

LogMeIn, Inc.
Form 10-Q
April 28, 2011

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 2011

OR

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

For the transition period from _____ to _____

Commission file number: 001-34391

LOGMEIN, INC.

(Exact name of registrant as specified in its charter)

Delaware

20-1515952

(State or other jurisdiction of incorporation or
organization)

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

**500 Unicorn Park Drive
Woburn, Massachusetts**

01801

(Address of principal executive offices)

(Zip Code)

781-638-9050

(Registrant's telephone number, including area code)

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

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

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

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

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

(Do not check if a smaller reporting company)

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

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As of April 22, 2011, there were 24,052,007 shares of the registrant's Common Stock, par value \$.01 per share, outstanding.

**LOGMEIN, INC.
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LogMeIn, Inc.
Condensed Consolidated Balance Sheets

	December 31, 2010	March 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 77,279,987	\$ 86,081,727
Marketable securities	90,144,484	90,133,823
Accounts receivable (net of allowance for doubtful accounts of \$111,000 as of December 31, 2010 and March 31, 2011)	4,744,392	5,873,614
Prepaid expenses and other current assets (including \$9,000 and \$0 of non-trade receivable due from related party at December 31, 2010 and March 31, 2011, respectively)	2,905,618	2,440,586
Deferred income tax assets	1,315,529	1,326,923
Total current assets	176,390,010	185,856,673
Property and equipment, net	6,198,487	6,448,220
Restricted cash	350,481	389,201
Intangibles, net	577,815	532,188
Goodwill	615,299	615,299
Other assets	27,019	62,219
Deferred income tax assets	2,518,158	2,519,356
Total assets	\$ 186,677,269	\$ 196,423,156
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 2,176,390	\$ 4,849,366
Accrued liabilities	10,829,310	9,812,013
Deferred revenue, current portion	41,763,138	46,177,082
Total current liabilities	54,768,838	60,838,461
Deferred revenue, net of current portion	1,030,017	1,390,037
Other long-term liabilities	500,156	459,669
Total liabilities	56,299,011	62,688,167
Commitments and contingencies (Note 8)		
Preferred stock, \$0.01 par value 5,000,000 shares authorized, 0 shares outstanding as of December 31, 2010 and March 31, 2011		
Stockholders equity:		
Common stock, \$0.01 par value 75,000,000 shares authorized as of December 31, 2010 and March 31, 2011; 23,858,514 and 24,021,282 shares outstanding as of December 31, 2010 and March 31, 2011, respectively	238,585	240,213
Additional paid-in capital	133,425,098	136,290,131
Accumulated deficit	(3,084,316)	(3,149,563)

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Accumulated other comprehensive income (loss)	(201,109)	354,208
Total stockholders' equity	130,378,258	133,734,989
Total liabilities and stockholders' equity	\$ 186,677,269	\$ 196,423,156

See notes to condensed consolidated financial statements.

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LogMeIn, Inc.
Condensed Consolidated Statements of Operations

	Three Months Ended March	
	2010	31, 2011
Revenue (including \$1,487,000 and \$0 from a related party during the three months ended March 31, 2010 and 2011, respectively)	\$ 21,324,800	\$ 27,038,779
Cost of revenue	2,220,163	2,536,136
Gross profit	19,104,637	24,502,643
Operating expenses		
Research and development	3,553,797	4,317,779
Sales and marketing	9,840,481	12,986,109
General and administrative	2,803,357	6,058,690
Legal settlements		1,250,000
Amortization of acquired intangibles	81,929	92,034
Total operating expenses	16,279,564	24,704,612
Income (loss) from operations	2,825,073	(201,969)
Interest income, net	114,142	210,712
Other expense	(64,037)	(108,811)
Income (loss) before income taxes	2,875,178	(100,068)
(Provision) benefit for income taxes	(139,159)	34,821
Net income (loss)	\$ 2,736,019	\$ (65,247)
Net income (loss) per share:		
Basic	\$ 0.12	\$ 0.00
Diluted	\$ 0.11	\$ 0.00
Weighted average shares outstanding:		
Basic	22,643,963	23,928,310
Diluted	24,350,845	23,928,310

See notes to condensed consolidated financial statements.

