LogMeIn, Inc.
Form 10-Q
October 23, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2015

OR

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

For the transition period from __________ to __________

Commission file number: 001-34391

LOGMEIN, INC.

(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of** **incorporation or organization)**	**20-1515952** **(I.R.S. Employer** **Identification No.)**
320 Summer Street, Suite 100 **Boston, Massachusetts** **(Address of principal executive offices)**	**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 x No ¨

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

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

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

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

As of October 19, 2015, there were 25,061,209 shares of the registrant s Common Stock, par value $0.01 per share, outstanding.

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Part I. Financial Information

Item 1. Financial Statements

LogMeIn, Inc.

Condensed Consolidated Balance Sheets

(In thousands, except share and per share data)

	December 31, 2014	September 30, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 100,960	$ 160,412
Marketable securities	100,209	85,280
Accounts receivable (net of allowance for doubtful accounts of $301 and $295 as of December 31, 2014 and September 30, 2015, respectively)	18,286	15,892
Prepaid expenses and other current assets	4,545	8,590
Restricted cash, current portion	1,492	
Deferred income tax assets	5,403	5,372
Total current assets	230,895	275,546
Property and equipment, net	13,476	18,742
Restricted cash, net of current portion	2,531	2,474
Intangibles, net	18,983	17,622
Goodwill	37,928	37,928
Other assets	4,756	5,632
Deferred income tax assets	9,280	9,218
Total assets	$ 317,849	$ 367,162
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 7,055	$ 10,977
Accrued liabilities	29,482	27,817
Deferred revenue, current portion	101,672	133,815
Total current liabilities	138,209	172,609
Deferred revenue, net of current portion	3,578	3,227
Other long-term liabilities	2,218	1,570
Total liabilities	144,005	177,406

Commitments and contingencies (Note 10)

Preferred stock, $0.01 par value 5,000,000 shares authorized, 0 shares outstanding as of December 31, 2014 and September 30, 2015				
Equity:				
Common stock, $0.01 par value - 75,000,000 shares authorized as of December 31, 2014 and September 30, 2015; 26,530,977 and 27,411,488 shares issued as of December 31, 2014 and September 30, 2015, respectively; 24,418,760 and 25,049,871 outstanding as of December 31, 2014 and September 30, 2015, respectively		267		278
Additional paid-in capital		237,203		260,746
Retained earnings		6,516		14,839
Accumulated other comprehensive loss		(3,117)		(4,350)
Treasury stock, at cost - 2,112,217 and 2,361,617 shares as of December 31, 2014 and September 30, 2015, respectively		(67,025)		(81,757)
Total equity		173,844		189,756
Total liabilities and equity	$	317,849	$	367,162

See notes to condensed consolidated financial statements.

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LogMeIn, Inc.

Condensed Consolidated Statements of Operations

(In thousands, except share and per share data)

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2015
Revenue	$ 58,062	$ 69,573	$ 162,057	$ 195,516
Cost of revenue	7,334	8,678	20,851	25,195
Gross profit	50,728	60,895	141,206	170,321
Operating expenses				
Research and development	9,751	10,379	24,436	29,758
Sales and marketing	30,091	33,929	88,854	102,919
General and administrative	7,887	8,457	22,012	23,771
Legal settlements				3,600
Amortization of acquired intangibles	228	286	753	844
Total operating expenses	47,957	53,051	136,055	160,892
Income from operations	2,771	7,844	5,151	9,429
Interest income, net	167	177	427	529
Other income (expense)	6	(649)	202	720
Income before income taxes	2,944	7,372	5,780	10,678
Provision for income taxes	(636)	(1,809)	(1,138)	(2,355)
Net income	$ 2,308	$ 5,563	$ 4,642	$ 8,323
Net income per share:				
Basic	$ 0.09	$ 0.22	$ 0.19	$ 0.34
Diluted	$ 0.09	$ 0.22	$ 0.18	$ 0.32
Weighted average shares outstanding:				
Basic	24,592,053	24,954,935	24,381,859	24,733,126
Diluted	25,203,594	25,768,488	25,105,164	25,678,198

See notes to condensed consolidated financial statements.

