

Limelight Networks, Inc.  
Form 10-Q  
May 06, 2011  
Table of Contents

**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 001-33508

**LIMELIGHT NETWORKS, INC.**

*(Exact name of registrant as specified in its charter)*

**Delaware**  
*(State or other jurisdiction of  
incorporation or organization)*

**20-1677033**  
*(I.R.S. Employer  
Identification No.)*

**222 South Mill Avenue, 8<sup>th</sup> Floor**

**Tempe, AZ 85281**

*(Address of principal executive offices, including Zip Code)*

**(602) 850-5000**

*(Registrant's telephone number, including area code)*

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

Edgar Filing: Limelight Networks, Inc. - Form 10-Q

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

The number of shares outstanding of the registrant's common stock as of May 4, 2011: 112,161,547 shares.

**Table of Contents**

**LIMELIGHT NETWORKS, INC.**

**FORM 10-Q**

**Quarterly Period Ended March 31, 2011**

**TABLE OF CONTENTS**

	<b>Page</b>
<b><u>PART I. FINANCIAL INFORMATION</u></b>	<b>3</b>
ITEM 1. <u>FINANCIAL STATEMENTS (unaudited)</u>	3
<u>Condensed Consolidated Balance Sheets as of March 31, 2011 and December 31, 2010</u>	3
<u>Condensed Consolidated Statements of Operations for the Three Months Ended March 31, 2011 and 2010</u>	4
<u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2011 and 2010</u>	5
<u>Notes to Unaudited Condensed Consolidated Financial Statements for the Three Months Ended March 31, 2011 and 2010</u>	6
ITEM 2. <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	21
ITEM 3. <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	33
ITEM 4. <u>CONTROLS AND PROCEDURES</u>	33
<b><u>PART II. OTHER INFORMATION</u></b>	<b>34</b>
ITEM 1. <u>LEGAL PROCEEDINGS</u>	34
ITEM 1A. <u>RISK FACTORS</u>	35
ITEM 2. <u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	51
ITEM 3. <u>DEFAULTS UPON SENIOR SECURITIES</u>	51
ITEM 4. <u>REMOVED AND RESERVED</u>	51
ITEM 5. <u>OTHER INFORMATION</u>	51
ITEM 6. <u>EXHIBITS</u>	52
<b><u>SIGNATURES</u></b>	<b>53</b>
EX-31.01	
EX-31.02	
EX-32.01	
EX-32.02	

**Table of Contents****PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****LIMELIGHT NETWORKS, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

(In thousands, except per share data)

	March 31, 2011 (Unaudited)	December 31, 2010
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 128,357	\$ 56,741
Marketable securities	6,399	12,009
Accounts receivable, net of reserves of \$6,527 at March 31, 2011 and \$7,295 at December 31, 2010, respectively	38,641	41,940
Income taxes receivable	745	721
Prepaid expenses and other current assets	10,092	9,628
Total current assets	184,234	121,039
Property and equipment, net	56,238	54,407
Marketable securities, less current portion	1,612	1,755
Deferred income tax, less current portion	948	718
Goodwill	95,296	94,364
Other intangible assets, net	18,134	19,406
Other assets	10,984	6,951
Total assets	\$ 367,446	\$ 298,640
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 9,385	\$ 12,236
Deferred revenue, current portion	6,084	6,877
Capital lease obligations, current portion	1,063	1,049
Other current liabilities	16,630	20,000
Total current liabilities	33,162	40,162
Capital lease obligations, less current portion	1,479	1,750
Deferred income tax, less current portion	1,281	598
Other long term liabilities	2,170	21
Total liabilities	38,092	42,531
Commitments and contingencies		
Stockholders equity:		
Convertible preferred stock, \$0.001 par value; 7,500 shares authorized; 0 shares issued and outstanding		
Common stock, \$0.001 par value; 150,000 shares authorized at March 31, 2011; 112,149 and 100,068 shares issued and outstanding at March 31, 2011 and December 31, 2010, respectively	112	100
Additional paid-in capital	463,358	380,338
Contingent consideration	219	1,608
Accumulated other comprehensive income	1,749	329

Edgar Filing: Limelight Networks, Inc. - Form 10-Q

Accumulated deficit	(136,084)	(126,266)
Total stockholders' equity	329,354	256,109
Total liabilities and stockholders' equity	\$ 367,446	\$ 298,640

*The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.*

**Table of Contents****LIMELIGHT NETWORKS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(In thousands, except per share data)****(Unaudited)**

	<b>For the Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
Revenues	\$ 49,817	\$ 36,087
Cost of revenue:		
Cost of services (exclusive of amortization)	22,686	16,205
Depreciation network	6,726	4,778
<b>Total cost of revenue</b>	<b>29,412</b>	<b>20,983</b>
Gross profit	20,405	15,104
Operating expenses:		
General and administrative	8,809	8,127
Sales and marketing	13,894	9,387
Research and development	5,618	2,645
Depreciation and amortization	1,955	766
<b>Total operating expenses</b>	<b>30,276</b>	<b>20,925</b>
Operating loss	(9,871)	(5,821)
Other income (expense):		
Interest expense	(42)	(1)
Interest income	187	302
Other income (expense)	30	(25)
<b>Total other income</b>	<b>175</b>	<b>276</b>
Loss before income taxes	(9,696)	(5,545)
Income tax expense	122	240
<b>Net loss</b>	<b>\$ (9,818)</b>	<b>\$ (5,785)</b>
Net loss per weighted average share:		
Basic	\$ (0.09)	\$ (0.07)
Diluted	\$ (0.09)	\$ (0.07)
Shares used in per share weighted average share calculations:		
Basic	103,917	85,119
Diluted	103,917	85,119

*The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.*



**Table of Contents****LIMELIGHT NETWORKS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)

	<b>For the Three Months Ended March 31, 2011      2010 (Unaudited)</b>	
<b>Operating activities</b>		
Net loss	\$ (9,818)	\$ (5,785)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	8,681	5,544
Share-based compensation	4,278	4,343
Deferred income taxes	(100)	
Loss on foreign currency transactions	53	49
Loss on sale of property and equipment		89
Accounts receivable charges	233	1,169
Accretion of marketable securities	49	24
Changes in operating assets and liabilities:		
Accounts receivable	3,013	(305)
Prepaid expenses and other current assets	(464)	685
Income taxes receivable	(119)	(53)
Other assets	(4,033)	(167)
Accounts payable	(1,217)	264
Deferred revenue	(793)	(3,105)
Other current liabilities	(2,978)	(2,081)
Other long term liabilities	84	
Net cash (used in) provided by operating activities	(3,131)	671
<b>Investing activities</b>		
Purchase of marketable securities	(1,410)	(16,755)
Sale of marketable securities	6,970	28,000
Purchases of property and equipment	(8,050)	(4,250)
Acquisition of business, net of cash acquired		(2,004)
Net cash (used in) provided by investing activities	(2,490)	4,991
<b>Financing activities</b>		
Payments on capital lease obligations	(257)	
Payments of employee tax withholdings related to restricted stock	(234)	
Proceeds from exercise of stock options	415	27
Proceeds from secondary public offering, net	77,169	
Net cash provided by financing activities	77,093	27
Effect of exchange rate changes on cash	144	97
Net increase in cash and cash equivalents	71,616	5,786
Cash and cash equivalents at beginning of period	56,741	89,509



Edgar Filing: Limelight Networks, Inc. - Form 10-Q

Cash and cash equivalents at end of period	\$ 128,357	\$ 95,295
<b>Supplemental disclosure of cash flow information</b>		
Cash paid for interest	\$ 37	\$ 1
Cash paid for income taxes	\$ 614	\$ 155
Property and equipment remaining in accounts payable and other current liabilities	\$ 2,959	\$ 1,078
Purchase of property and equipment under capital leases	\$	\$ 329
Property and equipment acquired through leasehold incentives	\$ 2,361	\$
Contingent consideration common stock issued in connection with acquisition of business	\$ 1,404	\$ 312

*The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.*

---

**Table of Contents****LIMELIGHT NETWORKS, INC.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****1. Nature of Business**

Limelight Networks, Inc. (the Company) is a provider of high-performance content delivery network services. The Company provides scalable software services that improve the quality of online media, accelerate the performance of web applications, enable secure online transactions, manage and monetize digital assets, and optimize advertising campaigns. These services are supported by the Company's global platform, which provides highly-available, highly-redundant storage, bandwidth and computing resources as well as connectivity to last-mile broadband network providers. The Company provides services to traditional and emerging media companies, or content publishers, including businesses operating in the television, music, radio, newspaper, magazine, movie, videogame, software and social media industries, as well as enterprises, technology companies, and government entities doing business online.

**2. Summary of Significant Accounting Policies and Use of Estimates*****Basis of Presentation***

The condensed consolidated financial statements include accounts of the Company and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated. The accompanying condensed consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (GAAP) and pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). These principles require management to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, together with amounts disclosed in the related notes to the condensed consolidated financial statements. Actual results and outcomes may differ from management's estimates, judgments and assumptions. Significant estimates used in these condensed consolidated financial statements include, but are not limited to, revenues, accounts receivable and related reserves, useful lives and realizability of long-term assets, acquired intangibles, income and other taxes, the fair value of stock-based compensation and other contingent liabilities. Estimates are periodically reviewed in light of changes in circumstances, facts and experience. The effects of material revisions in estimates are reflected in the condensed consolidated financial statements prospectively from the date of the change in estimate. The accompanying condensed consolidated balance sheet as of March 31, 2011, the condensed consolidated statements of operations for the three months ended March 31, 2011 and 2010, and the condensed consolidated statements of cash flows for the three months ended March 31, 2011 and 2010, are unaudited. The condensed consolidated balance sheet information as of December 31, 2010 is derived from the audited consolidated financial statements which were included in our Annual Report on Form 10-K filed with the SEC on March 11, 2011. The consolidated financial information contained in this Quarterly Report on Form 10-Q should be read in conjunction with the audited consolidated financial statements and related notes contained in the Annual Report on Form 10-K filed on March 11, 2011.

The results of operations presented in this Quarterly Report on Form 10-Q are not necessarily indicative of the results that may be expected for the year ending December 31, 2011 or for any future periods. In the opinion of management, these unaudited condensed consolidated financial statements include all adjustments of a normal recurring nature that are necessary, in the opinion of management, to present fairly the results of all interim periods reported herein.

***Recent Accounting Pronouncements***

As of January 1, 2011, the Company adopted Accounting Standards Update (ASU) 2010-28, *Intangibles - Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts* (ASU 2010-28). ASU 2010-28 clarifies the requirement to test for impairment of goodwill. ASC Topic 350 has required that goodwill be tested for impairment if the carrying amount of a reporting unit exceeds its fair value. Under ASU 2010-28, when the carrying amount of a reporting unit is zero or negative an entity must assume that it is more likely than not that a goodwill impairment exists, perform an additional test to determine whether goodwill has been impaired and calculate the amount of that impairment. The modifications to ASC Topic 350 resulting from the issuance of ASU 2010-28 are effective for fiscal years beginning after December 15, 2010 and interim periods within those years. The adoption of ASU 2010-08 did not have an impact on the financial statements of the Company.

As of January 1, 2011, the Company adopted ASU 2010-29 *Business Combinations (Topic 805) - Disclosure of Supplementary Pro Forma Information for Business Combinations* (ASU 2010-29). This update clarifies that, when presenting comparative financial statements, SEC registrants should disclose revenue and earnings of the combined entity as though the current period business combinations had occurred as of the beginning of the comparable prior annual reporting period only. The update also expands the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included

## Edgar Filing: Limelight Networks, Inc. - Form 10-Q

in the reported pro forma revenue and earnings. ASU 2010-29 is effective prospectively for material (either on an individual or aggregate basis) business combinations entered into in fiscal years beginning on or after December 15, 2010. The Company will evaluate the impact of adopting this new guidance on its consolidated financial statements when and if business combinations are entered into in the future.

**Table of Contents****Foreign Currency Translation**

The Company analyzes the functional currency for each of its international subsidiaries periodically to determine if a significant change in facts and circumstances indicate that the primary economic currency has changed. As of December 31, 2010, the international subsidiaries acquired as part of the *EyeWonder, Inc.* and *chors GmbH* acquisitions had local currencies as their functional currencies while the remaining international subsidiaries of the Company had the U.S. dollar as their functional currencies. During the first quarter of 2011, the Company analyzed the various economic factors of its international subsidiaries and determined that the operations of its subsidiaries that were previously determined to operate in a U.S. dollar functional currency environment had changed and that their functional currencies changed to the local currencies. The Company was historically primarily focused on the U.S. market and deployed network assets in foreign jurisdictions to support its U.S. customers. The Company is now conducting business and generating revenue from an international customer base. It has significantly expanded its sales, operations and finance resources internationally and various contracts were moved to the foreign subsidiaries to better match foreign currency costs with foreign currency revenues. Effective January 1, 2011, the adjustment from translating these subsidiaries' financial statements from the local currency to the U.S. dollar was recorded as a separate component of accumulated other comprehensive loss. These foreign currency translation adjustments reflect the translation of the balance sheet at period end exchange rates and the income statement at an average exchange rate in effect during each period. Upon the change in functional currency, the Company recorded a cumulative translation adjustment (CTA) of approximately \$0.5 million, which is included in the condensed consolidated balance sheet. Because of the change in exchange rates between reporting periods and changes in certain account balances, the foreign currency translation adjustment will change from period to period.

**Use of Estimates**

The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates, judgments and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Actual results and outcomes could differ from those estimates. Significant estimates used in these condensed consolidated financial statements include, but are not limited to, revenues, accounts receivable and related reserves, useful lives and realizability of long-term asset, provision for litigation, capitalized software, income and other taxes, the fair value of share-based compensation and other contingent liabilities.

**3. Investments in Marketable Securities**

Management determines the appropriate classification of its debt and equity securities at the time of purchase and reevaluates such classification as of each balance sheet date. Realized gains and losses and declines in value judged to be other than temporary are determined based on the specific identification method and are reported in the statements of operations.

The Company has classified its investments in equity and debt securities as available-for-sale. Available-for-sale investments are initially recorded at cost with temporary changes in fair value periodically adjusted through comprehensive income. The Company periodically reviews its investments for other-than-temporary declines in fair value based on the specific identification method and writes down investments to their fair value when an other-than-temporary decline has occurred.

The following is a summary of available-for-sale securities at March 31, 2011 (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Government agency bonds	\$ 4,187	\$ 2	\$	\$ 4,189
Commercial paper	799			799
Corporate notes and bonds	1,411			1,411
Total available-for-sale debt securities	6,397	2		6,399
Publicly traded common stock	1,133	479		1,612
Total available-for-sale securities	\$ 7,530	\$ 481	\$	\$ 8,011

At March 31, 2011, the Company evaluated its investment portfolio in available-for-sale debt securities, and noted no unrealized losses were due to fluctuations in interest rates.