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LogMeIn, Inc.
Condensed Consolidated Statements of Cash Flows

	Three Months Ended March 31,	
	2010	2011
Cash flows from operating activities		
Net income (loss)	\$ 2,736,019	\$ (65,247)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation and amortization	941,530	1,004,987
Amortization of premium on investments	33,913	59,105
Provision for bad debts	30,000	14,050
Provision for deferred income taxes	4,000	(12,461)
Stock-based compensation	1,026,799	1,745,494
Gain on disposal of equipment	(1,238)	(178)
Changes in assets and liabilities:		
Accounts receivable	780,568	(1,143,272)
Prepaid expenses and other current assets	204,340	465,032
Other assets	(27,901)	(35,200)
Accounts payable	281,745	2,634,892
Accrued liabilities	(842,522)	(1,006,483)
Deferred revenue	2,265,579	4,773,964
Other long-term liabilities	(50,371)	(40,487)
Net cash provided by operating activities	7,382,461	8,394,196
Cash flows from investing activities		
Purchases of marketable securities	(55,331,450)	(30,076,850)
Proceeds from sale or disposal of marketable securities	25,000,000	30,000,000
Purchases of property and equipment	(365,001)	(1,117,622)
Intangible asset additions		(61,738)
Increase in restricted cash and deposits		(25,569)
Net cash used in investing activities	(30,696,451)	(1,281,779)
Cash flows from financing activities		
Payments of issuance costs related to secondary offering of common stock	(210,394)	
Proceeds from issuance of common stock upon option exercises	1,350,413	1,117,686
Net cash provided by financing activities	1,140,019	1,117,686
Effect of exchange rate changes on cash and cash equivalents and restricted cash	(133,907)	571,637
Net increase (decrease) in cash and cash equivalents	(22,307,878)	8,801,740
Cash and cash equivalents, beginning of period	100,290,001	77,279,987
Cash and cash equivalents, end of period	\$ 77,982,123	\$ 86,081,727

Supplemental disclosure of cash flow information

Cash paid for interest	\$	228	\$	118
Cash paid for income taxes	\$	16,626	\$	23,736

Noncash investing and financing activities

Purchases of property and equipment included in accounts payable and accrued liabilities	\$	817,709	\$	418,055
Deferred stock offering costs included in accounts payable and accrued liabilities	\$	18,493	\$	

See notes to condensed consolidated financial statements.

Table of Contents**LogMeIn, Inc.****Notes to Condensed Consolidated Financial Statements****1. Nature of the Business**

LogMeIn, Inc. (the Company) develops and markets a suite of remote access, remote support, and collaboration solutions that provide instant, secure connections between Internet enabled devices. The Company's product line includes Gravity™, LogMeIn Free®, LogMeIn Pro²®, LogMeIn® Central™, LogMeIn Rescue®, LogMeIn® Rescue+Mobile™, LogMeIn Backup®, LogMeIn® Ignition SM™, LogMeIn Hamachi²®, join.me™ and RemotelyAnywhere®. The Company is based in Woburn, Massachusetts with wholly-owned subsidiaries in Hungary, The Netherlands, Australia, England and Brazil.

2. Summary of Significant Accounting Policies

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

Unaudited Interim Condensed Consolidated Financial Statements The accompanying condensed consolidated financial statements and the related interim information contained within the notes to the condensed consolidated financial statements are unaudited and have been prepared in accordance with GAAP and applicable rules and regulations of the Securities and Exchange Commission for interim financial information. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. The accompanying unaudited condensed consolidated financial statements should be read along with the Company's audited financial statements included in the Company's Annual Report on Form 10-K, filed with the Securities and Exchange Commission on February 28, 2011. The unaudited interim condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and in the opinion of management, reflect all adjustments, consisting of normal and recurring adjustments, necessary for the fair presentation of the Company's financial position, results of operations and cash flows for the interim periods presented. The results for the interim periods presented are not necessarily indicative of future results. The Company considers events or transactions that occur after the balance sheet date but before the financial statements are issued to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure.