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LogMeIn, Inc.

Condensed Consolidated Statements of Comprehensive Income

(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2015	2014	2015
Net income	$ 2,308	$ 5,563	$ 4,642	$ 8,323
Other comprehensive income (loss):				
Net unrealized (losses) gains on marketable securities, (net of tax benefit of $43 and tax provision of $5 for the three months ended September 30, 2014 and 2015; and net of tax benefit of $40 and tax provision of $62 for the nine months ended September 30, 2014 and 2015)	(76)	10	(70)	109
Net translation losses	(939)	(41)	(1,055)	(1,342)
Total other comprehensive loss	(1,015)	(31)	(1,125)	(1,233)
Comprehensive income	$ 1,293	$ 5,532	$ 3,517	$ 7,090

See notes to condensed consolidated financial statements.

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LogMeIn, Inc.

Condensed Consolidated Statements of Cash Flows

(In thousands)

	Nine Months Ended September 30, 2014	2015
Cash flows from operating activities		
Net income	$ 4,642	$ 8,323
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	8,281	9,232
Amortization of premium on investments	178	239
Amortization of debt issuance costs		132
Provision for bad debts	52	52
Provision for deferred income taxes	516	14
Income tax benefit form the exercise of stock options		(216)
Stock-based compensation	18,421	19,235
Other, net	29	1
Changes in assets and liabilities:		
Accounts receivable	1,824	1,931
Prepaid expenses and other current assets	(1,429)	(2,873)
Other assets	311	(282)
Accounts payable	584	3,021
Accrued liabilities	3,607	(2,822)
Deferred revenue	20,745	34,850
Other long-term liabilities	1,125	1,177
Net cash provided by operating activities	58,886	72,014
Cash flows from investing activities		
Purchases of marketable securities	(49,973)	(57,170)
Proceeds from sale or disposal or maturity of marketable securities	50,000	72,042
Purchases of property and equipment	(5,697)	(10,922)
Intangible asset additions	(1,767)	(2,435)
Cash paid for acquisition, net of cash acquired	(22,449)	
(Increase) decrease in restricted cash and deposits	(199)	1,488
Net cash (used in) provided by investing activities	(30,085)	3,003
Cash flows from financing activities		
Proceeds from issuance of common stock upon option exercises	12,987	15,251
Income tax benefit form the exercise of stock options	6	216
Common stock withheld to satisfy income tax withholdings for restricted stock unit vesting	(5,290)	(11,148)
Payment of debt issuance costs		(977)

Payment of contingent consideration				(226)
Purchase of treasury stock		(26,042)		(14,732)
Net cash used in financing activities		(18,339)		(11,616)
Effect of exchange rate changes on cash and cash equivalents and restricted cash		(3,378)		(3,949)
Net increase in cash and cash equivalents		7,084		59,452
Cash and cash equivalents, beginning of period		89,257		100,960
Cash and cash equivalents, end of period	$	96,341	$	160,412
Supplemental disclosure of cash flow information				
Cash paid for interest	$	2	$	2
Cash paid for income taxes	$	887	$	1,468
Noncash investing and financing activities				
Purchases of property and equipment included in accounts payable and accrued liabilities	$	1,026	$	2,269
Debt issuance costs included in accounts payable and accrued liabilities	$		$	11
Fair value of contingent consideration in connection with acquisition included in accrued liabilities and other long term liabilities	$	242	$	27

See notes to condensed consolidated financial statements.

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LogMeIn, Inc.

Notes to Condensed Consolidated Financial Statements

1. Nature of the Business

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

2. Summary of Significant Accounting Policies

Principles of Consolidation The accompanying 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 (GAAP).