## Edgar Filing: Limelight Networks, Inc. - Form 10-Q

Expected maturities can differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties, and the Company views its available-for-sale securities as available for current operations.

The amortized cost and estimated fair value of the available-for-sale debt securities at March 31, 2011, by maturity, are shown below (in thousands):

**Table of Contents**

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale debt securities				
Due in one year or less	\$ 6,397	\$ 2	\$	\$ 6,399
Due after one year and through five years				
	\$ 6,397	\$ 2	\$	\$ 6,399

The following is a summary of available-for-sale securities at December 31, 2010 (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Government agency bonds	\$ 8,985	\$ 2	\$ (1)	\$ 8,986
Corporate notes and bonds	3,022	1		3,023
Total available-for-sale debt securities	12,007	3	(1)	12,009
Publicly traded common stock	1,133	622		1,755
Total available-for-sale securities	\$ 13,140	\$ 625	\$ (1)	\$ 13,764

The amortized cost and estimated fair value of the available-for-sale debt securities at December 31, 2010, by maturity, are shown below (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale debt securities				
Due in one year or less	\$ 12,007	\$ 3	\$ (1)	\$ 12,009
Due after one year and through five years				
	\$ 12,007	\$ 3	\$ (1)	\$ 12,009

**4. Business Acquisitions*****Delve Networks, Inc. Acquisition***

On July 30, 2010, the Company acquired Delve Networks, Inc. (Delve), a privately-held provider of cloud-based video publishing and analytics services located in Seattle, Washington. The aggregate purchase price of approximately \$4.1 million consisted of approximately \$2.6 million of cash paid at the closing and 262,453 shares of the Company's common stock with an estimated fair value of approximately \$1.1 million. The fair value of the common stock issued as consideration for Delve was determined on the basis of the closing market price of the Company's common stock on the acquisition date. In addition, the Company recorded as part of the purchase price approximately \$0.4 million of contingent consideration it estimates will be earned relating to an earn-out provision. The estimated earn-out obligation is comprised of approximately \$0.2 million of cash consideration and approximately 51,210 shares of the Company's common stock with an estimated value of approximately \$0.2 million at the time of the acquisition. Under the terms of the Merger Agreement, approximately \$0.6 million of the cash portion of the purchase price has been set aside in an escrow account and will be held for a period of up to 36 months following the closing date to satisfy any unresolved indemnification claims. In addition, the Company incurred approximately \$0.2 million of transaction costs, which primarily consisted of fees for legal services. These transaction costs were included in general and administrative expenses in the Company's statement of operations for the year ended December 31, 2010. The Company's consolidated financial statements include the results of operations of Delve from the date of acquisition. The historical results of operations of Delve were not significant to the Company's consolidated results of operations for the periods presented. The total purchase consideration was allocated to the assets acquired and liabilities assumed at their estimated fair

## Edgar Filing: Limelight Networks, Inc. - Form 10-Q

values as of the date of acquisition, as determined by management and, with respect to identifiable intangible assets, by management with the assistance of an appraisal provided by a third party valuation firm.

The excess of the purchase price over the amounts allocated to assets acquired and liabilities assumed has been recorded as goodwill. In accordance with current accounting standards, goodwill associated with the Delve acquisition will not be amortized and will be tested for impairment at least annually (see Note 7). The goodwill resulting from the Delve acquisition is not currently deductible for income tax purposes.

The table below represents the preliminary allocation of the purchase price to the acquired net assets based on their estimated fair values as of July 30, 2010 as well as the associated estimated useful lives of the acquired intangible assets at that date.

**Table of Contents**

	(In thousands)
<b>Consideration (including estimated unpaid contingent consideration):</b>	
Cash	\$ 2,755
Common stock	1,335
Total consideration	\$ 4,090
<b>Acquisition-related costs (included in general and administrative expenses)</b>	<b>\$ 152</b>
<b>Recognized amounts of assets acquired and liabilities assumed:</b>	
Financial assets	\$ 134
Property and equipment	12
Identifiable intangible assets	2,010
Financial liabilities	(315)
Total net assets	1,841
Goodwill	2,249
	<b>\$ 4,090</b>

The following were the identified intangible assets acquired and the respective estimated periods over which such assets will be amortized:

	Amount (In thousands)	Weighted Average useful life (In years)
Technology	\$ 1,830	4.0
Customer relationships	150	6.0
Trade names and trademarks	30	2.5
Total	\$ 2,010	

The total weighted average amortization period for the identified intangible assets acquired from Delve is 4.1 years.

In determining the purchase price allocation, the Company considered, among other factors, its intention to use the acquired assets and the historical and estimated future demand for Delve services. The estimated fair value of intangible assets was based upon the income approach. The income approach relies on an estimation of the present value of the future monetary benefits expected to flow to the owner of an asset during its remaining economic life. This approach requires a projection of the cash flow that the asset is expected to generate in the future. The projected cash flow is discounted to its present value using a rate of return, or discount rate that accounts for the time value of money and the degree of risks inherent in the asset. The expected future cash flow that is projected should include all of the economic benefits attributable to the asset, including the tax savings associated with the amortization of the intangible asset value over the tax life of the asset. The income approach may take the form of a relief from royalty methodology, a cost savings methodology, a with and without methodology, or excess earnings methodology, depending on the specific asset under consideration.

The relief-from-royalty method was used to value the Trade Names and Trademarks and Technology acquired from Delve. The relief-from-royalty method estimates the cost savings that accrue to the owner of an intangible asset that would otherwise be required to pay royalties or license fees on revenues earned through the use of the asset. The royalty rate used is based on an analysis of empirical, market-derived royalty rates for guideline intangible assets. Typically, revenue is projected over the expected remaining useful life of the intangible asset. The royalty rate is then applied to estimate the royalty savings. The key assumptions used in valuing the existing Trade Names and Trademarks acquired are as follows: royalty rate of 0.8%, discount rate of 25%, tax rate of 39% and an economic life of approximately 2.5 years. The key assumptions used in valuing the Technology acquired are as follows: royalty rate of 20%, discount rate of 25%, tax rate of 39%, and an economic life of approximately 4.0 years.



## Edgar Filing: Limelight Networks, Inc. - Form 10-Q

The customer relationships were valued using a form of the income approach known as the multi-period excess earnings method. Inherent in the multi-period excess earnings method is the recognition that, in most cases, all of the assets of the business, both tangible and intangible, contribute to the generation of the cash flow of the business and the net cash flows attributable to the subject asset must recognize the support of the other assets which contribute to the realization of the cash flows. The contributory asset charges are based on the fair value of the contributory assets and either pre-tax or after-tax cash flows are assessed charges representing returns on the contributory assets. A contributory asset charge for the use of the technology was assessed on pre-tax cash flows, while contributory asset charges for the use of the working capital, fixed assets, and assembled work force have been deducted from the after-tax cash flow in each year to determine the net future cash flow attributable to the relationships. This future

**Table of Contents**

cash flow was then discounted using an estimated required rate of return for the asset to determine the present value of the future cash flows attributable to the asset. The key assumptions used in valuing the customer relationships acquired are as follows: discount rate of 22.5%, tax rate of 39% and estimated average economic life of 6 years.

The purchase price allocation for the Delve acquisition has not been finalized. Completion of the valuation could result in adjustments to the carrying value of the assets acquired and liabilities assumed, the useful lives of intangible assets and residual amount allocated to goodwill. The remaining areas of the purchase price allocation may be subject to change as the allocation relates to accrued liabilities, deferred taxes, income taxes payable, purchased intangible assets and goodwill. The preliminary allocation of the purchase price is based on the best estimates of management and is subject to revision based on the final valuations and estimates of useful lives.

***EyeWonder, Inc. Acquisition***

On April 30, 2010, the Company acquired EyeWonder, Inc. (EyeWonder), a provider of interactive digital advertising products and services to advertisers, advertising agencies and publishers headquartered in Atlanta, Georgia. The aggregate purchase price of approximately \$114.0 million consisted of approximately \$62.8 million of cash and 12,740,000 shares of the Company's common stock with an estimated fair value of approximately \$51.2 million. The fair value of the common shares issued as consideration for EyeWonder was determined on the basis of the closing market price of the Company's common shares on the acquisition date. Under the terms of the Merger Agreement, 3,013,699 shares of the Company's common stock have been set aside in an escrow account and will be held until June 28, 2011, subject to any unresolved indemnification claims. As of March 31, 2011, the Company has recorded an asset of \$0.6 million which is included in prepaid expenses and other current assets in the accompanying balance sheets related to claims against the escrow account.

The excess of the purchase price over the amounts allocated to assets acquired and liabilities assumed has been recorded as goodwill. Goodwill increased by \$0.7 million in the quarter ended March 31, 2011 due to an EyeWonder related purchase price allocation adjustment to establish a deferred tax liability associated with the indefinite lived trademark. In accordance with current accounting standards, goodwill associated with the EyeWonder acquisition will not be amortized and will be tested for impairment at least annually (see Note 7). The goodwill resulting from the EyeWonder acquisition is not currently deductible for income tax purposes.

The table below represents the allocation of the purchase price to the acquired net assets based on their estimated fair values as of April 30, 2010, as well as the associated estimated useful lives of the acquired intangible assets at that date.

The following table presents the allocation of the purchase price for EyeWonder:

	(In thousands)
<b>Consideration:</b>	
Cash	\$ 62,782
Common stock	51,215
Total consideration	\$ 113,997
<b>Acquisition-related costs (included in general and administrative expenses)</b>	<b>\$ 2,358</b>
<b>Recognized amounts of assets acquired and liabilities assumed:</b>	
Financial assets	\$ 13,218
Property and equipment	1,100
Identifiable intangible assets	18,537
Financial liabilities	(6,717)
Total net assets	26,138
Goodwill	87,859
	<b>\$ 113,997</b>

The following were the identified intangible assets acquired and the respective estimated periods over which such assets will be amortized:



**Table of Contents**

	Amount (In thousands)	Weighted Average useful life (In years)
Existing technologies	\$ 15,770	4.0
Patent	830	4.0
Trademarks	1,800	Indefinite
Non-compete agreements	137	1.5
<b>Total</b>	<b>\$ 18,537</b>	

The total weighted average amortization period for the identified intangible assets acquired from EyeWonder is 3.6 years.

The following table reflects unaudited pro forma results of operations of the Company for the three month periods ended March 31, 2011 and 2010 assuming that the EyeWonder acquisition had occurred on January 1, 2010 (in thousands, except per share data):

	For the Three Month Period Ended March 31,	
	2011	2010
Revenues	\$ 49,817	\$ 42,718
Net income	\$ (9,818)	\$ (8,397)
Net income per share basic	\$ (0.09)	\$ (0.09)
Net income per share diluted	\$ (0.09)	\$ (0.09)

For a more detailed description of the EyeWonder acquisition, please see Footnote 3, contained in the Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2010 included in the Company's annual report on Form 10-K filed with the Securities and Exchange Commission, or SEC, on March 11, 2011.

**chors GmbH Acquisition**

On January 27, 2010, the Company acquired chors GmbH (chors), an on-line and direct marketing solutions provider located in Germany. The aggregate purchase price of approximately \$5.9 million consisted of approximately \$2.5 million of cash that was paid at closing, and 86,000 shares of the Company's common stock with an estimated value of approximately \$0.3 million that were issued at closing. The fair value of the common shares issued as consideration for chors was determined on the basis of the closing market price of the Company's common shares on the acquisition date. In addition, the Company recorded as part of the purchase price approximately \$3.1 million of estimated contingent consideration relating to an earn-out provision. The estimated earn-out obligation is comprised of approximately \$0.3 million of cash consideration and 774,000 shares of the Company's common stock with an estimated value of approximately \$2.8 million at the time of the acquisition. In accordance with the terms and conditions of the contingent milestone consideration, the Company determined that the financial milestones were achieved and both those shares and cash were distributed to the former shareholders of chors in November 2010 (387,000 shares) March 2011 (387,000 shares) and April 2011 (approximately \$0.3 million cash).

The excess of the purchase price over the amounts allocated to assets acquired and liabilities assumed has been recorded as goodwill. In accordance with current accounting standards, goodwill associated with the chors acquisition will not be amortized and will be tested for impairment at least annually (see Note 7). The goodwill resulting from the chors acquisition is not currently deductible for income tax purposes.

The following table presents the allocation of the purchase price for chors:

	(In thousands)
<b>Consideration (including estimated unpaid contingent consideration):</b>	
Cash	\$ 2,762
Common stock	3,122

Edgar Filing: Limelight Networks, Inc. - Form 10-Q

Total consideration	\$	5,884
<b>Acquisition-related costs (included in general and administrative expenses)</b>	\$	265
<b>Recognized amounts of assets acquired and liabilities assumed:</b>		
Financial assets	\$	845
Property and equipment		63

**Table of Contents**

	(In thousands)
Identifiable intangible assets	2,498
Financial liabilities	(1,327)
Total net assets	2,079
Goodwill	3,805
	\$ 5,884

The following were the identified intangible assets acquired and the respective estimated periods over which such assets will be amortized.

	Amount (In thousands)	Weighted Average useful life (In years)
Existing technologies	\$ 1,180	3.0
Non-compete agreements	940	4.0
Usage contract	370	1.6
Trademarks	8	5.0
Total	\$ 2,498	

The total weighted average amortization period for the identified intangible assets acquired from chors is 3.2 years.

For a more detailed description of the chors acquisition, please see Footnote 3, contained in the Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2010 included in the Company's annual report on Form 10-K filed with the Securities and Exchange Commission, or SEC, on March 11, 2011.

**5. Accounts Receivable**

Trade accounts receivable are recorded at the invoiced amounts and do not bear interest. The Company records reserves against its accounts receivable balance for service credits and for doubtful accounts. Estimates are used in determining both of these reserves. The allowance for doubtful accounts charges are included as a component of general and administrative expenses.

