capitalized costs of \$ 7.1 million and \$ 8.9 million for the three months ended March 31, 2018 and 2019, respectively, related to internally developed software to be sold as a service, which were incurred during the application development stage. The majority of research and development costs have been expensed as incurred. We expect that research and development expenses will remain relatively constant as a percentage of revenue.

Sales and Marketing. Sales and marketing expenses consist primarily of online search and advertising costs, wages, commissions and benefits for sales and marketing personnel, offline marketing costs such as media advertising and trade shows, consulting fees, credit card processing fees, facility expense and hardware and software maintenance costs. Online search and advertising costs consist primarily of pay-per-click payments to search engines and other online advertising media such as banner ads. Offline marketing costs include radio and print advertisements, as well as the costs to create and produce these advertisements, and 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 invest in our sales and marketing efforts. We expect an increase in sales and marketing investments in 2019 which will increase sales and marketing expenses as a percentage of revenue compared to 2018.

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

Critical Accounting Policies

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

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

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

We determine revenue recognition through the following five steps:

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

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

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

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

Results of Consolidated Operations

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

	Three Months Ended March 31,				
	2018		2019		
	Amount	Percent of Revenue	Amount	Percent of Revenue	Percent Change
Revenue	\$ 279,217	100%	\$ 307,700	100%	10%
Cost of revenue	62,942	23%	77,688	25%	23%
Gross profit	216,275	77%	\$ 230,012	75%	6%
Operating expenses					
Research and development	43,116	15%	40,717	13%	(6)%
Sales and marketing	88,215	32%	114,634	37%	30%
General and administrative	35,443	13%	33,886	11%	(4)%
Restructuring charge	-		8,474	3%	
Gain on disposition of assets	(33,910)	(12)%	-		
Amortization of acquired intangibles	41,083	15%	39,499	13%	(4)%
Total operating expenses	173,947	62%	237,210	77%	36%
Income (loss) from operations	\$ 42,328	15%	\$ (7,198)	(2)%	(117)%

	As of March 31,		Percent Change
	2018	2019	
Employees:			
Cost of revenue	428	741	73%
Research and development	997	1,153	16%
Sales and marketing	878	1,180	34%
General and administrative	373	480	29%
Total headcount at end of period	2,676	3,554	

In April 2018, we completed our acquisition of Jive Communications, Inc., or Jive, a provider of cloud-based phone systems and unified communications services. At the time of closing, Jive had approximately 700 employees and its fiscal year 2017 revenue was approximately \$80 million.

Three Months Ended March 31, 2018 and 2019

Revenue. Revenue increased \$28.5 million, or 10%, from \$279.2 million for the three months ended March 31, 2018 to \$307.7 million for the three months ended March 31, 2019. The effect of acquisition accounting on the fair value of acquired deferred revenue was \$1.1 million and \$0.4 million for the GoTo Business in the three months ended March 31, 2018 and 2019, respectively.

Cost of Revenue. Cost of revenue increased \$14.8 million, or 23%, from \$62.9 million for the three months ended March 31, 2018 to \$77.7 million for the three months ended March 31, 2019 and as a percentage of revenue was 23% and 25%, respectively. The increase in cost of revenue as a percentage of revenue includes an increase in amortization of acquired intangible assets from \$17.9 million to \$ 21.0 million for the three months ended March 31, 2018 and 2019, respectively. This increase is primarily attributable to the acquired intangibles of Jive. We amortize our acquired intangible assets based upon the pattern in which their economic benefit will be realized. Cost of revenue for the three months ended March 31, 2018 and 2019, includes personnel-related costs, including salary, bonus, recruiting, relocation, travel, training, benefits and taxes of \$15.9 million and \$16.8 million, respectively; facility-related costs of \$1.7 million and \$2.0 million, respectively; depreciation, maintenance, and amortization of internally developed software of \$11.1 million and \$15.0 million, respectively; professional services expense of \$3.9 million and \$2.5 million, respectively; and data center, telecommunications and cloud computing service costs of \$11.7 million and \$14.8 million, respectively. Cost of revenue for the three months ended March 31, 2018 and 2019 included \$0.5 million and \$1.0 million of royalty expense, respectively. Further, telecommunication product costs totaled \$4.2 million for the three months ended March 31, 2019. Included in personnel-related costs in both the three months ended March 31, 2018 and 2019 is \$1.2 million and \$1.0 million, respectively, of stock-based compensation expense.

Research and Development Expenses. Research and development expenses decreased \$2.4 million, or 6%, from \$43.1 million for the three months ended March 31, 2018 to \$40.7 million for the three months ended March 31, 2019 and as a percentage of revenue was 15% and 13%, respectively. Research and development expenses for the three months ended March 31, 2018 and 2019, includes personnel-related costs, including salary, bonus, recruiting, relocation, travel, training, benefits and taxes of \$33.3 million and \$30.1 million, respectively; facility-related costs of \$3.0 million and \$2.9 million, respectively; cloud computing services of \$2.0 million and \$2.3 million, respectively; depreciation and maintenance expense of \$3.9 million and \$3.8 million, respectively; and professional services expense of \$1.2 million and \$1.5 million, respectively. We capitalized \$7.1 million and \$8.9 million of research and development expenses during the three months ended March 31, 2018 and 2019, respectively, for internally developed software to be sold as a service incurred during the application development stage. Included in personnel-related costs in the three months ended March 31, 2018 and 2019 is \$4.9 million and \$4.7 million, respectively, of stock-based compensation expense and \$0.9 million and \$1.6 million, respectively, of acquisition-related retention-based bonuses.

Sales and Marketing Expenses . Sales and marketing expenses increased \$26.4 million, or 30%, from \$88.2 million for the three months ended March 31, 2018 to \$114.6 million for the three months ended March 31, 2019 and as a percentage of revenue was 32% and 37%, respectively. Sales and marketing expenses for the three months ended March 31, 2018 and 2019, includes personnel-related costs, including salary, commissions, bonus, recruiting, relocation, travel, training, benefits and taxes of \$38.6 million and \$50.7 million, respectively; marketing costs of \$34.0 million and \$44.2 million, respectively; credit card transaction fees of \$6.2 million and \$6.1 million, respectively; facility-related costs of \$3.3 million and \$4.3 million, respectively; depreciation and maintenance expense of \$3.8 million and \$5.4 million, respectively; and professional services expense of \$0.5 million and \$3.9 million, respectively. Included in personnel-related costs in the three months ended March 31, 2018 and 2019 is \$3.7 million and \$3.1 million, respectively, of stock-based compensation expense.