Unaudited Interim Condensed Consolidated Financial Statements The accompanying condensed consolidated financial statements and the related interim information contained within the notes to the condensed consolidated financial statements are unaudited and have been prepared in accordance with GAAP and applicable rules and regulations of the Securities and Exchange Commission for interim financial information. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. The accompanying unaudited condensed consolidated financial statements should be read along with the Company s audited financial statements included in the Company s Annual Report on Form 10-K, filed with the Securities and Exchange Commission on February 20, 2015. 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.

Marketable Securities The Company s marketable securities are classified as available-for-sale and are carried at fair value with the unrealized gains and losses, net of tax, reported as a component of accumulated other comprehensive loss in equity. Realized gains and losses and declines in value judged to be other than temporary are included as a component of earnings based on the specific identification method. Fair value is determined based on quoted market prices. At December 31, 2014 and September 30, 2015, marketable securities consisted of U.S. government agency securities and corporate bonds that have remaining maturities within two years and have an aggregate amortized cost of $100.3 million and $85.2 million, respectively. The marketable securities have an aggregate fair value of $100.2 million and $85.3 million, including $9,000 and $54,000 of unrealized gains and $138,000 and $12,000 of unrealized losses, respectively.

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

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

The Company s multi-element arrangements typically include subscription and professional services, which may include development services. The Company evaluates each element within the arrangement to determine if they can be accounted for as separate units of accounting. If the delivered item or items have value to the customer on a standalone basis, either because they are sold separately by any vendor or the customer could resell the delivered item or items on a standalone basis, the Company has determined that the deliverables within these arrangements qualify for treatment as separate units of accounting. Accordingly, the Company recognizes revenue for each delivered item or items as a separate earnings process commencing when all of the significant performance obligations have been performed and when all of the revenue recognition criteria have been met. Professional services revenue recognized as a separate earnings process under multi-element arrangements has been immaterial to date. In cases where the Company has determined that the delivered items within its multi-element arrangements do not have value to the customer on a stand-alone basis, the arrangement is accounted for as a single unit of accounting and the related consideration is recognized ratably over the estimated customer life, commencing when all of the significant performance obligations have been delivered and when all of the revenue recognition criteria have been met. Revenue from arrangements that are accounted for as a single unit of accounting has been immaterial to date.

Revenues are reported net of applicable sales and use tax, value-added tax, and other transaction taxes imposed on the related transaction.

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

As of December 31, 2014, one customer accounted for 15% of accounts receivable and there were no customers that represented 10% or more of revenue. For the three and nine months ended September 30, 2014 and 2015, no customers accounted for more than 10% of revenue. As of September 30, 2015, no customers accounted for more than 10% of accounts receivable.

Goodwill Goodwill is the excess of the acquisition price over the fair value of the tangible and identifiable intangible net assets acquired. The Company does not amortize goodwill, but performs an impairment test of goodwill annually or whenever events and circumstances indicate that the carrying amount of goodwill may exceed its fair value. The Company operates as a single operating segment with one reporting unit and consequently evaluates goodwill for impairment based on an evaluation of the fair value of the Company as a whole. As of December 31, 2014, the fair value of the Company as a whole significantly exceeded the carrying amount of the Company. Through September 30, 2015, no impairments have occurred.

Long-Lived Assets and Intangible Assets The Company records intangible assets at their respective estimated fair values at the date of acquisition. Intangible assets are being amortized based upon the pattern in which their economic benefit will be realized, or if this pattern cannot be reliably determined, using the straight-line method over their estimated useful lives, which range from four months to eight 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. The Company did not record any impairments for the nine months ended September 30, 2015.

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. The Company had foreign currency gains of $5,000 and $0.2 million for the three and nine months ended September 30, 2014, respectively, and foreign currency losses of $0.5 million and gains of $1.0 million for the three and nine months ended September 30, 2015, respectively, included in other income in the condensed consolidated statements of operations.