Accounts receivable include (in thousands):

	As of March 31, 2011	As of December 31, 2010
Accounts receivable	\$ 38,088	\$ 41,167
Unbilled accounts receivable	7,080	8,068
	45,168	49,235
Less: credit allowance	(940)	(1,080)
Less: allowance for bad debt	(5,587)	(6,215)
Total accounts receivable, net	\$ 38,641	\$ 41,940

**6. Prepaid Expenses and Other Current Assets**

Prepaid expenses and other current assets include (in thousands):

Edgar Filing: Limelight Networks, Inc. - Form 10-Q

	As of March 31, 2011	As of December 31, 2010
Prepaid bandwidth and backbone services	\$ 3,582	\$ 3,238
Non-income taxes receivable (VAT)	2,282	2,178
Employee advances and prepaid recoverable commissions	133	208
Interest receivable	68	97
Other	4,027	3,907
 Total prepaid expenses and other current assets	 \$ 10,092	 \$ 9,628

**Table of Contents****7. Goodwill and Other Intangible Assets**

The Company has recorded goodwill and other intangible assets as a result of its business acquisitions of Kiptronic Inc. (Kiptronic), Chors, EyeWonder and Delve that occurred in May 2009, January 2010, April 2010 and July 2010, respectively. As of March 31, 2011, the Company has recorded goodwill of approximately \$95.3 million. Goodwill increased by \$0.7 million in the quarter ended March 31, 2011 due to an EyeWonder related purchase price allocation adjustment to establish a deferred tax liability associated with an indefinite lived intangible asset. The Company reviews goodwill for impairment annually or whenever events or changes in circumstances indicate that the carrying amount may exceed their fair value. The Company concluded that it had one reporting unit and assigned the entire balance of goodwill to this reporting unit as of March 31, 2011.

Other intangible assets that are subject to amortization consist of the following (in thousands):

	<b>March 31, 2011</b>		
	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Amount</b>
Existing technologies	\$ 19,240	\$ (4,569)	\$ 14,671
Trademark	1,837	(10)	1,827
Non-compete agreements	1,093	(346)	747
Patents	830	(190)	640
Usage contract	376	(261)	115
Customer relationships	162	(28)	134
Domain names	11	(11)	
Total other intangible assets	\$ 23,549	\$ (5,415)	\$ 18,134

	<b>December 31, 2010</b>		
	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Amount</b>
Existing technologies	\$ 19,168	\$ (3,345)	\$ 15,823
Trademark	1,837	(6)	1,831
Non-compete agreements	1,035	(265)	770
Patents	830	(138)	692
Usage contract	354	(204)	150
Customer relationships	162	(22)	140
Domain names	11	(11)	
Total other intangible assets	\$ 23,397	\$ (3,991)	\$ 19,406

Aggregate expense related to amortization of other intangible assets for the three months ended March 31, 2011 and 2010 was approximately \$1.4 million and \$0.2 million, respectively. Based on the Company's other intangible assets as of March 31, 2011, aggregate expense related to amortization of other intangible assets is expected to be \$4.2 million for the remainder of 2011, and \$5.4 million, \$4.9 million, \$1.7 million and \$0.1 million for fiscal years 2012, 2013, 2014 and 2015 and beyond, respectively.

**8. Property and Equipment**

Property and equipment include (in thousands):



Edgar Filing: Limelight Networks, Inc. - Form 10-Q

	As of March 31, 2011	As of December 31, 2010
Network equipment	\$ 156,838	\$ 151,350
Computer equipment	8,689	8,112
Furniture and fixtures	1,690	952
Leasehold improvements	6,420	3,525
Other equipment	538	498

**Table of Contents**

	As of March 31, 2011	As of December 31, 2010
	174,175	164,437
Less: accumulated depreciation	(117,937)	(110,030)
<b>Total property and equipment, net</b>	<b>\$ 56,238</b>	<b>\$ 54,407</b>

**9. Other Assets**

Other assets include (in thousands):

	As of March 31, 2011	As of December 31, 2010
Prepaid bandwidth and backbone services	\$ 8,139	\$ 4,326
Vendor deposits and other	2,051	1,904
Restricted cash	314	314
Cost basis investments	480	407
<b>Total other assets</b>	<b>\$ 10,984</b>	<b>\$ 6,951</b>

**10. Other Current Liabilities**

Other current liabilities consist of the following (in thousands):

	As of March 31, 2011	As of December 31, 2010
Accrued compensation and benefits	\$ 4,353	\$ 7,476
Accrued cost of revenue	3,489	2,795
Accrued legal fees	1,840	1,545
Income taxes payable	1,610	1,643
Non income taxes payable	898	1,762
Contingent consideration liability	414	414
Other accrued expenses	4,026	4,365
<b>Total other current liabilities</b>	<b>\$ 16,630</b>	<b>\$ 20,000</b>

**11. Litigation**

In June 2006, Akamai Technologies, Inc., or Akamai, and the Massachusetts Institute of Technology, or MIT, filed a lawsuit against the Company in the United States District Court for the District of Massachusetts alleging that the Company was infringing two patents assigned to MIT and exclusively licensed by MIT to Akamai, United States Patent No. 6,553,413 (the 413 patent) and United States Patent No. 6,108,703 (the 703 patent). In September 2006, Akamai and MIT expanded their claims to assert infringement of a third, recently issued patent United States Patent No. 7,103,645 (the 645 patent). In February 2008, a jury returned a verdict in this lawsuit, finding that the Company infringed four claims of the 703 patent at issue and rejecting the Company's invalidity defenses for the period April 2005 through December 31, 2007. The jury awarded an aggregate of approximately \$45.5 million which includes lost profits, reasonable royalties and price erosion damages. In addition, the jury awarded prejudgment interest which the Company estimated to be \$2.6 million at December 31, 2007. The Company recorded an aggregate \$48.1 million as a provision for litigation as of December 31, 2007. During the year ended December 31, 2008, the Company estimated its revenue from alleged infringing methods totaled approximately 25% of total revenue. The Company recorded a potential additional

## Edgar Filing: Limelight Networks, Inc. - Form 10-Q

provision for litigation totaling \$15.5 million, plus additional interest of \$2.0 million, for the year ended December 31, 2008. The total provision for litigation at December 31, 2008 was \$65.6 million.

On July 1, 2008, the court denied the Company's Motions for Judgment as a Matter of Law (JMOL), Obviousness, and a New Trial. The court also denied Akamai's Motion for Permanent Injunction as premature and its Motions for Summary Judgment regarding the Company's equitable defenses. The court conducted a bench trial in November 2008 regarding the Company's equitable defenses. The Company also filed a motion for reconsideration of the court's earlier denial of the Company's motion for JMOL. The Company's motion for JMOL was based largely upon a clarification in the standard for a finding of joint infringement articulated by the Federal Circuit in the case of *Muniauction, Inc. v. Thomson Corp.* (the *Muniauction Case*), released after the court denied the Company's initial motion for JMOL. On April 24, 2009 the court issued its order and memorandum setting aside the adverse jury verdict and ruling that the Company did not infringe Akamai's '703 patent and that the Company is entitled to judgment as a matter of

---

**Table of Contents**

law. Based upon the court's April 24, 2009 order the Company has reversed the \$65.6 million provision for litigation previously recorded for this lawsuit as the Company no longer believes that payment of any amounts represented by the litigation provision is probable. The court entered final judgment in favor of the Company on May 22, 2009, and Akamai filed its notice of appeal of the court's decision on May 26, 2009. The court heard arguments by both parties on June 7, 2010. On December 20, 2010 the Court of Appeals for the Federal Circuit issued its opinion affirming the District Court's entry of judgment in our favor. On February 18, 2011, Akamai filed a motion with the Court of Appeals for the Federal Circuit seeking a rehearing and rehearing *en banc*. On April 21, 2011, the Court of Appeals for the Federal Circuit issued an order denying the petition for rehearing, granting the petition for rehearing *en banc*, vacating the December 20, 2010 opinion affirming the District Court's entry of judgment in the Company's favor, and reinstated the appeal. The Company believes that it does not infringe Akamai's patents and will continue to vigorously defend the action. The Company is not able at this time to estimate the range of potential loss nor, in light of the favorable U.S. district court order, does it believe that a loss is probable. Therefore, the Company has made no provision for this lawsuit in its financial statements.

Legal and other expenses associated with this case have been significant. The Company includes these litigation expenses in general and administrative expenses, as reported in its consolidated statement of operations.

In December 2007, Level 3 Communications, LLC, or Level 3, filed a lawsuit against the Company in the United States District Court for the Eastern District of Virginia alleging that the Company was infringing certain patents Level 3 acquired from Savvis Communications Corp. In addition to monetary relief, including treble damages, interest, fees and costs, the complaint sought an order permanently enjoining the Company from conducting its business in a manner that infringed the relevant patents. A jury trial was conducted in the United States District Court for the Eastern District of Virginia in January 2009, and on January 23, 2009 the jury returned a verdict favorable to the Company finding that the Company did not infringe the Level 3 patents. The Company believes the jury verdict finding that the Company did not infringe the Level 3 patents is correct, and that the claims of infringement asserted against the Company by Level 3 in the litigation were without merit. The court denied Level 3's subsequent motion for JMOL or alternatively for a new trial, and entered judgment in favor of the Company. Level 3 filed its notice of appeal of the court's decision on July 21, 2009. On May 3, 2010 the United States Court of Appeals for the Federal Circuit heard oral argument on this matter, and on May 5, 2010 the court affirmed the District Court judgment in favor of the Company. Level 3 subsequently filed a motion for re-hearing and rehearing *en banc* that the Court subsequently denied. In light of the favorable ruling the Company does not believe a loss is probable and believes that this litigation is now successfully concluded. Therefore, there is no provision for this lawsuit in the Company's financial statements.

In August 2007, the Company, certain of its officers and current and former directors, and the firms that served as the lead underwriters in the Company's initial public offering were named as defendants in several purported class action lawsuits filed in the United States District Courts for the District of Arizona and the Southern District of New York. All of the New York cases were transferred to Arizona and consolidated into a single action. The plaintiffs' consolidated complaint asserted causes of action under Sections 11, 12, and 15 of the Securities Act of 1933, as amended, on behalf of a purported class of individuals who purchased the Company's common stock in its initial public offering and/or pursuant to its Prospectus. The complaint alleges, among other things, that the Company omitted and/or misstated certain facts concerning the seasonality of its business and the loss of revenue related to certain customers. On March 17, 2008, the Company and the individual defendants moved to dismiss all of the plaintiffs' claims and a hearing was held on June 16, 2008. On August 8, 2008, the court granted the motion to dismiss, dismissing plaintiffs' claims under Section 12 with prejudice and granting leave to amend the claims under Sections 11 and 15. Plaintiffs chose not to amend the claims under Sections 11 and 15, and on August 29, 2008 the court entered judgment in favor of the Company. On September 5, 2008, plaintiffs filed a notice of appeal, and appellate briefs were filed by the parties in January and February 2009. The Company believes that it and the individual defendants have meritorious defenses to the plaintiffs' claims and intends to contest the lawsuits vigorously. In November 2009 the parties entered into a Memorandum of Understanding to settle this lawsuit for an amount well within the coverage limits of the primary carrier of our directors and officers liability insurance, and on July 7, 2010 the parties entered into a settlement agreement consistent with the terms of the Memorandum of Understanding, which required court approval. On March 22, 2011 the Federal District Court held a hearing pursuant to which the Court approved the settlement. Accordingly, the Company does not believe that a loss is probable and believes that this litigation is now successfully concluded. Therefore, the Company has made no provision for this lawsuit in its financial statements.

In the ordinary course of the Company's business, it is also involved in a limited number of other legal actions, both as plaintiff and defendant, and could incur uninsured liability in any one or more of them. With respect to pending legal actions to which the Company is a party, although the outcomes of these actions are not generally determinable, the Company believes that the ultimate resolution of these matters will not have a material adverse effect on its financial position, cash flows or results of operations. Litigation relating to the content delivery network services industry is not uncommon, and the Company is, and from time to time has been, subject to such litigation. No assurances can be given with respect to the extent or outcome of any such litigation in the future.

**12. Net Loss per Share**

## Edgar Filing: Limelight Networks, Inc. - Form 10-Q

The Company calculates basic and diluted earnings per weighted average share based on net (loss) income and includes the restricted stock as participating securities. The Company uses the weighted-average number of common shares outstanding during the period, plus the restricted stock for the computation of basic earnings per share. Diluted earnings per share include the dilutive effect of convertible stock options and restricted stock units in the weighted-average number of common shares outstanding.

**Table of Contents**

The following table sets forth the components used in the computation of basic and diluted net loss per share for the periods indicated (in thousands, except per share data):

	For the Three Months Ended March 31,	
	2011	2010
Net loss available to common stockholders	\$ (9,818)	\$ (5,785)
Basic weighted average common shares	103,917	85,119
Basic weighted average common shares Dilutive effect of stock options and restricted stock units	103,917	85,119
Diluted weighted average common shares	103,917	85,119
Basic net loss per share	\$ (0.09)	\$ (0.07)
Diluted net loss per share	\$ (0.09)	\$ (0.07)

For the three month periods ended March 31, 2011 and 2010, respectively, an aggregate of approximately 5,614,000 and 4,136,000, respectively, outstanding options and common stock subject to repurchase were excluded from the computation of diluted net loss per common share because including them would have had an antidilutive effect.

**13. Comprehensive Income (Loss)**

The following table presents the calculation of comprehensive loss and its components (in thousands):

	For the Three Months Ended March 31,	
	2011	2010
Net loss	\$ (9,818)	\$ (5,785)
Other comprehensive income (loss), net of tax:		
Unrealized loss on investments	(144)	(50)
Cumulative translation adjustment	494	
Foreign currency translation adjustments	1,070	(174)
Other comprehensive income (loss)	1,420	(224)
Comprehensive loss	\$ (8,398)	\$ (6,009)

For the periods presented, accumulated other comprehensive income consisted of (in thousands):

	As of March 31, 2011	As of December 31, 2010
Net unrealized gain on investments, net of tax	\$ 355	\$ 499
Foreign currency translation adjustments	1,394	(170)

Total accumulated other comprehensive gain	\$ 1,749	\$ 329
--	----------	--------

**14. Stockholders Equity**

*Common Stock*

The Board of Directors has authorized 150,000,000 shares of \$0.001 par value Common Stock at March 31, 2011.

On March 2, 2011 the Company completed an underwritten public offering of its common stock in which it sold and issued 11,500,000 shares of its common stock, including 1,500,000 shares subject to the underwriters over-allotment option, at a price to the public of \$7.10 per share. The newly issued common shares began trading on the Nasdaq Global Select Market on March 2, 2011. The Company raised a total of approximately \$81.7 million in gross proceeds from the offering, or approximately \$77.2 million in net proceeds after deducting underwriting discounts and commissions of approximately \$4.0 million and other offering costs of

**Table of Contents**

approximately \$0.5 million. The offering was made pursuant to the effective registration statement on Form S-3 (Registration Statement No. 333-170609) previously filed with and declared effective by the SEC on November 26, 2010 and the prospectus supplement thereunder filed with the SEC on February 28, 2011.

