LogMeIn, Inc.
Form 10-Q
July 25, 2014
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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 June 30, 2014

OR

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

For the transition period from __________ to __________

Commission file number: 001-34391

LOGMEIN, INC.

(Exact name of registrant as specified in its charter)

Delaware	**20-1515952**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
320 Summer Street, Suite 100 Boston, Massachusetts	**02210**
(Address of principal executive offices)	**(Zip Code)**

781-638-9050

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 ¨	Accelerated filer x
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 July 18, 2014, there were 24,617,804 shares of the registrant s Common Stock, par value $0.01 per share, outstanding.

LOGMEIN, INC.

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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, 2013	June 30, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$ 89,257	$ 120,828
Marketable securities	100,299	100,170
Accounts receivable (net of allowance for doubtful accounts of $269 and $279 as of December 31, 2013 and June 30, 2014, respectively)	12,957	10,601
Prepaid expenses and other current assets	6,508	7,537
Restricted cash, current portion	23	1,492
Deferred income tax assets	3,053	3,053
Total current assets	212,097	243,681
Property and equipment, net	13,198	13,661
Restricted cash, net of current portion	3,902	2,584
Intangibles, net	16,886	17,476
Goodwill	18,712	25,007
Other assets	5,348	5,231
Deferred income tax assets	9,470	9,218
Total assets	$ 279,613	$ 316,858
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 6,390	$ 5,958
Accrued liabilities	20,110	19,023
Deferred revenue, current portion	82,496	106,496
Total current liabilities	108,996	131,477
Deferred revenue, net of current portion	2,667	1,845
Other long-term liabilities	611	2,022
Total liabilities	112,274	135,344

Commitments and contingencies (Note 10)

Preferred stock, $0.01 par value 5,000,000 shares authorized, 0 shares outstanding as of December 31, 2013 and June 30, 2014				
Equity:				
Common stock, $0.01 par value - 75,000,000 shares authorized as of December 31, 2013 and June 30, 2014; 25,371,844 and 26,092,834 shares issued as of December 31, 2013 and June 30, 2014, respectively; 24,103,201 and 24,629,180 outstanding as of December 31, 2013 and June 30, 2014, respectively		254		262
Additional paid-in capital		200,235		219,127
(Accumulated deficit) retained earnings		(1,439)		895
Accumulated other comprehensive loss		(1,186)		(1,296)
Treasury stock, at cost - 1,268,643 and 1,463,654 shares as of December 31, 2013 and June 30, 2014, respectively		(30,525)		(37,474)
Total equity		167,339		181,514
Total liabilities and equity	$	279,613	$	316,858

See notes to condensed consolidated financial statements.

LogMeIn, Inc.

Condensed Consolidated Statements of Operations

(In thousands, except share and per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2014	2013	2014
Revenue	$ 40,670	$ 54,975	$ 78,107	$ 103,995
Cost of revenue	4,776	7,397	9,185	13,517
Gross profit	35,894	47,578	68,922	90,478
Operating expenses				
Research and development	6,918	7,973	14,309	14,685
Sales and marketing	22,567	31,053	43,135	58,763
General and administrative	6,352	7,448	17,872	14,125
Amortization of acquired intangibles	180	322	359	525
Total operating expenses	36,017	46,796	75,675	88,098
(Loss) income from operations	(123)	782	(6,753)	2,380
Interest income, net	155	149	320	260
Other (expense) income	(198)	224	454	196
(Loss) income before income taxes	(166)	1,155	(5,979)	2,836
(Provision for) benefit from income taxes	(1,194)	175	(1,188)	(502)
Net (loss) income	$ (1,360)	$ 1,330	$ (7,167)	$ 2,334
Net (loss) income per share:				
Basic	$ (0.06)	$ 0.05	$ (0.29)	$ 0.10
Diluted	$ (0.06)	$ 0.05	$ (0.29)	$ 0.09
Weighted average shares outstanding:				
Basic	24,262,417	24,425,081	24,485,429	24,134,686
Diluted	24,262,417	25,159,340	24,485,429	24,889,730

See notes to condensed consolidated financial statements.