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

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

The Company evaluates its uncertain tax positions based on a determination of whether and how much of a tax benefit taken by the Company in its tax filings is more likely than not to be realized. Potential interest and penalties associated with any uncertain tax positions are recorded as a component of income tax expense. As of both December 31, 2014 and September 30, 2015, the Company has provided for a liability of $0.7 million for uncertain tax positions. These uncertain tax positions would impact the Company s effective tax rate if recognized.

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

The Company s revenue by geography (based on customer address) and by service cloud (product grouping) is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	**2015**	**2014**	**2015**
United States	$ 38,831	$ 48,721	$ 107,701	$ 137,194
United Kingdom	5,028	5,683	14,353	15,692
International all other	14,203	15,169	40,003	42,630
Total revenue	$ 58,062	$ 69,573	$ 162,057	$ 195,516

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	**2015**	**2014**	**2015**
Collaboration cloud	$ 16,840	$ 22,930	$ 44,873	$ 63,148
IT Management cloud	19,501	23,718	54,193	65,718
Customer Engagement cloud	20,953	22,363	61,345	64,783
Other	768	562	1,646	1,867
Total revenue	$ 58,062	$ 69,573	$ 162,057	$ 195,516

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

In the ordinary course of business, the Company enters into agreements with certain customers that contractually obligate the Company to provide indemnifications of varying scope and terms with respect to certain matters including, but not limited to, losses arising out of the breach of such agreements, from the services provided by the Company or claims alleging that the Company s products infringe third-party patents, copyrights, or trademarks. The term of these indemnification obligations is generally perpetual. The maximum potential amount of future payments the Company could be required to make under these indemnification obligations is, in many cases, unlimited. Through September 30, 2015, the Company has not experienced any losses related to these indemnification obligations.

Net Income Per Share Basic net income per share is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted net income per share is computed by dividing net income by the sum of the weighted average number of common shares outstanding during the period and the dilutive effect, if any, of the weighted average number of 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 per share because they had an anti-dilutive impact (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	**2015**	**2014**	**2015**
Options to purchase common shares	55		418	
Restricted stock units	146	238	75	238
Total options and restricted stock units	201	238	493	238

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

	Three months ended September 30, 2014		Three months ended September 30, 2015		Nine months ended September 30, 2014		Nine months ended September 30, 2015	
Basic:								
Net income	$	2,308	$	5,563	$	4,642	$	8,323
Weighted average common shares outstanding, basic		24,592		24,955		24,382		24,733
Net income per share, basic	$	0.09	$	0.22	$	0.19	$	0.34
Diluted:								
Net income	$	2,308	$	5,563	$	4,642	$	8,323
Weighted average common shares outstanding		24,592		24,955		24,382		24,733
Add: Common stock equivalents		612		813		723		945
Weighted average common shares outstanding, diluted		25,204		25,768		25,105		25,678
Net income per share, diluted	$	0.09	$	0.22	$	0.18	$	0.32

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

On June 19, 2014, the FASB issued ASU 2014-12, *Stock Compensation* (ASU 2014-12), providing guidance on accounting for share-based payment awards when the terms of an award provide that a performance target could be achieved after the requisite service period. The update clarifies that performance targets that can be achieved after the requisite service period of a share-based payment award be treated as performance conditions that affect vesting.

These awards should be accounted for under Accounting Standards Codification Topic 718, *Compensation Stock Compensation* , and existing guidance should be applied as it relates to awards with performance conditions that affect vesting. The update is effective for the Company for the interim and annual periods beginning after December 15, 2015. The Company is currently evaluating the impact of the adoption of this standard, if any, on its consolidated financial statements.