**15. Share-Based Compensation**

The following table summarizes the components of share-based compensation expense included in the Company's condensed consolidated statement of operations for the three month periods ended March 31, 2011 and 2010 (in thousands):

	<b>For the Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>Share-based compensation expense by type of award:</b>		
Stock options	\$ 2,495	\$ 2,494
Restricted stock awards and units	1,783	1,849
 Total share-based compensation expense	 \$ 4,278	 \$ 4,343
<b>Effect of share-based compensation expense on statement of operations by categories:</b>		
Cost of services	\$ 616	\$ 598
General and administrative expense	1,544	1,835
Sales and marketing expense	1,244	1,206
Research and development expense	874	704
 Total cost related to share-based compensation expense	 \$ 4,278	 \$ 4,343

Unrecognized share-based compensation expense totaled \$27.4 million at March 31, 2011, of which approximately \$20.5 million related to stock options and approximately \$6.9 million related to RSUs. The Company currently expects to amortize approximately \$9.6 million during the remainder of 2011, \$8.4 million in 2012 and the remainder thereafter based upon the scheduled vesting of the stock options, restricted stock awards and units outstanding at that time.

In May 2009, the Company granted 282,168 performance based RSUs to various employees. The performance based RSUs will only vest if a specific revenue target is achieved in any one quarter during the ten full quarters following the date of the grant and provided the employee remains with the Company through the vesting date. As of March 31, 2011, the performance requirement was not probable of being achieved and accordingly no compensation expense has been recognized.

On February 26, 2010, the Company granted 300,000 performance-based RSUs to the Company's CEO. The RSUs granted became eligible for vesting based upon the achievement of certain financial performance targets related to the earn-out feature described in the Agreement and Plan of Merger to acquire EyeWonder, Inc., a copy of which was filed with a Current Report on Form 8-K on December 21, 2009. The performance requirements were not achieved and the RSUs were cancelled in April 2011. On December 30, 2010, the Company approved an award of 300,000 performance-based RSUs to the Company's CEO. All or a portion of the RSUs granted to the CEO (and not forfeited) may become eligible for vesting in three tranches of 100,000 RSUs based upon the achievement of certain financial performance targets, provided that the CEO remains an employee or service provider of the Company on each vesting date. RSUs that do not become eligible are forfeited. As of March 31, 2011, the performance requirements related to two tranches totaling 200,000 RSUs have been established and the Company estimates that the performance requirement related to one of these tranches is probable of being achieved. The performance requirement related to the third tranche will be established in the first quarter of 2012.

On February 17, 2011 the Company granted 525,000 stock options to certain executive officers. Each of the stock option awards vest one forty-eighth (1/48th) on February 1, 2011, and one forty-eighth (1/48th) each month thereafter on the first day of each month, provided the executive officer remains with the Company through each such vesting date.

**16. Related Party Transactions**



## Edgar Filing: Limelight Networks, Inc. - Form 10-Q

The Company leased office space from a company owned by one of the Company's executives. Rent expense for the lease, including reimbursement for telecommunication lines, was approximately \$0 and \$3,000, respectively, for each of the three month periods ended March 31, 2011 and 2010, respectively.

As a result of the acquisition of EyeWonder, the Company leases office space both to and from an entity in which a member of our executive staff and a member of our board of directors have an ownership interest and are members of the board of directors. During the three month periods ended March 31, 2011 and 2010, respectively, the Company received approximately \$11,214 and \$0, respectively, from this entity for office space rental. During the three month periods ended March 31, 2011 and 2010, respectively, the

**Table of Contents**

Company paid approximately \$4,193 and \$0, respectively to this entity for office space rental. In addition, the Company incurred expenses from companies in which a member of its board of directors has an ownership interest of approximately \$133,000 for human resources, public relations, administrative and design services during the three month period ended March 31, 2011.

The Company sells services to entities owned, in whole or in part, by certain of the Company's executive staff and board of directors. Revenue derived from related parties was less than 1% of the Company's total revenue for the three month period ended March 31, 2011. For the three month period ended March 31, 2010, the Company did not generate any revenue from related parties.

**17. Leases and Commitments*****Operating Leases***

The Company is committed to various non-cancelable operating leases for office space and office equipment which expire through 2019. Certain leases contain provisions for renewal options and rent escalations upon expiration of the initial lease terms. Approximate future minimum lease payments over the remaining lease periods as of March 31, 2011 are as follows (in thousands):

2011	\$ 2,105
2012	3,102
2013	3,162
2014	2,996
2015 and thereafter	8,848
Total minimum payments	\$ 20,213

***Purchase Commitments***

The Company has long-term commitments for bandwidth usage and co-location with various networks and ISPs. The following summarizes minimum commitments as of March 31, 2011 (in thousands):

2011	\$ 23,694
2012	21,388
2013	15,578
2014	14,565
2015 and thereafter	13,873
Total minimum payments	\$ 89,098

***Capital Leases***

The Company leases equipment under capital lease agreements which extend through 2013. As of March 31, 2011, the outstanding balance for capital leases was approximately \$2.5 million. The Company has recorded assets under capital lease obligations of approximately \$3.2 million as of March 31, 2011. Related accumulated amortization totaled approximately \$0.4 million as of March 31, 2011. The assets acquired under capital leases and related accumulated amortization are included in property and equipment, net in the condensed consolidated balance sheet. The related amortization is included in depreciation and amortization expense in the condensed consolidated statements of operations. Interest expense related to capital leases was approximately \$40,000 and \$0, respectively, for the three month periods ended March 31, 2011 and 2010, respectively.

As of March 31, 2010, the Company had no commitments under any capital lease obligations.

Future minimum capital lease payments at March 31, 2011 are as follows (in thousands)

Edgar Filing: Limelight Networks, Inc. - Form 10-Q

2011	\$ 897
2012	1,162
2013	666
2014	
2015 and thereafter	
Total	2,725
Amounts representing interest	(183)
Present value of minimum lease payments	\$ 2,542

**Table of Contents****18. Income taxes**

Income taxes for the interim period presented has been included in the accompanying financial statements on the basis of an estimated annual effective tax rate. Based upon our estimated annual effective tax rate and discrete items, our estimated tax expense for the three months ended March 31, 2011 was approximately \$0.1. For the three months ended March 31, 2010 we had a tax expense of approximately \$0.2 million. Our income tax expense of \$0.1 million on our loss before taxes of \$9.7 million was different than our statutory income tax rate due primarily to our providing for a valuation allowance on deferred tax assets in certain jurisdictions, and recording of discrete items and foreign tax for the quarter.

As of March 31, 2011, the Company has approximately \$53,000 of total unrecognized tax benefits. This total of unrecognized tax benefits, if recognized, would favorably affect the effective income tax rate. Unrecognized tax benefits did not change materially for the three months ended March 31, 2011. The Company anticipates its unrecognized tax benefits will continue to decrease within twelve months of the reporting date, as a result of settling potential tax liabilities in certain foreign jurisdictions. The Company recognizes interest and penalties related to unrecognized tax benefits in its tax provision. As of March 31, 2011, the Company has recorded a liability of \$122,000 for the accrual of deficiency interest and penalties, which did not materially change during the first quarter of 2011.

The Company files U.S. federal, U.S. state, and foreign income tax returns. For U.S. federal, and in general for U.S. state tax returns, the fiscal 2007 through fiscal 2009 tax years remain open for examination by tax authorities. The Company is not currently under examination by any taxing authorities.

**19. Segment Reporting**

The Company operates in one industry segment – content delivery network services. The Company operates in three geographic areas – North America, EMEA and Asia Pacific.

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. The Company's chief operating decision maker is its Chief Executive Officer. The Company's Chief Executive Officer reviews financial information presented on a consolidated basis for purposes of allocating resources and evaluating financial performance. The Company has one business activity and there are no segment managers who are held accountable for operations, operating results and plans for products or components below the consolidated unit level. Accordingly, the Company reports as a single operating segment.

Revenue by geography is based on the location of the customer from which the revenue is earned. The following table sets forth revenue and long-lived assets by geographic area (in thousands):

	<b>For the Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
Domestic revenue	\$ 34,152	\$ 26,087
International revenue	15,665	10,000
<b>Total revenue</b>	<b>\$ 49,817</b>	<b>\$ 36,087</b>

The following table sets forth long-lived assets by geographic area (in thousands):

	<b>As of March 31, 2011</b>	<b>As of December 31, 2010</b>
Domestic long-lived assets	\$ 40,858	\$ 38,757
International long-lived assets	15,380	15,650

Total long-lived assets	\$ 56,238	\$ 54,407
-------------------------	-----------	-----------

## 20. Fair Value Measurements

The Company evaluates certain of its financial instruments within the three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include:

- Level 1 defined as observable inputs such as quoted prices in active markets;
- Level 2 defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and
- Level 3 defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

**Table of Contents**

As of March 31, 2011 and December 31, 2010, the Company held certain assets and liabilities that are required to be measured at fair value on a recurring basis. These include commercial paper, corporate notes and bonds and US Government Agency Bonds, publicly traded stocks, and private equity securities which are classified as marketable securities and acquisition related contingent consideration which is classified as a current liability on the Company's condensed consolidated balance sheet.

The following is a summary of marketable securities, other investment-related assets and current liabilities held at March 31, 2011 (in thousands):

Description	Total	Fair Value Measurements at Reporting Date Using		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets:</b>				
Government agency bonds	\$ 4,189	\$ 4,189	\$	\$
Commercial paper	799	799		
Corporate notes and bonds	1,411	1,411		
Private equity security	480			480
Publicly traded common stock	1,612	1,612		
<b>Total assets measured at fair value</b>	<b>\$ 8,491</b>	<b>\$ 8,011</b>	<b>\$</b>	<b>\$ 480</b>
<b>Liabilities:</b>				
Acquisition related contingent consideration	\$ 414	\$	\$	\$ 414
<b>Total liabilities measured at fair value</b>	<b>\$ 414</b>	<b>\$</b>	<b>\$</b>	<b>\$ 414</b>

For the three month period ended March 31, 2011, realized gains and losses for marketable securities are reported in interest income, unrealized gains and losses for marketable securities are included in other comprehensive income and expense. For the three month period ended March 31, 2011, the Company had net unrealized gains of approximately \$481,000.

The fair value measurement for both the contingent consideration and the private equity security is based on significant inputs not observed in the market and thus represents a Level 3 measurement. Level 3 instruments are valued based on unobservable inputs that are supported by little or no market activity and reflect the Company's own assumptions in measuring fair value.

The following is a summary of marketable securities, other investment-related assets and current liabilities held at December 31, 2010 (in thousands):

Description	Total	Fair Value Measurements at Reporting Date Using		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets:</b>				
Government agency bonds	\$ 8,986	\$ 8,986	\$	\$
Corporate notes and bonds	3,023	3,023		
Private equity security	407			407

Edgar Filing: Limelight Networks, Inc. - Form 10-Q

Publicly traded common stock	1,755	1,755		
Total assets measured at fair value	\$ 14,171	\$ 13,764	\$	\$ 407
<b>Liabilities:</b>				
Acquisition related contingent consideration	\$ 414	\$	\$	\$ 414
Total liabilities measured at fair value	\$ 414	\$	\$	\$ 414

**Table of Contents**

The progressions of the Company's Level 3 instruments for the three month period ended March 31, 2011 are shown in the table below (in thousands):

	<b>Acquisition Related Contingent Consideration</b>	<b>Private Equity Securities</b>
Balance at January 1, 2011	\$ 414	\$ 407
Additions		73
Change in value		
Balance at March 31, 2011	\$ 414	\$ 480

The progressions of the Company's Level 3 instruments for the three month period ended March 31, 2010 are shown in the table below (in thousands):

	<b>Acquisition Related Contingent Consideration</b>
Balance at January 1, 2010	\$
Additions	3,092
Change in value	
Balance at March 31, 2010	\$ 3,092

The carrying amount of cash equivalents approximates fair value because their maturity is less than three months. The carrying amount of short-term and long-term marketable securities approximates fair value as the securities are marked to market as of each balance sheet date with any unrealized gains and losses reported in stockholders' equity. The carrying amount of accounts receivable, accounts payable and accrued liabilities approximates fair value due to the short-term maturity of the amounts.

**21. Subsequent Event**

On May 2, 2011, the Company announced the acquisition of Clickability, a privately-held provider of software-as-a-service (SaaS) web content management (WCM) tools, located in San Francisco, California. The transaction was completed with a combination of the Company's common stock and cash and is valued at approximately \$10 million.

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the condensed consolidated financial statements and the related notes thereto included elsewhere in this quarterly report on Form 10-Q and the audited consolidated financial statements and notes thereto and management's discussion and analysis of financial condition and results of operations for the year ended December 31, 2010 included in our annual report on Form 10-K filed with the Securities and Exchange Commission, or SEC, on March 11, 2011. This quarterly report on Form 10-Q contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements include statements as to industry trends and future expectations of ours and other matters that do not relate strictly to historical facts. These statements are often identified by the use of words such as may, will, expect, believe, anticipate, intend, could, estimate, or continue, and similar expressions or variations. These statements are based on the beliefs and assumptions of our management based on information currently available to management. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled Risk Factors set forth in Part II,*



## Edgar Filing: Limelight Networks, Inc. - Form 10-Q

*Item 1A of this quarterly report on Form 10-Q and in our other SEC filings. We undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements. Prior period information has been modified to conform to current year presentation.*

### **Overview**

We were founded in 2001 as a provider of content delivery network, or CDN, services to deliver digital content over the Internet. We began development of our infrastructure in 2001 and began generating meaningful revenue in 2002. In May 2009, January 2010, April 2010 and July 2010, respectively, we acquired Kiptronic, chors, EyeWonder and Delve. In April 2011, we moved

---

**Table of Contents**

into our new Global Headquarters in downtown Tempe, Arizona. Today, Limelight Networks provides on-demand software, platform, and infrastructure services that help global businesses reach and engage audiences on any mobile or connected device, enabling them to enhance their brand presence, build stronger customer relationships, manage video assets, analyze viewer preferences, optimize their advertising, and monetize their digital assets. We provide services to customers in North America, EMEA, and the Asia Pacific region. As of March 31, 2011, we had approximately 1,771 active customers worldwide. We derive revenue from the sale of services to our customers. These services include the delivery of digital media, including video, music, games, software and social media, the acceleration of web sites and web-based applications, and cloud-based services such as mobility, interactive advertising, computing, storage, data center, transit, and consulting. We operate in one business segment. Our CDN customers normally execute contracts with terms of one year or longer, which we refer to as recurring revenue contracts or long-term contracts. These contracts generally commit the customer to a minimum monthly level of usage with additional charges applicable for actual usage above the monthly minimum commitment. We have entered into an increasing number of customer contracts that have minimum usage commitments that are based on twelve-month or longer periods and in some cases, other arrangements. We believe that having a consistent and predictable base level of revenue is important to our financial success. Accordingly, to be successful, we must maintain our base of recurring revenue contracts by eliminating or reducing any customer cancellations or terminations and build on that base by adding new customers and increasing the number of services, features and functionalities our existing customers purchase. We also derive revenue from campaigns, services and events sold as discrete, non-recurring events or based solely on usage. For these services, we recognize revenue after an enforceable contract has been signed by both parties, the fee is fixed or determinable, the event or usage has occurred and collection is reasonably assured.