LogMeIn, Inc.

Condensed Consolidated Statements of Comprehensive (Loss) Income

(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2014	2013	2014
Net (loss) income	$ (1,360)	$ 1,330	$ (7,167)	$ 2,334
Other comprehensive income (loss):				
Net unrealized (losses) gains on marketable securities, net of tax	(49)	(15)	(68)	6
Net translation gains (losses)	318	19	(1,196)	(116)
Total other comprehensive income (loss)	269	4	(1,264)	(110)
Comprehensive (loss) income	$ (1,091)	$ 1,334	$ (8,431)	$ 2,224

See notes to condensed consolidated financial statements.

LogMeIn, Inc.

Condensed Consolidated Statements of Cash Flows

(In thousands)

	Six Months Ended June 30,	
	2013	2014
Cash flows from operating activities		
Net (loss) income	$ (7,167)	$ 2,334
Adjustments to reconcile net (loss) income to net cash provided by operating activities		
Depreciation and amortization	3,596	5,499
Amortization of premium on investments	77	122
Provision for bad debts	41	32
Provision for deferred income taxes	198	268
Stock-based compensation	10,282	12,151
Gain on disposal of equipment	(1)	(1)
Changes in assets and liabilities:		
Accounts receivable	3,601	2,575
Prepaid expenses and other current assets	(3,388)	(1,009)
Other assets	(1,794)	210
Accounts payable	(2,409)	433
Accrued liabilities	1,997	(1,327)
Deferred revenue	8,052	23,394
Other long-term liabilities	(174)	721
Net cash provided by operating activities	12,911	45,402
Cash flows from investing activities		
Purchases of marketable securities	(60,381)	(19,984)
Proceeds from sale or disposal of marketable securities	60,000	20,000
Purchases of property and equipment	(6,456)	(4,348)
Intangible asset additions	(915)	(1,322)
Cash paid for acquisition, net of cash acquired		(7,434)
Decrease (increase) in restricted cash and deposits	125	(200)
Net cash used in investing activities	(7,627)	(13,288)
Cash flows from financing activities		
Proceeds from issuance of common stock upon option exercises	267	10,306
Income tax benefit from the exercise of stock options	2	
Common stock withheld to satisfy income tax withholdings for restricted stock unit vesting	(917)	(3,557)
Purchase of treasury stock	(14,607)	(6,949)
Net cash used in financing activities	(15,255)	(200)

Effect of exchange rate changes on cash and cash equivalents and restricted cash		(883)		(343)
Net (decrease) increase in cash and cash equivalents		(10,854)		31,571
Cash and cash equivalents, beginning of period		111,932		89,257
Cash and cash equivalents, end of period	$	101,078	$	120,828
Supplemental disclosure of cash flow information				
Cash paid for interest	$		$	2
Cash paid for income taxes	$	6,287	$	568
Noncash investing and financing activities				
Purchases of property and equipment included in accounts payable and accrued liabilities	$	1,515	$	687
Fair value of contingent consideration in connection with acquisition included in accrued liabilities and other long term liabilities	$	176	$	

See notes to condensed consolidated financial statements.

LogMeIn, Inc.

Notes to Condensed Consolidated Financial Statements

1. Nature of the Business

LogMeIn, Inc. (the Company) provides a portfolio of secure, easy-to-use cloud-based offerings aimed at transforming the way people work and live through secure connections to the computers, devices, data and people that make up their digital world. The Company s product line includes AppGuru , BoldChat®, Cubby , join.me®, LogMeIn Pro®, LogMeIn® Central , LogMeIn Rescue®, LogMeIn® Rescue+Mobile , LogMeIn Backup®, LogMeIn for iOS, LogMeIn Hamachi®, Xively and RemotelyAnywhere®. The Company is headquartered in Boston, Massachusetts with wholly-owned subsidiaries in Hungary, The Netherlands, Australia, the United Kingdom, Brazil, 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 March 10, 2014. The unaudited interim condensed consolidated financial statements have been prepared on the same basis as the audited condensed consolidated financial statements and in the opinion of management, reflect all adjustments, consisting of normal and recurring adjustments, necessary for the fair presentation of the Company s financial position, results of operations and cash flows for the interim periods presented. The results for the interim periods presented are not necessarily indicative of future results. The Company considers events or transactions that occur after the balance sheet date but before the financial statements are issued to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure.