On August 27, 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements Going Concern: Disclosure of Uncertainties about an Entity s Ability to Continue as a Going Concern* (ASU 2014-15). The standard requires that the Company evaluates, at each interim and annual reporting period, whether there are conditions or events that raise substantial doubt about its ability to continue as a going concern within one year after the date the financial statements are issued, and provide related disclosures. ASU 2014-15 is effective for annual periods ending after December 15, 2016, and for annual and interim periods thereafter, and early adoption is permitted. The Company does not expect to early adopt ASU 2014-15, which will be effective for its fiscal year ending December 31, 2016. The Company does not believe the standard will have a material impact on its consolidated financial statements.

On February 18, 2015, the FASB issued ASU 2015-02, *Consolidation: Amendments to the Consolidation Analysis* (ASU 2015-02). The standard amends the consolidation requirements in ASC 810. ASU 2015-02 is effective for fiscal periods beginning after December 15, 2015 for public companies, and early adoption is permitted. The Company does not expect to early adopt ASU 2015-02, which will be effective for its fiscal year ending December 31, 2016. The Company does not believe the standard will have a material impact on its consolidated financial statements.

On April 7, 2015, the FASB issued ASU 2015-03, *Interest- Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs* (ASU 2015-03). The standard requires an entity to present debt issuance costs on the balance sheets as a direct deduction from the related debt liability rather than as an asset, and the amortization is reported as interest expense. ASU 2015-03 is effective for fiscal periods beginning after December 15, 2015 (and interim periods therein). The Company does not believe the standard will have a material impact on its consolidated financial statements.

On April 15, 2015, the FASB issued ASU 2015-05, *Intangibles Goodwill and Other Internal-Use Software: Customer s Accounting for Fees Paid in a Cloud Computing Arrangement* (ASU 2015-05). The standard clarifies the circumstances under which a cloud computing customer would account for the arrangement as a license of internal-use software under ASC 350-40. ASU 2015-05 is effective for annual periods (and interim periods therein) beginning after December 15, 2015, and early adoption is permitted. The Company does not expect to early adopt ASU 2015-05, which will be effective for its fiscal year ending December 31, 2016. The Company does not believe the standard will have a material impact on its consolidated financial statements.

3. Fair Value of Financial Instruments

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

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

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

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

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

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

Total	$ 73,042	$ 45,309	$ 249	$ 118,600

	Fair Value Measurements at September 30, 2015 Using			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial Assets:				
Cash equivalents money market funds	$ 6,129	$	$	$ 6,129
Cash equivalents bank deposits		60		60
Short-term marketable securities:				
U.S. government agency securities	30,145	38,005		68,150
Corporate bond securities		17,130		17,130
Contingent consideration liability			27	27
Total	$ 36,274	$ 55,195	$ 27	$ 91,496

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

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The Level 3 liability consists of contingent consideration related to the August 27, 2014 acquisition of BBA, Inc., d/b/a Meldium, and the September 5, 2014 acquisition of Zamurai Corporation, each described in Note 4 below. The fair value of the contingent consideration was estimated by applying a probability based model, which utilizes significant inputs that are unobservable in the market. Key assumptions include a 12% discount rate and an assumption that the earn-out will be achieved. A reconciliation of the beginning and ending Level 3 liability is as follows:

	Nine months ended September 30, 2015	
Balance beginning of period	$	249
Additions to Level 3		
Payments		(226)
Change in fair value of contingent consideration liability		4
Balance end of period	$	27

4. Acquisitions

On March 7, 2014, the Company acquired all of the outstanding capital stock of Ionia Corporation, or Ionia, a Boston, Massachusetts based systems integrator, for a cash purchase price of $7.5 million plus contingent retention-based bonuses totaling up to $4.0 million, which are expected to be paid over a two-year period from the date of acquisition. The Company paid $2.0 million in March 2015 and expects to pay the remainder in March 2016.

The acquisition has been accounted for as a business combination. The assets acquired and the liabilities assumed were recorded at their estimated fair values as of the acquisition date. The Company retained an independent third party valuation firm to assist in the determination of the fair value of the intangible assets with estimates and assumptions provided by Company management. The excess of the purchase price over the tangible net assets and identifiable intangible assets was recorded as goodwill.

