LogMeIn, Inc.
Form S-1/A
February 20, 2009

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As filed with the Securities and Exchange Commission on February 19, 2009

Registration No. 333-148620

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Amendment No. 5
to
Form S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

LOGMEIN, INC.
(Exact name of registrant as specified in its charter)

Delaware	7372	20-1515952
(State or other jurisdiction of incorporation or organization)	*(Primary Standard Industrial Classification Code Number)*	*(I.R.S. Employer Identification Number)*

500 Unicorn Park Drive
Woburn, Massachusetts 01801
(781) 638-9050
(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Michael K. Simon
Chairman, President and Chief Executive Officer
500 Unicorn Park Drive
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(Name, address, including zip code, and telephone number, including area code, of agent for service)

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Approximate date of commencement of proposed sale to public: As soon as practicable after this Registration Statement is declared effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. o

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o _____

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier registration statement for the same offering. o _____

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier registration statement for the same offering. o _____

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

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o

(Do not check if a smaller
reporting company)

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion, dated February 19, 2009

PROSPECTUS

Shares

LogMeIn, Inc.

Common Stock

This is the initial public offering of common stock by LogMeIn, Inc. We are offering shares of common stock.

The estimated initial public offering price is between \$ and \$ per share. Currently, no public market exists for the shares. We intend to apply to list our shares of common stock for quotation on The NASDAQ Global Market under the symbol LOGM.

Investing in our common stock involves risks. See Risk Factors beginning on page 8 of this prospectus.

	Per Share	**Total**
Initial public offering price	$	$
Underwriting discounts	$	$
Proceeds to us (before expenses)	$	$

We have granted the underwriters a 30-day option to purchase up to an additional shares from us on the same terms and conditions as set forth above if the underwriters sell more than shares of common stock in this offering.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares on or about , 2009.

Barclays Capital **JPMorgan**

Thomas Weisel Partners LLC **Piper Jaffray** **RBC Capital Markets**

Prospectus dated , 2009

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You should rely only on the information contained in this prospectus. We have not, and the underwriters have not, authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where an offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate as of the date on the front cover of this prospectus only, regardless of the time of delivery of this prospectus or of any sale of our common stock. Our business, prospects, financial condition and results of operations may have changed since that date.

No action is being taken in any jurisdiction outside the United States to permit a public offering of the common stock or possession or distribution of this prospectus in that jurisdiction. Persons who come into possession of this prospectus in jurisdictions outside the United States are required to inform themselves about and to observe any restrictions as to this offering and the distribution of this prospectus applicable to that jurisdiction.

Until , 2009, all dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers obligations to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. This summary does not contain all of the information you should consider before investing in our common stock. You should read this entire prospectus carefully, especially the Risk Factors section of this prospectus and our consolidated financial statements and related notes appearing at the end of this prospectus, before making an investment decision.

Overview

LogMeIn provides on-demand, remote-connectivity solutions to small and medium-sized businesses, or SMBs, IT service providers and consumers. We believe our solutions are used to connect more Internet-enabled devices worldwide than any other connectivity service. Businesses and IT service providers use our solutions to deliver end-user support and to access and manage computers and other Internet-enabled devices more effectively and efficiently from a remote location, or remotely. Consumers and mobile workers use our solutions to access computer resources remotely, thereby facilitating their mobility and increasing their productivity. Our solutions, which are deployed and accessed from anywhere through a web browser, or on-demand, are secure, scalable and easy for our customers to try, purchase and use. Our paying customer base grew from approximately 98,000 premium accounts in December 2007 to more than 187,000 premium accounts in December 2008.

We believe LogMeIn Free and LogMeIn Hamachi, our popular free services, provide on-demand remote access, or remote-connectivity, to computing resources for more users than any other on-demand connectivity service, giving us access to a diverse group of users and increasing awareness of our fee-based, or premium, services. Over 20.2 million registered users have connected over 60 million computers and other Internet enabled devices to a LogMeIn service, and during the fourth quarter of 2008, the total number of devices connected to our service grew at an average of approximately 92,000 per day. We complement our free services with nine premium services that offer additional features and functionality. These premium services include LogMeIn Rescue and LogMeIn IT Reach, our flagship remote support and management services, and LogMeIn Pro, our premium remote access service. Sales of our premium services are generated through word-of-mouth referrals, web-based advertising, expiring free trials that we convert to paid subscriptions and direct marketing to new and existing customers.

We deliver each of our on-demand solutions as a service that runs on Gravity, our proprietary platform consisting of software and customized database and web services. Gravity establishes secure connections over the Internet between remote computers and other Internet-enabled devices and manages the direct transmission of data between remotely-connected devices. This robust and scalable platform connects over 9.9 million computers to our services each day.

We sell our premium services on a subscription basis at prices ranging from approximately $30 to $1,900 per year. During 2008, we completed over 398,000 transactions at an average transaction price of approximately $160 and generated revenues of $51.7 million, as compared to $27.0 in million 2007, an increase of approximately 92%.

Industry Background

Mobile workers, IT professionals and consumers save time and money by accessing computing resources remotely. Remote access allows mobile workers and consumers to use applications, manage documents and collaborate with others whenever and wherever an Internet connection is available. Remote-connectivity solutions also allow IT professionals to deliver support and management services to remote end users and computers and other Internet-enabled devices.

A number of trends are increasing the demand for remote-connectivity solutions:

Increasingly mobile workforce. Workers are spending less of their time in a traditional office environment and are increasingly telecommuting and traveling with Internet-enabled devices.

Increasing use of IT outsourcing by SMBs. SMBs generally have limited internal IT expertise and IT budgets and are therefore increasingly turning to third-party service providers to manage the complexity of IT services at an affordable cost.

Growing adoption of on-demand solutions. By accessing hosted, on-demand solutions through a web browser, companies can avoid the time and costs associated with installing, configuring and maintaining IT support applications within their existing IT infrastructure.

Increasing need to support the growing number of Internet-enabled consumer devices. Consumer adoption of Internet-enabled devices is growing rapidly. Manufacturers, retailers and service providers struggle to provide cost-effective support for these devices and often turn to remote support and management solutions in order to increase customer satisfaction while lowering the cost of providing that support.

Proliferation of Internet-enabled mobile devices (smartphones). The rapid proliferation and increased functionality of smartphones is creating a growing need for remote support of these devices.

Our Solutions

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

Reduced set-up, support and management costs. Businesses easily set up our on-demand services with little or no modification to the remote location s network or security systems and without the need for upfront technology or software investment. In addition, our customers lower their support and management costs by performing management-related tasks remotely.

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

Increased end-user satisfaction. Our services enable help desk technicians to quickly and easily gain control of a remote user s computer. Once connected, the technician can diagnose and resolve problems while interacting with and possibly training the end user.

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

Easy to try, buy and use. Our services are simple to install, and our customers can use our services to manage their remote systems from any web browser. In addition, our low service delivery costs and hosted delivery model allow us to offer each of our services at competitive prices and to offer flexible payment options.

Our Competitive Strengths

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

Large established user community. Our large and growing community of users drives awareness of our services through personal recommendations, blogs and other online communication methods and provides us with a significant audience to which we can market and sell premium services.

Efficient customer acquisition model. We believe our free products and our large user base help generate word-of-mouth referrals, which in turn increases the efficiency of our paid marketing activities, the large majority of which are focused on pay-per-click search engine advertising.

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Technology-enabled cost advantage. Our patent-pending service delivery platform, Gravity, reduces our bandwidth and other infrastructure requirements, which we believe makes our services faster and less expensive to deliver as compared to competing services.

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

High recurring revenue and high transaction volumes. We believe that our sales model of a high volume of new and renewed subscriptions at low transaction prices increases the predictability of our revenues compared to perpetual license-based software businesses.

Growth Strategy

Our objective is to extend our position as a leading provider of on-demand, remote-connectivity solutions. To accomplish this, we intend to:

Acquire new customers. We seek to continue to attract new customers by aggressively marketing our solutions and encouraging trials of our services while expanding our sales force.

Increase sales to existing customers. We plan to continue upselling and cross-selling our broad portfolio of services to our existing customer base by actively marketing our portfolio of services through e-commerce and by expanding our sales force.

Continue to build our user community. We plan to grow our community of users by marketing our services through paid advertising to target prospective customers who are seeking remote-connectivity solutions and by continuing to offer our popular free services, LogMeIn Free and LogMeIn Hamachi.

Expand internationally. We intend to expand our international sales and marketing staff and increase our international marketing expenditures to take advantage of this opportunity.

Continue to expand our service portfolio. We intend to continue to invest in the development of new on-demand, remote-connectivity services for businesses, IT service providers and consumers. We also intend to extend our services to work with other types of Internet-connected devices.

Pursue strategic acquisitions. We plan to pursue acquisitions that complement our existing business, represent a strong strategic fit and are consistent with our overall growth strategy.

Intel Relationship

In December 2007, we entered into a service and marketing agreement with Intel Corporation to jointly develop a service that delivers connectivity to computers built with Intel components. Under the terms of this multi-year agreement, we are adapting our service delivery platform, Gravity, to work with specific technology delivered with Intel hardware and software products. The agreement provides that Intel will market and sell the services to its customers. Intel pays us a minimum license and service fee on a quarterly basis during the term of the agreement. We began recognizing revenue associated with the Intel service and marketing agreement in the quarter ended September 30, 2008. In addition, we and Intel share revenue generated by the use of the services by third parties to the extent it exceeds the minimum payments. In conjunction with this agreement, Intel Capital purchased

2,222,223 shares of our series B-1 redeemable convertible preferred stock for $10.0 million in December 2007.

Risks That We Face

You should carefully consider the risks described under the Risk Factors section and elsewhere in this prospectus. These risks could materially and adversely impact our business, financial condition, operating results and cash flow, which could cause the trading price of our common stock to decline and could result in a partial or total loss of your investment.

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Our Corporate Information

In February 2003, we incorporated under the laws of Bermuda. In August 2004, we completed a domestication in the State of Delaware under the name 3am Labs, Inc. We changed our name to LogMeIn, Inc. in March 2006. Our principal executive offices are located at 500 Unicorn Park Drive, Woburn, Massachusetts 01801, and our telephone number is (781) 638-9050. Our website address is www.logmein.com. The information contained on, or that can be accessed through, our website is not a part of this prospectus. We have included our website address in this prospectus solely as an inactive textual reference.

Unless the context otherwise requires, the terms LogMeIn, our company, we, us and our in this prospectus refer LogMeIn, Inc. and our subsidiaries on a consolidated basis.

LogMeIn®, Gravity , LogMeIn Backup®, LogMeIn Free®, LogMeIn Hamachi®, LogMeIn® Ignition , LogMeIn Rescue®, LogMeIn® Rescue+Mobile , LogMeIn Pro®, LogMeIn IT Reach® and RemotelyAnywhere® are trademarks or registered trademarks of LogMeIn, Inc. Other trademarks or service marks appearing in this prospectus are the property of their respective holders.

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THE OFFERING

Common stock offered	shares
Common stock to be outstanding after this offering	shares
Over-allotment option	shares
Use of proceeds	We intend to use the net proceeds from this offering for working capital and other general corporate purposes, including the development of new services, sales and marketing activities and capital expenditures. We may also use a portion of the net proceeds for the acquisition of, or investment in, companies, technologies, services or assets that complement our business. Pending specific use of net proceeds as described in this prospectus, we intend to invest the net proceeds to us from this offering in short-term investment grade and U.S. government securities. See the Use of Proceeds section of this prospectus for more information.
Risk factors	You should read the Risk Factors section of this prospectus for a discussion of factors to consider carefully before deciding to invest in shares of our common stock.
Proposed NASDAQ Global Market symbol	LOGM

The number of shares of our common stock to be outstanding after this offering is based on the number of shares of our common stock outstanding as of December 31, 2008, and excludes:

8,024,125 shares of common stock issuable upon exercise of stock options outstanding as of December 31, 2008 at a weighted average exercise price of $1.62 per share; and

an additional 180,707 shares of common stock reserved for future issuance under our equity compensation plans as of December 31, 2008.

Unless otherwise indicated, all information in this prospectus assumes:

the adoption of our amended and restated certificate of incorporation, which we refer to as our certificate of incorporation, and our amended and restated bylaws, which we refer to as our bylaws, to be effective upon the closing of this offering;

the automatic conversion of all outstanding shares of our redeemable convertible preferred stock into 30,901,339 shares of our common stock upon the closing of this offering; and

no exercise of the underwriters over-allotment option.

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SUMMARY CONSOLIDATED FINANCIAL DATA

The following tables summarize the consolidated financial data for our business as of and for the periods presented. You should read this information together with the Selected Consolidated Financial Data and Management s Discussion and Analysis of Financial Condition and Results of Operations sections of this prospectus and our consolidated financial statements and related notes included elsewhere in this prospectus.

	Year Ended December 31,		
	2006	**2007**	**2008**
	(In thousands, except per share data)		
Consolidated Statement of Operations Data:			
Revenue	$ 11,307	$ 26,998	$ 51,723
Cost of revenue(1)	2,033	3,925	5,970
Gross profit	9,274	23,073	45,753
Operating expenses:			
Research and development(2)	3,232	6,661	11,997
Sales and marketing(2)	10,050	19,488	31,631
General and administrative(2)	2,945	3,661	6,705
Legal settlements		2,225	600
Amortization of intangibles(3)	141	328	328
Total operating expenses	16,368	32,363	51,261
Loss from operations	(7,094)	(9,290)	(5,508)
Interest, net	365	260	216
Other income (expense), net	28	(25)	(110)
Net loss	(6,701)	(9,055)	(5,402)
Accretion of redeemable convertible preferred stock	(1,790)	(1,919)	(2,348)
Net loss attributable to common stockholders	$ (8,491)	$ (10,974)	$ (7,750)
Net loss attributable to common stockholders per share: basic and diluted	$ (0.99)	$ (1.19)	$ (0.79)
Weighted average shares outstanding used in computing per share amounts: basic and diluted	8,586	9,214	9,834
Pro forma net loss per share: basic and diluted(4)			$ (0.13)
Pro forma weighted average number of common shares used in pro forma per share calculations: basic and diluted(4)			40,735

(1) Includes stock-based compensation expense and acquisition-related intangible amortization expense.

(2) Includes stock-based compensation expense.

(3) Consists of acquisition-related intangible amortization expense.

(4) Pro forma basic and diluted net loss per share have been calculated assuming the automatic conversion of all outstanding shares of redeemable convertible preferred stock into 30,901,339 shares of our common stock upon the closing of this offering.

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	As of December 31, 2008		
	Actual	Pro Forma(1)	Pro Forma as Adjusted(2)
	(In thousands)		
Consolidated Balance Sheet Data:			
Cash and cash equivalents	$ 22,913	$ 22,913	
Working capital (excluding deferred revenue)	22,577	22,577	
Total assets	37,415	37,415	
Deferred revenue, including long-term portion	28,358	28,358	
Total liabilities	35,191	35,191	
Redeemable convertible preferred stock	34,843		
Total stockholder s equity (deficit)	(32,619)	2,224	

(1) The pro forma consolidated balance sheet data give effect to the automatic conversion of all outstanding shares of our redeemable convertible preferred stock into 30,901,339 shares of our common stock upon the closing of this offering.

(2) The pro forma as adjusted consolidated balance sheet data also give effect to our sale of shares of our common stock in this offering at an assumed initial public offering price of $ per share, which is the midpoint of the price range set forth on the cover page of this prospectus, after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us.

RISK FACTORS

An investment in our common stock involves a high degree of risk. You should carefully consider the risks described below before making an investment decision. Our business, prospects, financial condition or operating results could be harmed by any of these risks, as well as other risks not currently known to us or that we currently consider immaterial. The trading price of our common stock could decline due to any of these risks, and, as a result, you may lose all or part of your investment. Before deciding whether to invest in our common stock you should also refer to the other information contained in this prospectus, including our consolidated financial statements and the related notes.

Risks Related to Our Business

We have had a history of losses.

We experienced net losses of $6.7 million for 2006, $9.1 million for 2007 and $5.4 million for 2008. In the quarters ended September 30, 2008 and December 31, 2008 we achieved profitability. We cannot predict if we will sustain this profitability or, if we fail to sustain this profitability, again attain profitability in the near future or at all. We expect to make significant future expenditures to develop and expand our business. In addition, as a public company, we will incur additional significant legal, accounting and other expenses that we did not incur as a private company. These increased expenditures make it harder for us to achieve and maintain future profitability. Our recent growth in revenue and customer base may not be sustainable, and we may not achieve sufficient revenue to achieve or maintain profitability. We may incur significant losses in the future for a number of reasons, including due to the other risks described in this prospectus, and we may encounter unforeseen expenses, difficulties, complications and delays and other unknown events. Accordingly, we may not be able to achieve or maintain profitability, and we may incur significant losses for the foreseeable future.

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

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

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

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

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

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

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

There is frequent litigation in the software and technology industries based on allegations of infringement or other violations of intellectual property rights. As we face increasing competition and become increasingly visible as a publicly-traded company, the possibility of intellectual property rights claims against us may grow. During 2007 and 2008, we were a defendant in three patent infringement lawsuits and paid approximately $2.8 million to settle these lawsuits.

In addition, although we have licensed proprietary technology, we cannot be certain that the owners rights in such technology will not be challenged, invalidated or circumvented. Furthermore, many of our service agreements require us to indemnify our customers for certain third-party intellectual property infringement claims, which could increase our costs as a result of defending such claims and may require that we pay damages if there were an adverse ruling related to any such claims. These types of claims could harm our relationships with our customers, may deter future customers from subscribing to our services or could expose us to litigation for these claims. Even if we are not a party to any litigation between a customer and a third party, an adverse outcome in any such litigation could make it more difficult for us to defend our intellectual property in any subsequent litigation in which we are a named party.

Any intellectual property rights claim against us or our customers, with or without merit, could be time-consuming, expensive to litigate or settle and could divert management attention and financial resources. An adverse determination also could prevent us from offering our services, require us to pay damages, require us to obtain a license or require that we stop using technology found to be in violation of a third party s rights or procure or develop substitute services that do not infringe, which could require significant resources and expenses.

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

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

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

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

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

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

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

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

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

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

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

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

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

Our system stores our customers confidential information, including credit card information and other critical data. Any accidental or willful security breaches or other unauthorized access could expose us to liability for the loss of such information, time-consuming and expensive litigation and other possible liabilities as well as negative publicity. Techniques used to obtain unauthorized access or to sabotage systems change frequently and generally are difficult to recognize and react to. We and our third-party data center facilities may be unable to anticipate these techniques or to implement adequate preventative or reactionary measures. In addition, many states have enacted laws requiring companies to notify individuals of data security breaches involving their personal data. These mandatory disclosures regarding a security breach often lead to widespread negative publicity, which may cause our customers to lose confidence in the effectiveness of our

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data security measures. Any security breach, whether successful or not, would harm our reputation, and it could cause the loss of customers.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Industry consolidation may result in increased competition.

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

Original equipment manufacturers may adopt solutions provided by our competitors.

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

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successful in attracting or partnering with, these manufacturers, our revenue and results of operations would be affected adversely.

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

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

- our ability to renew existing customers, increase sales to existing customers and attract new customers;
- the amount and timing of operating costs and capital expenditures related to the operation, maintenance and expansion of our business;
- service outages or security breaches;
- whether we meet the service level commitments in our agreements with our customers;
- changes in our pricing policies or those of our competitors;
- the timing and success of new application and service introductions and upgrades by us or our competitors;
- changes in sales compensation plans or organizational structure;
- the timing of costs related to the development or acquisition of technologies, services or businesses;
- seasonal variations or other cyclicality in the demand for our services;
- general economic, industry and market conditions and those conditions specific to Internet usage and online businesses;
- the purchasing and budgeting cycles of our customers;
- the financial condition of our customers; and
- geopolitical events such as war, threat of war or terrorist acts.

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

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

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

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

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

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

We increased our number of full-time employees from 126 at December 31, 2006, to 209 at December 31, 2007 and 287 at December 31, 2008, and our revenue increased from $11.3 million in 2006, to $27.0 million in 2007 and $51.7 million in 2008. Our growth has placed, and may continue to place, a significant strain on our managerial, administrative, operational, financial and other resources. We intend to further expand our overall business, customer base, headcount and operations both domestically and internationally. Creating a global organization and managing a geographically dispersed workforce will require substantial management effort and significant additional investment in our infrastructure. We will be required to continue to improve our operational, financial and management controls and our reporting procedures and we may not be able to do so effectively. As such, we may be unable to manage our expenses effectively in the future, which may negatively impact our gross profit or operating expenses in any particular quarter.