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

Marketable Securities The Company s marketable securities are classified as available-for-sale and are carried at fair value with the unrealized gains and losses, net of tax, reported as a component of accumulated other comprehensive income in 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, 2013 and June 30, 2014, marketable securities consisted of U.S. government agency securities that have remaining maturities within two years and have an aggregate amortized cost of approximately

$100.3 million and $100.1 million and an aggregate fair value of approximately $100.3 million and $100.2 million, including approximately $67,000 and $59,000 of unrealized gains and approximately $28,000 and $10,000 of unrealized losses, respectively.

Revenue Recognition The Company derives revenue primarily from subscription fees related to its LogMeIn premium services and 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.

The Company currently only offers free versions of its iPhone, iPad and Android software products. The Company had formerly sold these iPhone, iPad and Android software products as perpetually licensed software, the revenue from which was recognized when there was persuasive evidence of an arrangement, the product had been provided to the customer, the collection of the fee was probable, and the amount of fees to be paid by the customer was fixed or determinable.

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, 2013, no customers accounted for 10% or more of accounts receivable and no customers accounted for 10% or more of revenue for the three and six months ended June 30, 2013 or 2014. As of June 30, 2014, one customer accounted for 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 annual impairment test of goodwill on the last day of its fiscal year and 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. Through June 30, 2014, no impairments have occurred.

Long-Lived Assets and Intangible Assets The Company records intangible assets at their estimated fair values at the date of acquisition. Intangible assets are 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. The Company s intangible assets have estimated useful lives which range from four months to seven 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 June 30, 2014, no impairments have occurred.

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 losses of approximately $199,000 for the three months ended June 30, 2013 and foreign currency gains of approximately $454,000 for the six months ended June 30, 2013, respectively, and foreign currency gains of approximately $224,000 and $197,000 for the three and six months ended June 30, 2014, respectively.

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

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

The Company evaluates its uncertain tax positions based on a determination of whether and how much of a tax benefit taken by the Company in its tax filings or positions is more likely than not to be realized. Potential interest and penalties associated with any uncertain tax positions are recorded as a component of income tax expense. As of December 31, 2013 and June 30, 2014, the Company has provided a liability for approximately $304,000 and $484,000 for uncertain tax positions, respectively. These uncertain tax positions would impact the Company s effective tax rate if recognized.

Segment Data Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation 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) is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2014	2013	2014
Revenues:				
United States	$ 26,695	$ 36,465	$ 51,483	$ 68,870
United Kingdom	3,643	4,918	7,106	9,325
International - all other	10,332	13,592	19,518	25,800
Total revenue	$ 40,670	$ 54,975	$ 78,107	$ 103,995

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.

The Company has entered into agreements with certain customers that contractually obligate the Company to indemnify the customer from certain claims, including 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 unlimited. Through June 30, 2014, the Company has not experienced any losses related to these indemnification obligations.

In November 2012, the Company filed suit against Pragmatus Telecom LLC (Pragmatus), seeking declaratory judgment after certain of the Company s customers received letters from Pragmatus claiming that their use of certain LogMeIn services infringed upon three patents allegedly owned by Pragmatus. On March 29, 2013, the Company and Pragmatus entered into a License Agreement, which granted the Company a fully-paid license covering the patents at issue. The Company paid Pragmatus a one-time licensing fee in April 2013, after a portion of the fee was reimbursed in March 2013 from a designated escrow arrangement associated with a prior acquisition. The Company recorded approximately $1.2 million of expense related to this matter in general and administrative expenses in March 2013. As a result, the Company s declaratory judgment action against Pragmatus was dismissed by the court on May 3, 2013.