On March 2, 2011 we completed an underwritten public offering of our common stock in which we sold and issued 11,500,000 shares of our common stock, including 1,500,000 shares subject to the underwriters' over-allotment option, at a price to the public of \$7.10 per share. The newly issued common shares began trading on the Nasdaq Global Select Market on March 2, 2011. We raised a total of approximately \$81.7 million in gross proceeds from the offering, or approximately \$77.2 million in net proceeds after deducting underwriting discounts and commissions of approximately \$4.0 million and other offering costs of approximately \$0.5 million. The offering was made pursuant to the effective registration statement on Form S-3 (Registration Statement No. [333-170609](#)) previously filed with and declared effective by the SEC on November 26, 2010 and the prospectus supplement thereunder filed with the SEC on February 28, 2011.

Traffic on our network and our cloud based services business has continued to grow. This traffic growth is primarily the result of growth in the traffic delivered on behalf of both new and existing customers. Our CDN revenue is generated by charging for traffic delivered. During 2010, we added new customers both through new business and through our business acquisitions. During the three month period ended March 31, 2011, we continued to add new customers, saw a sequential decline in customers due to higher campaigns in the fourth quarter of 2010 and also elected to not renew some customers as we continue to focus on customer quality. We have seen an increase in the length of our sales cycle, but we continue to see that new and existing customers want the benefits of the specialized services that we bring to the market. Both our cloud based services and our core CDN business continue to show year over year growth, which we believe is a result of growth in traffic on our network, our acquisitions and market share gains as well as an improved pricing environment.

Historically, we have derived a portion of our revenue from outside of the United States. Our international revenue has grown recently, and we expect this trend to continue as we focus on our strategy of expanding our network and customer base internationally. For the year ended December 31, 2010 revenue derived from customers outside North America accounted for approximately 29% of our total revenue. For the year ended December 31, 2010 we derived approximately 65% of our international revenue from EMEA and approximately 35% of our international revenue from Asia Pacific. For the three month periods ended March 31, 2011 and 2010, respectively, revenue derived from customers outside North America accounted for approximately 31% and 28%, respectively, of our total revenue. For the three-month period ended March 31, 2011, we derived approximately 64% our international revenue from EMEA and approximately 36% of our international revenue from Asia Pacific. We expect foreign revenue to continue to increase in absolute dollars in 2011. Our international business is managed as a single-geographic segment, and we report our financial results on this basis.

During any given fiscal period, a relatively small number of customers typically account for a significant percentage of our revenue. For example, in 2010, sales to our top 10 customers, in terms of revenue, accounted for approximately 30% of our total revenue and we had no customer that accounted for more than 10% of our revenue. For the three-month period ended March 31, 2011, sales to our top 10 customers, in terms of revenue, accounted for approximately 33% of our total revenue. During the three-month period ended March 31, 2011 we had no customer that accounted for more than 10% of our revenue during the period. We anticipate customer concentration levels will decrease compared to prior years. In addition to selling to our direct customers, we maintain relationships with a number of resellers that purchase our services and charge a mark-up to their end customers. Revenue generated from sales to reseller customers accounted for approximately 5% of our total revenue for the year ended December 31, 2010. For the three-month period ended March 31, 2011, revenue generated from sales to reseller customers accounted for approximately 4% of our total revenue.



---

**Table of Contents**

In addition to these revenue-related business trends, our cost of revenue increased in absolute dollars and as a percentage of revenue for the three-month period ended March 31, 2011 compared to the three-month period ended March 31, 2010. The increase in absolute dollars was primarily due to increased bandwidth and co-location fees, due to increased traffic and expansion of our CDN, increased payroll and related employee costs for operations personnel, who are responsible for managing and monitoring our CDN and delivery of our cloud based services and increased depreciation expense on our network equipment.

Operating expenses increased in absolute dollars and as a percentage of revenue for the three-month period ended March 31, 2011 compared to the three-month period ended March 31, 2010. This increase was primarily due to increased general and administrative costs (primarily payroll and related employee costs, due to increased staffing, increased facilities and facilities related costs and increased fees and licenses, off-set by lower bad debt expense), increased sales and marketing expenses (primarily payroll and related employee costs due to increased staffing) and increased research and development costs (also, primarily payroll and related employee costs due to increased staffing) and increased non-network related depreciation and amortization.

We make our capital investment decisions based upon careful evaluation of a number of variables, such as the amount of traffic we anticipate on our network, the cost of the physical infrastructure required to deliver that traffic, and the forecasted capacity utilization of our network. Our capital expenditures have varied over time, in particular as we purchased servers and other network equipment associated with our network build-out. For example, in 2008, 2009, and 2010 we made capital purchases of \$17.4 million, \$20.4 million, and \$34.2 million, respectively. For the three-month period ended March 31, 2011, we made capital investments of \$8.1 million. We continue to see improvements in the efficiency of our network allowing us to meet traffic growth with less investment, however, we expect to have ongoing capital expenditure requirements as we continue to invest in and expand our CDN. For 2011, we currently anticipate making aggregate capital expenditures of approximately 15% of total revenue for the year.

Occasionally we generated revenue from certain customers that are entities related to certain of our founders. For the year ended December 31, 2010 revenue derived from these related parties was less than 1% of our total revenue. For the three-month period ended March 31, 2011, revenue generated from related parties was less than 1% of our total revenue.

We are currently engaged in litigation with one of our principal competitors, Akamai Technologies, Inc., or Akamai, and its licensor, the Massachusetts Institute of Technology, or MIT, in which these parties have alleged that we are infringing three of their patents. In February 2008, a jury returned a verdict in this lawsuit, finding that we infringed four claims of the patent at issue (United States Patent No. 6,108,703 (the 703 patent) and rejecting our invalidity defenses. The court conducted a bench trial in November 2008, regarding our equitable defenses; and we filed a motion for reconsideration of the court's earlier denial of our motion for Judgment as a Matter of Law (JMOL). Our motion for reconsideration of JMOL was based largely upon a clarification in the standard for a finding of joint infringement articulated by the Federal Circuit in the case of *Muniauction, Inc. v. Thomson Corp.* (the *Muniauction Case*), released after the court denied our initial motion for JMOL. On April 24, 2009 the court issued its order and memorandum setting aside the adverse jury verdict and ruling that we did not infringe Akamai's 703 patent and that we are entitled to judgment as a matter of law. Based upon the court's April 24, 2009 order we reversed the \$65.6 million provision for litigation previously recorded for this lawsuit as we no longer believe that payment of any amounts represented by the litigation provision is probable. The court entered final judgment in favor of us on May 22, 2009. Akamai filed a notice of appeal of the court's decision on May 26, 2009; and the Court of Appeals for the Federal Circuit heard arguments by both parties on June 7, 2010. On December 20, 2010 the Court of Appeals for the Federal Circuit issued its opinion affirming the District Court's entry of judgment in our favor. On February 18, 2011, Akamai filed a motion with the Court of Appeals for the Federal Circuit seeking a rehearing and rehearing *en banc*. On April 21, 2011, the Court of Appeals for the Federal Circuit issued an order denying the petition for rehearing, granting the petition for rehearing *en banc*, vacating the December 20, 2010 opinion affirming the District Court's entry of judgment in our favor, and reinstated the appeal. We believe that we do not infringe Akamai's patents and will continue to vigorously defend our position. We are not able at this time to estimate the range of potential loss nor, in light of the favorable U.S. district court order, do we believe that a loss is probable. Therefore, we have made no provision for this lawsuit in our financial statements.

In December 2007, Level 3 Communications, LLC, or Level 3, filed a lawsuit against us in the United States District Court for the Eastern District of Virginia alleging that we were infringing certain patents Level 3 acquired from Savvis Communications Corp. In addition to monetary relief, including treble damages, interest, fees and costs, the complaint sought an order permanently enjoining us from conducting our business in a manner that infringed the relevant patents. A jury trial was conducted in January 2009, and on January 23, 2009 the jury returned a verdict favorable to us finding that we did not infringe the Level 3 patents. We believe the jury verdict finding that we did not infringe the Level 3 patents is correct, and that the claims of infringement asserted against us by Level 3 in the litigation were without merit. The court denied Level 3's subsequent motion for JMOL or alternatively for a new trial, and entered a judgment in our favor. Level 3 filed a notice of appeal on July 21, 2009. On May 3, 2010 the United States Court of Appeals for the Federal Circuit heard oral argument on this matter, and on May 5, 2010 the court affirmed the District Court judgment in our favor. Level 3 subsequently filed a motion for rehearing and rehearing *en banc* that the Court subsequently denied. In light of the favorable rulings from the Court of Appeals we consider this matter successfully concluded. Our legal and other expenses associated with this case have been significant. We include these litigation expenses in general and administrative

expenses, as reported in our condensed consolidated statement of operations.

---

## **Table of Contents**

In August 2007, we, certain of our officers and current and former directors, and the firms that served as the lead underwriters in our initial public offering were named as defendants in several purported class action lawsuits filed in the United States District Courts for the District of Arizona and the Southern District of New York. All of the New York cases were transferred to Arizona and consolidated into a single action. The plaintiffs' consolidated complaint asserted causes of action under Sections 11, 12, and 15 of the Securities Act of 1933, as amended, on behalf of a purported class of individuals who purchased our common stock in our initial public offering and/or pursuant to our Prospectus. The complaint alleged, among other things, that we omitted and/or misstated certain facts concerning the seasonality of our business and the loss of revenue related to certain customers. On March 17, 2008, we and the individual defendants moved to dismiss all of the plaintiffs' claims, a hearing was held on this motion on June 16, 2008. On August 8, 2008, the court granted the motion to dismiss, dismissing plaintiffs' claims under Section 12 with prejudice and granting leave to amend the claims under Sections 11 and 15. Plaintiffs chose not to amend the claims under Sections 11 and 15, and on August 29, 2008, the court entered judgment in favor of us. On September 5, 2008 plaintiffs filed a notice of appeal, and appellate briefs were filed by the parties in January and February, 2009. We believe that we and the individual defendants have meritorious defenses to the plaintiffs' claims and intend to contest the lawsuit vigorously. In November 2009 the parties entered into a Memorandum of Understanding to settle this lawsuit for an amount well within the coverage limits of the primary carrier of our directors and officers liability insurance, and on July 7, 2010 the parties entered into a settlement agreement consistent with the terms of the Memorandum of Understanding, which required court approval. On March 22, 2011 the Federal District Court held a hearing pursuant to which the Court approved the settlement. Accordingly, we do not believe that a loss is probable and believe that this litigation is now successfully concluded. Therefore, we have made no provision for this lawsuit in our financial statements.

Our future results will be affected by many factors identified in the section captioned "Risk Factors," in this quarterly report on Form 10-Q, including our ability to:

increase our revenue by adding customers and limiting customer cancellations and terminations, as well as increasing the amount of monthly recurring revenue that we derive from our existing customers;

manage the prices we charge for our services, as well as the costs associated with operating our network in light of increased competition;

successfully manage our litigation with Akamai to a favorable conclusion;

prevent disruptions to our services and network due to accidents or intentional attacks; and

continued ability to deliver a significant portion of our traffic through settlement free peering relationships which significantly reduce our cost of delivery.

As a result, we cannot assure you that we will achieve our expected financial objectives, including positive net income.

## **Critical Accounting Policies and Estimates**

Our discussion and analysis of our financial condition and results of operations are based upon our unaudited condensed consolidated financial statements included elsewhere in this quarterly report on Form 10-Q, which have been prepared by us in accordance with United States generally accounting principles for interim periods. These principles require us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, cash flow and related disclosure of contingent assets and liabilities. Our estimates include those related to revenue recognition, accounts receivable and related reserves, useful lives and realizability of long-term assets, capitalized software, acquired intangibles, provision for litigation, income and other taxes, the fair value of stock-based compensation and other contingent liabilities. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Our results may differ from these estimates due to actual outcomes being different from those on which we based our assumptions. We review these estimates and judgments on an ongoing basis. We also have other policies that we consider key accounting policies, such as our policy regarding foreign currency translation described below; however, we do not believe this policy require us to make estimates or judgments that are as difficult or subjective as those noted above and disclosed in our annual report on Form 10-K for the year ended December 31, 2010, filed with

the SEC on March 11, 2011.

***Foreign Currency Translation***

We analyze the functional currency for each of our international subsidiaries periodically to determine if a significant change in facts and circumstances indicate that the primary economic currency has changed. As of December 31, 2010, the international subsidiaries we acquired as part of the EyeWonder and chors acquisitions had local currencies as their functional currencies, while our remaining international subsidiaries had the U.S. dollar as their functional currencies. During the first quarter of 2011, we analyzed the various economic factors of our international subsidiaries and determined that the operations of our subsidiaries that were previously determined to operate in a U.S. dollar functional currency environment had changed and that their functional currencies changed to the local currencies. Effective January 1, 2011, the adjustment from translating these subsidiaries' financial statements from the local

**Table of Contents**

currency to the U.S. dollar was recorded as a separate component of accumulated other comprehensive loss. These foreign currency translation adjustments reflect the translation of the balance sheet at period end exchange rates and the income statement at an average exchange rate in effect during each period. Upon the change in functional currency, we recorded a cumulative translation adjustment, or CTA, of approximately \$0.5 million, which is included in the condensed consolidated balance sheet. Because of the change in exchange rates between reporting periods and changes in certain account balances, the foreign currency translation adjustment will change from period to period.

As of March 31, 2011, there have been no material changes to any of the critical accounting policies as described in our annual report on Form 10-K for the year ended December 31, 2010, filed with the SEC on March 11, 2011.

**Results of Operations****Revenue**

	Three months ended March 31,			Percent Change
	2011	2010 (in thousands)	Increase (Decrease)	
Revenue	\$ 49,817	\$ 36,087	\$ 13,730	38%

Revenue increased 38%, or \$13.7 million, to \$49.8 million for the three month period ended March 31, 2011 as compared to \$36.1 million for the three month period ended March 31, 2010. The increase in revenue for the three months ended March 31, 2011 as compared to the three months ended March 31, 2010 was primarily attributable to an increase in our cloud based services revenue (which includes revenue from the date of acquisition of Chorus, EyeWonder and Delve) of approximately \$11.1 million. We provide cloud based services in the following areas: website and enterprise application acceleration, mobile content delivery, online and mobile ad serving, rich media ad unit design and creation, cloud storage, transcoding, computing functions and strategic consulting. We continued to increase the amount of traffic moving through our network; however we continue to see a decline in our average unit sales price. Our core delivery revenue increased approximately \$2.6 million for the three month period ended March 31, 2011, compared to the three month period ended March 31, 2010. As of March 31, 2011, we had approximately 1,771 customers compared to 1,370 as of March 31, 2010.