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

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

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

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

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

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

These risks include:

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

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

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

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

Internet as a convenient means of customer interaction, as well as an efficient medium for the delivery and distribution of information by businesses to their employees. All of these factors are out of our control.

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

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

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

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

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

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

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

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

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

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

Ensuring that we have adequate internal financial and accounting controls and procedures in place so that we can produce accurate financial statements on a timely basis is a costly and time-consuming effort that needs to be evaluated frequently. Our internal controls over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles in the United States of America. In connection with this offering, we intend to begin the process of documenting, reviewing and improving our internal controls over financial reporting for compliance with Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, which will require an annual management assessment of the effectiveness of our internal controls over financial reporting and a report from our independent registered public accounting firm addressing the effectiveness of our internal controls over financial reporting. Both we and our independent registered public accounting firm will be attesting to the effectiveness of our internal controls over financial reporting in connection with our second filing of an Annual Report on Form 10-K with the Securities and Exchange Commission after becoming a public company, and, as part of that documentation and testing, identifying areas for further attention and improvement. We have begun recruiting additional finance and accounting personnel with skill sets that we will need as a public company.

Implementing any appropriate changes to our internal controls may distract our officers and employees, entail substantial costs to modify our existing processes and take significant time to complete. These changes may not, however, be effective in maintaining the adequacy of our internal controls, and any failure to maintain that adequacy, or consequent inability to produce accurate financial statements on a timely basis, could increase our operating costs and harm our business. In addition, investors perceptions that our internal controls are inadequate or that we are unable to produce accurate financial statements on a timely basis may harm our stock price and make it more difficult for us to effectively market and sell our services to new and existing customers.

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

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

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

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

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

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

Our software products contain encryption technologies, certain types of which are subject to U.S. and foreign export control regulations and, in some foreign countries, restrictions on importation and/or use. We have submitted our encryption products for technical review under U.S. export regulations and have advised U.S. export enforcement authorities that our encryption software products were made available for international distribution from our U.S.-based facilities without first completing this required review procedure. This or any other failure on our part to comply with encryption or other applicable export control requirements could result in financial penalties or other sanctions under the U.S. export regulations, which could harm our business and operating results. Foreign regulatory restrictions could impair our access to technologies that we seek for improving our products and services and may also limit or reduce the demand for our products and services outside of the United States.

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

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

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

Although we have no ongoing negotiations or current agreements or commitments for any acquisitions, our business strategy may include acquiring complementary services, technologies or businesses. We also may enter into relationships with other businesses to expand our portfolio of services or our ability to provide our services in foreign jurisdictions, which could involve preferred or exclusive licenses, additional channels of distribution, discount pricing or investments in other companies. Negotiating these transactions can be time-consuming, difficult and expensive, and our ability to close these transactions may often be subject to conditions or approvals that are beyond our control. Consequently, these transactions, even if undertaken and announced, may not close.

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

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anticipated benefits of any acquisition, investment or business relationship may not be realized or we may be exposed to unknown liabilities. For one or more of those transactions, we may:

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

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

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

Our business depends on the overall demand for IT and on the economic health of our current and prospective customers. The use of our service is often discretionary and may involve a significant commitment of capital and other resources. Weak economic conditions, or a reduction in IT spending even if economic conditions improve, would likely adversely impact our business, operating results and financial condition in a number of ways, including by lengthening sales cycles, lowering prices for our services and reducing sales.

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

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

We face intense competition for qualified individuals from numerous technology, software and manufacturing companies. For example, our competitors may be able attract and retain a more qualified engineering team by offering more competitive compensation packages. If we are unable to attract new engineers and retain our current engineers, we may not be able to develop and maintain our services at the same levels as our competitors and we may, therefore, lose potential customers and sales penetration in certain markets. Our failure to attract and retain suitably qualified individuals could have an adverse effect on our ability to implement our business plan and, as a result, our ability to compete would decrease, our operating results would suffer and our revenues would decrease.

Risks Related to this Offering and Ownership of our Common Stock

We will incur increased costs and demands upon management as a result of complying with the laws and regulations affecting public companies, which could harm our operating results.

As a public company, we will incur significant additional legal, accounting and other expenses that we did not incur as a private company, including costs associated with public company reporting requirements. We also have incurred and will incur costs associated with current corporate governance requirements, including requirements under Section 404 and other provisions of the Sarbanes-Oxley Act, as well as rules implemented by the Securities and Exchange Commission, or SEC, and the exchange on which we list our shares of common stock issued in this offering. The expenses incurred by public companies for reporting and corporate governance purposes have increased dramatically. We expect these rules and regulations to substantially increase our legal and financial compliance costs and to make some activities more time-consuming and costly. We are unable to currently estimate these costs with any degree of certainty. We also expect these new rules and regulations may make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage previously available. As a result, it may be more difficult for us to attract and retain qualified individuals to serve on our board of directors or as our executive officers.

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

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

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

An active trading market for our common stock may not develop, and you may not be able to resell your shares at or above the initial public offering price.

Prior to this offering, there has been no public market for shares of our common stock. Although we have applied to have our common stock approved for quotation on The NASDAQ Global Market, an active trading market for our shares may never develop or be sustained following this offering. The initial public offering price of our common stock will be determined through negotiations between us and the underwriters. This initial public offering price may not be indicative of the market price of our common stock after the offering. In the absence of an active trading market for our common stock, investors may not be able to sell their common stock at or above the initial public offering price or at the time that they would like to sell.

Our stock price may be volatile, and the market price of our common stock after this offering may drop below the price you pay.

The market price of our common stock could be subject to significant fluctuations after this offering, and it may decline below the initial public offering price. Market prices for securities of early stage companies have historically been particularly volatile. As a result of this volatility, you may not be able to sell your common stock at or above the initial public offering price. Some of the factors that may cause the market price of our common stock to fluctuate include:

- fluctuations in our quarterly financial results or the quarterly financial results of companies perceived to be similar to us;

fluctuations in our recorded revenue, even during periods of significant sales order activity;

changes in estimates of our financial results or recommendations by securities analysts;

failure of any of our services to achieve or maintain market acceptance;

changes in market valuations of similar companies;

success of competitive products or services;

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changes in our capital structure, such as future issuances of securities or the incurrence of debt;

announcements by us or our competitors of significant services, contracts, acquisitions or strategic alliances;

regulatory developments in the United States, foreign countries or both;

litigation involving our company, our general industry or both;

additions or departures of key personnel;

general perception of the future of the remote-connectivity market or our services;

investors general perception of us; and

changes in general economic, industry and market conditions.

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

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

Sales of a substantial number of shares of our common stock in the public market could occur at any time after the expiration of the lock-up agreements described in the Underwriting section of this prospectus. These sales, or the market perception that the holders of a large number of shares intend to sell shares, could reduce the market price of our common stock. After this offering, we will have shares of common stock outstanding based on the number of shares outstanding as of , 2009. This includes the shares that we are selling in this offering, which may be resold in the public market immediately. The remaining shares, or % of our outstanding shares after this offering, are currently restricted as a result of securities laws or lock-up agreements but will be able to be sold, subject to any applicable volume limitations under federal securities laws, in the near future as set forth below.

Number of Shares and % of Total Outstanding	Date Available for Sale into Public Market
shares, or %	On the date of this prospectus
shares, or %	90 days after the date of this prospectus
shares, or %	180 days after the date of this prospectus, subject to the requirements of the federal securities laws, and subject to extension in specified instances, due to lock-up agreements between the holders of these shares and the underwriters; however, the representatives of the underwriters can waive the provisions of these lock-up agreements and allow these stockholders to sell their shares at any time

In addition, as of , 2009, there were shares subject to outstanding options that will become eligible for sale in the public market to the extent permitted by any applicable vesting requirements, the lock-up agreements and Rules 144 and 701 under the Securities Act of 1933, as amended. Moreover, after this offering, holders of an aggregate of approximately million shares of our common stock as of , 2009, will have rights, subject to some conditions, to require us to file registration statements covering their shares or to include their shares in registration statements that we may file for ourselves or other stockholders. We also intend to register all shares of common stock that we may issue under our equity incentive plans, including shares reserved for future issuance under our equity incentive plans. Once

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we register and issue these shares, they can be freely sold in the public market upon issuance, subject to the lock-up agreements.

Purchasers in this offering will experience immediate and substantial dilution in the book value of their investment.

The assumed initial public offering price of our common stock is substantially higher than the net tangible book value per share of our outstanding common stock immediately after this offering. Therefore, if you purchase our common stock in this offering, you will incur immediate dilution of $ in net tangible book value per share from the price you paid. In addition, following this offering, purchasers in the offering will have contributed % of the total consideration paid by our stockholders to purchase shares of common stock. Moreover, we issued options in the past to acquire common stock at prices significantly below the assumed initial public offering price. As of December 31, 2008, 8,024,125 shares of common stock were issuable upon exercise of outstanding stock options with a weighted average exercise price of $1.62 per share. To the extent that these outstanding options are ultimately exercised, you will incur further dilution. For a further description of the dilution that you will experience immediately after this offering, see the Dilution section of this prospectus.

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

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

Our management will have broad discretion over the use of the proceeds we receive in this offering and might not apply the proceeds in ways that increase the value of your investment.

Our management will have broad discretion to use our net proceeds from this offering, and you will be relying on the judgment of our management regarding the application of these proceeds. Our management might not apply our net proceeds of this offering in ways that increase the value of your investment. We expect to use the net proceeds from this offering for capital expenditures and general corporate purposes and working capital, which may in the future include investments in, or acquisitions of, complementary businesses, services or technologies. Our management might not be able to yield a significant return, if any, on any investment of these net proceeds. You will not have the opportunity to influence our decisions on how to use our net proceeds from this offering.

After the completion of this offering, we do not expect to declare any dividends in the foreseeable future.

After the completion of this offering, we do not anticipate declaring any cash dividends to holders of our common stock in the foreseeable future. Consequently, investors must rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investment. Investors seeking cash dividends should not purchase our common stock.

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

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

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

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

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

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that involve substantial risks and uncertainties. All statements, other than statements of historical facts, contained in this prospectus, including statements about our strategy, future operations, future financial position, future revenues, projected costs, prospects, plans and objectives of management, are forward-looking statements. The words anticipate, believe, estimate, expect, intend, may, plan, predi target, potential, will, would, could, should, continue and similar expressions are intended to identify forw statements, although not all forward-looking statements contain these identifying words. The forward-looking statements in this prospectus include, among other things, statements about:

- our plans to develop, improve, commercialize and market our services;
- our financial performance;
- the potential benefits of collaboration agreements and our ability to enter into selective collaboration arrangements;
- our ability to quickly and efficiently identify and develop new products and services;
- our ability to establish and maintain intellectual property rights; and
- our estimates regarding expenses, future revenues, capital requirements and needs for additional financing.

We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements, and you should not place undue reliance on our forward-looking statements. Actual results or events could differ materially from the plans, intentions and expectations disclosed in the forward-looking statements we make. We have included important factors in the cautionary statements included in this prospectus, particularly in the Risk Factors section of this prospectus, that we believe could cause actual results or events to differ materially from the forward-looking statements that we make. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments we may make.

You should read this prospectus and the documents that we have filed as exhibits to the registration statement, of which this prospectus is a part, completely and with the understanding that our actual future results may be materially different from what we expect. We do not assume any obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

MARKET AND INDUSTRY DATA

In this prospectus, we rely on and refer to information and statistics regarding the industries and the markets in which we compete. We obtained this information and these statistics from various third-party sources. We believe that these sources and the estimates contained therein are reliable, but we have not independently verified them. Such information involves risks and uncertainties and is subject to change based on various factors, including those discussed in the Risk Factors section of this prospectus.

USE OF PROCEEDS

We estimate that we will receive net proceeds to us from this offering of approximately $ million, assuming an initial public offering price of $ per share, the midpoint of the price range set forth on the cover of this prospectus, and after deducting the underwriting discounts and commissions and estimated offering expenses payable by us. If the underwriters over-allotment option is exercised in full, we estimate the net proceeds to us will be approximately $ million.

We intend to use the net proceeds to us from this offering for working capital and other general corporate purposes, including the development of new services, sales and marketing activities and capital expenditures. We may also use a portion of the net proceeds for the acquisition of, or investment in, companies, technologies, services or assets that complement our business. Other principal purposes for this offering are to:

- create a public market for our common stock;
- facilitate our future access to the public capital markets;
- provide liquidity for our existing stockholders;
- increase our visibility in our markets;
- improve the effectiveness of our equity compensation plans in attracting and retaining key employees; and
- enhance our ability to acquire or invest in complementary companies, technologies, products or assets.

We have not yet determined with any certainty the manner in which we will allocate these net proceeds. Management will retain broad discretion in the allocation and use of the net proceeds to us from this offering. The amounts and timing of these expenditures will vary depending on a number of factors, including the amount of cash generated by our operations, competitive and technological developments, and the rate of growth, if any, of our business.

Although we may use a portion of our net proceeds for the acquisition of, or investment in, companies, technologies, products or assets that complement our business, we have no present understandings, commitments or agreements to enter into any acquisitions or make any investments. We cannot assure you that we will make any acquisitions or investments in the future.

Pending specific use of the net proceeds as described above, we intend to invest the net proceeds to us from this offering in short-term investment grade and U.S. government securities.

DIVIDEND POLICY

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

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CAPITALIZATION

The following table sets forth our cash and cash equivalents and capitalization as of December 31, 2008.

- on an actual basis;
- on a pro forma basis to give effect to the automatic conversion of all of our shares of redeemable convertible preferred stock outstanding on December 31, 2008 into 30,901,339 shares of our common stock upon the closing of this offering; and
- on a pro forma as adjusted basis to give effect to (1) the issuance and sale of shares of common stock in this offering at an assumed initial public offering price of $ per share, which is the midpoint of the price range listed on the cover page of this prospectus, after deducting estimated underwriting discounts and commissions and offering expenses payable by us and (2) the automatic conversion of all of our outstanding shares of redeemable convertible preferred stock into 30,901,339 shares of our common stock upon the closing of this offering.

Our capitalization following the closing of this offering will be adjusted based on the actual initial public offering price and other terms of this offering determined at pricing. You should read this table together with our consolidated financial statements and the related notes appearing at the end of this prospectus and the Management s Discussion and Analysis of Financial Condition and Results of Operations section of this prospectus.

	As of December 31, 2008		
	Actual	Pro Forma	Pro Forma as Adjusted
		(Unaudited)	
	(In thousands, except share data)		
Cash and cash equivalents	$ 22,913	$ 22,913	
Preferred stock:			
Series A redeemable convertible preferred stock, $0.01 par value: 17,010,413 shares issued and outstanding, actual; no shares authorized, issued and outstanding, pro forma and pro forma as adjusted	12,501		
Series B redeemable convertible preferred stock, $0.01 par value: 11,668,703 shares issued and outstanding, actual; no shares authorized, issued and outstanding, pro forma and pro forma as adjusted	11,629		
Series B-1 redeemable convertible preferred stock, $0.01 par value: 2,222,223 shares issued and outstanding, actual; no shares authorized, issued and outstanding, pro forma and pro forma as adjusted	10,713		

Total redeemable convertible preferred stock	34,843	
Stockholders (deficit) equity:		
Common stock, $0.01 par value: 50,056,880 shares authorized; 9,950,705 shares issued and outstanding, actual; $0.01 par value: 100,000,000 shares authorized, 40,852,044 shares issued and outstanding, pro forma; 100,000,000 shares authorized, shares issued and outstanding, pro forma as adjusted	100	408
Additional paid-in capital	251	34,786
Accumulated deficit	(32,980)	(32,980)
Accumulated other comprehensive income	10	10
Total stockholders (deficit) equity	(32,619)	2,224
Total capitalization	$ 2,224	$ 2,224

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A $1.00 increase (decrease) in the assumed initial public offering price of $ per share would increase (decrease) each of additional paid-in capital and total stockholders (deficit) equity in the pro forma as adjusted column by $ million, assuming the number of shares offered by us, as set forth on the cover of this prospectus, remains the same and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us.

The table above does not include:

- 8,024,125 shares of common stock issuable upon exercise of stock options outstanding as of December 31, 2008 at a weighted average exercise price of $1.62 per share; and
- an additional 180,707 shares of common stock reserved for future issuance under our equity compensation plans as of December 31, 2008.

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DILUTION

If you invest in shares of our common stock in this offering, your interest will be diluted immediately to the extent of the difference between the initial public offering price per share you will pay in this offering and the pro forma as adjusted net tangible book value per share of our common stock after this offering. Our pro forma net tangible book value as of , 2009 was $ million, or $ per share of common stock. Our pro forma net tangible book value per share set forth below represents our total tangible assets less our total liabilities, divided by the number of shares of our common stock outstanding on , 2009, after giving effect to the automatic conversion of all outstanding shares of our redeemable convertible preferred stock into shares of our common stock upon the closing of this offering.

After giving effect to our issuance and sale of shares of our common stock in this offering at an assumed initial public offering price of $ per share, which is the midpoint of the price range set forth on the cover of this prospectus, after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us, our pro forma as adjusted net tangible book value as of , 2009 would have been $ million, or $ per share of our common stock. This represents an immediate increase in our net tangible book value to our existing stockholders of $ per share. The initial public offering price per share of our common stock will significantly exceed the pro forma as adjusted net tangible book value per share. Accordingly, new investors who purchase shares of our common stock in this offering will suffer an immediate dilution of their investment of $ per share. The following table illustrates this per share dilution to new investors purchasing shares of our common stock in this offering without giving effect to the option granted to the underwriters to purchase additional shares of our common stock in this offering:

Assumed initial public offering price per share		$
Pro forma net tangible book value per share as of , 2009	$	
Increase per share attributable to sale of shares of our common stock in this offering		
Pro forma as adjusted net tangible book value per share after this offering		
Dilution per share to new investors		$

A $1.00 increase (decrease) in the assumed initial public offering price of $ per share would increase (decrease) the pro forma as adjusted net tangible book value by $ million, the pro forma as adjusted net tangible book value per share after this offering by $ per share and the dilution in pro forma as adjusted net tangible book value per share to investors in this offering by $ per share, assuming the number of shares offered by us, as set forth on the cover of this prospectus, remains the same and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us.

If the underwriters exercise their over-allotment option in full, the pro forma as adjusted net tangible book value will increase to $ per share, representing an immediate increase to existing stockholders of $ per share and an immediate dilution of $ per share to new investors. If any shares are issued upon exercise of outstanding options or warrants, you will experience further dilution.

The following table summarizes, on a pro forma basis as of , 2009, giving effect to the automatic conversion of all outstanding shares of our redeemable convertible preferred stock into shares of our common stock, the differences between the number of shares of our common stock purchased from us, the total consideration paid to us, and the average price per share paid by existing stockholders and by new investors purchasing shares of our common stock in this offering. The calculations below are based on an assumed initial public offering price of $ per share, which is the midpoint of the price range set forth on the cover of this prospectus, before the deduction of the estimated underwriting discounts and commissions and estimated offering expenses payable by us:

	Shares Purchased		**Total Consideration**		**Average Price**
	Number	**%**	**Amount**	**%**	**per Share**
Existing stockholders					
New investors					
Total					

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SELECTED CONSOLIDATED FINANCIAL DATA

You should read the following selected financial data together with our consolidated financial statements and the related notes appearing at the end of this prospectus and the Management s Discussion and Analysis of Financial Condition and Results of Operations section of this prospectus. We have derived the consolidated statements of operations data for the years ended December 31, 2006, 2007 and 2008 and the balance sheet data as of December 31, 2007 and 2008 from our audited financial statements included elsewhere in this prospectus. We have derived the consolidated statement of operations data for the years ended December 31, 2004 and 2005 and balance sheet data as of December 31, 2004, 2005 and 2006 from our audited financial statements not included in this prospectus. Pro forma financial information reflects the automatic conversion of all outstanding shares of our redeemable convertible preferred stock into 30,901,339 shares of common stock upon the completion of this offering. Our historical results for any prior period are not necessarily indicative of results to be expected in any future period, and our results for any interim period are not necessarily indicative of results for a full fiscal year.