General and Administrative Expenses. General and administrative expenses decreased \$ 1.5 million, or 4% , from \$ 35.4 million for the three months ended March 31, 2018 to \$ 33.9 million for the three months ended March 31, 2019 and as a percentage of revenue was 13 % and 11% , respectively . For three months ended March 31, 2018 and 2019 , general and administrative expenses included acquisition-related costs of \$ 5.1 million and \$ 1.4 million, respectively, primarily related to transaction, transition and integration-related costs for the Merger in 2017 and the acquisition of Jive in 2018 . General and administrative expenses for the three months ended March 31, 2018 and 2019 , included personnel-related costs, including salary, bonus, recruiting, relocation, travel, training, benefits and taxes of \$ 21.7 million and \$ 22.6 million, respectively; professional services of \$ 4.8 million and \$ 5.1 million, respectively; facility-related costs of \$ 2.1 million and \$ 2.2 million, respectively; and depreciation and maintenance expense of \$ 1.5 million and \$ 1.6 million, respectively. Included in personnel-related costs is \$ 6.1 million and \$ 6.2 million of stock-based compensation expense for the three months ended March 31, 2018 and 2019 , respectively.

Restructuring Charge. We recorded a restructuring charge of \$8.5 million in the three months ended March 31, 2019, which includes one-time employee termination benefits and related costs.

Gain on Disposition of Assets. We recorded a gain on the disposition of assets of \$33.9 million in the three months ended March 31, 2018 related to the gain on the sale of our Xively business.

Amortization of Acquired Intangibles. Amortization of acquired intangibles was \$41.1 million and \$39.5 million for the three months ended March 31, 2018 and 2019, respectively. We amortize our acquired intangible assets based upon the pattern in which their economic benefit will be realized.

Interest Income. Interest income was \$0.7 million for both the three months ended March 31, 2018 and 2019 and was primarily attributable to interest income earned on invested cash and cash equivalents.

Interest Expense. Interest expense was \$0.3 million and \$2.1 million for the three months ended March 31, 2018 and 2019, respectively, and was primarily associated with interest expense attributable to \$200.0 million of borrowings under our credit facility used to partially fund the acquisition of Jive as well as the amortization of deferred financing fees.

Other Income (Expense), Net. Other expense, net was \$0.2 million and \$0.3 million for the three months ended March 31, 2018 and 2019, respectively, comprised primarily of realized and unrealized foreign currency gains and losses resulting from multi-currency settlements and re-measurements occurring during the quarter.

Income Taxes . We recorded a provision for federal, state and foreign taxes of \$12.7 million on a profit before income taxes of \$42.4 million and a provision for federal, state, and foreign taxes of \$0.1 million on a loss before income taxes of \$8.9 million for the three months ended March 31, 2018 and 2019, respectively. The effective income tax rates for three months ended March 31, 2018 and 2019 were impacted by profits earned in certain foreign jurisdictions, primarily our Irish subsidiaries, which are subject to lower tax rates than the U.S. federal statutory rate. The effective income tax rate for the three months ended March 31, 2018 was also impacted by \$1.7 million of excess tax deductions on stock compensation recorded as discrete tax benefits. During the three months ended March 31, 2018, the Company recorded discrete income tax provisions of \$1.4 million related to discrete integration activities, \$9.2 million on a pre-tax gain on disposition of assets of \$33.9 million as a result of the divestiture of its Xively business, and \$0.7 million to increase its one-time mandatory transition tax estimate as a result of the U.S. Tax Act. Our effective tax rate in the future will depend upon the proportion of income before provision for income taxes earned in the United States and in jurisdictions with a tax rate lower than the U.S. statutory rate, as well as several other factors, including excess tax benefits from share-based compensation and the impact of new legislation.

Liquidity and Capital Resources

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

	Three Months Ended March 31,	
	2018	2019
Net cash provided by operating activities	\$ 153,973	\$ 119,650
Net cash provided by (used in) investing activities	28,049	(43,565)
Net cash provided by (used in) financing activities	(71,806)	(78,332)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	2,657	(1,385)
Net increase (decrease) in cash, cash equivalents and restricted cash	<u>\$ 112,873</u>	<u>\$ (3,632)</u>

At March 31, 2019, our principal source of liquidity was cash and cash equivalents totaling \$145.1 million, of which \$82.0 million was held in the United States and \$63.1 million was held by our international subsidiaries.

Cash Flows From Operating Activities

Net cash inflows from operating activities during the three months ended March 31, 2018 were mainly attributable to a \$38.7 million increase in deferred revenue associated with upfront payments received from our customers, a \$19.8 million increase in accrued liabilities, a \$9.8 million decrease in accounts receivable, a \$9.6 million increase in accounts payable and a \$4.8 decrease in prepaid and other current assets. These cash inflows were partially offset by a \$2.8 million increase in other assets. Additionally, included in net cash inflows from operating activities were add-backs of non-cash activity, including \$71.3 million for depreciation and amortization, \$36.3 million for the gain on disposition of assets related to the divestiture of the Xively business, excluding transaction costs, \$16.0 million for stock based compensation expense, and \$9.4 million benefit from deferred income taxes primarily attributable to the amortization of intangible assets which cannot be deducted for tax purposes.

Net cash inflows from operating activities during the three months ended March 31, 2019 were mainly attributable to a \$23.8 million increase in deferred revenue associated with upfront payments received from our customers, a \$19.4 million increase in accrued liabilities, a \$6.0 million decrease in accounts receivable, a \$9.3 million increase in accounts payable, and a \$2.9 million decrease in prepaid and other current assets due to a decrease in prepaid taxes offset by an increase in deferred commissions. These cash inflows were partially offset by a \$5.7 million decrease in other long-term liabilities due to the offset of the U.S. Tax Act transition tax payable with U.S. federal prepaid taxes and a \$6.7 million increase in other assets due primarily to an increase in long-term deferred commissions. Accrued liabilities included \$6.6 million in restructuring-related accruals. Included in net cash inflows from operating activities were add-backs and reductions of non-cash charges, including \$75.9 million for depreciation and amortization, \$15.0 million for stock-based compensation expense, and \$11.7 million benefit from deferred income taxes primarily attributable to the amortization of intangible assets which cannot be deducted for tax purposes.