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

Marketable Securities The Company's marketable securities are classified as available-for-sale and are carried at fair value with the unrealized gains and losses, net of tax, reported as a component of accumulated other comprehensive income in stockholders' equity. Realized gains and losses and declines in value judged to be other than temporary are included as a component of earnings based on the specific identification method. Fair value is determined based on quoted market prices. At December 31, 2010 and March 31, 2011, marketable securities consisted of U.S. government agency securities that have remaining maturities within two years and have an aggregate amortized cost of \$90,119,605 and \$90,137,350 and an aggregate fair value of \$90,144,484 and \$90,133,823, including \$65,136 and \$52,183 of unrealized gains and \$40,257 and \$55,711 of unrealized losses, respectively.

Revenue Recognition The Company derives revenue primarily from subscription fees related to its LogMeIn premium services and from the licensing of its Ignition for iPhone, iPad and Android software products and RemotelyAnywhere software and related maintenance.

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

The Company recognizes revenue from the bundled delivery of its RemotelyAnywhere software product and related maintenance ratably, on a daily basis, over the term of the maintenance contract, generally one year, when there is persuasive evidence of an arrangement, the product has been provided to the customer, the collection of the fee is probable, and the amount of fees to be paid by the customer is fixed or determinable. The Company currently does not have vendor-specific objective evidence for the fair value of its maintenance arrangements and therefore the license and maintenance are bundled together. The Company recognizes revenue from the sale of its Ignition for iPhone, iPad and Android software product which is sold as a perpetual license and is recognized when there is persuasive evidence of an arrangement, the product has been provided to the customer, the collection of the fee is probable, and the amount of fees to be paid by the customer is fixed or determinable.

The Company's multi-element arrangements typically include multiple deliverables by the Company such as subscription and professional services, including development services. Agreements with multiple element deliverables are analyzed to determine if fair value

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exists for each element on a stand-alone basis. If the fair value of each deliverable is determinable using objective evidence or best estimate selling price, 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 the Company recognizes revenue on a straightline basis over the period in which the Company expects to complete its performance obligations under the agreement.

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

As of March 31, 2011, one customer accounted for 17% of accounts receivable, and no customers accounted for more than 10% of revenue for the three months ended March 31, 2010 or 2011. At December 30, 2010, there was one customer that accounted for 14% of accounts receivable.

Foreign Currency Translation The functional currency of operations outside the United States of America is deemed to be the currency of the local country. Accordingly, the assets and liabilities of the Company's foreign subsidiaries are translated into United States dollars using the period-end exchange rate, and income and expense items are translated using the average exchange rate during the period. Cumulative translation adjustments are reflected as a separate component of stockholders' equity. Foreign currency transaction gains and losses are charged to operations. The Company had foreign currency losses of approximately \$64,000 and \$109,000 for the three months ended March 31, 2010 and 2011, respectively.

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

Income Taxes Deferred income taxes are provided for the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, and operating loss carry-forwards and credits using enacted tax rates expected to be in effect in the years in which the differences are expected to reverse. At each balance sheet date, the Company assesses the likelihood that deferred tax assets will be realized, and recognizes a valuation allowance if it is more likely than not that some portion of the deferred tax assets will not be realized. This assessment requires judgment as to the likelihood and amounts of future taxable income by tax jurisdiction. As of December 31, 2010 and March 31, 2011, the Company maintained a full valuation allowance related to the deferred tax assets of its Hungarian subsidiary due to its historical net losses.

The Company evaluates its uncertain tax positions based on a determination of whether and how much of a tax benefit taken by the Company in its tax filings or positions is more likely than not to be realized. Potential interest and penalties associated with any uncertain tax positions are recorded as a component of income tax expense. Through March 31, 2011, the Company has not identified any material uncertain tax positions for which liabilities would be required.

Comprehensive Income Comprehensive income is the change in stockholders' equity during a period relating to transactions and other events and circumstances from non-owner sources and currently consists of net income (loss), foreign currency translation adjustments and unrealized gains and losses on available-for-sale securities. Comprehensive income was calculated as follows:

Three Months Ended March	
31,	
2010	2011

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Net income (loss)	\$ 2,736,019	\$ (65,247)
Cumulative translation adjustments	(143,593)	572,460
Unrealized gain on available-for-sale securities	(14,420)	(17,143)
Comprehensive income	\$ 2,578,006	\$ 490,070

Net Income (Loss) Per Share Basic net income (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding for the period. Diluted net income (loss) per share is computed by dividing net income (loss) by the sum of the weighted average number of common shares outstanding during the period and the options to purchase common shares from the assumed exercise of stock options. For the three months ended March 31, 2011, the Company incurred a net loss and therefore, the effect of the Company's outstanding common stock equivalents were not included in the calculation of diluted loss per share as they were anti-dilutive. Accordingly, basic and diluted net loss per share for the period were identical.