For the three months ended March 31, 2011 and 2010, approximately 31% and 28%, respectively, of our total revenues were derived from our operations located outside of North America. For the three months ended March 31, 2011 and 2010, we derived approximately 64% and 58%, respectively of our international revenue from EMEA and approximately 36% and 42%, respectively, of our international revenue from Asia Pacific. No single country outside of the United States accounted for 10% or more of revenues during these periods.

**Cost of Revenue**

	Three months ended March 31,			Percent Change
	2011	2010 (in thousands)	Increase (Decrease)	
Cost of revenue	\$ 29,412	\$ 20,983	\$ 8,429	40%

Cost of revenue includes fees paid to network providers for bandwidth and backbone, costs incurred for non settlement free peering and connection to Internet service provider networks or ISPs, and fees paid to data center operators for co-location of our network equipment. Cost of revenue also includes depreciation of network equipment used to deliver our CDN services, payroll and related costs and equity-related compensation for our network operations, operations and cloud based services personnel.

Cost of revenue increased 40%, or \$8.4 million, to \$29.4 million for the three month period ended March 31, 2011 as compared to \$21.0 million for the three month period ended March 31, 2010. These increases were primarily due to an increase in payroll and related employee costs of \$3.2 million associated with increased staff to build and operate our CDN, as well as increased operations personnel resulting from our business acquisitions whose primary focus is on our delivery of cloud based services, an increase in aggregate bandwidth and co-location fees of \$2.5 million due to higher traffic levels and increased amounts of deployed network assets, an increase of \$1.9 million in network depreciation as we continue to build-out our expanding network and to re-refresh our network equipment, and an increase in other costs of \$0.4 million. The increase in other costs was primarily related to costs associated with our cloud based services.



## Edgar Filing: Limelight Networks, Inc. - Form 10-Q

Additionally, during the three month periods ended March 31, 2011 and 2010, cost of revenue includes share-based compensation expense of approximately \$0.6 million, respectively.

**Table of Contents**

Cost of revenue was composed of the following (in millions):

	For the Three Months Ended March 31,	
	2011	2010
Bandwidth and co-location fees	\$ 14.2	\$ 11.7
Depreciation network	6.7	4.8
Payroll and related employee costs	6.1	2.9
Share-based compensation	0.6	0.6
Professional fees and outside services	0.3	0.2
Royalty expenses	0.2	
Travel and travel-related expenses	0.2	0.1
Other costs	1.1	0.7
<b>Total cost of revenue</b>	<b>\$ 29.4</b>	<b>\$ 21.0</b>

We have long-term purchase commitments for bandwidth usage and co-location with various Tier 1 network providers and data center operators. The minimum commitments related to bandwidth usage and co-location services under agreements currently in effect are approximately: \$23.7 million for the remainder of 2011, \$21.4 million for 2012, \$15.6 million for 2013, \$14.6 million for 2014 and \$13.9 million for 2015 and beyond.

We anticipate cost of revenues will increase in 2011, which will include a full year of expenses from our business acquisitions. We expect to deliver more traffic on our network, which will result in higher expenses associated with the increased bandwidth, peering, rack and co-location costs to support increased traffic; however, such costs are likely to be partially offset by lower bandwidth costs per unit. We anticipate depreciation expense related to our network equipment to increase compared to 2010 in absolute dollars, as we continue to expand our network and to re-fresh older servers. Additionally, we expect an increase in payroll and related costs, as we continue to make investments in our network to service our expanding customer base as well as our increase in cloud based services personnel. We expect that share-based compensation expense will decrease compared to 2010.

**General and Administrative**

	Three months ended March 31,			Percent Change
	2011	2010 (in thousands)	Increase (Decrease)	
General and administrative	\$ 8,809	\$ 8,127	\$ 682	8%

General and administrative expenses consist primarily of the following components:

payroll, share-based compensation and other related costs, including related expenses for executive, finance, legal, business applications, internal network management, human resources and other administrative personnel;

fees for professional services and litigation expenses;

rent and other facility-related expenditures for leased properties;

the provision for doubtful accounts; and

non-income related taxes.

General and administrative expenses increased 8%, or \$0.7 million, to \$8.8 million for the three month period ended March 31, 2011 as compared to \$8.1 million for the three month period ended March 31, 2010. The increase in general and administrative expenses was primarily due to an increase of \$1.2 million in payroll and related employee cost, primarily due to increased personnel resulting from our business acquisitions, an increase in other costs of \$1.0 million, primarily due to increased facilities and facilities related costs of \$0.6 million, increased telephone costs of \$0.2 million and increased fees, licenses and non-income taxes of \$0.1 million. Other expenses include such items as rent, utilities, telephone, insurance, fees and licenses and property taxes. In addition, travel and travel related expenses increased \$0.1 million during the three month period ended March 31, 2011 compared to the same period of the prior year. These increases were off-set by a decrease of \$1.0 million in bad debt expense, a decrease in professional fees of \$0.2 million, which was primarily due to lower acquisition related expenses, off-set by increased consulting and accounting fees, and a decrease of \$0.1 million in litigation expenses.

Additionally, general and administrative share-based compensation expense decreased \$0.3 million for the three months ended March 31, 2011 compared to March 31, 2010.

**Table of Contents**

General and administrative expense was composed of the following (in millions):

	For the Three Months Ended March 31,	
	2011	2010
Payroll and related employee costs	\$ 3.1	\$ 1.9
Share-based compensation	1.5	1.8
Professional fees	1.3	1.5
Litigation expenses	0.3	0.4
Bad debt expense	0.2	1.2
Travel and travel-related expenses	0.2	0.1
Other expenses	2.2	1.2
 Total general and administrative	 \$ 8.8	 \$ 8.1

We expect our general and administrative expense to increase compared to 2010 in absolute dollars and decrease as a percentage of revenue. During 2011, (which will include a full year of expenses from our business acquisitions) we expect to see increased salaries and related employee cost, as well as increased facility costs. These increases will be off-set by reduced professional fees. In 2012 and in the longer term, we expect our general and administrative expense to decrease as a percentage of revenue as our costs are expected to grow slower than our top line revenue. We expect that share-based compensation expense will decrease in 2011.

**Sales and Marketing**

	2011	Three months ended March 31,		Percent Change
		2010 (in thousands)	Increase (Decrease)	
Sales and marketing	\$ 13,894	\$ 9,387	\$ 4,507	48%

Sales and marketing expenses consist primarily of payroll and related costs, share-based compensation and commissions for personnel engaged in marketing, sales and service support functions, professional fees (consultants and recruiting fees), travel and travel-related expenses as well as advertising and promotional expenses.

Sales and marketing expenses increased 48% or \$4.5 million, to \$13.9 million for the three month period ended March 31, 2011 compared to \$9.4 million the three month period ended March 31, 2010. The increase in sales and marketing expenses was primarily due to an increase in payroll and related employee costs of \$3.0 million, primarily due to the addition of sales and marketing personnel from our business acquisitions and increased staffing, which resulted in higher salaries, commissions and bonuses, an increase in marketing expenses of \$0.6 million, an increase in travel and travel-related expenses of \$0.3 million, and an increase in other expenses of \$0.6 million. The increase in other expenses relates primarily to increases in fees and licenses of \$0.2 million, an increase in facilities and facilities related costs of \$0.1 million, an increase in telephone costs of \$0.1 million, an increase in employee events \$0.1 million, and a increase in training and seminars of \$0.1 million. Other expenses include such items as rent and property taxes for our Europe and Asia Pacific sales offices, fees, licenses and non-income taxes, employee events, telephone and office supplies.

Additionally, during the three month periods ended March 31, 2011 and 2010, sales and marketing includes share-based compensation expense of approximately \$1.2 million, respectively.

Sales and marketing expense was composed of the following (in millions):

For the  
Three Months Ended

Edgar Filing: Limelight Networks, Inc. - Form 10-Q

	March 31,	
	2011	2010
Payroll and related employee costs	\$ 8.8	\$ 5.8
Share-based compensation	1.2	1.2
Travel and travel-related expenses	1.0	0.7
Marketing programs	0.9	0.3
Professional fees and outside services	0.5	0.5
Other expenses	1.5	0.9
<b>Total sales and marketing</b>	<b>\$ 13.9</b>	<b>\$ 9.4</b>

**Table of Contents**

We anticipate our sales and marketing expense will increase in 2011 in absolute dollars and decrease slightly as a percentage of revenue compared to 2010. The increase in absolute dollars (which will include a full year of expenses from our business acquisitions) is due to an expected increase in salaries and related employee costs for our sales and marketing personnel, increased commissions on higher forecast sales, and an increase in marketing costs such as advertising and other lead generating activities. We expect that share-based compensation expense will decrease in 2011.

**Research and Development**

	2011	2010 (in thousands)	Three months ended March 31, Increase (Decrease)	Percent Change
Research and development	\$ 5,618	\$ 2,645	\$ 2,973	112%

Research and development expenses consist primarily of payroll and related costs and share-based compensation expense for research and development personnel who design, develop, test and enhance our services, network and software.

Research and development expenses increased 112%, or \$3.0 million, to \$5.6 million for the three month period ended March 31, 2011, as compared to \$2.6 million for the three month period ended March 31, 2010. The increase in research and development expenses was primarily due to an increase of \$2.2 million in payroll and related employee costs associated with the addition of research and development personnel resulting from our business acquisitions, our hiring of additional network and software engineering personnel, and bonus accruals for our annual bonus plan, an increase in professional fees and outside services of \$0.4 million, primarily for consulting, contract labor and outside professional fees and an increase in other expenses of \$0.2 million. Other expenses include such items as travel and travel related expenses, telephone, training and seminars and office supplies.

Additionally, research and development share-based compensation expense increased \$0.2 million for the three months ended March 31, 2011 compared to March 31, 2010.

Research and development expense was composed of the following (in millions):

	For the Three Months Ended March 31,	
	2011	2010
Payroll and related employee costs	\$ 3.7	\$ 1.5
Share-based compensation	0.9	0.7
Professional fees and outside services	0.7	0.3
Other expenses	0.3	0.1
<b>Total research and development</b>	<b>\$ 5.6</b>	<b>\$ 2.6</b>

We anticipate our research and development expenses will increase in 2011 (which will include a full year of expenses from our business acquisitions) in absolute dollars and increase as a percentage of revenue as we continue to make investments in our core technology, refinements and additions to our other service offerings. We expect increased payroll and related employee costs associated with continued hiring of research and development personnel, as well as increased professional fees for outside services. We expect that share-based compensation expense will decrease in 2011 compared to 2010.

**Depreciation and Amortization (Operating Expenses)**

	2011	2010
--	------	------

Edgar Filing: Limelight Networks, Inc. - Form 10-Q

	(in thousands)		Increase (Decrease)	Percent Change
Depreciation and amortization	\$ 1,955	\$ 766	\$ 1,189	155%

Depreciation expense consists of depreciation on equipment and furnishing used by general administrative, sales and marketing and research and development personnel. Amortization expense consists of amortization of intangible assets acquired in business combinations.

Depreciation and amortization expenses increased 155%, or \$1.2 million, to \$2.0 million for the three month period ended March 31, 2011, as compared to \$0.8 million for the three month period ended March 31, 2010. The increase in depreciation and amortization expense was primarily due to an increase of approximately \$1.2 million in amortization of intangibles acquired in

**Table of Contents**

business combinations. For the three month period ended March 31, 2011, amortization of intangibles was approximately \$1.4 million. Based on our intangible assets at March 31, 2011, we expect amortization of other intangible assets to be approximately \$4.2 million for the remainder of 2011, and \$5.4 million, \$4.9 million, \$1.7 million and \$0.1 million for fiscal years 2012, 2013, 2014 and 2015 and beyond, respectively.

**Interest Expense**

	2011	2010 (in thousands)	Three months ended March 31, Increase (Decrease)	Percent Change
Interest expense	\$ 42	\$ 1	\$ 41	NA

Interest expense consists of interest accrued and paid.

Interest expense increased to \$42,000 for the three month period ended March 31, 2011, as compared to \$1,000 for the three month period ended March 31, 2010. Interest expense for the three months ended March 31, 2011 was primarily comprised of interest paid on capital leases. The \$1,000 for the three months ended March 31, 2010 represented interest paid in association with a filing of a non-income tax related tax payment. As of March 31, 2011, with the exception of our capital leases, we had no outstanding credit facilities.

**Interest Income**

	2011	2010 (in thousands)	Three months ended March 31, Increase (Decrease)	Percent Change
Interest income	\$ 187	\$ 302	\$ (115)	(38)%

Interest income includes interest earned on invested cash balances and marketable securities.

Interest income decreased \$0.1 million to \$0.2 million for the three month period ended March 31, 2011, as compared to \$0.3 million for the three month period ended March 31, 2010. The decrease in interest income was primarily due to decreased cash balances. We anticipate interest income to increase as a result of increased average cash balances.

**Other Income (Expense)**

	2011	2010 (in thousands)	Three months ended March 31, Increase (Decrease)	Percent Change
Other income (expense)	\$ 30	\$ (25)	\$ (55)	(220)%

Other income was \$30,000 for three month period ended March 31, 2011, as compared to \$25,000 other expense for the three month period ended March 31, 2010. Other income for the three months ended March 31, 2011 consists primarily of foreign currency transaction gains.

**Income Tax Expense**

	2011	2010 (in thousands)	Three months ended March 31, Increase (Decrease)	Percent Change
Income tax expense	\$ 122	\$ 240	\$ (118)	(49)%



## Edgar Filing: Limelight Networks, Inc. - Form 10-Q

Based upon our estimated annual effective tax rate and discrete items, our estimated tax expense for the three months ended March 31, 2011 was approximately \$122,000. For the three months ended March 31, 2010 we had a tax expense of approximately \$240,000. Our income tax expense of \$122,000 on our loss before taxes of \$9.7 million was different than our statutory income tax rate due primarily to our providing for a valuation allowance on deferred tax assets in certain jurisdictions, and recording of discrete items and foreign tax for the quarter. The effective income tax rate is based primarily upon forecasted income or loss for the year, the composition of the income or loss in different countries, and adjustments, if any, for the potential tax consequences, benefits or resolutions for tax audits.

## **Table of Contents**

### **Liquidity and Capital Resources**

To date, we have financed our operations primarily through the following transactions:

private sales of common and preferred stock and subordinated notes;

an initial public offering of our common stock in June 2007;

an underwritten public offering of our common stock in March 2011;

borrowing on capital leases;

borrowing on credit facilities; and

cash generated by operations.