Cash Flows From Investing Activities

Net cash provided by investing activities for the three months ended March 31, 2018 was primarily attributable to \$42.4 million of proceeds received from the divestiture of the Xively business. This cash inflow was partially offset by purchases of \$7.2 million in property and equipment related to our internal IT infrastructure, data centers, and our offices and \$7.1 million in intangible asset additions for capitalized costs related to internally developed software to be sold as a service which were incurred during the application development stage.

Net cash used in investing activities for the three months ended March 31, 2019 was primarily attributable to \$22.5 million paid for acquisitions, net of cash acquired, \$8.9 million in intangible asset additions for capitalized costs related to internally developed software to be sold as a service which were incurred during the application development stage, and purchases of \$12.2 million in property and equipment related to our internal IT infrastructure, data centers, and our offices.

Cash Flows From Financing Activities

Net cash used in financing activities for the three months ended March 31, 2018 was primarily attributable to the purchase of \$46.9 million of treasury stock, a dividend payment of \$15.7 million, and the payment of \$9.2 million for payroll taxes related to vesting of restricted stock units.

Net cash used in financing activities for the three months ended March 31, 2019 was attributable to the purchase of \$54.1 million of treasury stock, dividend payments of \$16.5 million, and the payment of \$7.8 million for payroll taxes related to the vesting of restricted stock units.

We have available a multi-currency credit facility with a syndicate of banks, financial institutions and other lending entities that provides for a secured revolving line of credit of up to \$400 million, which may be increased by an additional \$200 million subject to further commitment from the lenders. The credit facility matures on February 1, 2022 and includes certain financial covenants with which we must comply. We expect to use the credit facility for general corporate purposes, including the potential acquisition of complementary products or businesses, share repurchases, as well as for working capital (see Note 15 to our condensed consolidated financial statements for additional details). As of March 31, 2019, we had \$200.0 million of outstanding borrowings under the credit facility.

Future Expectations

At March 31, 2019, cash and cash equivalents totaled \$145.1 million, of which \$82.0 million was held in the United States and \$63.1 million was held by our international subsidiaries. We believe that our current cash and cash equivalents, together with cash generated from operations and our credit facility, will be sufficient to meet our ongoing operations working capital and capital expenditure requirements.

We have been purchasing shares of our common stock since 2013 pursuant to share repurchase programs approved by our Board of Directors. On February 23, 2017, our Board of Directors approved a three-year capital return plan, pursuant to which we intend to return to stockholders approximately 75% of our free cash flow over the period, up to \$700 million, through a combination of share repurchases and dividends. As of March 31, 2019, \$ 376.0 million in share repurchases and \$ 118.2 million in cash dividend payments to our stockholders have been made under this \$700 million capital return plan, and \$ 205.8 million remained. We have continued to repurchase shares since March 31, 2019 and on April 25, 2019, we announced that our Board of Directors declared a \$0.325 per share cash dividend to be paid on May 24, 2019 to stockholders of record as of May 8, 2019, totaling approximately \$ 16.2 million. Our Board of Directors will continue to review this capital return plan for potential modifications based on our financial performance, business outlook and other considerations. Our ability to repurchase our shares and/or pay cash dividends to our stockholders is subject to our having sufficient cash available and our maintaining compliance with our credit facility covenants.

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

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

Non-GAAP Financial Measures

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

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

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

- “Adjusted cash flows from operations,” which we define as GAAP cash flows from operating activities adding back the impact of litigation-related payments, acquisition retention-based bonus payments, restructuring payments, transaction- and transition-related tax payments and acquisition-related payments; and
- “Adjusted free cash flow,” which we define as adjusted cash flows from operating activities excluding purchases of property and equipment and intangible asset additions.

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

- *Fair value adjustment on acquired deferred revenue* is an acquisition accounting adjustment recorded to reduce acquired deferred revenue to the fair value of the remaining obligation.
- *Acquisition-related costs* relate to costs associated with the acquisitions of intellectual property and businesses and include transaction, transition and integration-related fees and expenses (including legal, accounting and other professional fees, severance, retention bonuses) and subsequent adjustments to our initial estimated amount of contingent consideration associated with acquisitions.
- *Acquisition-related costs and amortization* relate to acquisition-related costs, as defined above, and the amortization of acquired intangible assets.
- *Stock-based compensation expense* relates to stock-based compensation awards granted to our executive officers, employees and outside directors.
- *Litigation-related expense* relates to costs associated with the defense and settlement of claims brought against us including intellectual property infringement claims and other material litigation.
- *Restructuring charges* include one-time employee termination benefits and excess facility and other costs resulting from reductions of personnel driven by modifications to our business strategy. These costs may vary in size based on our restructuring plan.
- *Gain on disposition of assets* relates to the gain on the sale of the Xively business.
- *Acquisition accounting on internally capitalized software development* relates to the amortization of acquired internally developed capitalized software development costs that were adjusted in acquisition accounting with the recording of a completed technology intangible asset.
- *Depreciation and amortization expense* relates to costs associated with the depreciation and amortization of fixed and intangible assets.
- *Interest and other income (expense), net* relates to the interest earned (incurred) on outstanding cash balances and marketable securities, interest expense primarily related to our credit facility, as well as realized and unrealized foreign currency gains and losses resulting from multi-currency settlements occurring during the period and period end translation adjustments.
- *Income tax provision (benefit)* relates to GAAP income tax provision (benefit) during the period.

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

The exclusion of certain expenses in the calculation of non-GAAP financial measures should not be construed as an inference that these costs are unusual or infrequent. We anticipate excluding these expenses in future presentations of our non-GAAP financial measures.