The Company excluded 809,575 and 2,939,422 of options to purchase common shares from the computation of diluted net income (loss) per share for the three months ended March 31, 2010 and 2011, respectively, either because they had an anti-dilutive impact or because the Company had a net loss in the period.

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Basic and diluted net income (loss) per share was calculated as follows:

	Three Months Ended March 31, 2010
Basic:	
Net income	\$ 2,736,019
Weighted average common shares outstanding, basic	22,643,963
Net income, basic	\$ 0.12
Diluted:	
Net income	\$ 2,736,019
Weighted average common shares outstanding	22,643,963
Add: Options to purchase common shares	1,706,882
Weighted average common shares outstanding, diluted	24,350,845
Net income, diluted	\$ 0.11
	Three Months Ended March 31, 2011
Basic and diluted net loss per share:	
Net loss	\$ (65,247)
Weighted average common shares outstanding	23,928,310
Basic and diluted net loss per share	\$ 0.00

Recently Issued Accounting Pronouncements In October 2009, an update was made to *Revenue Recognition Multiple Deliverable Revenue Arrangements*. This update removes the objective-and-reliable-evidence-of-fair-value criterion from the separation criteria used to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting, replaces references to fair value with selling price to distinguish from the fair value measurements required under the *Fair Value Measurements and Disclosures* guidance, provides a hierarchy that entities must use to estimate the selling price, eliminates the use of the residual method for allocation, and expands the ongoing disclosure requirements. The effect of adoption of this standard has only impacted our financial statement disclosure to comply with the additional disclosure requirements as described in Note 2 to the condensed consolidated financial statements. The implementation of this guidance did not have a material impact on our consolidated financial position, results of operations or cash flows.

3. Fair Value of Financial Instruments

The carrying value of the Company's financial instruments, including cash equivalents, restricted cash, accounts receivable, and accounts payable, approximate their fair values due to their short maturities. The Company's financial assets and liabilities are measured using

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inputs from the three levels of the fair value hierarchy. A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement. The three levels are as follows:

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

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

Level 3: Unobservable inputs that reflect the Company's assumptions about the assumptions that market participants would use in pricing the asset or liability.

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

		Basis of Fair Value Measurements			
			Quoted Prices in Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		Balance			
Balance at December 31, 2010					
Cash equivalents	money market funds	\$48,074,441	\$48,074,441	\$	\$
Cash equivalents	bank deposits	5,022,089		5,022,089	
Short-term marketable securities	U.S. government agency securities	90,144,484	90,144,484		
Balance at March 31, 2011					
Cash equivalents	money market funds	\$48,293,829	\$48,293,829	\$	\$
Cash equivalents	bank deposits	5,025,591		5,025,591	
Short-term marketable securities	U.S. government agency securities	90,133,823	90,133,823		

Bank deposits are classified within the second level of the fair value hierarchy and the fair value of those assets are determined based upon quoted prices for similar assets in active markets.

4. Intangible Assets

Acquired intangible assets consist of the following:

	December 31, 2010				March 31, 2011		
	Estimated Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Identifiable intangible assets:							
Trademark	5 years	\$ 635,506	\$ 563,105	\$ 72,401	\$ 635,506	\$ 594,880	\$ 40,626
Customer base	5 years	1,003,068	888,791	114,277	1,003,068	938,944	64,124
Domain names		202,120	10,038	192,082	202,107	20,143	181,964

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	5						
	years						
Software	4	298,977	298,977		298,977	298,977	
	years						
Technology	4	1,361,900	1,361,900		1,361,900	1,361,900	
Internally	years						
developed	3						
software	years	213,942	14,887	199,055	275,693	30,219	245,474
		\$ 3,715,513	\$ 3,137,698	\$ 577,815	\$ 3,777,251	\$ 3,245,063	\$ 532,188

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The Company capitalized \$61,751 of costs related to internally developed computer software to be sold as a service incurred during the application development stage during the three months ended March 31, 2011 and is amortizing these costs over the expected lives of the related services. No amounts were capitalized during the three months ended March 31, 2010 as the costs incurred during the period were immaterial.