	Year Ended December 31,				
	2004	**2005**	**2006**	**2007**	**2008**
	(In thousands, except per share data)				
Consolidated Statement of Operations Data:					
Revenue	$ 2,574	$ 3,518	$ 11,307	$ 26,998	$ 51,723
Cost of revenue(1)	359	767	2,033	3,925	5,970
Gross profit	2,215	2,751	9,274	23,073	45,753
Operating expenses:					
Research and development(1)	1,349	1,634	3,232	6,661	11,997
Sales and marketing(1)	2,020	5,758	10,050	19,488	31,631
General and administrative(1)	1,070	1,351	2,945	3,661	6,705
Legal settlements				2,225	600
Amortization of intangibles(1)			141	328	328
Total operating expenses	4,439	8,743	16,368	32,363	51,261
Loss from operations	(2,224)	(5,992)	(7,094)	(9,290)	(5,508)
Interest, net	2	105	365	260	216
Other income (expense), net	3	(27)	28	(25)	(110)
Net loss	(2,219)	(5,914)	(6,701)	(9,055)	(5,402)
Accretion of redeemable convertible preferred stock	(38)	(279)	(1,790)	(1,919)	(2,348)
Net loss attributable to common stockholders	$ (2,257)	$ (6,193)	$ (8,491)	$ (10,974)	$ (7,750)
Net loss attributable to common stockholders per share: basic and diluted	$ (0.26)	$ (0.75)	$ (0.99)	$ (1.19)	$ (0.79)
	8,775	8,310	8,586	9,214	9,834

Weighted average shares outstanding used in computing per share amounts: basic and diluted	
Pro forma net loss per share: basic and diluted(2)	$ (0.13)
Pro forma weighted average number of common shares used in pro forma per share calculations(2)	40,735

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

(2) Pro forma basic and diluted net loss per share have been calculated assuming the automatic conversion of all outstanding shares of our redeemable convertible preferred stock into 30,901,339 shares of our common stock upon the closing of this offering.

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	Year Ended December 31,				
	2004	2005	2006	2007	2008
	(In thousands)				
Cost of revenue:					
Stock-based compensation	$	$	$ 2	$ 10	$ 64
Acquisition-related intangible amortization			179	415	415
Research and development:					
Stock-based compensation	19	10	11	105	419
Sales and marketing:					
Stock-based compensation			28	177	962
General and administrative:					
Stock-based compensation			27	222	1,304
Amortization of intangibles:					
Acquisition-related intangible amortization			141	328	328

	As of December 31,				
	2004	2005	2006	2007	2008
	(In thousands)				
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$ 6,844	$ 11,962	$ 7,983	$ 18,676	$ 22,913
Working capital (excluding deferred revenue)	6,993	12,026	6,527	15,499	22,577
Total assets	7,578	13,255	14,656	28,302	37,415
Deferred revenue, including long-term portion	1,135	2,849	7,288	16,104	28,358
Long-term debt, including current portion	44		2,281	1,192	
Total liabilities	1,452	3,640	11,615	23,238	35,191
Redeemable convertible preferred stock	9,136	18,806	20,596	32,495	34,843
Total stockholders deficit	(3,009)	(9,191)	(17,554)	(27,431)	(32,619)

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

Overview

LogMeIn provides on-demand, remote-connectivity solutions to SMBs, IT service providers and consumers. We believe our solutions are used to connect more Internet-enabled devices worldwide than any other connectivity service. Businesses and IT service providers use our solutions to deliver end-user support and to remotely access and manage computers and other Internet-enabled devices more effectively and efficiently. Consumers and mobile workers use our solutions to access computer resources remotely, thereby facilitating their mobility and increasing their productivity. Our solutions, which are deployed on-demand and accessible through a web browser, are secure, scalable and easy for our customers to try, purchase and use. Our paying customer base has grown from approximately 98,000 premium accounts in December 2007 to more than 187,000 premium accounts in December 2008.

We offer two free services and nine premium services. Our users have connected over 60 million computers and other Internet-enabled devices to a LogMeIn service. Sales of our premium services are generated through word-of-mouth referrals, web-based advertising, expiring free trials that we convert to paid subscriptions and direct marketing to new and existing customers.

We derive our revenue principally from subscription fees from SMBs, IT service providers and consumers. The majority of our customers subscribe to our services on an annual basis. We sell our premium services at prices ranging from approximately $30 to $1,900 per year. During the year ended December 31, 2008, our average transaction price was approximately $160, and we completed over 398,000 transactions. Our revenue is driven primarily by the number and type of our premium services for which our paying customers subscribe. For the year ended December 31, 2008, we generated revenues of $51.7 million, compared to $27.0 million for the year ended December 31, 2007, an increase of approximately 92%.

In addition to selling our services to end users, we entered into a service and marketing agreement with Intel Corporation in December 2007 pursuant to which we are adapting our service delivery platform, Gravity, to work with specific technology delivered with Intel hardware and software products. The agreement provides that Intel will market and sell the services to its customers. Intel pays us a minimum license and service fee on a quarterly basis during the term of the agreement, and we and Intel share revenue generated by the use of the services by third parties to the extent it exceeds the minimum payments. We began recognizing revenue associated with the Intel service and marketing agreement in the quarter ended September 30, 2008. During the year ended December 31, 2008, we recognized $3.0 million in revenue from this agreement.

In February 2003, we incorporated under the laws of Bermuda. In August 2004, we completed a domestication in the State of Delaware under the name 3am Labs, Inc. We changed our name to LogMeIn, Inc. in March 2006. We have funded our operations primarily through net proceeds of approximately $27.8 million from the sale of redeemable convertible preferred stock. We experienced net losses of $6.7 million for 2006, $9.1 million for 2007 and $5.4 million for 2008. We expect to make significant future expenditures to develop and expand our business.

Sources of Revenue

We derive our revenue principally from subscription fees from SMBs, IT service providers and consumers. Our revenue is driven primarily by the number and type of our premium services for which our

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paying customers subscribe and is not concentrated within one customer or group of customers. The majority of our customers subscribe to our services on an annual basis and pay in advance, typically with a credit card, for their subscription. A smaller percentage of our customers subscribe to our services on a monthly basis through either month-to-month commitments or annual commitments that are then paid monthly with a credit card. We initially record a subscription fee as deferred revenue and then recognize it ratably, on a daily basis, over the life of the subscription period. Typically, a subscription automatically renews at the end of a subscription period unless the customer specifically terminates it prior to the end of the period. Approximately 94% of our subscriptions have a one-year term. For the year ended December 31, 2008, our dollar-weighted average renewal rate was approximately 80%. The dollar-weighted average renewal rate is the percentage of our subscriptions, on a dollar basis, that could have terminated during the year ended December 31, 2008, in accordance with the terms of the subscription agreements but which were renewed. We believe this rate provides us with a view of our customers satisfaction with our services and improves the predictability of our revenue.

In addition to our subscription fees, we also generate revenue from license and annual maintenance fees from the licensing of our product RemotelyAnywhere. We license RemotelyAnywhere to our customers on a perpetual basis. Because we do not have vendor specific objective evidence of fair value, or VSOE, for our maintenance arrangements, we record the initial license and maintenance fee as deferred revenue and record it ratably, on a daily basis, over the initial maintenance period. We also initially record maintenance fees for subsequent maintenance periods as deferred revenue and recognize revenue ratably, on a daily basis, over the maintenance period. Revenue from license and maintenance fees for RemotelyAnywhere represented less than 5% of our revenue for the year ended December 31, 2008.

Cost of Revenue and Operating Expenses

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

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

Research and Development. Research and development expenses consist primarily of wages and benefits for development personnel, consulting fees associated with outsourced development projects, facilities rent and depreciation associated with assets used in development. We have focused our research and development efforts on both improving ease of use and functionality of our existing services, as well as developing new offerings. The majority of our research and development employees are located in our development centers in Hungary. Therefore, a majority of research and development expense is subject to fluctuations in foreign exchange rates. We expect that research and development expenses will increase in absolute dollars as we continue to enhance and expand our services but decrease as a percentage of revenue.

Sales and Marketing. Sales and marketing expenses consist primarily of online search and advertising costs, wages, commissions and benefits for sales and marketing personnel, offline marketing costs such as media advertising and trade shows, and credit card processing fees. Online search and advertising costs consist primarily of pay-per-click payments to search engines and other online advertising media such as banner ads. Offline marketing costs include radio and print advertisements as well as the costs to create and produce these advertisements, and tradeshows, including the costs of space at trade shows and costs to design and construct trade show booths. Advertising costs are expensed as incurred. In order to continue to grow our business and awareness of our services, we expect that we will continue to commit resources to our sales and marketing efforts. We expect that sales and marketing expenses will increase in absolute dollars but decrease as a percentage of revenue over time as our revenue increases.

General and Administrative. General and administrative expenses consist primarily of wages and benefits for management, human resources, internal IT support, finance and accounting personnel, professional fees, insurance and other corporate expenses. We expect that general and administrative expenses will increase as we continue to add personnel and enhance our internal information systems in connection with the growth of our business. In addition, we anticipate that we will incur additional personnel expenses, professional service fees, including auditing, legal and insurance costs, related to operating as a public company. We expect that our general and administrative expenses will increase in both absolute dollars and as a percentage of revenue.

Critical Accounting Policies

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

Revenue Recognition. We provide our customers access to our services through subscription arrangements for which our customers pay us a fee. Our customers enter into a subscription agreement with us for the use of our software, our connectivity service and access to our customer support services, such as telephone and email support. Subscription periods range from monthly to four years, and they are generally one year in duration. We follow the guidance of SEC Staff Accounting Bulletin, or SAB, No. 104, *Revenue Recognition in Financial Statements*, the American Institute of Certified Public Accountants, or the AICPA, *Statement of Position, or SOP, 97-2, Software Revenue Recognition,* and Emerging Issues Task Force, or EITF, Issue No. 00-03, *Application of AICPA Statement of Position 97-2 to Arrangements that Include the Right to Use Software Stored on Another Entity s Hardware*. EITF No. 00-03 applies when the software being provided cannot be run on another entity s hardware or when customers do not have the right to take possession of the software and use it on another entity s hardware as is the case with our software. We begin to recognize revenue when there is persuasive evidence of an arrangement, the fee is fixed or determinable and collectibility is deemed probable. We recognize the subscription fee as revenue on a daily basis over the subscription period.

We recognize revenue under multi-element agreements in accordance with SAB No. 104 and SOP 97-2. The terms of these agreements typically include multiple deliverables by us such as subscription and professional services, including development services. Agreements with multiple element deliverables are analyzed to determine if fair value exists for each element on a stand-alone basis. If the value of each deliverable is determinable then revenue is recognized separately when or as the services are delivered, or if applicable, when milestones associated with the deliverable are achieved and accepted by the customer. If the fair value of any of the undelivered performance obligations cannot be determined, the arrangement is accounted for as a single element and we recognize revenue on a straight-line basis over the period in which we expect to complete performance obligations under the agreement.

Our arrangements for the licensing of RemotelyAnywhere permit our customers to use the software on their hardware and include one year of maintenance services, which includes the right to support and upgrades, on a when and if available basis. We follow the guidance of the AICPA in its Statement of Position 97-2, *Software Revenue Recognition*, as amended by its SOP 98-9, *Modification of SOP 97-2 With Respect to Certain Transactions*. We do not have VSOE for our maintenance service arrangements and thus recognize revenue ratably on a daily basis over the initial maintenance period, which is generally one year. We begin to recognize revenue when there is persuasive evidence of an arrangement, the fee is fixed or determinable and collectibility is deemed probable.

Income Taxes. We are subject to federal and various state income taxes in the United States, The Netherlands, Hungary and Australia, and we use estimates in determining our provision for these income taxes and deferred tax assets. Deferred tax assets, related valuation allowances, current tax liabilities and deferred tax liabilities are determined separately by tax jurisdiction. In making these determinations, we estimate tax assets, related valuation allowances, current tax liabilities and deferred tax liabilities, and we assess temporary differences resulting from differing treatment of items for tax and accounting purposes. At December 31, 2008, our deferred tax assets consisted primarily of net operating losses and research and development credit carryforwards. As of December 31, 2008, we had U.S. federal and state net operating loss carryforwards of approximately $19.2 million and $18.1 million, respectively, which expire at varying dates through 2028 for U.S. federal income tax purposes and primarily through 2013 for state income tax purposes. We assess the likelihood that deferred tax assets will be realized, and we recognize a valuation allowance if it is more likely than not that some portion of the deferred tax assets will not be realized. This assessment requires judgment as to the likelihood and amounts of future taxable income by tax jurisdiction. To date, we have provided a full valuation allowance against our deferred tax assets. Although we believe that our tax estimates are reasonable, the ultimate tax determination involves significant judgment that is subject to audit by tax authorities in the ordinary course of business.

Software Development Costs. We account for software development costs, including costs to develop software products or the software components of our solutions to be marketed to external users, as well as software programs to be used solely to meet our internal needs, in accordance with Statement of Financial Accounting Standards, or SFAS, No. 86, *Accounting for Costs of Computer Software to be Sold, Leased or Otherwise Marketed*, and Statement of Position No. 98-1, *Accounting for Costs of Computer Software Developed or Obtained for Internal Use*. We have determined that technological feasibility of our software products and the software component of our solutions to be marketed to external users is reached shortly before their introduction to the marketplace. As a result, the development costs incurred after the establishment of technological feasibility and before their release to the marketplace have not been material, and such costs have been expensed as incurred. In addition, costs incurred during the application development stage for software programs to be used solely to meet our internal needs have not been material.

Valuation of Long-Lived and Intangible Assets, Including Goodwill. We review 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. Our recorded intangible assets are associated with our acquisition of substantially all of the assets of Applied Networking, Inc. in July 2006. We are amortizing the recorded values of such intangible assets over their estimated useful lives, which range from four to five years. Through December 31, 2008, we have not recorded any impairment charges associated with our long-lived and intangible assets.

We test goodwill for impairment on an annual basis and whenever events or changes in circumstances indicate that the carrying amount of goodwill may exceed its fair value. Our annual goodwill impairment test is at December 31 of each year. The recorded amount of goodwill at December 31, 2008 represents the goodwill from our acquisition of Applied Networking, Inc. Through December 31, 2008, we have not recorded any impairments of goodwill.

Stock-Based Compensation. Prior to January 1, 2006, we accounted for share-based awards, including stock options, to employees using the intrinsic value method prescribed by Accounting Principles Board Opinion, or APB, No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. Under the intrinsic value method, compensation expense was measured on the date of award as the difference, if any, between the deemed fair value of our common stock and the option exercise price, multiplied by the number of options granted. The option exercise prices and fair value of our common stock are determined by our management and board of directors based on a review of various objective and subjective factors. No compensation expense was recorded for stock options issued to employees prior to January 1, 2006 in fixed amounts and with fixed exercise prices at least equal to the fair value of our common stock at the date of grant.

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Effective January 1, 2006, we adopted SFAS No. 123 (revised 2004), *Share-Based Payment*, or SFAS 123R, and related interpretations. SFAS 123R supersedes APB No. 25 and related interpretations. We adopted this statement using the prospective transition method, which requires us to recognize compensation expense for all share-based awards granted, modified, repurchased or cancelled on or after January 1, 2006. These costs will be recognized on a straight-line basis over the requisite service period for all time-based vested awards. We continue to account for share-based awards granted prior to January 1, 2006 following the provisions of APB No. 25.

For share-based awards subsequent to January 1, 2006, we estimate the fair value of the share-based awards, including stock options, using the Black-Scholes option-pricing model. Determining the fair value of share-based awards requires the use of highly subjective assumptions, including the expected term of the award and expected stock price volatility. The assumptions used in calculating the fair value of share-based awards granted in 2007 and 2008 are set forth below:

	Year Ended December 31,	
	2007	2008
Expected dividend yield	0%	0%
Risk-free interest rate	3.40% to 4.93%	2.52% - 3.33%
Expected term (in years)	2.00 to 6.25	5.54 - 6.25
Volatility	90%	75% - 80%

The assumptions used in determining the fair value of share-based awards represent management s best estimates, but these estimates involve inherent uncertainties and the application of management judgment. As a result, if factors change, and we use different assumptions, our share-based compensation could be materially different in the future. The risk-free interest rate used for each grant is based on a U.S. Treasury instrument with a term similar to the expected term of the share-based award. The expected term of options has been estimated utilizing the vesting period of the option, the contractual life of the option and our option exercise history. Because there was no public market for our common stock prior to this offering, we lacked company-specific historical and implied volatility information. Therefore, we estimate our expected stock volatility based on that of publicly-traded peer companies, and we expect to continue to use this methodology until such time as we have adequate historical data regarding the volatility of our publicly-traded stock price. Also, SFAS 123R requires that we recognize compensation expense for only the portion of options that are expected to vest. Accordingly, we have estimated expected forfeitures of stock options upon the adoption of SFAS 123R based on our historical forfeiture rate and used these rates in developing a future forfeiture rate. If our actual forfeiture rate varies from our historical rates and estimates, additional adjustments to compensation expense may be required in future periods.

The following table summarizes by grant date the number of stock options granted since the adoption of SFAS 123R on January 1, 2006 through December 31, 2008, the per share exercise price of options, the estimated per share weighted average fair value of options and the per share estimated value of our common stock on each grant date:

	Number of Shares Subject to Options Granted	**Per Share Exercise Price of Option(1)**	**Per Share Weighted Average Estimated Fair Value of Options(2)**	**Per Share Estimated Fair Value of Common Stock(3)**
April 27, 2006	20,000	$ 0.50	$ 0.22	$ 0.35
July 20, 2006	991,000	$ 0.50	$ 0.23	$ 0.35
October 26, 2006	295,000	$ 0.50	$ 0.22	$ 0.35
January 24, 2007	1,647,500	$ 0.50	$ 0.88	$ 1.09
April 27, 2007	235,000	$ 0.50	$ 2.02	$ 2.24
August 3, 2007	172,500	$ 3.71	$ 2.66	$ 3.46
November 5, 2007	250,000	$ 3.86	$ 2.97	$ 3.86
November 21, 2007	1,245,000	$ 3.86	$ 2.94	$ 3.74
January 17, 2008	535,000	$ 4.30	$ 3.04	$ 4.30
April 18, 2008 (4)	134,500	$ 4.56	$ 3.24	$ 4.49
July 17, 2008	237,500	$ 4.56	$ 3.10	$ 4.50
October 23, 2008	55,000	$ 4.71	$ 3.19	$ 4.71

(1) The Per Share Exercise Price of Option represents the exercise price as determined by our board of directors on the date of the grant.

(2) The Per Share Weighted Average Estimated Fair Value of Options was estimated for the date of grant using the Black-Scholes options pricing model.

(3) The Per Share Estimated Fair Value of Common Stock represents the determination by our board of directors of the fair value of our common stock as of the date of grant, taking into account various objective and subjective factors and including the results, if applicable, of fair market valuations of our common stock by an independent valuation specialist.

(4) Excludes the modification on April 18, 2008 related to stock options previously granted on April 27, 2007 to increase the exercise price from $0.50 per share to $2.24 per share.

Based on the midpoint of the price range as set forth on the cover of this prospectus, the aggregate intrinsic value of our vested outstanding stock options as of December 31, 2008 was $ and the aggregate intrinsic value of our unvested outstanding stock options as of December 31, 2008 was $.

Our board of directors has historically estimated the fair value of our common stock, with input from management, as of the date of each stock option grant. Because there has been no public market for our common stock, our board of directors determined the fair value of our common stock by considering a number of objective and subjective factors including:

- the original sale price of common stock prior to any preferred stock financing rounds, which was $0.50 per share of common stock;

- the per share value of any preferred stock financing rounds and the amount of redeemable convertible preferred stock liquidation preferences, including any additional fund-raising activities that may have occurred in the period;

- any third-party trading activity in our common stock and the illiquid nature of our common stock, including the opportunity for any liquidity events;

- our size and historical operating and financial performance, including our updated operating and financial projections;

achievement of enterprise milestones;

the stock price performance of a peer group comprised of selected publicly-traded companies identified as being comparable to us; and

trends in the broad market for software and other technology stocks.

Our board of directors considered and applied these and other factors in determining an estimate of the fair value of our common stock on each stock option grant date. Additionally, beginning in August 2006, our board of directors engaged Shields & Company, or Shields, an independent valuation specialist, to prepare third-party independent valuations of our common stock.

Shields initial valuation report, as described in detail below, was as of July 31, 2006 and was used by our board of directors to estimate the fair value of our common stock as of October 26, 2006, the first option grant date after the initial valuation report. Additionally, the July 31, 2006 valuation report was also initially used to estimate the fair value of our common stock for the January 24, 2007 and April 27, 2007 stock option grants. However, in December 2007 and in connection with our proposed initial public offering, our board of directors undertook a reassessment of the fair value of our common stock as of each option grant date during 2007. As part of that reassessment, our board of directors obtained from Shields retrospective fair market valuation reports for each option grant date during 2007. The retrospective valuations, as described in detail below for each option grant date, have been used to estimate the fair value of our common stock as of each option grant date in 2007 and in calculating stock-based compensation expense.