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

Reconciliation tables of the most comparable GAAP financial measures to the non-GAAP measures are presented as follows:

	Three Months Ended March 31,	
	2018	2019
	<i>(in thousands)</i>	
GAAP Revenue	\$ 279,217	\$ 307,700
<u>Add Back:</u>		
Effect of acquisition accounting on fair value of acquired deferred revenue	1,058	418
Non-GAAP Revenue	<u>\$ 280,275</u>	<u>\$ 308,118</u>
	Three Months Ended March 31,	
	2018	2019
	<i>(In thousands, except per share data)</i>	
GAAP Net income (loss) from operations	\$ 42,328	\$ (7,198)
<u>Add Back:</u>		
Effect of acquisition accounting on fair value of acquired deferred revenue	1,058	418
Stock-based compensation expense	15,966	15,031
Acquisition-related costs	5,145	3,924
Restructuring charge	-	8,474
Litigation-related expenses	181	163
Amortization of acquired intangibles	58,968	60,469
<u>Less:</u>		
Gain on disposition of assets	(33,910)	—
Effect of acquisition accounting on internally capitalized software development costs	(3,719)	—
Non-GAAP Operating income	86,017	81,281
Interest and other income (expense), net	107	(1,742)
Non-GAAP Income before income taxes	86,124	79,539
Non-GAAP Provision for income taxes ⁽¹⁾	(21,273)	(19,686)
Non-GAAP Net income	<u>\$ 64,851</u>	<u>\$ 59,853</u>
GAAP Net income (loss) per diluted share	\$ 0.56	\$ (0.18)
Non-GAAP Net income per diluted share	\$ 1.21	\$ 1.17
Weighted average shares outstanding, diluted	53,415	50,990

(1) The non-GAAP provision for income taxes reported in three months ended March 31, 2018 excludes the tax impact of non-GAAP items and a net tax provision of \$0.7 million recorded in the first quarter of 2018 related to the enactment of the U.S. Tax Act.

	Three Months Ended March 31,	
	2018	2019
	<i>(in thousands)</i>	
GAAP Net income (loss)	\$ 29,712	\$ (9,039)
<u>Add Back:</u>		
Interest and other income (expense), net	(107)	1,742
Income tax provision (benefit)	12,723	99
Amortization of acquired intangibles	58,968	60,469
Depreciation and amortization expense	12,322	15,475
EBITDA	<u>113,618</u>	<u>68,746</u>
<u>Add Back:</u>		
Effect of acquisition accounting on fair value of acquired deferred revenue	1,058	418
Stock-based compensation expense	15,966	15,031
Acquisition-related costs	5,145	3,924
Restructuring charge	-	8,474
Litigation-related expenses	181	163
<u>Less:</u>		
Gain on disposition of assets	(33,910)	-
Adjusted EBITDA	<u>\$ 102,058</u>	<u>\$ 96,756</u>
	Three Months Ended March 31,	
	2018	2019
	<i>(In thousands)</i>	
GAAP Cash flows from operations	\$ 153,973	\$ 119,650
<u>Add Back:</u>		
Litigation-related payments	891	14
Acquisition retention-based bonus payments	42	1,463
Restructuring payments	-	1,894
Transaction-related payments (acquisitions and dispositions)	6,497	814
Adjusted cash flows from operations	<u>161,403</u>	<u>123,835</u>
<u>Less:</u>		
Purchases of property and equipment	(7,249)	(12,187)
Intangible asset additions	(7,096)	(8,915)
Adjusted free cash flow	<u>\$ 147,058</u>	<u>\$ 102,733</u>

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

	Payments Due by Period (in thousands) ⁽¹⁾				
	Total	Less Than 1 Year	1-3 Years	4-5 Years	More Than 5 Years
Operating lease obligations	\$ 153,742	\$ 23,969	\$ 46,332	\$ 35,151	\$ 48,290
Credit facility ⁽²⁾	200,000	—	—	200,000	—
Other purchase obligations	44,950	33,254	11,696	—	—
Total	<u>\$ 398,692</u>	<u>\$ 57,223</u>	<u>\$ 58,028</u>	<u>\$ 235,151</u>	<u>\$ 48,290</u>

(1) Excluded from the table above is \$4.8 million related to uncertain tax positions as we are uncertain as to when a cash settlement for these liabilities will occur.

(2) The credit facility matures in February 2022, when all amounts outstanding will be due and payable. Excluded from the table above are the quarterly commitment fees on the undrawn portion that range from 0.15% to 0.30% per annum and interest payable on any outstanding borrowings based upon our total leverage ratio.

The commitments in the table above consist of lease payments for our corporate headquarters located in Boston, Massachusetts, our other United States locations, and our international locations (see Note 9 to the condensed consolidated financial statements).

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

As of March 31, 2019, we had letters of credit and bank guarantees of \$8.7 million (of which \$1.8 million was collateralized and classified as restricted cash), primarily related to our corporate headquarters in Boston, Massachusetts.

New Accounting Pronouncements

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Exchange Risk. Our results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates as our non-U.S. sales are recorded by our subsidiaries located in Ireland, the United Kingdom, Australia, Canada, Brazil and Mexico and as we incur significant operating expenses in our foreign subsidiaries including our research and development facilities in Hungary, Germany and Canada and our sales and marketing operations in Ireland, Germany, the United Kingdom and Australia. For the three months ended March 31, 2018 and 2019, 24% and 22%, respectively, of our revenue was generated by customers outside of the United States and 18% and 24%, respectively, of our operating expenses occurred in our international operations.

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

As of December 31, 2018 and March 31, 2019, we had outstanding forward contracts with notional amounts equivalent to the following (in thousands):

Currency Hedged	December 31, 2018	March 31, 2019
Euro / Canadian Dollar	\$ 537	\$ —
Euro / U.S. Dollar	5,203	4,175
Euro / British Pound	3,809	3,681
British Pound / U.S. Dollar	563	—
Euro / Hungarian Forint	—	3,451
U.S. Dollar / Israeli Shekel	—	1,105
U.S. Dollar / Canadian Dollar	4,504	1,303
Total	<u>\$ 14,616</u>	<u>\$ 13,715</u>

Net realized and unrealized foreign currency gains and losses was a net loss of \$0.2 million and \$0.3 million for the three months ended March 31, 2018 and 2019, respectively, which are included in other income (expense), net in the condensed consolidated statements of operations. Excluding the underlying foreign currency exposure being hedged, net realized and unrealized gains and losses on forward contracts included in foreign currency gains and losses was a net gain of \$0.3 million and net loss of \$0.5 million for the three months ended March 31, 2018 and 2019, respectively.