The purchase price was allocated as follows (in thousands):

	Amount	
Cash	$	67
Current assets		296
Other assets		26
Deferred revenue		(70)
Other liabilities		(864)
Customer backlog		120
Trade name and trademark		10
Customer relationships		1,340
Documented know-how		280
Goodwill		6,295

Total purchase price	$ 7,500

The stock purchase agreement included a contingent, retention-based bonus program provision requiring the Company to make additional payments to employees, including former Ionia stockholders now employed by the Company, on the first and second anniversaries of the acquisition, contingent upon their continued employment and achievement of certain bookings goals. The range of the contingent, retention-based bonus payments that the Company could pay is between $0 to $4.0 million. The Company has concluded that the arrangement is a compensation arrangement and is accruing the maximum payout ratably over the performance period, as it believes it is probable that the criteria will be met.

The goodwill recorded in connection with this transaction is primarily related to the expected synergies to be achieved related to the Company s ability to leverage its Xively platform, customer base, sales force and Internet of Things business plan with Ionia s technical expertise and customer base. All goodwill and intangible assets acquired are not deductible for income tax purposes.

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

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On August 27, 2014, the Company acquired BBA, Inc., d/b/a Meldium, or Meldium, a San Francisco, California-based provider of single sign-on password management software, through a merger transaction for a cash purchase price of $10.6 million plus contingent bonuses totaling up to $4.6 million, which are expected to be paid over a two-year period from the date of acquisition. The Company paid approximately $2.0 million of contingent payments during the nine months ended September 30, 2015.

The acquisition has been accounted for as a business combination. The assets acquired and the liabilities assumed were recorded at their estimated fair values as of the acquisition date. The Company retained an independent third party valuation firm to assist in the determination of the fair value of the intangible assets with estimates and assumptions provided by Company management. The excess of the purchase price over the tangible net assets and identifiable intangible assets was recorded as goodwill.

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

	Amount
Cash	$ 120
Current assets	90
Other assets	436
Deferred revenue	(5)
Other liabilities	(935)
Completed technology	1,580
Trade name and trademark	30
Customer relationships	100
Goodwill	9,437
Total purchase price	10,853
Liability for contingent consideration	(216)
Cash paid	$ 10,637

The merger agreement included a contingent, retention-based bonus program requiring the Company to make additional payments to employees, including former Meldium stockholders now employed by the Company, in the first quarter of 2015 and on the first and second anniversaries of the date of acquisition, contingent upon their continued employment and achievement of certain product integration goals. The range of the contingent, retention-based bonus payments that the Company could pay is between $0 to $4.3 million. The Company has concluded that the arrangement is a compensation arrangement and is accruing the maximum payout ratably over the performance period, as it believes it is probable that the criteria will be met. The contingent bonus program also includes payments to non-employee stockholders for an amount between $0 and $226,000, which the Company has concluded is contingent consideration and is part of the purchase price. This contingent liability was recorded at its fair value of $216,000 at the acquisition date. The Company re-measured the fair value of the contingent consideration at each subsequent reporting period and recognized any adjustments to fair value as part of earnings.

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

The Company recorded both a current and a long-term deferred tax asset of $0.1 million and $0.4 million, respectively, primarily related to net operating losses that were acquired as a part of the acquisition and are shown in the accompanying table above as current assets and other assets, respectively. The Company also recorded a long-term deferred tax liability of $0.7 million related to the amortization of intangible assets which cannot be deducted for tax purposes and are included in the accompanying table above as other liabilities.

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On September 5, 2014, the Company acquired all of the outstanding capital stock of Zamurai Corporation, or Zamurai, a San Francisco, California-based collaboration software provider, for a cash purchase price of $4.5 million plus contingent bonuses totaling up to $1.5 million, which are expected to be paid two years from the date of acquisition.