Stock Option Grants on April 27, 2006

Our board of directors granted stock options on April 27, 2006, with each option having an exercise price of $0.50 per share. In order to determine the estimated fair value of our common stock, our board of directors considered the objective and subjective factors listed above with particular emphasis on our size and operating performance, peer group trading multiples, previous per share prices for issuances of our common and convertible preferred stock and the preferences of our convertible preferred stock. Based on these factors, we believe that our estimate of the fair value of our common stock at April 27, 2006, was reasonable.

Stock Option Grants on July 20, 2006

Our board of directors granted stock options on July 20, 2006, with each option having an exercise price of $0.50 per share. Because there had been no material change in our business, our board of directors maintained its April 27, 2006 estimated fair value of our common stock. Additionally, subsequent to the board meeting, and as described in more detail below, we engaged Shields to complete an independent fair market valuation report. Shields estimated that the fair value of our common stock as of July 31, 2006 was $0.35 per share. Based on our board s analysis and, supported by the subsequent valuation report from Shields, we believe that the exercise price of the July 20, 2006 options was greater than fair value of our common stock on that date.

July 31, 2006 Valuation

In August 2006, we engaged Shields to perform a fair market valuation of our common stock as of July 31, 2006. Shields used a probability-weighted expected return methodology and performed the valuation in accordance with the AICPA Practice Aid, *Valuation of Privately-Held-Company Equity Securities Issued As Compensation*, or the AICPA Practice Aid.

Under the probability-weighted expected return method, the fair market value of our common stock was estimated based upon an analysis of our future value assuming various future outcomes. The common stock per share value was based on the probability-weighted present value of expected future values considering each of the possible outcomes, as well as the rights of common and preferred stockholders. The possible outcomes considered in the valuation were a liquidation event in the form of an initial public offering, or an IPO scenario, a sale or merger assuming we continue to experience significant growth, or a growth scenario, a sale or merger assuming we continue to grow but not at a desired rate, but that our intellectual property would separately be of interest to an acquirer, or a technology scenario, our continued operation as a private company in which we have not experienced significant growth, or a private company scenario, and a

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dissolution of the company. All scenarios utilized assumptions and estimates that were consistent with the operating plans and estimates that we use to manage our business.

The IPO scenario utilized trading multiples of revenue of comparable public companies in a similar industry, the application software industry. The trading revenue multiple was then applied to our projected operating results to produce a theoretical terminal value in the event of an IPO. The growth scenario utilized completed sale transactions involving companies in the application software industry. To calculate the theoretical terminal value under the growth scenario, Shields utilized the median multiple of completed sales transactions in the software industry for the one-year period ending July 31, 2006. Many of these completed sales transactions involved more mature, lower growth companies. Accordingly, Shields refined the list of completed sale transactions to include only comparable companies based on our size and growth projections. The resulting multiple was a 20% premium to the median multiple of all completed sale transactions and was used by Shields in determining our theoretical terminal value under the growth scenario. The technology scenario assumed that we still met our short-term projected operating results but could not obtain and attract the high revenue growth multiples beyond our short-term operating results. The private company scenario assumed we continued in operation but did not meet our growth projections. Shields applied a growth rate of 3% to the normalized annual free cash flow to compute the theoretical value under the private company scenario. The dissolution scenario assumed we do not continue in operations and thus the theoretical terminal value is $0.

Prior to calculating the value of the common stock in each of the scenarios, the conversion rights of the preferred stockholders were reviewed based on each of the theoretical terminal values. Each share of preferred stock is convertible into a share of common stock at the option of the preferred stockholder. In the event of a sale, liquidation or dissolution of the company, the preferred stockholders have preference over any common stockholder at an amount equal to the original purchase price per share of preferred stock and have the right to participate with the common stockholder until they receive an amount equal to two times the original purchase price per share of preferred stock. In the event that converting the preferred stock into common stock would yield the preferred stockholder greater than two times the original purchase price per share of preferred stock, the preferred stockholder would elect to convert preferred shares into common shares.

The present value of our projected free cash flow is determined by discounting our projected future cash flows back to the valuation date. The discount rate used in the analysis was 50%. To determine this discount rate, Shields constructed a weighted average cost of capital based on our cost of equity and after-tax cost of debt. Shields then weighted those costs based on the debt-to-equity ratio associated with our optimal capital structure, as of the valuation date. Based on these calculations, discussions with management, Shields analysis of our projections, and our stage of development as of the valuation date, we and Shields believe a 50% discount rate is appropriate and that our equity holders would require a rate of return similar to that as outlined in the AICPA Practice Aid for venture capital investors. The implied equity value per common share under each scenario was weighted based on estimates of the probability of each of the five scenarios by management, the board of directors and Shields. The resulting value, which represented the estimated fair market value of our common stock at the valuation date, July 31, 2006, was $0.35 per share.

Stock Option Grants on October 26, 2006

Our board of directors granted stock options on October 26, 2006, with each option having an exercise price of $0.50 per share. Our board of directors reviewed and considered the July 31, 2006 valuation report as well as the objective and subjective factors described previously. Additionally, during the period following the valuation report, there had not been any material changes in our business or operating results. Our operating performance for the quarter ended September 30, 2006 and through October 26, 2006 was consistent with our forecasts and projections used in the valuation report. Accordingly, our board of directors determined that $0.35 represented a reasonable fair value per share of our common stock as of October 26, 2006. Therefore, we believe the exercise price of the October 26, 2006 options was greater than the fair value of the common stock on that date.

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Stock Option Grants on January 24, 2007

Our board of directors granted stock options on January 24, 2007 with each option having an exercise price of $0.50 per share. As previously discussed, in December 2007 our board of directors obtained from Shields a retrospective fair market valuation report as of January 24, 2007. In its retrospective fair market valuation report, Shields considered the valuation methodologies outlined in the AICPA Practice Aid. These methodologies included the current-value method, option-pricing method and the previously utilized probability-weighted expected return method.

Shields utilized the option-pricing method for its retrospective valuation because of the significant changes in our operations during 2007. Specifically, in 2007, our financial results improved significantly, including positive cash flow from operations. The option-pricing method is more appropriate than the probability-weighted expected return method once a company s operations have matured enough to indicate that the company may have unlimited potential liquidity options over the course of its lifecycle, and assumptions of any one particular scenario, as is done in the probability-weighted expected return method, would be highly speculative. Based on the market conditions at the time and our improving operating performance, we began to believe that completing an initial public offering was possible. Additionally, during 2007, there were several arms length negotiated transactions involving our common and preferred stock.

Shields factored the arm s length negotiated equity transactions into the retrospective valuations. For the purpose of the valuations, Shields did not utilize these equity transactions as a means of calculating the underlying asset value for the option-pricing model, but used it as a data point to validate the conclusions derived from the option-pricing model. The per-share purchase price in these arm s length transactions was a negotiated purchase price, predominantly derived by applying a revenue multiple to our projected results. As a result of the forward-looking methodology utilized by investors, Shields adjusted its analyses by placing more weight on the forward-looking methodologies.

Under the option-pricing method, the common stock is priced under the Black-Scholes option pricing model based on an analysis of guideline companies, precedent transactions and discounted cash flow. The option-pricing model is sensitive to the following key assumptions: the underlying asset value, liquidation preferences, volatility, time to liquidity, and the risk-free rate. The underlying-asset value is the market price of the underlying security on which the option is based. Our underlying-asset value was determined by taking a weighted average of the equity values that resulted from the guideline companies, precedent transaction and discounted cash flow analyses. The liquidation preferences are the amounts at which an investor is indifferent between exercising the option or not. Our preferred stockholders have the right to participate with the common stockholders until they receive an amount equal to two times the original purchase price per share of preferred stock. The conversion rights of the preferred stockholders were considered in determining the per share value of our common stock. In analyzing guideline companies in the remote systems software industry, Shields identified eight publicly-traded guideline companies for the purpose of estimating our fair market value as of each valuation date. Of these, Shields determined that one publicly-traded company, Citrix Systems, Inc., or Citrix, is the most comparable to us in that they provide products that are very similar to and are directly competitive with our products, while the other companies identified had more diverse product offerings and did not compete directly with us. As a result, we believe it is appropriate to use Citrix as our representative public company. Accordingly, as of each valuation date our volatility was based on Citrix s volatility. However, in determining our volatility Shields elected not to base our volatility only on the volatility of Citrix and determined it to be more representative of our volatility to also include other publicly traded guideline companies. Thus, as of each valuation date the volatility of Citrix was increased by ten percentage points to more closely reflect the median volatility of the publicly traded guideline companies. Time to liquidity is an estimated earliest exit date to effect a transaction. For the purpose of these analyses this was based on estimates, from management and our investment bankers, of when an initial public offering might occur. The risk-free rate of return is deemed to be the rate of return on a less risky security. As of each valuation date, the risk-free rate of return was determined by utilizing the return of U.S. treasury notes with maturities consistent with our time to liquidity. These assumptions represent management s and Shields best estimates, but involve inherent uncertainties and the application of judgment.

Under the guideline company analysis, we used the revenue trading multiples of our representative public company. Under the precedent transactions analysis, we identified completed sale transactions of software companies in a similar market to us that were completed in the prior twelve months. Under the discounted cash flow analysis, our equity value is equal to the projected future free cash flows and expected terminal value of the company, adjusted for cash, net of debt.

The expected terminal value was calculated by applying the representative public company s forward looking revenue multiple to our projected future revenue results. The present value of our projected free cash flow is determined by discounting our projected future cash flows back to the valuation date. The discount rate used in the analysis was 35%. In determining the appropriate discount rate, Shields constructed a weighted average cost of capital which determined our cost of equity and after-tax cost of debt, and then weighed those costs based on the debt-to-equity ratio associated with our optimal capital structure, as of each valuation date. Based on these calculations, discussions with management and Shields analysis of our projections, Shields believes that our equity holders would require a rate of return similar to a company as outlined in the AICPA Practice Aid s for venture capital investors based on a company s stage of development.

To calculate our underlying asset value, the equity values of the guideline company, completed sale transaction and discounted cash flow analyses are weighted. The weightings of the methodologies were based on the judgments of Shields. As we were progressing closer to an initial public offering, Shields increased the weight of the methodologies utilizing our projected financial results versus our historical financial results because investors and our investment bankers were determining our anticipated valuation on forward-looking multiples and projections versus historical multiples. In addition, Shields also increased the weighting of the cash flow based analysis, the discounted cash flow, versus the market based methodologies as we started to generate positive cash flow.

For the January 24, 2007 valuation, Sheilds weighted the methodologies applied to the current financial results at 85% and to the projected financial results at 15%, since as of the January 24, 2007 valuation date we were just beginning to achieve significantly improved financial results. Additionally, for the January 24, 2007 valuation, Shields weighted the various analysis used in the option-pricing method as follows:

- guideline company analysis based on historical results at 45% and projected results at 5%;
- completed sale transaction analysis based on historical results at 40% and projected results at 5%; and
- discounted cash flow analysis at 5%.

The resulting fair value of our common stock as of January 24, 2007 was $1.09 per common share. Following a review of this retrospective valuation and the objective and subjective factors previously reviewed, our board of directors retrospectively determined that the fair value of our common stock as of January 24, 2007 was $1.09 per share. As a result of this determination, the exercise price of the options granted on January 24, 2007 was less than the fair value of our common stock. Consequently, the fair value of the stock options calculated pursuant to SFAS 123R increased to $1,457,000 from $371,000, and this increased value will be recorded as stock compensation expense over the vesting period of the options, which is generally four years.

Additionally, certain of the options granted on January 24, 2007 are performance-based options, as defined under SFAS 123R. The performance criteria associated with these options are based upon the successful completion of our initial public offering or other liquidation event at predefined enterprise values. Under SFAS 123R, these performance criteria cannot be considered probable, and compensation expense can only be recorded as an expense upon the achievement of the performance criteria. In the event such criteria are achieved, we will record an expense of approximately $338,000 at the time the criteria are met.

Stock Option Grants on April 27, 2007

Our board of directors granted stock options on April 27, 2007, with each option having an exercise price of $0.50 per share. Consistent with its January 24, 2007 retrospective valuation report, Shields utilized the same valuation methodologies, updated for our actual results through the quarter ended March 31, 2007 for its retrospective valuation report as of April 27, 2007. The respective valuation methodologies used to calculate the underlying asset value of the company were updated as of the valuation date. Under the completed sales transaction analysis, Shields updated the revenue multiple for the acquisition of WebEx by Cisco Systems, which was announced on March 15, 2007. A portion of WebEx s business competes directly with us and therefore was relevant to our valuation. The weightings used for historical and projected results and for the various analyses under the option-pricing method were the same as the previous valuation.

The resulting fair value of our common stock as of April 27, 2007 was $2.24 per common share, an increase of $1.15 from January 24, 2007. The increase was largely due to an increase in the multiple for completed sales transactions as a result of the WebEx acquisition. Following a review of this retrospective valuation and the objective and subjective factors previously reviewed, our board of directors retrospectively determined that the fair value of our common stock as of April 27, 2007 was $2.24 per share. Thus, the exercise price of the options granted on April 27, 2007 was less than the reassessed fair value of our common stock. Consequently, the fair value of the stock options calculated pursuant to SFAS 123R increased to $476,000 from $58,000. This increased value will be recorded as stock compensation expense over the vesting period of these options, which range from two to four years. In order to mitigate the potential unfavorable tax consequences to individuals holding options granted on April 27, 2007, on April 18, 2008, our board of directors approved a plan to allow the affected option holders to amend the exercise prices of their original options from $0.50 to $2.24 per share. As part of this amendment, we will compensate the affected option holders of 200,000 shares who elected to amend their options for the difference in the exercise price with a cash bonus payment upon the vesting of the respective stock option. The financial impact from the change in the valuation as a result of this amendment is approximately $283,000, of which approximately $178,000 has been recorded as stock compensation expense during the nine months ended September 30, 2008, and approximately $105,000 will be recorded over the remaining vesting period of the affected options.

Stock Option Grants on August 3, 2007

Our board of directors granted stock options on August 3, 2007, with each option having an exercise price of $3.71 per share. Consistent with its previous retrospective valuation reports, Shields utilized the option-pricing method updated for our actual results for the quarter ended June 30, 2007 and our projected results as of July 17, 2007.

During the quarter ended June 30, 2007, we continued to operate our business in the ordinary course, and we experienced increases in our number of customers and subscription revenue and orders forecasts, including a potential large transaction with an original equipment manufacturer. We also had preliminary discussions during this period with third parties interested in potentially acquiring the company. While these inquiries were very preliminary, our board of directors considered the various exit scenarios presented by these inquiries. Our board of directors and management began to more seriously consider the possibility of an initial public offering and continued to discuss this scenario with several investment banks. Additionally, three founding employees began discussions to sell up to 19% of their common stock to three of our largest stockholders. In July 2007, the three founding employees and five other smaller stockholders, including several non-employee stockholders, sold an aggregate of 1,869,194 shares of stock to existing stockholders for an aggregate purchase price of approximately $7,271,000, or $3.89 per share.

Shields factored the founding employees equity transaction into its analyses and retrospective valuation, placing more weight on the forward-looking methodologies because the negotiated purchase price was predominantly derived by applying a revenue multiple to our projected revenues. Our weightings were adjusted to 60% on projected financial results, increased from 15% in the previous valuation, and 40% to current financial results, decreased from 85% in the previous valuation. The weightings used for the guideline company analysis based on historical results were decreased to 10% from 45% while the weighting used for projected results was increased to 15% from 5%. The weighting used for the completed sale transaction analysis based on historical results was decreased to 30% from 40% while the weighting used for projected results was increased to 15% from 5%. Finally, as a result of our improved performance and the founding employees equity transaction, the discounted cash flow weighting was increased to 30% from 5%. The expected term was updated to June 2008, from December 2009, based on our more substantive discussions with investment bankers regarding the possibility of an initial public offering or other liquidity event. The respective valuation methodologies used to calculate the underlying asset value of the company were updated as of the valuation date.

The resulting fair value of our common stock from the retrospective valuation as of July 17, 2007 was $3.46 per common share, an increase of $1.22 from April 27, 2007. The increase was largely due to the weighting shift to projected financial results from current financial results. Following a review of this retrospective valuation and the objective and subjective factors previously reviewed, our board of directors retrospectively determined that the fair value of our common stock as of July 17, 2007 was $3.46 per share. As a result of this determination, the exercise price of the options granted on August 3, 2007 was greater than the fair market value of our common stock for accounting purposes. Consequently, the fair value of the stock options calculated pursuant to SFAS 123R decreased slightly to $459,000 from $490,000, and this decreased value will be recorded as stock compensation expense over the vesting period of the options, which is generally four years.

Stock Option Grants on November 5, 2007

Our board of directors granted stock options on November 5, 2007, with each option having an exercise price of $3.86 per share.

During the quarter ended September 30, 2007, we continued to operate our business in the ordinary course. We continued to expend resources on developing new services and on marketing to attract additional customers. Management and our board of directors continued to discuss a potential initial public offering, and we initiated steps to file our registration statement with the Securities and Exchange Commission.

Shields prepared a contemporaneous valuation as of September 30, 2007 using the option-pricing method as described above. In the analysis our actual and projected financial results were updated based on our actual results through the quarter ended September 30, 2007. The respective valuation methodologies used to calculate the underlying asset value of the company were updated as of the valuation date. The weightings used for historical and projected results and for the various analyses under the option-pricing method were the same as the previous valuation. The resulting fair value of our common stock as of September 30, 2007 was $3.86 per common share, an increase of $0.40 from July 17, 2007. The increase was largely due to our increased operating results in the prior twelve months and increases in the representative public company s revenue trading multiple.

During the period from September 30, 2007 to November 5, 2007, we continued to operate our business in the normal course and continued to make progress in our potential initial public offering. On November 5, 2007, our board of directors reviewed the September 30, 2007 valuation report, our operating results since the date of the valuation report and our progress regarding our proposed initial public offering, and determined that the fair value of our common stock as of November 5, 2007 was $3.86 per share.

Stock Option Grants on November 21, 2007

Our board of directors granted stock options on November 21, 2007, with each option having an exercise price of $3.86 per share. From November 5, 2007 to November 21, 2007, we continued to operate our business in the normal course. There was no material change in our business operations or projected financials results. There was no trading in our common or preferred stock, however, on November 21, 2007 our board of directors and stockholders increased the number of shares of common stock available for option grants by 1.9 million shares. In determining the fair value per share of our common stock, our board of directors again reviewed the valuation report as of September 30, 2007, which had estimated the fair value of common stock at $3.86 per share. Also, subsequent to the November 21, 2007 board meeting, and in connection with our filing of a registration statement on January 11, 2008, our board of directors obtained a retrospective valuation report from Shields as of November 21, 2007.

Shields utilized the option-pricing method for its retrospective valuation. In the analysis, our actual and projected financial results were updated based on our actual results through October 31, 2007. The weightings used for historical and projected results and for the various analyses under the option-pricing method were the same as the previous valuation. The resulting fair value of our common stock as of November 21, 2007 was $3.74 per common share, a decrease of $0.12 from the previous valuation report. This decrease was primarily due to a reduction in the revenue multiple of our representative company, a decrease in our estimated volatility and a reduction in our estimated time to liquidity. The reduction in revenue multiple and estimated volatility was due to a decrease in our representative company s actual stock price and volatility since the previous valuation report. The reduction in our estimated time to liquidity was due to the passage of time since the

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previous valuation report and not a change in the estimated date of a liquidity event. Additionally, our per share enterprise value decreased due to an increase of 1.9 million shares of common stock associated with an increase in the shares of common stock approved under our 2007 stock incentive plan, which at the time we intended to grant prior to the estimated date of a liquidity event in the valuation report. Following a review of this valuation report and the objective and subjective factors previously reviewed, our board of directors determined that the fair value of our common stock as of November 21, 2007 was $3.74 per share. As a result of this determination, the exercise price of the options granted on November 21, 2007, $3.86, was greater than the fair value of our common stock.

Stock Option Grants on January 17, 2008

Our board of directors granted stock options on January 17, 2008, with each option having an exercise price of $4.30 per share. During the quarter ended December 31, 2007, and through January 17, 2008, we continued to operate our business in the ordinary course. Both the number of our customers and our subscription revenue continued to grow, but we continued to operate at a loss. Additionally in December 2007, we entered into a strategic multi-year service and marketing agreement with Intel Corporation. In conjunction with this agreement, Intel Capital purchased 2,222,223 shares of our series B-1 redeemable convertible preferred stock for $10 million, or $4.50 per share. The terms and preferences of our series B-1 redeemable convertible preferred stock are similar to the terms and preferences of our series B preferred stock. The preferences of the series B-1 were included in our updated valuation analysis.