At March 31, 2019, cash and cash equivalents totaled \$145.1 million, of which \$82.0 million was held in the United States and \$63.1 million was held by our international subsidiaries. Our invested cash is subject to interest rate fluctuations and, for non-U.S. operations, foreign currency risk. Our condensed consolidated cash balances were impacted favorably by \$2.7 million and unfavorably by \$1.4 million for the three months ended March 31, 2018 and 2019, respectively, due to changes in foreign currencies relative to the U.S. dollar, particularly the Euro.

Interest Rate Sensitivity. Interest income is sensitive to changes in the general level of U.S. interest rates. However, based on the nature and current level of our cash and cash equivalents, which typically consist of cash, money market instruments and corporate debt securities with maturities of three months or less, we believe there is no material risk of exposure to changes in the fair value of our cash and cash equivalents as a result of changes in interest rates.

Interest expense on borrowings under our credit facility is sensitive to changes in interest rates. As of March 31, 2019, we had \$200.0 million outstanding under our variable-rate credit facility. Interest rates on this loan will be adjusted at each rollover date to the extent such amounts are not repaid. As of March 31, 2019, the annual rate on the loan was 3.75%. If there was a hypothetical 100 basis point change in interest rates, the annual net impact to earnings and cash flows would be \$2.0 million. This hypothetical change in cash flows and earnings has been calculated based on borrowings outstanding at March 31, 2019 and a 100 basis point per annum change in interest rate applied over a one-year period.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures. Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2019. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act of 1934, as amended, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of March 31, 2019, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Controls. No change in our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-(f) under the Exchange Act) occurred during the quarter ended March 31, 2019 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

On August 20, 2018, a securities class action lawsuit, referred to herein as the Securities Class Action, was initiated by purported stockholders of LogMeIn in the U.S. District Court for the Central District of California against us and certain of our officers, entitled *Wasson v. LogMeIn, Inc. et al.* (Case No. 2:18-cv-07285). On November 6, 2018 the case was transferred to the District of Massachusetts (Case No. 1:18-cv-12330). The lawsuit asserts claims under Sections 10(b) and 20(a) of the Securities and Exchange Act of 1934 based on alleged misstatements or omissions concerning renewal rates for our subscription contracts. We believe the lawsuit lacks merit and intend to defend it vigorously.

On January 30, 2019, a derivative action, referred to herein as the Derivative Action, was filed in the District of Massachusetts against our Board of Directors, entitled *Schlagel v. Wagner et al.* (Case No. 1:19-cv-10204) alleging breach of fiduciary duty, waste of corporate assets, and violation of Sections 10(b) and 14(a) of the Securities and Exchange Act of 1934 related to the same allegations of the Securities Class Action. The complaint seeks unspecified damages, fees and costs. The Derivative Action currently is stayed during the pleadings phase of the Securities Class Action. We intend to defend the lawsuit vigorously.

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

Item 1A. Risk Factors

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

RISKS RELATED TO OUR BUSINESS

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

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

- our ability to renew existing customers, increase sales to existing customers and attract new customers;
- the amount and timing of operating costs and capital expenditures related to the operation, maintenance and expansion of our business;
- service outages or security breaches;
- changes in our pricing policies or those of our competitors;
- our ability to successfully implement strategic business model changes;
- the timing and success of new services, features and upgrades by us or our competitors;
- changes in sales compensation plans or organizational structure;
- the timing of costs related to the development or acquisition of technologies, services or businesses;
- seasonal variations or other cyclicalities in the demand for our services;
- general economic, industry and market conditions and those conditions specific to Internet usage and online businesses;
- litigation, including class action litigation, involving us and our services or the industry in which we operate, in general;
- the purchasing and budgeting cycles of our customers;
- the financial condition of our customers; and

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

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

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

Our services and computer systems store and transmit confidential data of our customers and their customers, which may include credit card information, account and device information, passwords and other critical data.

Any breach of the cybersecurity measures we have taken to safeguard this information may subject us to fines and penalties, time consuming and expensive litigation, trigger indemnification obligations and other contractual liabilities, damage our reputation and harm our customers and our business.

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

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

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

Our business strategy continues to contemplate us making strategic acquisitions of, or strategic investments in, complementary businesses, services, technologies and intellectual property rights. Acquisitions of high-technology companies are inherently risky, and negotiating these transactions can be time-consuming and expensive and our ability to close these transactions may often be subject to conditions or approvals that are beyond our control. Consequently, these transactions, even if undertaken and announced, may not close. In connection with an acquisition, investment or strategic transaction we may do one or more of the following, which may harm our business and adversely affect our operating results:

- issue additional equity securities that would dilute our stockholders and decrease our earnings per share;
- use cash and other resources that we may need in the future to operate our business;
- incur debt on unfavorable terms or that we are unable to repay;
- incur large charges or substantial liabilities; and
- become subject to adverse tax consequences, substantial depreciation or deferred compensation charges.

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

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

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

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

Our business strategy includes identifying emerging market opportunities which we can capitalize on by successfully developing and introducing new services designed to address those market opportunities. We have made and expect to continue to make significant investments in technology acquisitions and research and development in an effort to capitalize on the market opportunities that we have targeted. One such market which we have identified is Unified Communications and Collaboration, or UCC, and we have made and expect to continue to make significant investments in the further development of our UCC services like GoToConnect, Jive and GoToMeeting. However, capturing market share in new, much larger markets often takes time to fully develop, and such opportunities attract a significant number of competitors. If the new markets we have targeted ultimately fail to materialize as we or others have anticipated or if potential customers choose to adopt solutions offered by our competitors rather than our own solutions, we may not be able to generate the revenue and earnings we anticipated, and our business and results of operations would be adversely affected.