As of March 31, 2011, our cash, cash equivalents and marketable securities classified as current totaled \$134.8 million.

### ***Operating Activities***

Net cash used in operating activities was \$3.1 million for the three months ended March 31, 2011 compared to net cash provided by operating activities of \$0.7 million for the three months ended March 31, 2010. The change in operating cash flows comparing the three months ended March 31, 2011 to the three month period ended March 31, 2010, was primarily due to a larger net loss in 2011 compared to 2010 in addition to changes in operating assets and liabilities. Cash used due to changes in operating assets and liabilities was \$6.5 million in the three months ended March 31, 2011 compared to \$4.8 million in the three months ended March 31, 2010, a change of \$1.7 million. The change relates primarily to greater cash usage during the three months ended March 31, 2011 related primarily to increases in prepaid expenses and other current and long-term assets associated with advanced payments for bandwidth and backbone services with a telecommunications provider offset by cash generated from a decrease in accounts receivable.

We expect that cash provided by operating activities may not be sufficient to cover new purchases of property and equipment during 2011 and potential litigation expenses associated with patent litigation. The timing and amount of future working capital changes and our ability to manage our days sales outstanding will also affect the future amount of cash used in or provided by operating activities.

### ***Investing Activities***

Cash used in investing activities was \$2.5 million for the three months ended March 31, 2011, compared to cash provided by investing activities of \$5.0 million for the three months ended March 31, 2010. Cash provided by (used in) investing activities was principally comprised of cash generated from the sale of short-term marketable securities off set by the purchase of short-term marketable securities and capital expenditures primarily for computer equipment associated with the build-out and expansion of our CDN.

In January 2010, we acquired chors GmbH or chors, an on-line and direct marketing solutions provider located in Germany. Cash paid, net of cash acquired for the chors acquisition was approximately \$2.0 million.

We expect to have ongoing capital expenditure requirements as we continue to invest in and expand our CDN. We currently anticipate making aggregate capital expenditures of approximately 15% of total revenue in 2011.

### ***Financing Activities***

## Edgar Filing: Limelight Networks, Inc. - Form 10-Q

On March 2, 2011 we completed an underwritten public offering of our common stock in which we sold and issued 11,500,000 shares of our common stock, including 1,500,000 shares subject to the underwriters' over-allotment option, at a price to the public of \$7.10 per share. The newly issued common shares began trading on the Nasdaq Global Select Market on March 2, 2011. We raised a total of approximately \$81.7 million in gross proceeds from the offering, or approximately \$77.2 million in net proceeds after deducting underwriting discounts and commissions of approximately \$3.9 million and other offering costs of approximately \$0.5 million.

Net cash provided by financing activities was \$77.1 million for the three months ended March 31, 2011. Net cash provided by financing activities in the three months ended March 31, 2011 primarily related to proceeds from the public offering of our common stock of approximately \$77.2 million and the exercise of stock options of \$0.4 million off-set by payments of employee tax withholdings related to restricted stock of approximately \$0.2 million and payments made on our capital lease obligations of approximately \$0.3 million.

As of March 31, 2011, the Company had no outstanding bank debt other than the aforementioned capital leases.

Changes in cash, cash equivalents and marketable securities are dependent upon changes in, among other things, working capital items such as deferred revenues, accounts payable, accounts receivable, accrued provision for litigation and various accrued expenses, as well as changes in our capital and financial structure due to debt repurchases and issuances, stock option exercises, sales of equity investments and similar events.

**Table of Contents**

We believe that our existing cash, cash equivalents and marketable securities will be sufficient to meet our anticipated cash needs for at least the next 12 months. If the assumptions underlying our business plan regarding future revenue and expenses change, or if unexpected opportunities or needs arise, we may seek to raise additional cash by selling equity or debt securities.

**Contractual Obligations, Contingent Liabilities and Commercial Commitments**

In the normal course of business, we make certain long-term commitments for operating leases, primarily office facilities, bandwidth and computer rack space. These leases expire on various dates ranging from 2011 to 2019. We expect that the growth of our business will require us to continue to add to and increase our long-term commitments in 2011 and beyond. As a result of our growth strategies, we believe that our liquidity and capital resources requirements will grow.

The following table presents our contractual obligations and commercial commitments, as of March 31, 2011 over the next five years and thereafter (in thousands):

Contractual obligations as of March 31, 2011	Total	Payments Due by Period			More than 5 years
		Less than 1 year	1-3 years	3-5 years	
Operating Leases					
Bandwidth leases	\$ 24,140	\$ 15,332	\$ 7,641	\$ 1,167	\$
Rack space leases	64,958	14,173	27,276	23,482	27
Real estate leases	20,213	2,646	6,479	5,587	5,501
Total operating leases	109,311	32,151	41,396	30,236	5,528
Capital leases	2,725	1,196	1,529		
Bank debt					
Interest on bank debt					
Total commitments	\$ 112,036	\$ 33,347	\$ 42,925	\$ 30,236	\$ 5,528

**Off Balance Sheet Arrangements**

As of March 31, 2011, we are not involved in any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

**Use of Non-GAAP Financial Measures**

To evaluate our business, we consider and use Non-GAAP net income (loss) and Adjusted EBITDA as a supplemental measure of operating performance. These measures include the same adjustments that management takes into account when it reviews and assesses operating performance on a period-to-period basis. We consider Non-GAAP net income (loss) to be an important indicator of overall business performance because it allows us to illustrate the impact of the effects of share-based compensation, litigation expenses, provision for litigation, amortization of intangibles and acquisition related expenses. We define EBITDA as GAAP net income (loss) before interest income, interest expense, other income and expense, provision for income taxes and, depreciation and amortization. We believe that EBITDA provides a useful metric to investors to compare us with other companies within our industry and across industries. We define Adjusted EBITDA as EBITDA adjusted for operational expenses that we do not consider reflective of our ongoing operations. We use Adjusted EBITDA as a supplemental measure to review and assess operating performance. We also believe use of Adjusted EBITDA facilitates investors' use of operating performance comparisons from period to period. In addition, it should be noted that our performance-based executive officer bonus structure is tied closely to our performance as measured in part by certain non-GAAP financial measures.

In our May 5, 2011 earnings press release, as furnished on Form 8-K, we included Non-GAAP net income (loss), EBITDA and Adjusted EBITDA. The terms Non-GAAP net income (loss), EBITDA and Adjusted EBITDA are not defined under United States generally accepted accounting principles, or United States GAAP, and are not measures of operating income, operating performance or liquidity presented in accordance with United States GAAP. Our Non-GAAP net income (loss), EBITDA and Adjusted EBITDA have limitations as analytical tools, and when assessing our operating performance, Non-GAAP net income (loss), EBITDA and Adjusted EBITDA should not be considered in isolation, or as a substitute for net income (loss) or other consolidated income statement data prepared in accordance with United States GAAP. Some of these limitations include, but are not limited to:

EBITDA and Adjusted EBITDA do not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments;

they do not reflect changes in, or cash requirements for, our working capital needs;

**Table of Contents**

they do not reflect the cash requirements necessary for litigation costs;

they do not reflect the interest expense, or the cash requirements necessary to service interest or principal payments, on our debt that we may incur;

they do not reflect income taxes or the cash requirements for any tax payments;

although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will be replaced sometime in the future, and EBITDA and Adjusted EBITDA do not reflect any cash requirements for such replacements;

while share-based compensation is a component of operating expense, the impact on our financial statements compared to other companies can vary significantly due to such factors as the assumed life of the options and the assumed volatility of our common stock; and

other companies may calculate EBITDA and Adjusted EBITDA differently than we do, limiting their usefulness as comparative measures.

We compensate for these limitations by relying primarily on our GAAP results and using Non-GAAP net income (loss) and Adjusted EBITDA only as supplemental support for management's analysis of business performance. Non-GAAP net income (loss), EBITDA and Adjusted EBITDA are calculated as follows for the periods presented.

**Reconciliation of Non-GAAP Financial Measures**

In accordance with the requirements of Regulation G issued by the Securities and Exchange Commission, we are presenting the most directly comparable GAAP financial measures and reconciling the non-GAAP financial metrics to the comparable GAAP measures.

**Reconciliation of GAAP Net Income (Loss) to Non-GAAP Net Income (Loss)**

(In thousands)

(Unaudited)

	<b>Three Months Ended</b>	
	<b>March 31, 2011</b>	<b>March 31, 2010</b>
GAAP net loss	\$ (9,818)	\$ (5,785)
Share-based compensation	4,278	4,343
Litigation defense expenses	344	392
Acquisition related expenses	141	604
Amortization of intangibles	1,423	171
Non-GAAP net loss	\$ (3,632)	\$ (275)

**Reconciliation of GAAP Net Income (Loss) to EBITDA to Adjusted EBITDA**

(In thousands)

(Unaudited)

	<b>Three Months Ended</b>	
	<b>March 31, 2011</b>	<b>March 31, 2010</b>
GAAP net loss	\$ (9,818)	\$ (5,785)
Add: depreciation and amortization	8,681	5,544
Add: interest expense	42	1
Less: interest and other income (expense)	(217)	(277)
Add: income tax expense	122	240
 EBITDA	 \$ (1,190)	 \$ (277)
Add: share-based compensation	4,278	4,343
Add: litigation defense expenses	344	392
Add: acquisition related expenses	141	604
 Adjusted EBITDA	 \$ 3,573	 \$ 5,062

**Table of Contents****ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK*****Interest Rate Risk***

Our exposure to market risk for changes in interest rates relates primarily to our debt and investment portfolio. In our investment portfolio, we do not use derivative financial instruments. Our investments are primarily with our commercial and investment banks and, by policy, we limit the amount of risk by investing primarily in money market funds, United States Treasury obligations, high quality corporate and municipal obligations and certificates of deposit. We do not believe that a 10% change in interest rates would have a significant impact on our interest income, operating results or liquidity.

***Foreign Currency Risk***

We operate in North America, EMEA and Asia-Pacific. As a result of our international business activities, our financial results could be affected by factors such as changes in foreign currency exchange rates or economic conditions in foreign markets, and there is no assurance that exchange rate fluctuations will not harm our business in the future. A large portion of our customer agreements are denominated in U.S. dollars; however, we may be exposed to fluctuations in foreign exchange rates with respect to customer agreements with certain of our international customers. Although we will continue to monitor our exposure to currency fluctuations, and, where appropriate, may use financial hedging techniques in the future to minimize the effect of these fluctuations, we are not currently engaged in any financial hedging transactions. The impact of an aggregate decline of 10% in foreign currency exchange rates relative to the U.S. dollar on our results of operations and financial position could be material.

As of December 31, 2010, the international subsidiaries acquired as part of the *EyeWonder* and *chors GmbH* acquisitions had local currencies as their functional currencies while our remaining international subsidiaries had the U.S. dollar as their functional currencies. During the first quarter of 2011, we analyzed the various economic factors of our international subsidiaries and determined that the operations of our subsidiaries that were previously determined to operate in a U.S. dollar functional currency environment had changed and that their functional currencies changed to the local currencies. Effective January 1, 2011, the adjustment from translating these subsidiaries' financial statements from the local currency to the U.S. dollar was recorded as a separate component of accumulated other comprehensive income (loss). These foreign currency translation adjustments reflect the translation of the balance sheet at period end exchange rates and the income statement at an average exchange rate in effect during each period. Upon the change in functional currency, the Company recorded a cumulative translation adjustment of approximately \$0.5 million, which is included in the condensed consolidated balance sheet. Because of the change in exchange rates between reporting periods and changes in certain account balances, the foreign currency translation adjustment will change from period to period.

***Inflation Risk***

We do not believe that inflation has had a material effect on our business, financial condition or results of operations. If our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could harm our business, financial condition and results of operations.

**ITEM 4. CONTROLS AND PROCEDURES*****Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures***

We are responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in SEC Rule 13a-15(e) and 15d-15(e). We maintain disclosure controls and procedures, as such term is defined in SEC Rule 13a-15(e) and 15d-15(e), that are designed to ensure that information required to be disclosed in our reports under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by SEC Rule 13a-15(b), we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of March 31, 2011. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level.



***Changes in Internal Control over Financial Reporting***

There have no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter ended March 31, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Table of Contents****PART II. OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS**

We are involved in litigation with Akamai Technologies, Inc. and the Massachusetts Institute of Technology relating to a claim of patent infringement. The action was filed in June 2006 in the United States District Court for the District of Massachusetts. The trial date was set for February 2008 with respect to four claims in United States Patent No. 6,108,703 (the '703 patent). In February 2008, a jury returned a verdict in this lawsuit, finding that we infringed four claims of the '703 patent at issue and rejecting our invalidity defenses. The jury awarded an aggregate of approximately \$45.5 million which includes lost profits, reasonable royalties and price erosion damages for the period April 2005 through December 31, 2007. In addition, the jury awarded pre-judgment interest which we estimated to be \$2.6 million at December 31, 2007. We recorded the aggregate \$48.1 million as a provision for litigation as of December 31, 2007. During 2008, we recorded an additional provision of approximately \$17.5 million for potential additional infringement damages and interest. On July 1, 2008, the court denied our Motions for Judgment as a Matter of Law (JMOL), Obviousness, and a New Trial. The court also denied Akamai's Motion for Permanent Injunction as premature and denied its Motions for Summary Judgment regarding our equitable defenses. The court conducted a bench trial in November 2008 regarding our equitable defenses. We also filed a motion for reconsideration of the court's earlier denial of our motion for JMOL. Our motion for reconsideration of JMOL was based largely upon a clarification in the standard for a finding of joint infringement articulated by the Federal Circuit in the case of *Muniauction, Inc. v. Thomson Corp.* (the *Muniauction* Case), released after the court denied our initial motion for JMOL. On April 24, 2009 the court issued its order and memorandum setting aside the adverse jury verdict and ruling that we did not infringe Akamai's '703 patent and that we are entitled to judgment as a matter of law. Based upon the court's April 24, 2009 order we have reversed the \$65.6 million provision for litigation previously recorded for this lawsuit as we no longer believe that payment of any amounts represented by the litigation provision is probable. The court entered final judgment in favor of us. Akamai filed a notice of appeal of the court's decision on May 26, 2009. The Court of Appeals for the Federal Circuit heard arguments by both parties on June 7, 2010. On December 20, 2010 the Court of Appeals for the Federal Circuit issued its opinion affirming the District Court's entry of judgment in our favor. On February 18, 2011, Akamai filed a motion with the Court of Appeals for the Federal Circuit seeking a rehearing and rehearing *en banc*. On April 21, 2011, the Court of Appeals for the Federal Circuit issued an order denying the petition for rehearing, granting the petition for rehearing *en banc*, vacating the December 20, 2010 opinion affirming the District Court's entry of judgment in our favor, and reinstated the appeal. We believe that we do not infringe Akamai's patents and will continue to vigorously defend our position. We are not able at this time to estimate the range of potential loss nor, in light of the favorable U.S. district court order, do we believe that a loss is probable. Therefore, we have made no provision for this lawsuit in our financial statements.