Shields prepared a contemporaneous valuation as of January 14, 2008 using the option-pricing method. In the analysis our actual and projected financial results were updated based on our actual results through the quarter and year ended December 31, 2007. The discount rate was decreased to 20% from the 30% used in the September 30, 2007 valuation because of our continued improved financial performance, the completion of the $10 million preferred investment by Intel Capital and the successful filing of our registration statement. The weightings used for historical and projected results and for the various analyses under the option-pricing method were the same as the previous valuation. The resulting fair value of our common stock as of January 14, 2008 was $4.30 per common share, an increase of $0.56 per share from November 21, 2007. The increase was largely due to the reduction in the discount rate due to the Intel Capital investment and the successful filing of our registration statement. Following a review of this valuation report and the objective and subjective factors previously listed, our board of directors determined that the fair value of our common stock as of January 17, 2008 was $4.30 per share.

Stock Option Grants on April 18, 2008

Our board of directors granted stock options on April 18, 2008, each with an exercise price of $4.56 per share. During the quarter ended March 31, 2008, and through the period ended April 18, 2008, we continued to operate our business in the ordinary course. The number of our customers and our subscription revenue continued to grow. However, we continued to operate at a loss during these periods, and we were not cash flow positive. There was no trading of our common or preferred stock during these periods.

Shields prepared a contemporaneous valuation as of April 17, 2008 using the same option-pricing method employed in the previous valuation. The weightings and discount rate used in the analysis were consistent with the previous valuation. Our actual and projected financials results were updated based on our actual results for the quarter ended March 31, 2008 and our projections as of April 17, 2008, which resulted in an increase in both our last twelve months revenue and projected fiscal year 2008 revenue when compared to the previous valuation report. Our estimated time to liquidity was increased to October 2008 from July 2008 and our representative company s revenue multiple was updated to reflect the decrease in the stock market from the previous valuation report.

The resulting fair value of our common stock as of April 17, 2008 was $4.49 per common share, an increase of $0.19 per share from January 17, 2008. The increase was largely due to an increase in our actual last twelve months and projected fiscal year 2008 revenue offset by a decrease in external revenue multiples. Following a review of this valuation report and the objective and subjective factors previously listed, our board of directors determined that the fair value of our common stock as of April 18, 2008 was $4.49 per share, which was less than the exercise price of the options, $4.56, granted on April 18, 2008.

Stock Option Grants on July 17, 2008

Our board of directors granted stock options on July 17, 2008, with each option having an exercise price of $4.56 per share. During the quarter ended June 30, 2008, and through the period ended July 17, 2008, we continued to operate our business in the ordinary course. Both the number of our customers and our subscription revenue continued to grow. We continued to operate at a loss but achieved positive cash flow from operations. There was no trading of any our common or preferred stock during these periods.

Shields prepared a contemporaneous valuation as of July 17, 2008 using the option-pricing method, consistent with its previous valuation reports. The weightings and discount rate used in the analysis were consistent with previous valuations. Our actual and projected financials results were updated based on our actual results for the six month period ended June 30, 2008 and our projections as of July 17, 2008, which, when compared to the previous valuation report resulted in an increase in both our last twelve months revenue and a slight increase in our projected fiscal year 2008 revenue. Our estimated time to liquidity continued to be estimated at October 2008. Our representative company s stock volatility and revenue multiple was updated to reflect the increased volatility and decreased value of the stock market from the previous valuation report.

The resulting fair value of our common stock as of July 17, 2008 was $4.50 per common share, an increase of $0.01 per share from April 27, 2008. The slight increase was largely due to increase in our actual last twelve months and projected fiscal year 2008 revenue offset by a decrease in external revenue multiples. Following a review of this valuation report and the objective and subjective factors previously listed our board of directors determined that the fair value of our common stock as of July 17, 2008 was $4.50 per share, which was less than the exercise price of the options, $4.56, granted on July 17, 2008.

Stock Options Granted on October 23, 2008

Our board of directors granted stock options on October 23, 2008, with each option having an exercise price of $4.71 per share. During the quarter ended September 30, 2008, and through the period ended October 23, 2008, we continued to operate our business in the ordinary course. Both the number of our customers and our subscription revenue continued to grow. We completed the development work associated with our service and marketing agreement with Intel Corporation and recognized revenue related to that agreement during this period. We achieved positive net income during the quarter ended September 30, 2008 and generated positive cash flow for the quarter. There was no trading of any our common or preferred stock during the period.

Shields prepared a contemporaneous valuation as of October 20, 2008 using the option-pricing method, with weightings and a discount rate consistent with its previous valuations. Our actual financial results used by Shields were updated based on our results for the nine month period ended September 30, 2008, which reflected the continued increase in our revenues through the quarter ended September 30, 2008. We updated our projected financial results based on our preliminary budget for the fiscal year ended December 31, 2009. Additionally, our estimated time to liquidity was extended from October 2008 to September 2009 due largely to stock market conditions. Our representative company s revenue multiple was decreased to reflect the decrease in the stock market from the previous valuation report and to reflect that our projected financial results were based on fiscal year 2009 projections. The precedent transaction analysis multiples were also updated and decreased slightly, largely driven by precedent transaction trends due to current market conditions, since the last valuation report.

The resulting fair value of our common stock as of October 20, 2008 was $4.71 per common share, an increase of $0.21 per share from July 17, 2008. The increase was largely due to an increase in our actual revenue in the last twelve months and the use of our projected fiscal year 2009 revenue, offset by a decrease in external revenue multiples and precedent transactions multiples. Following a review of this valuation report and the objective and subjective factors previously listed, our board of directors determined that the fair value of our common stock as of October 23, 2008 was $4.71 per share.

Results of Consolidated Operations

The following table sets forth selected consolidated statements of operations data for each of the periods:

	Year Ended December 31,		
	2006	2007	2008
		(In thousands)	
Operations Data:			
Revenue	$ 11,307	$ 26,998	$ 51,723
Cost of revenue	2,033	3,925	5,970
Gross profit	9,274	23,073	45,753
Operating expenses:			
Research and development	3,232	6,661	11,997
Sales and marketing	10,050	19,488	31,631
General and administrative	2,945	3,661	6,705
Legal settlements		2,225	600
Amortization of acquired intangibles	141	328	328
Total operating expenses	16,368	32,363	51,261
Loss from operations	(7,094)	(9,290)	(5,508)
Interest and other income, net	393	235	106
Net loss	$ (6,701)	$ (9,055)	$ (5,402)

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

	Year Ended December 31,		
	2006	2007	2008
Operations Data:			
Revenue	100%	100%	100%
Cost of revenue	18	15	12
Gross profit	82	85	88
Operating expenses:			
Research and development	29	25	23
Sales and marketing	89	72	61
General and administrative	26	14	13
Legal settlements		8	1
Amortization of acquired intangibles	1	1	1

Total operating expenses	145	120	99
Loss from operations	(63)	(35)	(11)
Interest and other income, net	4	1	1
Net loss	(59)%	(34)%	(10)%

Years Ended December 31, 2008 and 2007

Revenue. Revenue for the year ended December 31, 2008 was $51.7 million, an increase of $24.7 million, or 92%, over revenue of $27.0 million for the year ended December 31, 2007. Our revenue consists of fees for our subscription services. Of the 92% increase in revenue, the majority of the increase was due to increases in revenue from new customers, as our total number of premium accounts increased by 91% to 187,000 at December 31, 2008 from 98,000 premium accounts at December 31, 2007. The remaining increase in revenue was due to incremental subscription revenue from our existing customers and revenue associated with the Intel agreement.

Cost of Revenue. Cost of revenue for the year ended December 31, 2008 was $6.0 million, an increase of $2.1 million, or 54%, over cost of revenue of $3.9 million for the year ended December 31, 2007. As a percentage of revenue, cost of revenue was 12% for the year ended December 31, 2008 versus 15% for the year ended December 31, 2007. The decrease in costs of revenue as a percentage of revenue was primarily the result of more efficient utilization of our data center and customer support organizations. The increase in cost of revenue in absolute dollars is primarily due to increased hosting and customer support costs resulting from an increase in both the number of customers using our premium services and the total number of devices that connected to our services, including devices owned by free users. The total number of devices connected to our service increased to approximately 60 million as of December 31, 2008 from approximately 32 million as of December 31, 2007. Of the increase in cost of revenue, $1.3 million resulted from increased data center costs associated with the hosting of our services. The increase in data center costs was due to expansion of our data center facilities as we added capacity to our hosting infrastructure, including the establishment of two new data centers in 2007, including one in Europe and one in the United States. Additionally, $0.8 million of the increase in cost of revenue was due to increased costs in our customer support organization primarily associated with costs of new employees hired to support our customer growth.

Research and Development Expenses. Research and development expenses for the year ended December 31, 2008 were $12.0 million, an increase of $5.3 million, or 79%, over research and development expenses of $6.7 million for the year ended December 31, 2007. The increase was primarily due to additional personnel-related costs, including salary and other compensation related costs, as we increased the number of research and development employees to enhance the functionality of our services and to develop new offerings. The total number of research and development personnel increased by 39% to 122 at December 31, 2008 from 88 at December 31, 2007.

Sales and Marketing Expenses. Sales and marketing expenses for the year ended December 31, 2008 were $31.6 million, an increase of $12.1 million, or 62%, over sales and marketing expenses of $19.5 million for the year ended December 31, 2007. The increase was primarily due to a $6.1 million increase in personnel-related and recruiting costs, including salary and other compensation related costs, resulting from increased headcount mainly to support the growth in sales and expanded marketing efforts. The total number of sales and marketing personnel increased to 101 at December 31, 2008 from 69 at December 31, 2007. The increase was also attributable to a $2.6 million increase in online search and advertising costs, a $0.4 million increase in trade show costs, a $0.6 million increase in travel related costs, a $0.2 increase in telephone costs, and a $0.4 million increase in consulting costs, all a result of the initiatives to increase awareness of our services and to add new users and customers. In addition, we experienced a $0.4 million increase in rent expense in connection with the expansion of our Woburn, Massachusetts office, as well as the addition of the office in Amsterdam, The Netherlands.

General and Administrative Expenses. General and administrative expenses for the year ended December 31, 2008 were $6.7 million, an increase of $3.0 million, or 81%, over general and administrative expenses of $3.7 million for the year ended December 31, 2007. The primary reason for the increase was an increase in personnel-related and recruiting costs, including salary and other compensation related costs, of $2.0 million as we increased the number of general and administrative employees to support our overall growth. Additionally, professional fees increased by $0.6 million and travel related costs increased by $0.1 million.

Legal Settlement Expenses. Legal settlement expenses for the year ended December 31, 2008 were $0.6 million, a decrease of $1.6 million, or 73%, over legal settlement expenses of $2.2 million for the year ended December 31, 2007. In May 2008, we settled a lawsuit which began in 2007 related to an alleged patent infringement.

Amortization of Acquired Intangibles. Amortization of acquired intangibles for the years ended December 31, 2008 and 2007 was $0.3 million and related to the value of intangible assets acquired in our July 2006 acquisition of Applied Networking, Inc.

Interest and Other Income, Net. Interest and other income, net, for the year ended December 31, 2008 was $106,000, a decrease of $130,000 over interest and other income, net of $236,000 for the year ended December 31, 2007. The decrease was mainly due to an increase in foreign exchange losses and a decrease in interest income offset by a decrease in interest expense associated with a note payable related to our acquisition of Applied Networking, Inc.

Income taxes. During the years ended December 31, 2008 and 2007, we recorded a deferred tax provision of approximately $17,000 and $25,000 respectively, which is reported as other expense, related to the different book and tax treatment for goodwill. We recorded an income tax benefit for the years ended December 31, 2008 and 2007 related to net losses in each of those periods. We have also provided a full valuation allowance for our net deferred tax assets as it is not more likely than not that any future benefits from these deferred tax assets would be realized, and, as a result, our provision during the years ended December 31, 2008 and 2007 was limited to the goodwill basis difference.

Net loss. We recognized a net loss of $5.4 million for the year ended December 31, 2008 versus $9.1 million for the year ended December 31, 2007. The decrease in net loss was associated with the increase in revenues partially offset by increase in operating expenses.

Years Ended December 31, 2007 and 2006

Revenue. Revenue for 2007 was $27.0 million, an increase of $15.7 million or 139% over revenue of $11.3 million for 2006. Our revenue consists of fees for our subscription services. Of the 139% increase in revenue during 2007, the majority of the increase was due to increases in revenue from new customers as our total number of premium accounts increased by 88% to 98,000 at December 31, 2007 from 52,000 premium accounts at December 31, 2006. The remaining increase in revenue was due to incremental subscription revenue from our existing customers.

Cost of Revenue. Cost of revenue for 2007 was $3.9 million, an increase of $1.9 million, or 95%, over cost of revenue of $2.0 million for 2006. As a percentage of revenue, cost of revenue was 15% for 2007 versus 18% for 2006. The decrease in costs of revenue as a percentage of revenue was primarily the result of more efficient utilization of our data center and customer support organizations. The increase in absolute dollars primarily resulted from an increase in both the number of customers using our premium services and the total number of devices that connected to our services, including devices owned by free users, which resulted in increased hosting and customer support costs. The total number of devices connected to our service increased to approximately 32 million as of 2007 from approximately 13 million as of 2006. Of the increase in cost of revenue, $1.1 million resulted from increased data center costs associated with the hosting of our services. The increase in data center costs was due to expansion of our data center facilities as we added capacity to our hosting infrastructure, including the establishment of two new data centers in 2007, including one in Europe and one in the United States. Additionally, $0.8 million of the increase in cost of revenue was due to increased costs in our customer support organization primarily associated with costs of new employees hired to support our customer growth.

Research and Development Expenses. Research and development expenses for 2007 were $6.7 million, an increase of $3.5 million, or 109%, over research and development expenses of $3.2 million for 2006. The increase was primarily due to additional personnel-related costs, including salary and other compensation related costs, as we increased the number of research and development employees to enhance the functionality of our services and develop new offerings. The total number of research and development personnel increased to 88 at December 31, 2007 from 47 at

December 31, 2006.

Sales and Marketing Expenses. Sales and marketing expenses for 2007 were $19.5 million, an increase of $9.5 million, or 95%, over sales and marketing expenses of $10.0 million for 2006. The increase was primarily due to increases in online search and advertising costs of $4.6 million as we expanded our online search and advertising in order to increase awareness of our services and to add new users and customers. Additionally, personnel-related costs, including salary and other compensation related costs, increased by $3.1 million as we added sales and marketing employees to accommodate the growth in sales leads and our expanded marketing efforts.

General and Administrative Expenses. General and administrative expenses for 2007 were $3.7 million, an increase of $0.8 million, or 28%, over general and administrative expenses of $2.9 million for 2006. The primary reason for the increase was an increase in personnel-related costs, including salary and other compensation related costs, of $0.8 million as we increased the number of general and administrative employees to support our overall growth.

Legal Settlement Expenses. During 2007, we recorded $2.2 million of expenses associated with patent infringement claims. We paid $1.9 million in settlement amounts in lieu of continuing defense and litigation costs related to the alleged settled claims and had accrued $0.3 million as of December 31, 2007 related to an ongoing claim. During the year ended December 31, 2006, there were no legal settlement expenses.

Amortization of Acquired Intangibles. Amortization of acquired intangibles for 2007 were $0.3 million, an increase of $0.2 million, over amortization expenses of $0.1 million for 2006. Amortization expenses relate to the value of trademarks and customer base acquired as part of our July 2006 acquisition of Applied Networking, Inc. The increase in amortization expenses is due to a full year of amortization expenses being included in 2007 versus only six months of such expenses being included in 2006, since the acquisition was only completed in July 2006.

Interest and Other Income, Net. Interest and other income, net for 2007 was $0.2 million, a decrease of $0.2 million over interest and other income, net of $0.4 million for 2006. The decrease was due mainly to increased interest expense associated with a note payable related to our acquisition of Applied Networking, Inc., which offset an increase in interest income earned on our cash and cash equivalents.

Income taxes. During 2007, we recorded a deferred tax provision of $25,000, which is reported as other expense, related to the different book and tax treatment for goodwill. We have recorded an income tax benefit for 2007 and 2006 related to net losses in each of those periods. We have also provided a full valuation allowance for our net deferred tax assets as it is not more likely than not that any future benefits from these deferred tax assets would be realized, and, as a result, our provision during the year ended December 31, 2007 was limited to the goodwill basis difference.

Net loss. We recognized a net loss of $9.1 million for 2007 versus $6.7 million for 2006. The increase in net loss was associated with the $2.2 million legal settlement expense in 2007 and increased operating expenses partially offset by higher revenues.

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Quarterly Results of Operations

The following tables sets forth our unaudited consolidated operating results for each of the eight quarters in the two-year period ended December 31, 2008 and the percentage of revenue for each line item shown. This information is derived from our unaudited financial statements, which in the opinion of management contain all adjustments consisting of only normal recurring adjustments, that we consider necessary for a fair statement of such financial data. Operating results for these periods are not necessarily indicative of the operating results for a full year. Historical results are not necessarily indicative of the results to be expected in future periods. You should read this data together with our consolidated financial statements and the related notes included elsewhere in this prospectus.

	For the Three Months Ended,							
	March 31, 2007	June 30, 2007	September 30, 2007	December 31, 2007	March 31, 2008	June 30, 2008	September 30, 2008	December 31, 2008
	(In thousands)							
Operations Data:								
Revenue	$ 4,990	$ 6,204	$ 7,224	$ 8,580	$ 9,919	$ 11,422	$ 14,386	$ 15,996
Cost of revenue(1)	730	921	1,104	1,170	1,343	1,374	1,575	1,678
Gross profit	4,260	5,283	6,120	7,410	8,576	10,048	12,811	14,318
Operating expenses:								
Research and development(1)	1,299	1,442	1,649	2,271	2,575	3,131	3,281	3,010
Sales and marketing(1)	4,165	4,336	4,843	6,144	7,554	7,987	7,866	8,224
General and administrative(1)	764	672	941	1,284	1,648	1,675	1,614	1,768
Legal settlements		300	1,625	300	450	150		
Amortization of acquired intangibles	82	82	82	82	82	82	82	82
Total operating expenses	6,310	6,832	9,140	10,081	12,309	13,025	12,843	13,084
Income (loss) from operations	(2,050)	(1,549)	(3,020)	(2,671)	(3,733)	(2,977)	(32)	1,234
Interest and other income, net	18	50	83	84	90	(34)	41	9
Net income (loss)	$ (2,032)	$ (1,499)	$ (2,937)	$ (2,587)	$ (3,643)	$ (3,011)	$ 9	$ 1,243

(1) Amounts in the table above include stock-based compensation expense, as follows:

	For the Three Months Ended,							
	March 31, 2007	June 30, 2007	September 30, 2007	December 31, 2007	March 31, 2008	June 30, 2008	September 30, 2008	December 31, 2008
	(In thousands)							
Cost of revenue	$ 1	$ 2	$ 3	$ 4	$ 13	$ 16	$ 15	$ 20
Research and development	16	22	22	45	101	98	102	118
Sales and marketing	22	36	46	73	207	242	252	261
General and administrative	15	36	54	118	278	393	303	330
Total	$ 54	$ 96	$ 125	$ 240	$ 599	$ 749	$ 672	$ 729

As a percentage of revenue:

	For the Three Months Ended,							
	March 31, 2007	June 30, 2007	September 30, 2007	December 31, 2007	March 31, 2008	June 30, 2008	September 30, 2008	December 31, 2008
Operations Data:								
Revenue	100%	100%	100%	100%	100%	100%	100%	100%
Cost of revenue	15	15	15	14	14	12	11	10
Gross profit	85	85	85	86	86	88	89	90
Operating expenses:								
Research and development	26	23	23	26	26	27	23	19
Sales and marketing	83	70	67	72	76	70	55	51
General and administrative	15	11	13	15	17	15	11	11
Legal settlements		5	22	3	4	1		
Amortization of acquired intangibles	2	1	1	1	1	1	1	1
Total operating expenses	126	110	126	117	124	114	89	82
Income (loss) from operations	(41)	(25)	(41)	(31)	(38)	(26)		8
Interest and other income, net		1	1	1	1			
Net income (loss)	(41)%	(24)%	(40)%	(30)%	(37)%	(26)%	%	8%

Revenue increased sequentially for all quarters presented primarily due to increases in the number of services we offered, the number of total customers and subscription renewals of existing customers.