Net (Loss) Income Per Share Basic net (loss) income per share is computed by dividing net (loss) income by the weighted average number of common shares outstanding for the period. Diluted net (loss) income per share is computed by dividing net (loss) income by the sum of the weighted average number of common shares outstanding during the period and the weighted average number of potential common shares outstanding from the assumed exercise of stock options and the vesting of restricted stock units. For the three and six months ended June 30, 2013, the Company incurred a net loss and therefore, the effect of the Company s outstanding common stock equivalents were not included in the calculation of diluted loss per share as they were anti-dilutive. Accordingly, basic and dilutive net loss per share for the period were identical.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2014	2013	2014
Options to purchase common shares	2,947	50	2,947	457
Restricted stock units	1,134	71	1,134	408
Total options and restricted stock units	4,081	121	4,081	865

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

	Three Months Ended June 30, 2013	Six Months Ended June 30, 2013
Basic and diluted net loss per share:		
Net loss	$ (1,360)	$ (7,167)
Weighted average common shares outstanding	24,262,417	24,485,429
Basic and diluted net loss per share	$ (0.06)	$ (0.29)

	Three Months Ended June 30, 2014	Six Months Ended June 30, 2014
Basic:		
Net income	$ 1,330	$ 2,334
Weighted average common shares outstanding, basic	24,425,081	24,134,686
Net income per share, basic	$ 0.05	$ 0.10
Diluted:		
Net income	$ 1,330	$ 2,334
Weighted average common shares outstanding	24,425,081	24,134,686
Add: Options to purchase common shares and restricted stock units	734,259	755,044
Weighted average common shares outstanding, diluted	25,159,340	24,889,730
Net income per share, diluted	$ 0.05	$ 0.09

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, 2017. The Company is currently assessing the potential impact of the adoption of ASU 2014-09 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. 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 reflect the Company s assumptions about the assumptions that market participants would use in pricing the asset or liability.

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

		Basis of Fair Value Measurements		
	Balance	Quoted Prices in Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Balance at December 31, 2013				
Cash equivalents money market funds	$ 28,210	$ 28,210	$	$
Cash equivalents bank deposits	5,001		5,001	
Short-term marketable securities U.S. government agency securities	100,299	75,288	25,011	
Balance at June 30, 2014				
Cash equivalents - money market funds	27,504	27,504		
Cash equivalents - bank deposits	5,021		5,021	
Short-term marketable securities - U.S. government agency securities	100,170	95,168	5,002	

Bank deposits 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.

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 operating results, which are comprised of approximately $0.6 million and $0.8 million of revenue for the three and six months ended June 30, 2014, respectively, as well as $1.6 million and $2.1 million of expenses during the three and six months ended June 30, 2014, are included in the condensed consolidated financial statements beginning on the acquisition date.

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 calculate 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 pro forma results of operations for the quarter ended June 30, 2013 and 2014 assuming the Company had acquired Ionia on January 1, 2013, do not differ materially from those reported in the Company s condensed consolidated statement of income for that quarter.

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 intangibles acquired are not deductible for income tax purposes.

The Company incurred approximately $100,000 of acquisition-related costs which are included in general and administrative expense for the three and six months ended June 30, 2014.

During the second quarter of 2014, the Company finalized its purchase price accounting related to the Ionia acquisition and recorded both a deferred tax liability and a corresponding increase in goodwill of approximately $0.7 million related to the amortization of intangible assets which cannot be deducted for income tax purposes.

5. Goodwill and Intangible Assets

The changes in the carry amounts of goodwill for the six months ended June 30, 2014 are due to the addition of goodwill resulting from the acquisition of Ionia (See Note 4 to the Condensed Consolidated Financial Statements).

