UNITED STATES DISTRICT COURT
DISTRICT OF MASSACHUSETTS

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| BENJAMIN WASSON, Individually and on Behalf of All Others Similarly Situated,<br><br>Plaintiff,<br><br>v.<br><br>LOGMEIN, INC., WILLIAM R. WAGNER, EDWARD K. HERDIECH, and ROBERT BRADLEY,<br><br>Defendants. | * * * * * * * * * * * * * * * | Civil Action No. 18-cv-12330-ADB |

**MEMORANDUM AND ORDER ON MOTION TO DISMISS**

BURROUGHS, D.J.

Lead Plaintiffs Larry Pollock[1] and Robert Daub and named Plaintiff Benjamin Wasson ("Plaintiffs") bring this shareholder class action on behalf of the former shareholders of LogMeIn, Inc. ("LogMeIn" or the "Company") against LogMeIn and its President, Chief Financial Officer, and Vice President of Investor Relations (the "Individual Defendants," and together with LogMeIn, "Defendants") for violating federal securities laws in connection with the acquisition of GetGo, Inc. ("GetGo") and the transition of former GetGo customers from monthly to annual billing plans.

[1] Larry Pollock passed away on January 31, 2019. [ECF No. 53]. Plaintiffs have stated their intent to file a motion to substitute an appropriate party. [Id. at 1].

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Presently before the Court is Defendants' motion to dismiss. [ECF No. 55]. For the reasons discussed below, the motion to dismiss, [ECF No. 55], is GRANTED. Plaintiffs may amend the complaint within twenty-one days.

## I. FACTS AS ALLEGED

For purposes of this motion to dismiss, the Court, as it must, "accept[s] as true all well-pleaded facts alleged in the complaint and draw[s] all reasonable inferences therefrom in the pleader's favor." A.G. ex rel. Maddox v. Elsevier, Inc., 732 F.3d 77, 80 (1st Cir. 2013) (quoting Santiago v. P.R., 655 F.3d 61, 72 (1st Cir. 2011)).

LogMeIn is a Boston-based provider of cloud-based software services used by mobile professionals to work remotely and IT service providers to manage computers and servers. [ECF No. 54 ¶¶ 3, 31]. The Company generates revenue primarily from subscription fees paid by individual consumers and small- and medium-sized businesses. [Id. ¶ 31]. The Company is organized in three segments: (1) Communications and Collaboration ("C&C"), (2) Identity and Access Management ("IAM"), and (3) Customer Engagement and Support ("CES"). [Id. ¶ 3]. The Individual Defendants are LogMeIn's President and CEO William Wagner, CFO Edward Herdiech, and Vice President of Investor Relations Robert Bradley. [ECF No. 54 ¶¶ 27–29].

On July 26, 2016, LogMeIn announced that it was acquiring GetGo—a subsidiary of LogMeIn's largest competitor, Citrix Inc.—and GetGo's "GoTo" family of products, including GoToMeeting, GoToWebinar, GoToTraining, GoToMyPC, GoToAssist, Grasshopper, and OpenVoice. [ECF No. 54 ¶ 34]. Collectively, the "GoTo" family of products generated about twice as much revenue as LogMeIn's similar products. [Id. ¶ 165]. While LogMeIn traditionally focused on individual consumers and small businesses, the GetGo acquisition allowed LogMeIn

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to enter the enterprise market. [Id. ¶ 36]. Once combined, LogMeIn and GetGo were expected to have more than two million customers and annual revenues exceeding $1 billion. [Id. ¶ 34].

Prior to the merger, the vast majority of LogMeIn subscribers had annual contracts and roughly 55–65% of these subscribers paid up front for the entire year with a credit card. [ECF No. 54 ¶ 42]. Additionally, a LogMeIn customer's annual subscription would automatically renew for the next year unless the customer specifically terminated it prior to the end of the subscription period. [Id.]. The majority of GetGo's customers were invoiced monthly, could cancel at any time by providing 30 days' notice, and did not pay by credit card. [Id.]. GetGo's customers could also "terminate for convenience" (i.e., terminate a contract without providing notice if they paid a fee). [Id. ¶ 44]. When LogMeIn announced the acquisition, it indicated that it intended to transition GetGo's customers to the LogMeIn billing model (i.e., annual subscriptions whereby customers paid in advance for an entire year by credit card). [Id. ¶¶ 45–46, 165]. Analysts viewed this transition as a positive development because LogMeIn's billing model generally did a better job of converting revenue into free cash flow (i.e., cash available to service debt and pay dividends) than did GetGo's model. [Id. ¶ 46].