Gross profit in absolute dollars also increased sequentially for all quarters presented primarily due to revenue growth. The overall increase in gross profit margins is due to the increase in revenue and number of customers which allows us to obtain better leverage from our data centers and customer support organization.

Operating expenses in absolute dollars in total increased sequentially for the quarters presented primarily due to increased sales and marketing expenses which resulted from increased marketing program expenditures and increased number of personnel and increased research and development expenses, mainly associated with an increase in the number of research and development personnel necessary to develop and enhance our services. The decrease in general and administrative expenses as a percentage of revenue over the period was due largely to the increase in revenue which allowed us to better leverage our management, finance and IT personnel and systems. The legal settlement expenses were associated with settling three outstanding claims of alleged infringement of third-party patents. We settled these claims in lieu of continuing defense and litigation costs related to the alleged claims.

Losses from operations for the quarters presented and net losses for the quarters ended March 31, 2007 through June 30, 2008 were due to increases in operating expenses that were greater than increases in revenue.

Net income for the quarters ended September 30 and December 31, 2008 was due to increases in revenue that exceeded increases in expenses.

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Liquidity and Capital Resources

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

	Year Ended December 31, 2006	2007	2008
	(In thousands)		
Net cash (used in) provided by operations	$ (889)	$ 3,378	$ 10,131
Net cash used in investing activities	(3,152)	(1,695)	(3,775)
Net cash (used in) provided by financing activities	32	8,965	(2,101)
Effect of exchange rate changes	29	46	(18)
Net increase (decrease) in cash	$ (3,980)	$ 10,694	$ 4,237

Since our inception we have financed our operations primarily through the sale of redeemable convertible preferred stock, the issuance of convertible promissory notes associated with our redeemable convertible preferred stock, the sale of common stock and, to a lesser extent, cash flows from operations. At December 31, 2008, our principal source of liquidity was cash and cash equivalents totaling $22.9 million.

Cash Flows From Operating Activities

Net cash provided by (used in) operating activities was $10.1 million $3.4 million and ($0.9) million for the years ended December 31, 2008, 2007 and 2006, respectively.

Net cash inflows from operating activities during the year ended December 31, 2008 resulted from a $12.3 million increase in deferred revenue associated with the increase in subscription sales orders and customer growth as well as an increase in current liabilities. These increases and increases in non-cash operating expenses, including $2.4 million for depreciation and amortization and $2.8 million for stock compensation, offset a $5.4 million operating loss for the period, a $1.5 million increase in accounts receivable and a $1.0 million increase in prepaid expenses and other current assets.

Net cash inflows from operating activities during 2007 resulted from increases in subscription sales orders and increases in current liabilities. Increases in these items and increases in non-cash operating expenses such as depreciation, amortization and stock compensation offset an operating loss for the period of $9.1 million, including legal settlements paid of $1.9 million, and an increase in accounts receivable. The majority of our revenue is derived from annual subscriptions paid at the beginning of the subscription period, which resulted in an increase in deferred revenue of $8.8 million. Accounts receivable increased $1.9 million associated with increases in subscription orders and customer growth. Depreciation and amortization was $1.7 million, an increase of $0.9 million over 2006, due mainly to increased depreciation from purchases of computer equipment associated with expanding our data center and increased amortization costs associated with the intangible assets acquired as part of our acquisition of Applied Networking, Inc. Current liabilities increased due mainly to increased operating costs of our business in 2007 from 2006.

Net cash outflows from operating activities for the year ended December 31, 2006 resulted primarily from an operating loss and increases to account receivable balances partially offset by non-cash related expenses, such as depreciation and amortization and increases in our deferred revenue associated with increases in our customer growth. The majority of our revenue is derived from annual subscriptions paid at the beginning of the subscription period.

Cash Flows From Investing Activities

Net cash used in investing activities was $3.8 million $1.7 million and $3.2 million for the years ended December 31, 2008 2007 and 2006, respectively.

Net cash used in investing activities during the years ended December 31, 2008 and 2007 consisted primarily of the purchase of equipment related to the expansion of our data centers. Net cash used in investing activities during the year ended December 31, 2008 was also due to the purchase of equipment related to the increase in the number of our employees in connection with the expansion of our office and related infrastructure, as well as two certificate of deposits that serve as a security deposit for corporate credit cards and a security deposit related to a new lease agreement for office space in Budapest, Hungary. Net cash used in investing activities for 2006 consisted primarily of the initial $1.7 million payment made toward the acquisition of Applied Networking, Inc. as well as the purchase of equipment and leasehold improvements associated with expanding our operations. Our capital expenditures totaled $3.3 million, $1.7 million and $1.3 million for the years ended December 31, 2008, 2007 and 2006, respectively.

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

Cash Flows From Financing Activities

Net cash flows used in financing activities were $2.1 million for the year ended December 31, 2008 and were mainly associated with the final payment of $1.3 million associated with a note payable related to our acquisition of Applied Networking, Inc. and the payment of approximately $1.0 million associated with fees related to our proposed initial public offering offset by proceeds received from the issuance of common stock upon the exercise of stock options.

Net cash flows from financing activities were $9.0 million and $0.03 million for the years ended December 31, 2007 and 2006, respectively.

Net cash flows from financing activities for 2007 were mainly associated with the issuance of 2,222,223 shares of our series B-1 redeemable convertible preferred stock in December 2007 for an aggregate purchase price of $10.0 million and $0.5 million from the issuance of common stock as a result of common stock option exercises. These increases were offset by the payment of $1.3 million associated with a note payable related to our acquisition of Applied Networking, Inc. and the payment of approximately $0.3 million associated with fees related to our proposed initial public offering.

Net cash flows from financing activities for 2006 were solely associated with the issuance of common stock as a result of common stock option exercises.

We believe that our current cash and cash equivalents will be sufficient to meet our working capital and capital expenditure requirements for at least the next twelve months. Thereafter, we may need to raise additional funds through public or private financings or borrowings to develop or enhance our services, to fund expansion, to respond to competitive pressures or to acquire complementary products, businesses or technologies. If required, additional financing may not be available on terms that are favorable to us, if at all. If we raise additional funds through the issuance of equity or convertible debt securities, our existing stockholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our common stock, including shares of common stock sold in this offering. No assurance can be given that additional financing will be available or that, if available, such financing can be obtained on terms favorable to our stockholders and us.

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

Off-Balance Sheet Arrangements

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

Contractual Obligations

The following table summarizes our contractual obligations at December 31, 2008 and the effect such obligations are expected to have on our liquidity and cash flow in future periods.

	Payments Due by Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Operating lease obligations	$ 9,552,000	$ 2,356,000	$ 4,086,000	$ 3,039,000	$ 71,000
Total	$ 9,552,000	$ 2,356,000	$ 4,086,000	$ 3,039,000	$ 71,000

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

Quantitative and Qualitative Disclosures about Market Risk

Foreign Currency Exchange Risk. Our results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates as a result of the majority of our research and development expenditures being made from our Hungarian research and development facilities, and in our international sales and marketing offices in Amsterdam, The Netherlands and Sydney, Australia. In the year ended December 31, 2008, approximately 17% and 10% of our operating expenses occurred in our operations in Hungary and Amsterdam, respectively. In the years ended December 31, 2007 and 2006, approximately 16% and 12%, respectively, of our operating expenses occurred in our operations in Hungary. Less than 1% of our operating expenses in the year ended December 31, 2007 related to our office in Amsterdam. Additionally, a small but increasing percentage of our sales outside the United States are denominated in local currencies and, thus, also subject to fluctuations due to changes in foreign currency exchange rates. To date, changes in foreign currency exchange rates have not had a material impact on our operations, and a future change of 20% or less in foreign currency exchange rates would not materially affect our operations. At this time we do not, but may in the future, enter into any foreign currency hedging programs or instruments that would hedge or help offset such foreign currency exchange rate risk.

Interest Rate Sensitivity. Interest income is sensitive to changes in the general level of U.S. interest rates. However, based on the nature and current level of our cash and cash equivalents, which are primarily invested in deposits and money market funds, we believe there is no material risk of exposure to changes in the fair value of our cash and cash equivalents as a result of changes in interest rates.

Recent Accounting Pronouncements

In February 2007, the Financial Accounting Standards Board, or FASB, issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities.* SFAS No. 159 allows entities to measure many financial instruments and certain other items at fair value. The Company adopted SFAS No. 159 on January 1, 2008 and did not designate any financial instruments for fair value accounting under this standard, and

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therefore, the adoption of SFAS No. 159 did not have a material impact on the Company s consolidated financial statements.

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, *Fair Value Measurements,* which establishes a framework for measuring fair value and expands disclosures about fair value measurements. We adopted SFAS No. 157 for financial assets and liabilities on January 1, 2008 which did not have a material impact on our financial statements or condition.

In February 2008, the FASB issued FSP No. 157-2, *Effective Date of FASB Statement No. 157,* which provides a one-year deferral of the effective date of SFAS No. 157 for non-financial assets and non-financial liabilities, except those that are recognized or disclosed in financial statements at fair value at least annually. For non-financial assets and non-financial liabilities subject to the deferral, SFAS No. 157 will be effective for us on January 1, 2009 and in interim periods within 2009. We are currently evaluating the impact that FSP No. 157-2 will have on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations,* which replaces SFAS No. 141. SFAS No. 141(R) establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest in the acquiree and the goodwill acquired. SFAS No. 141(R) also establishes disclosure requirements to enable users to evaluate the nature and financial effects of the business combination. SFAS No. 141(R) is effective for fiscal years beginning after December 15, 2008. Except for certain tax adjustments for prior business combinations, SFAS No. 141(R) is effective for fiscal year 2009. The statement is effective for transactions completed after the effective date, and therefore, the statement has no impact on the Company s historical consolidated financial statements.

BUSINESS

Overview

LogMeIn provides on-demand, remote-connectivity solutions to small and medium-sized businesses, or SMBs, IT service providers and consumers. We believe our solutions are used to connect more Internet-enabled devices worldwide than any other connectivity service. Businesses and IT service providers use our remote connectivity solutions to deliver remote, end-user support and to access and manage computers and other Internet-enabled devices more effectively and efficiently. Consumers and mobile workers use our remote connectivity solutions to access computer resources remotely, thereby facilitating their mobility and increasing their productivity. Our solutions, which are deployed on-demand and accessible through a web browser, are secure, scalable and easy for our customers to try, purchase and use. Our paying customer base has grown from approximately 98,000 premium accounts in December 2007 to more than 187,000 premium accounts in December 2008.

In 2004, we introduced LogMeIn Free, a service that allows users to access computer resources remotely. We believe LogMeIn Free and LogMeIn Hamachi, our popular free services, attract a large and diverse group of users and increase awareness of our premium services, which we sell on a subscription basis. As of December 31, 2008, our users have connected over 60 million computers and other Internet-enabled devices to a LogMeIn service, and during the quarter ended December 31, 2008, the total number of devices connected to our service grew at an average of approximately 92,000 per day. We believe our service attracts more users than any other on-demand, remote-connectivity service.

We complement our free services with nine premium services sold on a subscription basis including LogMeIn Rescue and LogMeIn IT Reach, our flagship remote support and management services and LogMeIn Pro, our premium remote access service. Sales of our premium services are generated through word-of-mouth referrals, web-based advertising, expiring free trials that we convert to paid subscriptions and direct marketing to new and existing customers. During 2008, we estimate that approximately 50% of our new paying customers were generated through word-of-mouth referrals.

All of our free and premium solutions are delivered as hosted services, which means that the technology enabling the use of our solutions resides on our servers and IT hardware, rather than those of our users. We call the software, hardware and networking technology used to deliver our solutions Gravity. The Gravity proprietary platform consists of software applications, customized databases and web servers. Gravity establishes secure connections over the Internet between remote computers and other Internet-enabled devices and manages the direct transmission of data between remotely connected devices. This robust and scalable platform connects over 8.6 million computers to our services each day.

We sell our premium services on a subscription basis at prices ranging from approximately $30 to $1,900 per year. During 2008, we completed over 398,000 transactions at an average transaction price of approximately $160. We believe that our sales model of a high volume of new and renewed subscriptions at low transaction prices increases the predictability of our revenues compared to perpetual licensed-based software businesses. During 2008, we generated revenues of $51.7 million, as compared to $27.0 million in 2007, an increase of approximately 92%.

Industry Background

Mobile workers, IT professionals and consumers save time and money by accessing computing resources remotely. Remote access allows mobile workers and consumers to use applications, manage documents and collaborate with others whenever and wherever an Internet connection is available. Remote-connectivity solutions also allow IT professionals to deliver support and management services to remote end users and computers and other Internet-enabled devices.

A number of trends are increasing the demand for remote-connectivity solutions:

Increasingly mobile workforce. Workers are spending less of their time in a traditional office environment and are increasingly telecommuting and traveling with Internet-enabled devices. According to IDC Research, or IDC, the percentage of the global workforce that works remotely will increase from approximately 25% in 2006 to 30% in 2011, to a total of 1 billion workers. This trend increases the demand for remote connectivity for workers and for IT professionals who support and manage their computers and other Internet-enabled devices.

Increasing use of IT outsourcing by SMBs. SMBs generally have limited internal IT expertise and IT budgets and are therefore increasingly turning to third-party service providers to manage the complexity of IT services at an affordable cost. For example, based on Forrester s Enterprise and SMB Hardware Survey, North America and Europe, Q3 2008 published on December 18, 2008, Forrester estimates that out of 1,723 respondents, 22% of SMBs outsource their PC and laptop support to third-party service providers and that an additional 12% of SMBs plan to do so in the next 12 months. SMBs are also looking to third-party service providers to manage their servers. The same survey estimates that 28% of SMBs already outsource server management responsibilities and another 13% are planning to in the next 12 months. We believe that IT service providers will increasingly turn to on-demand, remote-connectivity solutions to help address the growing demand for outsourced support and management of these computers. IDC estimates that the installed base of commercial personal computers and servers in the United States will increase from 148.6 million in 2006 to 196.8 million in 2011. We estimate that more than 50% of these personal computers and servers are or will be used by SMBs.

Growing adoption of on-demand solutions. By accessing hosted, on-demand solutions through a Web browser, companies can avoid the time and costs associated with installing, configuring and maintaining IT support applications within their existing IT infrastructure. These advantages are leading companies to adopt on-demand solutions at an increasing rate. For example, IDC estimates that the global on-demand software market reached $6.2 billion in 2007 and expects it to increase to $19.8 billion in 2012, a compounded annual growth rate of 26%.

Increasing need to support the growing number of Internet-enabled consumer devices. Consumer adoption of Internet-enabled devices is growing rapidly. Manufacturers, retailers and service providers struggle to provide cost-effective support for these devices and often turn to remote support and management solutions in order to increase customer satisfaction while lowering the cost of providing that support. We believe the need for remote support services for consumers will increase rapidly as they purchase more PCs and Internet-enabled consumer electronics. IDC estimates that the worldwide installed base of consumer-owned personal computers will grow from 443.9 million in 2007 to 700.9 million in 2011, a compound annual growth rate of 12%. In addition, the research firm Strategy Analytics estimates that the installed base of Internet-enabled consumer electronics devices, such as game consoles, televisions and set top boxes, will grow from 36 million in 2006 to 400 million worldwide in 2010.

Proliferation of Internet-enabled mobile devices (Smartphones). Mobile devices are increasingly being used for Internet-based computing and communications. IDC estimates that 124 million converged mobile devices were shipped worldwide in 2007, and annual shipments are expected to grow to more than 338 million by 2012, which represents a compound annual growth rate of 22%. We believe the rapid proliferation and increasing functionality of these devices create a growing need for remote support of these devices.

Remote-connectivity technology has existed for many years. However, most solutions have been delivered as either hardware or software products designed to operate on the customer s premises. These solutions typically require time and technical expertise to configure and deploy. They also often require ongoing maintenance, as they can fail when networking environments change. As a result, most traditional remote-connectivity solutions are best suited for large organizations with onsite IT staff. Because of the setup and maintenance costs, technical complexity and connection failure rates, we believe these traditional remote-access technologies are not suitable for many SMBs and consumers.

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Our Solutions

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

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

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

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

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

Easy to try, buy and use. Our services are simple to install, which allows our prospective customers to use our services within minutes of registering for a trial. Our customers can use our services to manage their remote systems from any Web browser. In addition, our low service-delivery costs and hosted delivery model allow us to offer each of our services at competitive prices and to offer flexible payment options. Our premium services range in list price from approximately $30 to $1,900 per year.

Our Competitive Strengths

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

Large established user community. As of December 31, 2008, over 20.2 million registered users have connected over 60 million Internet-enabled devices to a LogMeIn service. During the quarter ended December 31, 2008, the number of connected devices grew at an average of approximately 92,000 new devices per day. These users drive awareness of our services through personal recommendations, blogs and other online communication methods and provide us with a significant audience to which we can market and sell premium services.

Efficient customer acquisition model. We believe our free products and our large installed user base help to generate word-of-mouth referrals, which in turn increases the efficiency of our paid marketing activities, the large majority of which are focused on pay-per-click search engine advertising. Sales of our premium services are generated through word-of-mouth referrals, Web-based advertising, expiring free trials that we convert to paying customers and marketing to our existing customer and user base. During 2008, we estimate that approximately 50% of our new paying customers were generated through word-of-mouth referrals and that approximately 25% of new customers added in 2008 found LogMeIn by searching the Internet for remote access solutions. We believe this direct approach to acquiring new customers generates an attractive and predictable return on our sales and marketing expenditures.

Technology-enabled cost advantage. Our service delivery platform, Gravity, establishes secure connections over the Internet between remote computing devices and manages the direct transmission of data between them. This patent-pending platform reduces our bandwidth and other infrastructure requirements, which we believe makes our services faster and less expensive to deliver as compared to competing services. We believe this cost advantage allows us to offer free services and serve a broader user community than our competitors. While more than 90% of our users do not currently pay for our services, our cost of revenue, including the cost to deliver our services to these free users, was only 12% of our total revenue during 2008.

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

High recurring revenue and high transaction volumes. We sell our services on a monthly or annual subscription basis, which provides greater levels of recurring revenues and predictability compared to traditional perpetual, license-based business models. Approximately 93% of our subscriptions have a one-year term. During 2008, our dollar-weighted average renewal rate for subscriptions was approximately 80%. Our average transaction price was approximately $160 during 2008, and we completed over 398,000 transactions during this time. We believe that our sales model of a high volume of new and renewed subscriptions at low transaction prices increases the predictability of our revenues compared to perpetual licensed-based software businesses.

Growth Strategy

Our objective is to extend our position as a leading provider of on-demand, remote-connectivity solutions. To accomplish this, we intend to:

Acquire new customers. We acquire new customers through word-of-mouth referrals from our existing user community and from paid, online advertising designed to attract visitors to our website. We also encourage our website visitors to register for free trials of our premium services. We supplement our online efforts with email, newsletter and radio campaigns and by participating in trade events and Web-based seminars. As of December 31, 2008, we had more than 187,000 customers of our premium services. To increase our sales, we plan to continue aggressively marketing our solutions and encouraging trials of our services while expanding our sales force.

Increase sales to existing customers. We upsell and cross-sell our broad portfolio of services to our existing customer base. In the first twelve months after their initial purchase, our customers, on average, subscribe to additional services worth 39% of their initial purchase. To further penetrate our customer base, we plan to continue actively marketing our portfolio of services through e-commerce and by expanding our sales force.

Continue to build our user community. We grow our community of users by marketing our services through paid advertising that targets prospective customers who are seeking remote-connectivity solutions and by offering our popular free services, LogMeIn Free and LogMeIn Hamachi. During the quarter ended December 31, 2008, our users connected an average of more than 92,000 new devices per day to our services. This strategy improves the effectiveness of our online advertising by increasing our response rates when people seeking remote-connectivity solutions conduct online searches. In addition, our large and growing community of users drives awareness of our services and increases referrals of potential customers and users.

Expand internationally. We believe there is a significant opportunity to increase our sales internationally. We offer solutions in 12 different languages. Our solutions are used in more than 200 countries, and approximately 30% of our sales orders during 2008 and more than 65% of our user base as of December 31, 2008 come from outside North America. We intend to expand our international sales and marketing staff and increase our international marketing expenditures to take advantage of this opportunity. As part of this international expansion, in November 2007, we opened our European sales and marketing headquarters in Amsterdam, The Netherlands, and, in January 2009, we opened our Asia-Pacific sales and marketing headquarters in Sydney, Australia.