Changes in goodwill for the six months ended June 30, 2014, are as follows (in thousands):

Balance, December 31, 2013	$ 18,712
Goodwill related to the acquisition of Ionia	6,295
Balance, June 30, 2014	$ 25,007

Intangible assets consist of the following (in thousands):

		December 31, 2013			June 30, 2014		
	Estimated Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Trade names	1-5 years	$ 666	$ 666	$	$ 676	$ 670	$ 6
Customer base	5-7 years	3,789	1,901	1,888	5,129	2,199	2,930
Customer backlog	4 months				120	120	
Domain names	5 years	894	341	553	908	425	483
Software	4 years	299	299		299	299	
Technology	3-6 years	13,963	1,835	12,128	14,363	2,856	11,507
Technology and know-how	3 years	3,176	2,597	579	3,176	3,125	51
Documented know-how	4 years				280	22	258
Non-compete agreements	5 years	162	34	128	162	53	109
Internally developed software	3 years	2,485	875	1,610	3,390	1,258	2,132
		$ 25,434	$ 8,548	$ 16,886	$ 28,503	$ 11,027	$ 17,476

As a result of the acquisition of Ionia, the Company capitalized $120,000 of customer backlog, $280,000 of documented know-how, $10,000 of trade names, and $1.3 million of customer relationships as intangible assets. 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 seven years.

On November 6, 2013, the Company purchased a software asset for $11.5 million. This software asset is recorded as an intangible asset and classified as technology and will be amortized using the straight-line method over an estimated useful life of five years, beginning in February 2014 when the product was made available to customers. In May 2014, the Company paid the remaining $0.5 million for the statement of work in accordance with the agreement. The Company capitalized $0.4 million as completed technology and $0.1 million was expensed as consulting work.

The Company capitalized $317,000 and $413,000 during the three months ended June 30, 2013 and 2014, respectively, and $556,000 and $905,000 during the six months ended June 30, 2013 and 2014, 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 is amortizing its intangible assets over the estimated lives noted above. Amortization expense for intangible assets was $633,000 and $1.5 million for the three months ended June 30, 2013 and 2014, respectively, and $1.2 million and $2.5 million for the six months ended June 30, 2013 and 2014, 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 is as follows at June 30, 2014 (in thousands):

Amortization Expense (Years Ending December 31)	**Amount**
2014 (Six months ending December 31)	2,346
2015	4,485
2016	3,939
2017	3,339
2018	2,863
Thereafter	504
Total	$ 17,476

6. Accrued Liabilities

Accrued liabilities consisted of the following (in thousands):

	December 31, 2013	June 30, 2014
Marketing programs	$ 4,631	$ 5,651
Payroll and payroll related	9,719	7,419
Professional fees	1,064	1,036
Other accrued liabilities	4,696	4,917
Total accrued liabilities	$ 20,110	$ 19,023

7. Income Taxes

The Company recorded a provision for federal, state and foreign income taxes of approximately $1.2 million and a benefit of $175,000 for the three months ended June 30, 2013 and 2014, respectively, and a provision for federal, state and foreign income taxes of approximately $1.2 million and $502,000 for the six months ended June 30, 2013 and 2014, respectively. The tax provision for the three and six months ended June 30, 2014, decreased compared to the prior comparable periods as a result of a loss before income taxes incurred in the United States which offset increased profitability in certain foreign jurisdictions, primarily our Irish subsidiaries, which have significantly lower tax rates than the U.S. statutory rate.

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 files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. The Company s income tax returns since inception are open to examination by federal, state, and foreign tax authorities. The Company has recorded a liability related to uncertain tax provisions of approximately $304,000 and $484,000 as of December 31, 2013 and June 30, 2014, respectively. The Company s policy is to record estimated interest and penalty related to the underpayment of income taxes or unrecognized tax benefits as a component of its income tax provision. The Company did not recognize any interest or penalties in its statement of operations during the three or six months ended June 30, 2013. The Company recognized approximately $5,000 of interest expense for the three months ended June 30, 2014.

8. Common Stock and Equity

In February 2013, the Company s board of directors approved a $25 million share repurchase program. On August 13, 2013, the board of directors approved a new $50 million share repurchase program, which replaced the previous $25 million share repurchase program. Share repurchases are made from time-to-time in the open market, in privately negotiated transactions or otherwise, in accordance with applicable securities laws and regulations. The timing and amount of any share repurchases are determined by the Company s management based on its evaluation of market conditions, the trading price of the stock, regulatory requirements and other factors. The share repurchase program may be suspended, modified or discontinued at any time at the Company s discretion without prior notice.