On December 13, 2016, in an SEC filing, LogMeIn disclosed that "integration of the GoTo Business . . . may present significant challenges." [ECF No. 57-2 at 3]. LogMeIn warned investors that "customers' renewal rates may decline or fluctuate because of several factors, including their satisfaction or dissatisfaction with [LogMeIn's] services, the prices of [LogMeIn's] services, the prices of services offered by [LogMeIn's] competitors or reductions in [LogMeIn's] customers' spending levels." [Id. at 13]. LogMeIn further explained that its "ability to renew existing customers" could affect its operating results, with the potential to cause its stock price to "decline substantially." [Id. at 9]. In particular, LogMeIn noted that small and

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medium business customers were "challenging" "to retain in a cost-effective manner" and thus "have high churn rates in part because of the scale of their businesses and the ease of switching services . . . ." [Id. at 14]. Finally, LogMeIn explained that "integrati[on] [of] operations could cause an interruption of, or loss of momentum in, the activities of the GoTo Business or [LogMeIn's] business." [Id. at 4]. LogMeIn noted that its projections "may not be able to accurately predict future trends in customer renewals . . . ." [Id. at 13].

LogMeIn's acquisition of GetGo closed on January 31, 2017. [ECF No. 54 ¶ 37]. Most of the newly-acquired GoTo products became part of the C&C segment but GoToMyPC became part of the IAM segment and GoToAssist became part of the CES segment. [Id. ¶ 41].

On February 28, 2017, Wagner discussed the merger during LogMeIn's earnings call. [ECF No. 54 ¶ 37]. He explained:

> Our products are targeting markets with a combined addressable opportunity approaching $30 billion, growing in aggregate at 9% per year. And we are a company with the scale, leadership position, resources, and employee base needed to realize the potential of these markets. Over the long-term, we believe this will translate to a compelling financial profile consisting of 10% compounded annual growth rate, 40% adjusted EBITDA margins, and 30% cash flow margin. . . . I am pleased to report that our Board of Directors has approved a three-year capital return plan intended to return approximately 75% of the Company's free cash flow to shareholders over that time. That's up to $700 million in a three-year period returned through a combination of share repurchases and dividends.

[Id. ¶¶ 37–38]. Wagner noted that the Company was hoping to avoid being "disruptive and generat[ing] any kind of disruptive customer experience, so that is something [it was] being cautious of as [it] develop[ed] these product strategies." [Id. ¶ 39].

In mid-2017, LogMeIn began transitioning GetGo's customers from monthly to annual subscriptions. [ECF No. 54 ¶¶ 45, 55–58, 60, 102, 108]. On July 28, 2017, the company filed its Quarterly Report on Form 10-Q. [Id. ¶ 153]. It noted that "[w]e may not realize the anticipated cost synergies and growth opportunities from the Merger" because the Company's success

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"depends on the successful integration of the GoTo Business and even if we are able to integrate the GoTo Business successfully, we cannot predict with certainty if or when the cost synergies, growth opportunities and benefits will occur, or the extent to which they will actually be achieved." [Id.]. LogMeIn explained that "[t]he integration of the GoTo Business present[ed] significant challenges." [Id. ¶ 155]. Specifically, the company disclosed that if it were "unable to retain [its] existing customers, [its] revenue and results of operations would be adversely affected." [Id. ¶ 157].

The transition did not go particularly smoothly. At points prior to May 2017, Wagner attended monthly meetings with the Company's senior executives to discuss decreased revenues resulting from former GetGo customers taking their business elsewhere when faced with price increases and annual contracts. [ECF No. 54 ¶¶ 120–21]. In September 2017, LogMeIn's own internal data analytics allegedly revealed that its new business and quarterly retentions were net zero because the company was losing as many customers as it was gaining. [Id. ¶¶ 97–99].

In October 2017, as part of a conference call with investors and analysts, Wagner explained that the Company had "made very good progress driving the migration of former GoTo customers from monthly to annual payments." [ECF No. 54 ¶ 62]. In December 2017, Wagner informed analysts that "converting people from monthly to annual payments . . . ha[d] somewhat of a dampening effect on retention." [Id. ¶ 72]. Still, he remained "optimistic that [LogMeIn] [could] improve that in the relative near term . . . ." [Id.]. In the first quarter of 2018, LogMeIn's reported retention rate remained at 75%, consistent with its retention rates before the GetGo acquisition. [Id. ¶ 80]. According to Plaintiffs, LogMeIn's reported retention rates were misleading because they did not reflect the fact that LogMeIn knew in advance that certain customers would be cancelling their contracts at the end of the annual term. [Id. ¶¶ 97, 146].

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