Continue to expand our service portfolio. We intend to continue to invest in the development of new on-demand, remote-connectivity solutions for businesses, IT service providers and consumers. In 2007, we released two new services and four new major versions of existing services. In 2008, we released fifteen new version updates to our services. We also intend to extend our services to work with other types of Internet-connected devices. For example, we recently introduced LogMeIn Ignition for Apple® iPhone™ and iPod® touch, an extension of our Ignition service that allows users to remotely access their computers from an iPhone or iPod touch.

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

Services and Technology

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

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

Remote support and management services. These services are used by internal IT departments and by external service and support organizations to deliver support and management of IT resources remotely.

Remote User Access Services

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

LogMeIn Pro is our premium remote access service. It can be rapidly installed without IT expertise. Users typically engage in a trial prior to purchase.

LogMeIn Pro offers several premium features not available through LogMeIn Free, including:

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

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

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

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

Mini-meeting. A remote third-party user can be invited to view or control a LogMeIn user s computer for online meetings and collaboration.

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

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

LogMeIn Hamachi is a hosted virtual private network, or VPN, service that sets up a computer network among remote computers. It typically works with existing network and firewall configurations and requires no

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additional configuration to set up and run. Using LogMeIn Hamachi, users can communicate over the Internet as if their computers are on the same local area network, allowing for remote access, remote control and file management. LogMeIn Hamachi is offered both as a free service and as a paid service with additional features for premium users.

LogMeIn Ignition is a premium service that delivers one click access to remote computers that subscribe to any of LogMeIn Free, LogMeIn Pro and LogMeIn IT Reach. Users can install LogMeIn Ignition on a computer or run the application from a universal storage device in order to directly access their subscribed computer, eliminating the need for installation of additional software. LogMein Ignition also delivers access through an Apple® iPhone™ and iPod® touch.

Remote Support and Management Services

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

LogMeIn Rescue includes the following features:

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

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

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

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

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

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

LogMeIn IT Reach is a remote management service used by IT professionals to deliver ongoing management and monitoring of remote PCs and servers. LogMeIn IT Reach is purchased by SMBs directly and by IT service providers that provide outsourced IT services.

LogMeIn IT Reach includes the following features:

Remote deployment. IT professionals can deploy LogMeIn IT Reach to remote computers by sending an installation link by email. The installation link includes all of the monitoring and management policies set by the IT professional for the target computer. Using this approach, an IT professional can quickly and simultaneously deploy LogMeIn IT Reach to many computers without separate machine installations and without requiring physical access to target computers.

Remote system management. LogMeIn IT Reach provides web-based management tools that allow IT professionals to manage computers in any Internet-enabled location. Management capabilities include inventory tracking, reporting and policy management.

Downtime prevention. LogMeIn IT Reach provides performance monitoring capabilities and automatic alerts to notify an administrator of potential problems before they impact end users. Administrators can remotely track critical system information such as CPU utilization, free disk space and application availability and respond to alerts if thresholds are exceeded or notable events occur.

Remote system diagnostics. Administrators utilize LogMeIn IT Reach s diagnostic capabilities to determine and resolve the underlying cause of a problem. LogMeIn IT Reach provides the administrator with a summary view of remote systems that supports rapid problem solving, and it allows the administrator to immediately control the computer, transfer files or run scripts to resolve a problem.

Integrated security. LogMeIn IT Reach employs industry-standard encryption and authentication methods designed to prevent unauthorized access to remote computers. These methods include the use of multi-level authentication requirements and intrusion prevention capabilities. In addition, LogMeIn IT Reach includes detailed session logging, including the live recording of remote access sessions as a way to demonstrate and monitor proper access of remote systems and proper delivery of user support.

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

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

LogMeIn Gravity Service Delivery Platform

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

The infrastructure-related costs of delivering our services include bandwidth, power, server depreciation and co-location fees. Gravity transmits data using a combination of methods working together to relay data via our data centers and to transmit data over the Internet directly between end-point devices. During 2008, more than 90% of the data transmitted by our services was transmitted directly between end-point devices, reducing our bandwidth and bandwidth-related costs.

Gravity is physically hosted in three separate data centers. We lease space in co-location hosting facilities operated by third parties. Two of our Gravity data centers are located in the United States, and the third is located in Europe. During 2008, we averaged 7.7 million computers connecting to our Gravity service each day. Our goal is to maintain sufficient excess capacity such that any one of the data centers could fail, and the remaining data centers could handle the load without extensive disruption to our service. During 2008, our Gravity service was available 99.97% of the time.

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

Sales and Marketing

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

Paid Sources of Demand Generation

Online Advertising. We advertise online through pay-per-click spending with search engines, banner advertising with online advertising networks and other websites and email newsletters likely to be frequented by our target consumers, SMBs and IT professionals. We estimate that approximately 25% of new customers added in 2008 found LogMeIn by searching the Internet for remote access solutions.

Tradeshows. We showcase our suite of services at technology and industry-specific tradeshows. Our participation in these shows ranges from elaborate presentations in front of large groups to one-on-one discussions and demonstrations at manned booths. In 2008, we attended eighteen trade shows in the United States and Europe.

Offline Advertising. Our offline print advertising is comprised of publications, such as *WinITPro*, *CRN*, and *VAR Business*, which are targeted at IT professionals. We sponsor advertorials in regional newspapers, which target IT consumers. Additionally, we have advertised using nationwide radio campaigns and outdoor advertising, such as taxi tops and taxi receipts, in regional markets.

Unpaid Sources of Demand Generation

Word-of-Mouth Referrals. We believe that we have developed a loyal customer and user base, and new customers frequently claim to have heard about us from a current LogMeIn user. Many of our users arrive at our website via word-of-mouth referrals from existing users of our services. During 2008, we estimate that approximately 50% of our new paying customers first learned about us from a friend, colleague or IT professional.

Direct Advertising Into Our User Community. We have a large existing community of free users and paying customers. Users of most of our services, including our most popular service, LogMeIn Free, come to our website each time they initiate a new remote access session. We use this opportunity to promote additional premium services to them. For the month of January 2009, we had 59 million remote access sessions.

Other Marketing Initiatives

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

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

Sales Efforts and Other Initiatives

New Account Sales. Our sales are typically preceded by a trial of one of our services, and 98% of our purchase transactions are settled via credit card. Our sales operations team determines whether or not a trial should be managed by a telephone-based sales representative or handled via our e-commerce sales process. As of December 31, 2008, we employed 48 telephone-based sales representatives to manage newly generated trials. In addition, a small sales and business development team concentrates on sales to larger organizations and the formulation of strategic technology partnerships that are intended to generate additional sales.

Renewal Sales. All of our services are sold on a subscription basis. Approximately 94% of our subscriptions have a term of one year. In 2008, our dollar-weighted average renewal rate for our subscriptions was approximately 80%. During 2008, approximately 35% of our renewal sales orders required direct sales assistance.

International Sales. We currently have sales teams located in Europe and Australia focusing on international sales. In 2008, we generated 30% of our sales orders outside of North America.

In the 2008 and 2007, we spent $31.6 million and $19.5 million, respectively, on sales and marketing.

Intel Relationship

In December 2007, we entered into a service and marketing agreement with Intel Corporation to jointly develop a service that delivers connectivity to computers built with Intel components. Under the terms of this multi-year agreement, we are adapting our service delivery platform, Gravity, to work with specific technology delivered with Intel hardware and software products. This agreement provides that Intel will market and sell the service to its customers. Intel pays us a minimum license and service fee on a quarterly basis during the term of the agreement. We began recognizing revenue associated with the Intel service and marketing agreement in the quarter ended September 30, 2008. In addition, we and Intel share revenue generated by the use of the services by third parties to the extent it exceeds the minimum payments. In conjunction with this agreement, Intel Capital purchased 2,222,223 shares of our series B-1 redeemable convertible preferred stock for $10.0 million in December 2007.

Research and Development

We have made and intend to continue making significant investments in research and development in order to continue to improve the efficiency of our service delivery platform, improve existing services and bring new services to market. Our primary engineering organization is based in Budapest, Hungary, where the first version of our service was developed. Our founding engineering team has worked together for over 10 years, designing and running highly large-scale Internet services. Approximately 43% of our employees, as of December 31, 2008, work in engineering and development. Our research and development expenses of $12.0 million, $6.7 million and $3.2 million in the years ended 2008, 2007 and 2006 represented 23%, 21% and 20% of total operating expenses for the years ended 2008, 2007 and 2006, respectively.

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Competition

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

- service reliability;
- ease of initial setup and use;
- fitness for use and the design of features that best meet the needs of the target customer;
- the ability to support multiple device types and operating systems;
- cost of customer acquisition;
- product and brand awareness;
- the ability to reach large fragmented groups of users;
- cost of service delivery; and
- pricing flexibility.

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

Citrix s Online division and Cisco s WebEx division are our two largest competitors. Both companies offer a service that provides hosted remote access and remote access-based services. Both of these competitors focus a greater percentage of their product offerings on collaboration than we do, while we continue to focus our development and marketing efforts on serving the needs of IT staff and IT service providers.

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

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

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

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

Intellectual Property

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

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

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

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

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

Employees

As of December 31, 2008, we had 287 full-time employees. None of our employees are represented by labor unions or covered by collective bargaining agreements. We consider our relationship with our employees to be good.

Properties

Our principal facilities consist of approximately 31,200 square feet of office space located at 500 Unicorn Park Drive, Woburn, Massachusetts, and approximately 25,000 square feet of space at our development facility located in Budapest, Hungary. Additionally, we also have leased office space in Szeged, Hungary, Amsterdam, The Netherlands and Sydney, Australia. We believe our facilities in Woburn, Budapest, Szeged, Amsterdam and Sydney are sufficient to support our needs through 2009.

We also lease space in three data centers operated by third parties, of which two are located in the United States and the third is located in Europe.

Legal Proceedings

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

MANAGEMENT

Our executive officers and directors and their respective ages and positions as of February 1, 2009 are as follows:

Name	Age	Position
Michael K. Simon	44	Chairman of the Board of Directors, President and Chief Executive Officer
Marton B. Anka	35	Chief Technology Officer
Michael J. Donahue	35	Vice President and General Counsel
Kevin K. Harrison	51	Senior Vice President, Sales
James F. Kelliher	49	Chief Financial Officer and Treasurer
Carol J. Meyers	48	Senior Vice President, Chief Marketing Officer
David E. Barrett(1)(2)	52	Director
Steven J. Benson(1)(2)	50	Director
Kenneth D. Cron(3)	52	Director
Edwin J. Gillis(1)(3)	60	Director
Irfan Salim(2)(3)	56	Director

(1) Member of the Audit Committee.

(2) Member of the Compensation Committee.

(3) Member of the Nominating and Corporate Governance Committee.

Michael K. Simon founded LogMeIn and has served as our President and Chief Executive Officer and as Chairman of our board of directors since our inception in February 2003. Prior to founding LogMeIn, Mr. Simon served as Chairman of the board of directors of Red Dot, Ltd., a digital content provider, and Fathom Technology ApS, a software outsourcing company sold to EPAM Systems, Inc. in March 2004. In 1995, Mr. Simon founded Uproar Inc., a publicly-traded provider of online game shows and interactive games acquired by Vivendi Universal Games, Inc. in March 2001. Mr. Simon holds a B.S. in Electrical Engineering from the University of Notre Dame and an M.B.A. from Washington University St. Louis.

Marton B. Anka founded LogMeIn and has served as our Chief Technology Officer since February 2003. From September 1998 to February 2003, Mr. Anka was the founder and Managing Director of 3am Labs BT, the developer of RemotelyAnywhere. Mr. Anka graduated in Informatics from the Szamalk Institute in Hungary.

Michael J. Donahue has served as our Vice President and General Counsel since June 2007. From August 2005 to June 2007, Mr. Donahue was Vice President and General Counsel of C.P. Baker & Company, Ltd., a Boston-based private equity firm. From September 1999 to August 2005, Mr. Donahue was a corporate lawyer at Wilmer Cutler Pickering Hale and Dorr LLP. Mr. Donahue holds a B.A. in Philosophy from Boston College and a J.D. from the Northeastern University School of Law.

Kevin K. Harrison served as our Vice President, Sales from November 2004 to February 2008, and he has served as our Senior Vice President, Sales, since February 2008. From February 2001 to October 2004, Mr. Harrison served as

Vice President, Sales at Ximian, a Linux application company, where he was responsible for worldwide sales strategy. Mr. Harrison holds a B.S. in Accounting from Boston College.

James F. Kelliher has served as our Chief Financial Officer since June 2006. From December 2002 to March 2006, Mr. Kelliher served as Chief Financial Officer of IMlogic, Inc., a venture-backed enterprise instant messaging company, where he was responsible for finance, legal and human resource activities. From 1991 to September 2002, Mr. Kelliher served in a number of capacities, including Senior Vice President, Finance, at Parametric Technology Corporation, a software development company. Mr. Kelliher holds a B.S. in Accountancy from Bentley College.

Carol J. Meyers has served as our Senior Vice President, Chief Marketing Officer since January 2008. From February 2006 through December 2007, Ms. Meyers served as Senior Vice President and Chief Marketing Officer for Unica Corporation, a publicly-traded provider of enterprise marketing management software. Ms. Meyer s served as Unica s Vice President of Marketing from October 1999 to February 2006. Ms. Meyer s holds a B.S. in Finance from Fairfield University.

David E. Barrett has served as a Director since December 2005. Since April 2000, Mr. Barrett has served as a General Partner of Polaris Venture Partners, a venture capital and private equity firm. Mr. Barrett holds a B.S. in Management from the University of Rhode Island.

Steven J. Benson has served as a Director since October 2004. Since March 2004, Mr. Benson has served as a General Partner of Prism VentureWorks, a venture capital firm. From September 2001 to March 2004, Mr. Benson served as a Principal of Lazard Technology Partners, a venture capital firm. Mr. Benson holds a B.S in Business Communication from Bentley College.

Kenneth D. Cron has served as a Director since April 2007. From June 2004 to December 2007, Mr. Cron has served as a member of the board of directors of Midway Games Inc., a publicly-traded developer and publisher of interactive entertainment software for the global video game market. Since October 2007, Mr. Cron has served as the president of Structured Portfolio Management, LLC, an investment advising firm. From April 2004 to February 2005, Mr. Cron served as interim Chief Executive Officer of Computer Associates International Inc., a publicly-traded management software company, and was also a director of Computer Associates. From June 2001 to January 2004, Mr. Cron was Chairman and Chief Executive Officer Vivendi Universal Games, Inc., a publisher of online, PC and console-based interactive entertainment. Mr. Cron holds a B.A. in Psychology from the University of Colorado.

Edwin J. Gillis has served as a Director since November 2007. From November 2007 to July 2008, Mr. Gillis served as Interim Chief Financial Officer of Avaya, Inc., a communications company. Mr. Gillis has worked as a business consultant and private investor since January 2006. From July 2005 to December 2005, Mr. Gillis served as the Senior Vice President of Administration and Integration of Symantec Corporation, a publicly-traded internet security company. From November 2002 to July 2005, Mr. Gillis was Executive Vice President and Chief Financial Officer of Veritas Software Corporation, an internet security company. Mr. Gillis is a former partner at Coopers & Lybrand L.L.P. and a certified public accountant. Mr. Gillis also serves as a director of Teradyne, Inc., a global supplier of automatic test equipment, and several private companies. Mr. Gillis holds a B.A. from Clark University, an M.A. in International Relations from the University of Southern California and an M.B.A. from Harvard Business School.

Irfan Salim has served as a Director since July 2006. Since October 2006, Mr. Salim has served as President, Chief Executive Officer and a director of Mark Monitor, Inc., an online corporate identity protection company. From August 2005 to June 2006, Mr. Salim served as President and Chief Executive Officer of Tenebril Inc., an internet security and privacy company. From March 2001 to July 2005, Mr. Salim served as President and Chief Operating Officer of Zone Labs, Inc., an Internet security company. Mr. Salim holds a B.sc. in Aeronautical Engineering from Imperial College, England, and an M.B.A. from Manchester Business School, England.

Board Composition and Election of Directors

Our board of directors currently consists of six members. All of our current directors were elected or appointed as directors in accordance with the terms of an amended and restated voting agreement among LogMeIn and certain of our stockholders. The amended and restated voting agreement will terminate upon the closing of this offering, and there will be no further contractual obligations regarding the election of our directors. There are no family relationships among any of our directors or executive officers.

In accordance with the terms of our certificate of incorporation and bylaws that will become effective upon the closing of this offering, our board of directors will be divided into three classes. Each class shall consist, as nearly as possible, of one-third of the total number of directors constituting our entire board of directors. The members of each class will serve for staggered three year terms. As a result, only one class of our board of directors will be elected each year from and after the closing of this offering. Upon the closing of this offering, the members of the classes will be divided as follows:

the class I directors will be Messrs. Barrett and Salim, and their term will expire at the annual meeting of stockholders to be held in 2010;

the class II directors will be Messrs. Benson and Cron, and their term will expire at the annual meeting of stockholders to be held in 2011; and

the class III directors will be Messrs. Gillis and Simon, and their term will expire at the annual meeting of stockholders to be held in 2012.

Our certificate of incorporation and our bylaws, which will become effective upon the closing of this offering, provide that the authorized number of directors may be changed only by resolution of our board of directors. Our certificate of incorporation and bylaws provide that our directors may be removed only for cause by the affirmative vote of the holders of at least 75% of the votes that all our stockholders would be entitled to cast in an annual election of directors. Any vacancy on our board of directors, including a vacancy resulting from an enlargement of our board of directors, may be filled only by vote of a majority of our directors then in office. Upon the expiration of the term of a class of directors, directors in that class will be eligible to be elected for a new three-year term at the annual meeting of stockholders in the year in which their term expires.

Director Independence

Under Rule 4350 of the Nasdaq Marketplace Rules, independent directors must comprise a majority of a listed company s board of directors within one year of listing. In addition, Nasdaq Marketplace Rules require that, subject to specified exceptions, each member of a listed company s audit, compensation and nominating and governance committees be independent. Audit committee members must also satisfy the independence criteria set forth in Rule 10A-3 under the Securities Exchange Act of 1934, as amended. Under Nasdaq Marketplace Rule 4200(a)(15), a director will only qualify as an independent director if, in the opinion of that company s board of directors, that person does not have a relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. In order to be considered to be independent for purposes of Rule 10A-3, a member of an audit committee of a listed company may not, other than in his or her capacity as a member of the audit committee, the board of directors, or any other board committee: (1) accept, directly or indirectly, any consulting, advisory, or other compensatory fee from the listed company or any of its subsidiaries; or (2) be an affiliated person of the listed company or any of its subsidiaries.

In April 2008, our board of directors undertook a review of its composition, the composition of its committees and the independence of each director. Based upon information requested from and provided by each director concerning his background, employment and affiliations, including family relationships, our board of directors has determined that none of Messrs. Barrett, Benson, Cron, Gillis and Salim, representing five of our six directors, has a relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director and that each of these directors is independent as that term is defined under Nasdaq Marketplace Rule 4200(a)(15). Our board of directors also determined that Messrs. Barrett, Benson and Gillis, who comprise our audit committee, Messrs. Barrett, Benson and Salim, who comprise our compensation committee, and Messrs. Cron, Gillis and Salim, who comprise our nominating and governance committee, satisfy the independence standards for those committees established by applicable SEC rules and the Nasdaq Marketplace Rules. In making this determination, our board of directors considered the relationships that each non-employee director has with our company and all other facts and circumstances our board of directors deemed relevant in determining their independence, including the beneficial ownership of our capital stock by each non-employee director.

Board Committees

Our board of directors has established an audit committee, a compensation committee and a nominating and corporate governance committee. Each committee will operate under a charter that will be approved by our board of directors. The composition of each committee will be effective upon the closing of this offering.

Audit Committee

The members of our audit committee are Messrs. Barrett, Benson and Gillis. Mr. Gillis chairs the audit committee. Our board of directors has determined that each audit committee member satisfies the requirements for financial literacy under the current requirements of the Nasdaq Marketplace Rules. Mr. Gillis is an audit committee financial expert, as defined by SEC rules and satisfies the financial sophistication requirements of The NASDAQ Global Market. Our audit committee assists our board of directors in its oversight of our accounting and financial reporting process and the audits of our financial statements. The audit committee s responsibilities include:

- appointing, approving the compensation of, and assessing the independence of our independent registered public accounting firm;
- overseeing the work of our independent registered public accounting firm, including through the receipt and consideration of reports from such firm;
- reviewing and discussing with management and the independent registered public accounting firm our annual and quarterly financial statements and related disclosures;
- monitoring our internal control over financial reporting, disclosure controls and procedures and code of business conduct and ethics;
- discussing our risk management policies;
- establishing policies regarding hiring employees from the independent registered public accounting firm and procedures for the receipt and resolution of accounting related complaints and concerns;
- meeting independently with our independent registered public accounting firm and management;
- reviewing and approving or ratifying any related person transactions; and
- preparing the audit committee report required by SEC rules.