This acquisition has been accounted for as a business combination. The assets acquired and the liabilities assumed were recorded at their estimated fair values as of the acquisition date. The Company retained an independent third party valuation firm to assist in the determination of the fair value of the intangible assets with estimates and assumptions provided by Company management. The excess of the purchase price over the tangible net assets and identifiable intangible assets was recorded as goodwill.

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

	Amount
Cash	$ 2
Current assets	13
Other assets	404
Other liabilities	(439)
Completed technology	960
Trade name and trademark	100
Goodwill	3,484
Total purchase price	4,524
Liability for contingent consideration	(24)
Cash paid	$ 4,500

The stock purchase agreement included a contingent, retention-based bonus program provision requiring the Company to make additional payments to employees, including former stockholders now employed by the Company, on the second anniversary of the acquisition, contingent upon their continued employment and achievement of certain product integration goals. The range of the contingent, retention-based bonus payments that the Company could pay is between $0 to $1.5 million. The Company has concluded that the arrangement is a compensation arrangement and is accruing the maximum payout ratably over the performance period, as it believes it is probable that the criteria will be met. The contingent bonus program also includes payments to non-employee stockholders for an amount between $0 and $30,000, which the Company has concluded is contingent consideration and is part of the purchase price. This contingent liability was recorded at its fair value of $24,000 at the acquisition date. The Company continues to re-measure the fair value of the contingent consideration at each subsequent reporting period and recognizes any adjustments to fair value as part of earnings.

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

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

The Company incurred $0.3 million and $0.4 million of acquisition-related costs which are included in general and administrative expense for the three and nine months ended September 30, 2014.

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5. Goodwill and Intangible Assets

There was no change in the carrying amount of goodwill for the nine months ended September 30, 2015.

Intangible assets consist of the following (in thousands):

		December 31, 2014			September 30, 2015		
	Estimated Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Trade names and trademarks	1-5 years	$ 806	$ 682	$ 124	$ 806	$ 775	$ 31
Customer relationships	5-8 years	5,229	2,546	2,683	5,229	3,120	2,109
Customer backlog	4 months	120	120		120	120	
Domain names	5 years	907	507	400	915	632	283
Software	4 years	299	299		299	299	
Completed technology	3-8 years	16,903	3,981	12,922	17,104	6,072	11,032
Technology and know-how	3 years	3,176	3,176		3,176	3,176	
Documented know-how	4 years	280	57	223	280	110	170
Non-Compete agreements	5 years	162	71	91	162	104	58
Internally developed software	3 years	4,591	2,051	2,540	6,815	2,876	3,939
		$ 32,473	$ 13,490	$ 18,983	$ 34,906	$ 17,284	$ 17,622

The Company is amortizing the 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. The intangible assets have estimated useful lives which range from four months to eight years.

The Company capitalized $0.4 million and $0.5 million during the three months ended September 30, 2014 and 2015, respectively, and $1.3 million and $2.2 million during the nine months ended September 30, 2014 and 2015, respectively, of costs related to internally developed computer software to be sold as a service incurred during the application development stage and is amortizing these costs over the expected lives of the related services. The Company also acquired $0.2 million of intellectual property during the nine months ended September 30, 2015.

The Company is amortizing its intangible assets over the estimated lives noted above. Amortization expense for intangible assets was $1.2 million and $1.3 million for the three months ended September 30, 2014 and 2015, respectively, and $3.7 million and $3.8 million for the nine months ended September 30, 2014 and 2015, respectively. Amortization relating to software, technology and know-how, documented know-how, and internally developed software is recorded within cost of revenues and the amortization of trade name and trademark, customer base, customer backlog, domain names, and non-compete agreements is recorded within operating expenses. Future estimated amortization expense for intangible assets at September 30, 2015 is as follows (in thousands):

Amortization Expense (Years Ending December 31)	**Amount**
2015 (Three months ending December 31)	$ 1,430
2016	5,388
2017	5,047
2018	4,069
2019	1,138
Thereafter	550
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