For the three months ended June 30, 2013 and 2014, the Company repurchased 258,663 and 46,511 shares of its common stock at an average price of $21.76 and $43.86 per share for a total cost of approximately $5.6 million and $2.0 million, respectively. For the six months ended June 30, 2013 and 2014, the Company repurchased 760,485 and 195,011 shares of its common stock at an average price of $19.21 and $35.63 per share for a total cost of approximately $14.6 million and $6.9 million, respectively. At June 30, 2014, approximately $29.0 million remained available under the Company s share repurchase program.

9. Stock Incentive Plan

The Company s 2009 Stock Incentive Plan (2009 Plan) is administered by the Board of Directors and Compensation Committee, which have the authority to designate participants and determine the number and type of awards to be granted and any other terms or conditions of the awards. Options generally vest over a four-year period and expire ten years from the date of grant. Restricted stock units with service-based vesting conditions generally vest over a three-year period while restricted stock units with market-based vesting conditions generally vest over two or three-year periods. Certain stock-based awards provide for accelerated vesting if there is a change in control. On May 22, 2014, the Company s stockholders approved an amendment to the 2009 Plan that increased the shares available to grant under the plan by 1,200,000 shares. There were 2,072,394 shares available for grant under the 2009 Plan as of June 30, 2014.

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

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

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2013	**2014(1)**	**2013**	**2014**
Expected dividend yield	0.00%	%	0.00%	0.00%
Risk-free interest rate	0.89%	%	0.87% - 0.89%	1.48%
Expected term (in years)	6.25		6.25	6.25
Volatility	55%	%	55%	55%

(1) There were no stock options granted during the three months ended June 30, 2014.

The following table summarizes stock option activity, including performance-based options (shares and intrinsic value in thousands):

	Number of shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2014	2,389	$ 26.85	6.4	$ 22,330
Granted	35	41.03		
Exercised	(500)	20.62		$ 11,037
Forfeited	(75)	33.36		
Outstanding at June 30, 2014	1,849	$ 28.54	6.3	$ 33,444
Exercisable at December 31, 2013	1,451	$ 23.45	5.4	$ 17,855
Exercisable at June 30, 2014	1,332	$ 26.72	5.7	$ 26,522

The aggregate intrinsic value was calculated based on the positive differences between the fair value of the Company s common stock of $33.55 on December 31, 2013 and $46.62 per share on June 30, 2014, or at time of exercise, and the exercise price of the options.

The weighted average grant date fair value of stock options issued was $11.60 per share for the year ended December 31, 2013, and $21.78 for the six months ended June 30, 2014.

During the three and six months ended June 30, 2014, the Company granted 436,110 and 539,396 restricted stock units, respectively, containing time-based vesting conditions which generally lapse over a three year period.

In August 2013 and May 2014, the Company granted 74,000 and 71,000 restricted stock units with market-based vesting conditions, respectively, which were tied to the Company s achievement of a relative total shareholder return target measured over an applicable performance period which ranges from two to three years (the TSR Units). The number of shares underlying these TSR Units that will vest upon the conclusion of the applicable performance periods can range from 0% of the shares awarded to 200% of the shares awarded, or up to 148,000 shares or 142,000 shares for the August 2013 grant and May 2014 grant, respectively. Vesting of such shares is also contingent upon the continued employment of the participant throughout the vesting period. All TSR Units granted by the Company are valued using a Monte Carlo simulation model. The number of awards expected to be earned is factored into the grant date Monte Carlo valuation for the TSR Unit. Compensation cost is recognized regardless of the actual number of awards that are earned based on the market condition. Expected volatility is based on the Company s historical volatility. The risk-free interest rate is based upon U.S. Treasury securities with a term similar to the vesting term of the TSR Units.

The assumptions used in the Monte Carlo simulation model include (but are not limited to) the following:

August 2013 Grant