Our new corporate strategy and restructuring may not be successful.

On February 11, 2019, our Board of Directors approved a global restructuring plan, including a reduction in force which will result in the termination of approximately 4% of our workforce and the consolidation of certain leased facilities. By restructuring, we intend to streamline our organization and reallocate our resources to better align with our current growth acceleration goals. We expect to substantially complete the restructuring by the end of fiscal year 2019. These restructuring activities may yield unintended consequences and costs, such as attrition beyond our intended reduction in force, the distraction of our employees and the risk that we may not achieve the anticipated benefits from the reduction in force, all of which may have a material adverse effect on our results of operations or financial condition.

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

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

- the growing use of mobile devices such as smartphones and tablet computers to perform functions that have been traditionally performed on desktops and laptops, resulting in less demand for these types of remote access products;
- the introduction of new or alternative technologies, products or service offerings by competitors;
- our failure to innovate or introduce new product offerings, features and enhancements;
- potential market saturation or our inability to enter into new markets;
- increased price and product competition;
- dissatisfied customers; or
- general weak economic, industry or market conditions.

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

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

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

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

Certain services offered by us enable users to remotely access third-party computer systems. We do not control the use or content of information accessed by our customers through our services. If our services are used to commit fraud or other bad or illegal acts, including, but not limited to, posting, distributing or transmitting any computer files that contain a virus or other harmful component, interfering or disrupting third-party networks, infringing any third party's copyright, patent, trademark, trade secret or other proprietary rights or rights of publicity or privacy, transmitting any unlawful, harassing, libelous, abusive, threatening, vulgar or otherwise objectionable material, or accessing unauthorized third-party data, we may become subject to claims for defamation,

negligence or intellectual property infringement and subject to other potential liabilities. As a result, defending such claims could be expensive and time-consuming, and we could incur significant liability to our customers and to individuals or businesses who were the targets of such acts. As a result, our business may suffer and our reputation may be damaged.

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

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

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

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

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

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

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

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

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

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

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

Many of our services directly compete with large, established competitors such as WebEx (a division of Cisco Systems), and certain of our services also compete with current or potential services offered by companies like Adobe, AgileBits, Amazon, Apple, BlueJeans Networks, Dashlane, GFI, Google, IBM, KeePass, LivePerson, Microsoft, OKTA, Oracle, Splashtop, TeamViewer and Zoom Video Communications. Our audio and unified communications and collaboration services also compete with solutions from 8x8, AT&T, BT, InterCall, PGI, RingCentral, Verizon and Vonage. Many of our actual and potential competitors enjoy competitive

advantages over us, such as greater name recognition, longer operating histories, more varied services and larger marketing budgets, as well as substantially greater financial, technical and other resources. In addition, many of our competitors have established marketing relationships, access to larger customer bases and have major distribution agreements with consultants, system integrators and resellers.

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

Industry consolidation may result in increased competition.

Some of our competitors have made or may make acquisitions or may enter into partnerships or other strategic relationships to offer a more comprehensive service than they individually had offered. In addition, new entrants not currently considered to be competitors may enter the market through acquisitions, partnerships or strategic relationships. We expect these trends to continue as companies attempt to strengthen or maintain their market positions. Many of the companies driving this trend have significantly greater financial, technical and other resources than we do and may be better positioned to acquire and offer complementary services and technologies.

The companies resulting from such combinations may create more compelling service offerings and may offer greater pricing flexibility than we can or may engage in business practices that make it more difficult for us to compete effectively, including on the basis of price, sales and marketing programs, technology or service functionality. These pressures could result in a substantial loss of customers or a reduction in our revenues.

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

The cloud-based connectivity services markets in which we compete are characterized by rapid technological change, the frequent introduction of new services and evolving industry standards. Our ability to remain competitive will depend in large part on our ability to continue to enhance our existing services and develop new service offerings that keep pace with these markets' rapid technological developments. Additionally, to achieve market acceptance for our services, we must effectively anticipate and offer services that meet changing customer demands in a timely manner.

Customers may require features and capabilities that our current services do not have. If we fail to develop services that satisfy customer requirements in a timely and cost-effective manner, our ability to renew services with existing customers and our ability to create or increase demand for our services will be harmed, and our revenue and results of operations would be adversely affected.

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

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

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

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

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

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

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

Our handling of the data we collect from our customers, as further described in our privacy policy, and our processing of personally identifiable information and data of our customers' customers through the services we provide, is subject to a variety of laws and regulations, which have been adopted by various federal, state and foreign governments to regulate the collection, distribution, use and storage of personal information of individuals. Several foreign countries in which we conduct business, including the European Economic Area, or EEA, and Canada, currently have in place, or have recently proposed, laws or regulations concerning privacy, data protection and information security, which are more restrictive than those imposed in the United States. Some of these laws are in their early stages and we cannot yet determine the impact these revised laws and regulations, if implemented, may have on our business. However, any failure or perceived failure by us to comply with these privacy laws, regulations, policies or obligations or any security incident that results in the unauthorized release or transfer of personally identifiable information or other customer data in our possession, could result in government enforcement actions, litigation, fines and penalties and/or adverse publicity, all of which could have an adverse effect on our reputation and business.

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

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

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

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

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

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

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

We have a credit agreement with a syndicate of banks pursuant to which we have a \$400 million secured revolving credit facility which is available to us through February 1, 2022, at which time any amounts outstanding will be due and payable in full. On April 2, 2018, we borrowed \$200 million under the credit facility to partially fund our acquisition of Jive Communications, Inc., which amount remained outstanding as of March 31, 2019. We may wish to borrow amounts under the facility in the future for general corporate purposes, including, but not limited to, the potential acquisition of complementary products or businesses, and share repurchases, as well as for working capital.

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

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

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

We face intense competition for qualified individuals from numerous technology, software and manufacturing companies. For example, our competitors may be able to attract and retain a more qualified engineering team by offering more competitive compensation packages. If we are unable to attract new engineers and retain our current engineers, we may not be able to develop and maintain our services at the same levels as our competitors and we may, therefore, lose potential customers and sales penetration in certain markets. In addition, in February 2019, we announced a reduction in work force which will result in the termination of approximately 4% of our workforce and the consolidation of certain leased facilities. This restructuring could make it more difficult to attract, retain and hire new talent. Our failure to attract and retain suitably qualified individuals could have an adverse effect on our ability to implement our business plan and, as a result, our ability to compete would decrease, our operating results would suffer and our revenues would decrease.