The Company is amortizing the intangible assets on a straight-line basis over the estimated useful lives noted above. Amortization expense for intangible assets was \$185,733 and \$107,365 for the three months ended March 31, 2010 and 2011, respectively. Amortization relating to software, technology and internally developed software is recorded within cost of revenues and the amortization of trademark, customer base, and domain names is recorded within operating expenses. Future estimated amortization expense for intangible assets is as follows at March 31, 2011:

Amortization Expense (Years Ending December 31)	Amount
2011	\$ 203,999
2012	132,331
2013	117,444
2014	48,085
2015	30,329

5. Accrued Expenses

Accrued expenses consisted of the following:

	December 31, 2010	March 31, 2011
Marketing programs	\$ 3,265,692	\$ 2,069,731
Payroll and payroll related	4,535,322	2,940,553
Professional fees	745,834	1,228,635
Legal settlements (see Note 8)		1,250,000
Other accrued liabilities	2,282,462	2,323,094
Total accrued expenses	\$ 10,829,310	\$ 9,812,013

6. Income Taxes

The Company recorded a benefit for federal, state and foreign income taxes of approximately \$35,000 for the three months ended March 31, 2011. The Company's tax provision for the three months ended March 31, 2010 primarily consists of alternative minimum taxes and foreign income taxes, as well as a deferred provision related to the book and tax basis differences of goodwill. During the three months ended March 31, 2010, the Company maintained a full valuation allowance against all of its net deferred tax assets. However, the Company reversed the valuation allowance against primarily all of its net deferred tax assets at June 30, 2010 and therefore its tax provision and effective tax rate has increased year-over-year.

Deferred income taxes are provided for the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, and operating loss carry-forwards and credits using enacted tax rates expected to be in effect in the years in which the differences are expected to reverse. At each balance sheet date, the Company assesses the likelihood that deferred tax assets will be realized, and recognizes a valuation allowance if it is more likely than not that some portion of the deferred tax assets will not be realized. This assessment requires judgment as to the likelihood and amounts of future taxable income by tax jurisdiction. As of December 31, 2010 and March 31, 2011, the Company maintained a full valuation allowance related to the deferred tax assets of its Hungarian subsidiary.

The Company files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. The Company's income tax returns since inception are open to examination by federal, state, and foreign tax authorities. The Company has no amount recorded for any unrecognized tax benefits as of December 31, 2010 or March 31, 2011. The Company's policy is to record estimated interest and penalty related to the underpayment of income taxes or unrecognized tax benefits as a component of its income tax provision. During the three months ended March 31, 2010 and 2011, the Company did not recognize any interest or penalties in its statements of operations, and there are no accruals for interest or penalties at December 31, 2010 or March 31, 2011.

The Company has performed an analysis of its ownership changes as defined by Section 382 of the Internal Revenue Code and has determined that an ownership change as defined by Section 382 occurred in October 2004 and March 2010 resulting in approximately \$219,000 and \$12,800,000, respectively, of net operating losses (NOLs) being subject to limitation. As of December 31, 2010 and March 31, 2011, the Company believes all NOLs generated by the Company, including those subject to limitation, are available for utilization given the Company's large annual limitation amount. Subsequent ownership changes as defined by Section 382 could potentially limit the amount of net operating loss carry-forwards that can be utilized annually to offset future taxable income.

7. Stock Option Plans

On June 9, 2009, the Company's Board of Directors approved the 2009 Stock Incentive Plan (the 2009 Plan) which became effective upon the closing of the Company's initial public offering, or IPO. A total of 800,000 shares of common stock, subject to increase on an annual basis, were reserved for future issuance under the 2009 Plan. Shares of common stock reserved for issuance under the 2007 Stock Incentive Plan that remained available for issuance at the time of effectiveness of the 2009 Plan and any shares of common stock subject to awards under the 2007 Plan that expire, terminate, or are otherwise forfeited, canceled, or repurchased by the Company were added to the number of shares available under the 2009 Plan. The 2009 Plan is administered by the Board of Directors and Compensation Committee, which have the authority to designate participants and determine the number and type of awards to be granted, the time at which awards are exercisable, the method of payment and any other terms or conditions of the awards. Options generally vest over a four-year period and expire ten years from the date of grant. Certain