All audit and non-audit services, other than de minimus non-audit services, to be provided to us by our independent registered public accounting firm must be approved in advance by our audit committee.

Compensation Committee

The members of our compensation committee are Messrs. Barrett, Benson and Salim. Mr. Benson chairs the compensation committee. The compensation committee s responsibilities include:

- annually reviewing and approving corporate goals and objectives relevant to chief executive officer compensation;

determining our chief executive officer s compensation;

reviewing and approving, or making recommendations to our board of directors with respect to, the compensation of our other executive officers;

overseeing an evaluation of our senior executives;

overseeing and administering our cash and equity incentive plans;

reviewing and making recommendations to our board of directors with respect to director compensation;

reviewing and discussing annually with management our Compensation Discussion and Analysis disclosure required by SEC rules; and

preparing the compensation committee report required by SEC rules.

Nominating and Corporate Governance Committee

The members of our nominating and corporate governance committee are Messrs. Cron, Gillis and Salim. Mr. Salim chairs the nominating and corporate governance committee. The nominating and corporate governance committee s responsibilities include:

- identifying individuals qualified to become members of our board of directors;
- recommending to our board of directors the persons to be nominated for election as directors and to each board committee;
- reviewing and making recommendations to our board of directors with respect to management succession planning;
- developing and recommending corporate governance principles to our board of directors; and
- overseeing an annual evaluation of our board of directors.

Compensation Committee Interlocks and Insider Participation

None of our executive officers serves as a member of the board of directors or compensation committee, or other committee serving an equivalent function, of any entity that has one or more executive officers who serve as members of our board of directors or our compensation committee. None of the members of our compensation committee is an officer or employee of our company, nor have they ever been an officer or employee of our company.

Code of Business Conduct and Ethics

We will adopt a code of business conduct and ethics that applies to all of our employees, officers and directors, including those officers responsible for financial reporting. The code of business conduct and ethics will be available on our website at www.logmein.com. Any amendments to the code, or any waivers of its requirements, will be disclosed on our website.

Director Compensation

Since our formation, we have not paid cash compensation to any director for his service as a director. However, we have historically reimbursed our non-employee directors for reasonable travel and other expenses incurred in connection with attending board of director and committee meetings.

Our president and chief executive officer has not received any compensation in connection with his service as a director. The compensation that we pay to our president and chief executive officer is discussed in the Executive Compensation section of this prospectus.

The following table sets forth information regarding compensation earned by our non-employee directors during 2008. Mr. Barrett and Mr. Benson have not to date received any options to purchase shares of our common stock in connection with their service on our board of directors.

Total

Name	Bonus Payments	Option Awards ($)(1)	($)
David E. Barrett	$	$	$
Steven J. Benson			
Kenneth D. Cron	228,375(2)	331,441(3)	559,816
Edwin J. Gillis		230,369(4)	230,369
Irfan Salim		62,146(5)	62,146

(1) Represents the dollar amount of share-based compensation expense recognized for financial statement reporting purposes pursuant to SFAS 123R during 2008, except that such amounts do not reflect an estimate of forfeitures related to service-based vesting conditions. The assumptions used by us with respect to the valuation of option grants are set forth in Note 11 to our financial statements included elsewhere in this prospectus.

(2) Represents a one-time bonus payment paid in connection with our amendment of stock options to increase the exercise price of such options. See Certain Relationships and Related Transactions Stock Issuances and Related Matters for more information.

(3) Represents an option to purchase 150,000 shares of our common stock with an exercise price of $0.50 per share. The exercise price per share of this option was modified to $2.24 per share in April 2008.

(4) Represents an option to purchase 150,000 shares of our common stock with an exercise price of $3.86 per share.

(5) Represents an option to purchase 150,000 shares of our common stock with an exercise price of $0.50 per share and an option to purchase 75,000 shares of our common stock with an exercise price of $4.56 per share.

Executive Compensation

Compensation Discussion and Analysis

Overview

The compensation committee of our board of directors oversees our executive compensation program. In this role, the compensation committee reviews and approves annually all compensation decisions relating to our named executive officers. Our historical executive compensation programs were developed and implemented by our board of directors and compensation committee consistent with practices of other venture-backed, privately-held companies. Prior to this offering, our compensation programs, and the process by which they were developed, were less formal than that typically employed by a public company. During this time, our board of directors and compensation committee generally established and benchmarked our executive compensation on an informal basis by considering the employment and compensation history of each executive and comparing our executives compensation to our estimates, based on the experience of our board members in the industry and in establishing executive compensation, research of pay practices at other venture-backed companies informally conducted by board members, and external compensation databases such as Salary.com, of executive compensation paid by companies in our industry and region. The board of directors and the compensation committee intend to continue to formalize their approach to the development and implementation of our executive compensation programs.

Objectives and Philosophy of Our Executive Compensation Programs

Our compensation committee s primary objectives with respect to executive compensation are to:

- attract, retain and motivate talented executives;
- promote the achievement of key financial and strategic performance measures by linking short- and long-term cash and equity incentives to the achievement of measurable corporate and, in some cases, individual performance goals; and
- align the incentives of our executives with the creation of value for our stockholders.

To achieve these objectives, the compensation committee evaluates our executive compensation program with the goal of setting compensation at levels the committee believes are competitive in our industry and region. In addition, our executive compensation program ties a substantial portion of each executive s overall compensation to key strategic, financial and operational goals such as our financial and operational performance, the growth of our customer base, new development initiatives and the establishment and maintenance of key strategic relationships. We also provide a portion of our executive compensation in the form of stock options that vest over time, which we believe helps to retain our executives and aligns their interests with those of our stockholders by allowing them to participate in the longer term success of our company as reflected in stock price appreciation.

We compete with many other companies for executive personnel. Accordingly, the compensation committee generally targets overall compensation for executives to be competitive in our industry and region.

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Variations to this targeted compensation may occur depending on the experience level of the individual and market factors, such as the demand for executives with similar skills and experience.

Components of Our Executive Compensation Program

The primary elements of our executive compensation program are:

- base salary;
- cash incentive bonuses;
- equity incentive awards;
- change of control benefits; and
- insurance, retirement and other employee benefits and compensation.

We have not had any formal or informal policy or target for allocating compensation between long-term and short-term compensation, between cash and non-cash compensation or among the different forms of non-cash compensation. Instead, our compensation committee has established these allocations for each executive officer on an annual basis. Our compensation committee establishes cash compensation targets based primarily upon a review and consideration of the employment and compensation history of each executive, informal benchmarking data, such as external compensation databases such as Salary.com, the experience of our board members, research of pay practices of other venture-backed companies informally conducted by board members, and the compensation of executives employed in our industry and region, as well as the performance of our company as a whole and of the individual executive and executive team as a whole. Our compensation committee establishes non-cash compensation based upon this informal benchmarking data, the performance of our company as a whole and of the individual executive and executive team as a whole, the executives equity ownership percentage and the amount of their equity ownership that is vested equity. In the future, we expect that our compensation committee will continue to use informal benchmarking data for cash compensation, as well as provide the executives with annual or semi-annual equity grants. We believe that the long-term performance of our business is improved through the grant of stock-based awards so that the interests of our executives are aligned with the creation of value for our stockholders.

Base Salaries. Base salaries are used to recognize the experience, skills, knowledge and responsibilities required of all our employees, including our executive officers. Base salaries for our executives are typically established in an offer letter to the executive at the outset of employment, which is the case with Messrs. Simon, Anka, Kelliher, and Harrison and Ms. Meyers. None of our executives is currently party to an employment agreement that provides for automatic or scheduled increases in base salary. However, from time to time in the discretion of our compensation committee, and consistent with our incentive compensation program objectives, base salaries for our executives, together with other components of compensation, are evaluated for adjustment.

Base salaries are reviewed at least annually by our compensation committee, and are adjusted from time to time to realign salaries with market trends and levels after taking into account our company s overall performance and the individual s responsibilities, past performance, future expectations and experience.

In establishing base salaries for our named executive officers for 2008, our compensation committee reviewed a number of factors, including our company s overall performance against its stated goals, including growth in sales and revenue, and each named executive s position and functional role, seniority, the relative ease or difficulty of replacing the individual with a well-qualified person and the number of well-qualified candidates to assume the individual s role, job performance, our position in the SEC registration process, the likelihood of a public offering and overall level of responsibility and the informal benchmarking data and information discussed above. In addition, the committee reviewed salary survey data of comparable companies in our geographic area prepared by both Ernst & Young and Salary.com.

In establishing base salaries for our named executive officers for 2009, our compensation committee reviewed a number of factors, including our company s overall performance against its stated goals, including growth in sales and revenue, and each named executive s position and functional role, seniority, the relative ease or difficulty of replacing the individual with a well-qualified person and the number of well-qualified candidates to assume the individual s role, job performance, our position in the SEC registration process, the likelihood of a public offering and overall level of responsibility and the informal benchmarking data and information discussed above. Our compensation committee determined that Mr. Simon had continued to perform well as he continued to oversee the expansion of our market leadership position, the introduction of new services and our positioning for an initial public offering. Our compensation committee determined to increase Mr. Simon s annual base salary to $270,000, an increase of approximately 2% over 2008. Our compensation committee determined that Mr. Anka continued to perform well as he continued to grow and lead the technical team in the creation of new services while adding significant functionality to our current services. Our compensation committee determined to increase Mr. Anka s annual base salary to $215,000, an increase of approximately 8% over 2008. Our compensation committee determined that Mr. Kelliher continued to perform well, building his organization and helping to position us for continued growth and an initial public offering. Our compensation committee increased Mr. Kelliher s annual base salary to $230,000, an increase of approximately 2% over 2008. Our compensation committee determined that Ms. Meyers continued to perform well, building her organization, expanding our market position and introducing new marketing strategies. Our compensation committee increased Ms. Meyers annual base salary to $245,000, an increase of approximately 2% over 2008. Our compensation committee determined that Mr. Harrison continued to perform well, building his organization and increasing sales to meet or exceed internal benchmarks. Our compensation committee increased Mr. Harrison s annual base salary to $180,000, an increase of approximately 3% over 2008.

Cash Incentive Bonuses. We have instituted an annual discretionary cash incentive bonus plan for our executives. The annual cash incentive bonuses are intended to compensate for the achievement of company strategic, operational and financial goals and/or individual performance objectives. Amounts payable under the annual cash incentive bonus plan are discretionary and typically calculated as a percentage of the applicable executive s base salary, with higher ranked executives typically being compensated at a higher percentage of base salary. Individual objectives are tied to the particular area of expertise of the employee and their performance in attaining those objectives relative to external forces, internal resources utilized and overall individual effort. The compensation committee works with our chief executive officer to develop and approve the performance goals for each executive and the company as a whole. Our board and compensation committee have historically worked, and intend to continue to work, with our chief executive officer and our other executive officers to develop aggressive goals that we believe can be achieved by us and our executive officers with hard work. The goals established by the compensation committee and our board are based on our historical operating results and growth rates, as well as our expected future results, and are designed to require significant effort and operational success on the part of our executives and the company.

In January 2008, our compensation committee established the fiscal year 2008 target bonus awards for Messrs. Simon, Anka and Kelliher and Ms. Meyers. These target bonus awards were in two levels. The level one target bonus awards, as a percentage of 2008 base salary, were approximately 22%, 20%, 20%, and 20%, respectively. The level two target bonus awards, as a percentage of 2008 base salary, were 31%, 20%, 20%, and 20%, respectively, and were in addition to any amounts received as a level one bonus. The level one and level two bonus awards were based on our achieving a board specified level of revenue for fiscal year 2008. As described above, the compensation committee determined the target total cash compensation of each officer based on our strategic, operational and financial goals and objectives.

In 2008, Mr. Harrison was entitled to receive a bonus of $7,500 to $30,000 per 2008 fiscal quarter if total sales and revenue exceed board specified levels in each such quarter.

In 2008, Messrs. Simon, Harrison, Kelliher and Anka as Ms. Meyers earned bonuses in the amounts of $60,000, $105,000, $45,000, $38,000 and $49,000 respectively. These amounts were paid in January 2009.

In January 2009, our compensation committee established the fiscal year 2009 target bonus awards for Messrs. Simon, Anka, and Kelliher and Ms. Meyers. These target bonus awards are in two levels. The level one target bonus awards, as a percentage of 2009 base salary, are approximately 24%, 20%, 20% and 20%, respectively. The level two target bonus awards, as a percentage of 2009 base salary, are 33%, 20%, 20% and

20%, respectively, and are in addition to any amounts received as a level one bonus. The level one and level two bonus awards are based on our achieving a board specified level of revenue and operating profitability for fiscal year 2009. Additionally, Mr. Anka will receive a level three bonus award of 20% of his base salary based upon our achieving a based specified level of total sales for fiscal year 2009. As described above, the compensation committee determined the target total cash compensation of each officer based on our strategic, operational and financial goals and objectives.

In 2009, Mr. Harrison will be entitled to receive a bonus of $10,000 to $37,500 per 2009 fiscal quarter if total sales, revenue and operating profitability exceed board specified levels in each such quarter. Additionally, Mr. Harrison will receive a level three bonus award of $75,000 upon our achieving a board specified level of total sales for fiscal year 2009.

Our board and compensation committee believe that attainment of our 2009 corporate financial goals will require similar levels of effort and operational success on the part of our executive officers as did our 2008 corporate financial goals.

Equity Incentive Awards. Our equity award program is the primary vehicle for offering long-term incentives to our executives. Prior to this offering, our employees, including our executives, were eligible to participate in our 2004 equity incentive plan and 2007 stock incentive plan. Following the completion of this offering, we will continue to grant our employees, including our executives, stock-based awards pursuant to the 2009 stock incentive plan, which will become effective upon the completion of this offering. Under the 2009 stock incentive plan, our employees, including our executives, will be eligible to receive grants of stock options, restricted stock awards and other stock-based equity awards at the discretion of our compensation committee.

Although we do not have any formal equity ownership guidelines for our executives, we believe that equity grants provide our executives with a strong link to our long-term performance, create an ownership culture and help to align the interests of our executives and our stockholders. In addition, we believe the vesting feature of our equity grants furthers our goal of executive retention because this feature provides an incentive to our executives to remain in our employment during the vesting period. In determining the size of equity grants to our executives, our compensation committee considers the recommendations of management, our company-level performance, the applicable executive s performance, the amount of equity previously awarded to the executive, the vesting of such awards and the committee s estimates of comparative share ownership of executives in our industry and region.

We typically make an initial equity award of stock options or restricted stock to new executives in connection with the start of their employment and future equity grants as part of our overall compensation program. Grants of equity awards, including those to executives, are all approved by our board of directors or our compensation committee. Historically, the equity awards we have granted to our executives have vested as to 25% of such awards at the end of each year for a period of four years after grant. This vesting schedule is consistent with the vesting of stock options granted to other employees. In addition, certain of our named executive officers and other executives have received option grants that vest upon the achievement of certain personal and/or company milestones. Vesting and exercise rights cease shortly after termination of employment except in the case of death or disability. Prior to the exercise of an option, the holder has no rights as a stockholder with respect to the shares subject to such option, including voting rights and the right to receive dividends or dividend equivalents.

In January 2008, we granted Ms. Meyers an option to purchase 250,000 shares of our common stock, with an exercise price of $4.30 per share. This grant was a new hire grant as Ms. Meyers began her employment in January 2008. In determining the size of this grant our board of directors considered Ms. Meyers position, function and roll in the company, seniority, level of responsibility, the difficulty of replacing Ms. Meyers, and the informal benchmarking dates and information discussed above.

Other than the grants described above, our board of directors made no other option grants to our named executive officers in 2007, 2008 or to date in 2009. At the discretion of our compensation committee, we intend to review on an annual basis new equity awards for certain of our employees and executives. In determining these awards, the compensation committee will consider a number of factors, including our overall performance as a company, the applicable executive s overall performance and contribution to our overall performance as a company, the size of awards granted to other executives and senior employees, the size of the available option pool and the recommendations of management.

We do not currently have a program, plan or practice of selecting grant dates for equity compensation to our executive officers in coordination with the release of material non-public information. Equity award grants are made from time to time in the discretion of our board of directors or compensation committee consistent with our incentive compensation program objectives. It is anticipated that following the completion of this offering, our board of directors will consider implementing a grant date policy for our executive officers. We do not have any equity ownership guidelines for our executives.

Change of Control Benefits. Pursuant to employment offer letters and our stock incentive plans, our executives are entitled to specified benefits in the event of the termination of their employment under specified circumstances, including termination following a change of control of our company. We have provided more detailed information about these benefits, along with estimates of their value under various circumstances, in the Potential Payments Upon Termination or Change of Control section of this prospectus.

Fifty percent of all unvested awards automatically accelerate and vest in full in the event of a change of control. In addition, we have provided certain executives, including Messrs. Simon, Anka, Kelliher and Ms. Meyers, with full acceleration and vesting of all awards in the case of change-of-control and a termination of the employment of the executive, other than for cause, in connection with such change of control, sometimes called a double trigger . Accordingly, these extra benefits are paid only if the employment of the executive is terminated during a specified period after the change of control. We believe this double trigger benefit improves stockholder value because it prevents an unintended windfall to executives in the event of a friendly change of control, while still providing them appropriate incentives to cooperate in negotiating any change of control in which they believe they may lose their jobs.

We believe providing these benefits helps us compete for executive talent. We believe that our change of control benefits are generally in line with severance packages offered to executives in our industry and region.

Insurance, retirement and other employee benefits and compensation. We offer benefits that are provided to all employees, including health and dental insurance, life and disability insurance, a 401(k) plan, an employee assistance program, maternity and paternity leave plans and standard company holidays to our U.S. employees. Our executive officers are eligible to participate in all of our employee benefit plans, in each case on the same basis as other employees.

Summary Compensation Table

The following table sets forth information regarding compensation earned by our president and chief executive officer, our chief financial officer and each of our three other most highly compensated executive officers during 2008. We refer to these executive officers as our named executive officers elsewhere in this prospectus.

Name and Principal Position	**Salary ($)**	**Option Awards ($)(1)**	**Non-Equity Incentive Plan Compensation ($)(2)**	**All Other Compensation ($)(3)**	**Total ($)**

Michael K. Simon *President and Chief Executive Officer*	$ 265,000	$ 299,118	$ 60,000	$ 12,686	$ 636,804
James F. Kelliher *Chief Financial Officer*	225,000	100,263	45,000	12,686	382,949
Carol Meyers *Senior Vice President, Chief Marketing Officer*	240,000	182,344	49,000	12,686	484,030
Kevin K. Harrison *Senior VP, Sales and Marketing*	175,000	86,487	105,000	12,686	379,173
Marton B. Anka *Chief Technology Officer*	200,000	74,780	38,000	5,160	317,940

(1) Valuation of these options is based on the dollar amount of share-based compensation recognized for financial statement reporting purposes pursuant to SFAS 123R in 2008, except that such amounts do not reflect an estimate of forfeitures related to service-based vesting conditions. The amounts include awards granted in prior years. The assumptions used by us with respect to the valuation of option grants are set forth in Note 11 to our financial statements included elsewhere in this prospectus. The individual awards made in 2008 reflected in this summary compensation table are further summarized below under Grants of Plan-Based Awards in 2008.

(2) Consists of cash bonuses paid under our annual discretionary cash incentive bonus program for 2008. See the Executive Compensation-Compensation Discussion and Analysis-Components of our Executive Compensation-Cash Incentive Bonuses section of this prospectus for a description of this program. $84,000 of Mr. Harrison s bonus was paid in 2008. All other bonuses earned in 2008 were paid in January 2009.

(3) Amounts consist of medical, life insurance and disability insurance premiums paid by us on behalf of the named executive officer.

Grants of Plan-Based Awards in 2008

The following table sets forth information for 2008 regarding grants of compensation in the form of plan-based awards made during 2008 to our named executive officers.

Name	**Grant Date**	**Future Payouts Under Non-Equity Incentive Plan Awards Target ($)(1)**	**All Other Option Awards: Number of Securities Underlying Options (#)**	**Exercise or Base Price of Option Awards ($/Sh)(2)**	**Grant Date Fair Value of Stock and Option Awards(3)**
Michael K. Simon		$ 60,000			
James F. Kelliher		45,000			
Carol J. Meyers		49,000			
	1/17/2008		250,000(4)	$ 4.30	$ 755,000
Kevin K. Harrison		105,000			