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

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

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

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

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

We market and sell a significant amount of our services to SMBs. SMBs are challenging to reach, acquire and retain in a cost-effective manner. To grow our revenue, 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 higher failure rates;
- are price sensitive;
- are difficult to reach with targeted sales campaigns;
- have high churn rates in part because of the scale of their businesses and the ease of switching services; and
- generate less revenue per customer and per transaction.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Government regulation of the Internet, telecommunications and other communications technologies could harm our business and operating results.

As Internet commerce and telecommunications continue to evolve, increasing regulation by federal, state or foreign governments and agencies becomes more likely. Any increase in regulation could affect our customers' ability to use and share data, potentially reducing demand for our products and services. In addition, taxation of products and services provided over the Internet or other charges imposed by government agencies or by private organizations for accessing the Internet or utilizing telecommunications services may also be imposed. Any regulation imposing greater fees for Internet use or restricting the exchange of information over the Internet could diminish the viability of our services, which could harm our business and operating results.

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

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

Certain transactions leading up to our acquisition of the GoTo Business from Citrix, including the Merger itself, were intended to qualify for tax-free treatment for U.S. federal income tax purposes, in each case based on the applicable facts and circumstances that existed on the date of such transactions. However, there can be no assurance that the Internal Revenue Service, or the IRS, will not successfully assert that the Merger or any of the transactions leading up to the Merger are taxable transactions, and that a court will not sustain such assertion.

In connection with the Merger, we entered into an Amended and Restated Tax Matters Agreement with Citrix, which provides for, among other things, the allocation of certain tax assets and liabilities between Citrix and LogMeIn. In certain scenarios, we may be obligated to indemnify Citrix against taxes and certain tax-related losses that arise as a result of LogMeIn's actions, or failure to act. Any such

indemnification obligation would be substantial and would likely have a material adverse effect on us. In addition, even if we are not responsible for tax liabilities of Citrix under the Amended and Restated Tax Matters Agreement, LogMeIn nonetheless could be liable under applicable law for such liabilities if Citrix were to fail to pay such taxes.

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

The tax effects of the accounting for share-based awards may significantly impact our effective tax rate from period to period. In periods in which our stock price is higher than the grant price of the share-based awards vested or expired in that period, we will recognize excess tax benefits that will decrease our effective tax rate. For example, in 2017 and 2018, excess tax benefits recognized from share-based awards resulted in a benefit from income taxes of \$16.0 million and \$7.3 million, respectively. In future periods in which our stock price is lower than the grant price of the share-based awards vested or expired in that period, our effective tax rate may increase. The amount and value of share-based awards vested or expired relative to our earnings in a period will also affect the magnitude of the impact of share-based awards on our effective tax rate. These tax effects are dependent on our stock price, which we do not control, and a decline in our stock price could significantly increase our effective tax rate and adversely affect our financial results.

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

The Tax Cuts and Jobs Act of 2017, which we refer to herein as the “U.S. Tax Act,” was enacted on December 22, 2017 and has affected U.S. tax law by changing U.S. federal income taxation of U.S. corporations. We have reflected the expected impact of the Tax Act in our Consolidated Financial Statements. However, the U.S. Tax Act is complex and additional interpretative guidance may be issued that could affect the assumptions and estimates we made. In addition, at this stage, it is unclear how a number of U.S. states will incorporate the changes made by the U.S. Tax Act into their tax codes. Changes in the assumptions and estimates we have made relating to the U.S. Tax Act, as well as actions we may take, could result in a write down of deferred tax assets or otherwise materially affect our tax obligations or effective tax rate, which could negatively affect our financial condition and results of operations.

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

In June 2016, a majority of voters in the United Kingdom elected to withdraw from the European Union in a national referendum. The United Kingdom is in process of negotiating the terms of its exit, originally scheduled for March 29, 2019. However, withdrawal proposals have continued to be rejected by the U.K. Parliament creating significant uncertainty about the terms and timing under which the United Kingdom will leave the European Union, including with respect to the laws and regulations that will apply as the United Kingdom determines which European Union laws to replace or replicate in the event of a withdrawal. These developments, or the perception that any of them could occur, have had and may continue to have a material adverse effect on global economic conditions and the stability of global financial markets, and may significantly reduce global market liquidity and restrict the ability of key market participants to operate in certain financial markets. Any of these factors could depress economic activity and restrict our access to capital, which could have a material adverse effect on our business, financial condition and results of operations and reduce the price of our common stock.

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

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

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

Generally accepted accounting principles in the United States, or GAAP, are subject to interpretation by the Financial Accounting Standards Board, or FASB, the SEC and various bodies formed to promulgate and interpret appropriate accounting principles. A change in accounting principles or interpretations could have a significant effect on our reported financial results for subsequent periods and prior periods, if retrospectively adopted. Additionally, the adoption of new standards may potentially require enhancements or changes in our systems and may require significant time and cost on behalf of our financial management. The

prescribed periods of adoption of new standards and other pending changes in accounting principles generally accepted in the United States, are further discussed in “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Recently Issued Accounting Pronouncements.”

Risks Related to Ownership of Our Common Stock

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

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

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

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

During the period from our initial public offering in July 2009 through April 22, 2019, our common stock has traded as high as \$134.80 and as low as \$15.15. An active, liquid and orderly market for our common stock may not be sustained, which could depress the trading price of our common stock. Some of the factors that may cause the market price of our common stock to fluctuate include:

- the success or failure of acquisitions as well as our ability to realize the anticipated growth opportunities and other financial and operating benefits therefrom;
- fluctuations in our quarterly financial results or the quarterly financial results of companies perceived to be similar to us;
- fluctuations in our recorded revenue, even during periods of significant sales order activity;
- changes in estimates of our financial results or recommendations by securities analysts;
- failure of any of our services to achieve or maintain market acceptance;
- changes in market valuations of companies perceived to be similar to us;
- announcements regarding changes to our current or planned products or services;
- success of competitive companies, products or services;
- changes in our capital structure, such as future issuances of securities or the incurrence of debt;
- announcements by us or our competitors of significant new services, contracts, acquisitions or strategic alliances;
- regulatory developments in the United States, foreign countries or both;
- litigation, including stockholder litigation and/or class action litigation, involving our company, our services or our general industry, as well as announcements regarding developments in on-going litigation matters;
- additions or departures of key personnel;
- general perception of the future of the cloud-based connectivity markets or our services;
- investors’ general perception of us; and
- changes in general economic, industry and market conditions.

In addition, if the market for technology stocks or the stock market in general experiences a loss of investor confidence, the trading price of our common stock could decline for reasons unrelated to our business, financial condition or results of operations. If any of

the foregoing occurs, it could cause our stock price to fall and may expose us to class action lawsuits that, even if unsuccessful, could be costly to defend and a distraction to management.

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

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

If securities or industry analysts who cover us, our business or our market publish a negative report or change their recommendations regarding our stock adversely, our stock price and trading volume could decline.

The trading market for our common stock is influenced by the research and reports that industry or securities analysts publish about us, our business, our market or our competitors. If any of the analysts who cover us or may cover us in the future publish a negative report or change their recommendation regarding our stock adversely, or provide more favorable relative recommendations about our competitors, our stock price would likely decline.

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

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

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

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

- establishing that our Board of Directors is divided into three classes, with each class serving three-year staggered terms;
- authorizing blank check preferred stock, which could be issued with voting, liquidation, dividend and other rights superior to our common stock;
- limiting the liability of, and providing indemnification to, our directors and officers;
- limiting the ability of our stockholders to call and bring business before special meetings and to take action by written consent in lieu of a meeting;
- requiring advance notice of stockholder proposals for business to be conducted at meetings of our stockholders and for nominations of candidates for election to our Board of Directors;
- controlling the procedures for the conduct and scheduling of our Board of Directors and stockholder meetings;
- providing our Board of Directors with the express power to postpone previously scheduled annual meetings and to cancel previously scheduled special meetings;
- restricting the forum for certain litigation brought against us to Delaware;
- providing our Board of Directors with the exclusive right to determine the number of directors on our Board of Directors and the filling of any vacancies or newly created seats on our Board of Directors; and

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

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

As a Delaware corporation, we are also subject to provisions of Delaware law, including Section 203 of the Delaware General Corporation Law, which generally prevents certain interested stockholders, including a person who beneficially owns 15% or more of our outstanding common stock, from engaging in certain business combinations with us within three years after the person becomes an interested stockholder unless certain approvals are obtained. Any provision of our certificate of incorporation or bylaws or Delaware law that has the effect of delaying or deterring a change in control could limit the opportunity for our stockholders to receive a premium for their shares of our common stock, and could also affect the price that some investors are willing to pay for our common stock.

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

(a) Sales of Unregistered Securities

We did not sell any unregistered securities in the three months ended March 31, 2019.

(b) Use of Proceeds

We did not receive any proceeds from the sale of unregistered securities in the three months ended March 31, 2019.

(c) Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Number (or Approximate Dollar Value) of Shares that may yet be Purchased Under the Plans or Programs (1)
January 1, 2019 - January 31, 2019	-	\$ -	-	\$ 280,144,539
February 1, 2019 - February 28, 2019	137,511	\$ 81.74	137,511	\$ 268,904,149
March 1, 2019 - March 31, 2019	576,474	\$ 80.82	576,474	\$ 205,795,077 (2)
Total	713,985	\$ 81.00	713,985	

- (1) On February 23, 2017, our Board of Directors approved a three-year capital return plan, pursuant to which we intend to return to stockholders approximately 75% of our free cash flow over the period, up to \$700 million, through a combination of share repurchases and dividends. Share repurchases under this plan are made from time-to-time in the open market, in privately negotiated transactions or otherwise, in accordance with applicable securities laws and regulations. During the three months ended March 31, 2019, we repurchased 713,985 shares of our common stock.
- (2) This amount has been reduced by an additional \$16.5 million which was used by the Company to pay a cash dividend of \$0.325 per share on March 12, 2019 to stockholders of record as of February 25, 2019.

Item 6. Exhibits

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

EXHIBIT INDEX

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

Exhibit No.	Description
32.1	<u>Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by Chief Executive Officer.</u>
32.2	<u>Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by Chief Financial Officer.</u>
101	The following materials from LogMeIn, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2019, formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Operations, (iii) the Condensed Consolidated Statements of Comprehensive Income (Loss), (iv) the Condensed Consolidated Statements of Equity, (v) the Condensed Consolidated Statements of Cash Flows, and (vi) Notes to Condensed Consolidated Financial Statements.

SIGNAT URES

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

LOGMEIN, INC.

Date: April 26, 2019

By: /s/ William R. Wagner
William R. Wagner
President & Chief Executive Officer
(Principal Executive Officer)

Date: April 26, 2019

By: /s/ Edward K. Herdiech
Edward K. Herdiech
Chief Financial Officer
(Principal Financial Officer)

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO
SECURITIES EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a), AS ADOPTED
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, William R. Wagner, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of LogMeIn, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 26, 2019

/s/ William R. Wagner

William R. Wagner

President & Chief Executive Officer

**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO
SECURITIES EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a), AS ADOPTED
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Edward K. Herdiech, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of LogMeIn, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 26, 2019

/s/ Edward K. Herdiech

Edward K. Herdiech

Chief Financial Officer

**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q for the quarterly period ending March 31, 2019 of LogMeIn, Inc. (the "Company"), as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William R. Wagner, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

- (1) The Report fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: April 26, 2019

/s/ William R. Wagner

William R. Wagner
President & Chief Executive Officer

**CERTIFICATION OF THE CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q for the quarterly period ending March 31, 2019 of LogMeIn, Inc. (the "Company"), as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Edward K. Herdiech, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

- (1) The Report fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: April 26, 2019

/s/ Edward K. Herdiech

Edward K. Herdiech
Chief Financial Officer