In December 2007, Level 3 Communications, LLC (Level 3) filed a lawsuit against us in the United States District Court for the Eastern District of Virginia alleging that we were infringing certain patents Level 3 acquired from Savvis Communications Corp. In addition to monetary relief, including treble damages, interest, fees and costs, the complaint sought an order permanently enjoining us from conducting our business in a manner that infringed the relevant patents. A jury trial was conducted in January 2009, and on January 23, 2009 the jury returned a verdict favorable to us finding that we did not infringe the Level 3 patents. The court denied Level 3's subsequent motion for judgment as a matter of law or alternatively for a new trial, and entered a judgment in our favor. Level 3 filed a notice of appeal on July 21, 2009. On May 3, 2010 the United States Court of Appeals for the Federal Circuit heard oral argument on this matter, and on May 5, 2010 the court affirmed the District Court judgment in our favor. Level 3 subsequently filed a motion for rehearing and rehearing *en banc* that the Court subsequently denied. In light of the favorable ruling from the Court of Appeals we consider this matter successfully concluded, and accordingly we do not believe that a loss is probable. Therefore, we have made no provision for this lawsuit in our financial statements.

In August 2007, we, certain of our officers and directors, and the firms that served as the lead underwriters in our initial public offering were named as defendants in several purported class action lawsuits. These lawsuits have been consolidated into a single lawsuit in United States District Court for the District of Arizona. The consolidated complaint asserts causes of action under Sections 11, 12 and 15 of the Securities Act of 1933, as amended, on behalf of a professed class consisting of all those who were allegedly damaged as a result of acquiring our common stock in our initial public offering (IPO) between June 8, 2007 and August 8, 2007. The complaint seeks compensatory damages and plaintiffs costs and expenses in the litigation. The complaint alleges, among other things, that we omitted and/or misstated certain facts concerning the seasonality of our business and that the loss of revenue with respect to certain customers. On March 17, 2008, we and the individual defendants moved to dismiss all of the plaintiffs' claims, and a hearing was held on this motion on June 16, 2008. On August 8, 2008, the court granted the motion to dismiss, dismissing plaintiffs' claims under Section 12 with prejudice and granting leave to amend the claims under Sections 11 and 15. Plaintiffs chose not to amend the claims under Sections 11 and 15, and on August 29, 2008 the court entered judgment in favor of us. On September 5, 2008, plaintiffs filed a notice of appeal, and appellate briefs were filed by the parties in January and February 2009. We believe that we and the individual defendants have meritorious defenses to the claims made in the complaint and we intend to continue to contest the lawsuit vigorously. We do have in place directors and officers liability insurance and notice of this matter has been given to the insurance carriers. The insurance has reimbursed certain of the expenses incurred by us in defending this action. In November 2009 the parties entered into a Memorandum of Understanding to settle this lawsuit for an amount well within the coverage limits of the primary carrier of our directors and

officers liability insurance, and on July 7, 2010 the parties entered into a settlement agreement

## Table of Contents

consistent with the terms of the Memorandum of Understanding, which required court approval. On March 22, 2011 the Federal District Court held a hearing pursuant to which the Court approved the settlement. Accordingly, we do not believe that a loss is probable and we believe that this litigation is now successfully concluded. Therefore, we have made no provision for this lawsuit in our financial statements.

In the ordinary course of the Company's business, it is also involved in a limited number of other legal actions, both as plaintiff and defendant, and could incur uninsured liability in any one or more of them. With respect to pending legal actions to which the Company is a party, although the outcomes of these actions are not generally determinable, the Company believes that the ultimate resolution of these matters will not have a material adverse effect on its financial position, cash flows or results of operations. Litigation relating to the content delivery network services industry is not uncommon, and the Company is, and from time to time has been, subject to such litigation. No assurances can be given with respect to the extent or outcome of any such litigation in the future.

### **ITEM 1A. RISK FACTORS**

*Investments in the equity securities of publicly traded companies involve significant risks. Our business, prospects, financial condition or operating results could be materially adversely affected by the risks identified below, 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 you may lose all or part of your investment. In assessing the risks described below, you should also refer to the information contained in this report on Form 10-Q, including our unaudited condensed consolidated financial statements and the related notes, as well as our Annual Report on Form 10-K for the year ended December 31, 2010 and other documents that we file from time to time with the Securities and Exchange Commission.*

#### **Risks Related to Our Business**

*We are a party to several lawsuits, and an adverse outcome in any or all of those lawsuits is possible, which could have a significant, adverse effect on our financial condition and operations. If an injunction were entered against us it could force us to cease providing our CDN services.*

We are currently a defendant in two significant lawsuits and formerly a defendant in a third significant lawsuit, (see discussion in "Legal Proceedings" in Part II, Item 1 of this quarterly report on Form 10-Q). In each case, we currently have favorable rulings, but we cannot provide any assurance that these favorable rulings won't be overturned or reversed on appeal, or that the ultimate outcome of any of these lawsuits won't be materially adverse to us. The expenses of defending these lawsuits and other lawsuits to which we may become a party, particularly fees paid to our lawyers and expert consultants, have been significant and may continue to adversely affect our operating results during the pendency of the lawsuits. Also, this litigation has been a distraction to our management in operating our business. Now that the trial and appeal phases of these lawsuits have concluded, we expect that our litigation expenses will reduce on a quarterly basis for the foreseeable future and that the distraction to management in operating our business will also decrease.

In February 2008, a jury returned a verdict in a patent infringement lawsuit filed by Akamai Technologies, Inc., or Akamai, and the Massachusetts Institute of Technology, or MIT, against us, finding that we infringed four claims of the patent at issue and rejecting our invalidity defenses. The jury awarded Akamai an aggregate of approximately \$45.5 million in lost profits, reasonable royalties and price erosion damages, plus pre-judgment interest estimated to be \$2.6 million that we recorded in 2007. During 2008 we recorded an additional provision of approximately \$17.5 million for potential additional infringement damages and interest.

The court conducted a bench trial in November 2008, regarding our equitable defenses; and we filed a motion for reconsideration of the court's earlier denial of our motion for Judgment as a Matter of Law (JMOL). Our motion for JMOL was based largely upon a clarification in the standard for a finding of joint infringement articulated by the Federal Circuit in the case of *Muniauction, Inc. v. Thomson Corp.* (the *Muniauction* Case), released after the court denied our initial motion for JMOL. On April 24, 2009 the court issued its order and memorandum setting aside the adverse jury verdict and ruling that we do not infringe Akamai's '703 patent and that we are entitled to judgment as a matter of law. Based upon the court's April 24, 2009 order we have reversed the provision for litigation relating to this matter as we no longer believe that payment of any amounts represented by the litigation provision is probable. Akamai appealed the judgment, and on June 7, 2010 the United States Court of Appeals for the Federal Circuit heard oral argument on this matter. On December 20, 2010 the Court of Appeals for the Federal Circuit affirmed the District Court's grant of our motion for judgment as a matter of law. On February 18, 2011, Akamai filed a motion with the Court of Appeals for the Federal Circuit seeking a rehearing and rehearing *en banc*. On April 21, 2011, the Court of Appeals for the Federal Circuit issued an order denying the petition for rehearing, granting the petition for rehearing *en banc*, vacating the December 20, 2010 opinion affirming the District Court's entry of judgment in our favor, and reinstated the appeal. We believe that we do not infringe Akamai's patents and will continue to vigorously defend our position; however, we cannot provide any assurance that the lawsuit ultimately will be resolved in our favor. An adverse ruling could seriously impact our ability to conduct our business and to offer our products and services to our customers. A

## Edgar Filing: Limelight Networks, Inc. - Form 10-Q

permanent injunction could prevent us from operating our CDN to deliver certain types of traffic, which could impact the viability of our business. Any adverse ruling, in turn, would harm our revenue, market share, reputation, liquidity and overall financial position.

**Table of Contents**

In January 2009, in a patent infringement lawsuit filed against us by Level 3 Communications LLC, or Level 3, a jury returned a verdict finding that we did not infringe any of the claims of the patents at issue in that case. The court denied Level 3's subsequent motion for JMOL or alternatively for a new trial, and entered judgment in our favor. Level 3 appealed that decision. On May 3, 2010 the United States Court of Appeals for the Federal Circuit heard oral argument on this matter, and on May 5, 2010 the court affirmed the District Court judgment in our favor. Level 3 filed motions for rehearing and rehearing *en banc*, which were both denied. We consider this matter successfully concluded.

In August 2007, we, certain of our officers and directors, and the firms that served as the lead underwriters in our initial public offering were named as defendants in several purported class action lawsuits. These lawsuits have been consolidated into a single lawsuit in United States District Court for the District of Arizona. The consolidated complaint asserts causes of action under Sections 11, 12 and 15 of the Securities Act of 1933, as amended, on behalf of a professed class consisting of all those who were allegedly damaged as a result of acquiring our common stock in our initial public offering (IPO) between June 8, 2007 and August 8, 2007. The complaint seeks compensatory damages and plaintiffs costs and expenses in the litigation. The complaint alleges, among other things, that we omitted and/or misstated certain facts concerning the seasonality of our business and the loss of revenue with respect to certain customers. On March 17, 2008, we and the individual defendants moved to dismiss all of the plaintiffs' claims, and a hearing was held on this motion on June 16, 2008. On August 8, 2008, the court granted the motion to dismiss, dismissing plaintiffs' claims under Section 12 with prejudice and granting leave to amend the claims under Sections 11 and 15. Plaintiffs chose not to amend the claims under Sections 11 and 15, and on August 29, 2008 the court entered judgment in favor of us. On September 5, 2008, plaintiffs filed a notice of appeal, and appellate briefs were filed by the parties in January and February 2009. We do have in place directors and officers liability insurance and notice of this matter has been given to the insurance carriers. The insurance has reimbursed certain of the expenses incurred by us in defending this action. In November 2009 the parties entered into a Memorandum of Understanding to settle this lawsuit for an amount well within the coverage limits of the primary carrier of our directors and officers liability insurance, and on July 7, 2010 the parties entered into a settlement agreement consistent with the terms of the Memorandum of Understanding, which required court approval. On March 22, 2011 the Federal District Court held a hearing pursuant to which the Court approved the settlement. Accordingly, we do not believe that a loss is probable and we believe that this litigation is now successfully concluded.

***We may need to defend our intellectual property and processes against patent or copyright infringement claims, which would cause us to incur substantial costs and threaten our ability to do business.***

Companies, organizations or individuals, including our competitors, may hold or obtain patents or other proprietary rights that would prevent, limit or interfere with our ability to make, use or sell our services or develop new services, which could make it more difficult for us to operate our business. From time to time, we may receive inquiries from holders of patents inquiring whether we infringe their proprietary rights. Companies holding Internet-related patents or other intellectual property rights are increasingly bringing suits alleging infringement of such rights or otherwise asserting their rights and seeking licenses. In addition, many of our agreements with customers require us to indemnify such customers for third-party intellectual property infringement claims against them. Pursuant to such agreements, we may be required to defend such customers against certain claims which could cause us to incur additional significant costs. Any litigation or claims, whether or not valid, could result in substantial costs and diversion of resources. See "Legal Proceedings" in Part II, Item 1 of this quarterly report on Form 10-Q. In addition, if we are determined to have infringed upon a third party's intellectual property rights, we may be required to do one or more of the following:

cease selling, incorporating or using products or services that incorporate the challenged intellectual property;

pay substantial damages;

obtain a license from the holder of the infringed intellectual property right, which license may or may not be available on reasonable terms or at all; or

redesign products or services.

If we are forced to take any of these actions, our business may be seriously harmed. In the event of a successful claim of infringement against us and our failure or inability to obtain a license to the infringed technology, our business and operating results could be harmed.

Edgar Filing: Limelight Networks, Inc. - Form 10-Q

*We use certain open-source software the use of which could result in our having to distribute our proprietary software, including our source code, to third parties on unfavorable terms which could materially affect our business.*

Certain of our service offerings use software that is subject to open-source licenses. Open-source code is software that is freely accessible, usable and modifiable. Certain open-source code is governed by license agreements, the terms of which could require users of such open-source code to make any derivative works of such open-source code available to others on unfavorable terms or at no

---

## **Table of Contents**

cost. Because we use open-source code, we may be required to take remedial action in order to protect our proprietary software. Such action could include replacing certain source code used in our software, discontinuing certain of our products or taking other actions that could divert resources away from our development efforts.

In addition, the terms relating to disclosure of derivative works in many open-source licenses are unclear. We periodically review our compliance with the open-source licenses we use and do not believe we will be required to make our proprietary software freely available. However, if a court interprets one or more such open-source licenses in a manner that is unfavorable to us, we could be required to make our software available at no cost.

***We currently face competition from established competitors and may face competition from others in the future.***

We compete in markets that are intensely competitive, rapidly changing and characterized by constantly declining prices and vendors offering a wide range of content delivery solutions. We have experienced and expect to continue to experience increased competition, and particularly aggressive price competition. Many of our current competitors, as well as a number of our potential competitors, have longer operating histories, greater name recognition, broader customer relationships and industry alliances and substantially greater financial, technical and marketing resources than we do. As a consequence of the competitive dynamics in our market we have experienced reductions in our prices, which in turn adversely affect our revenue, gross margin and operating results.

Our primary competitors include content delivery service providers such as Akamai, Level 3 Communications, AT&T, CDNetworks and Internap Network Services Corporation, which acquired VitalStream. Also, as a result of the growth of the content delivery market, a number of companies have recently entered or are currently attempting to enter our market, either directly or indirectly, some of which may become significant competitors in the future. Our largest value-added service, the EyeWonder brand, faces formidable competition in every aspect of our business from other companies that provide solutions and services similar to those offered by us. Currently, the EyeWonder business unit's primary competitors are DoubleClick, Eyeblander, Pointroll, a subsidiary of Gannett, and Atlas. DoubleClick is owned by Google and Atlas is part of the Microsoft Advertising portfolio. DoubleClick and Atlas offer solutions and services similar to those offered by us and compete directly with us. We expect that Google and Microsoft will use their substantial financial and engineering resources to expand the DoubleClick and Atlas businesses and increase their ability to compete with us. We believe that both Google and Microsoft have a greater ability to attract and retain customers due to numerous competitive advantages, including their ability to offer and provide their marketing and advertising customers with a significantly broader range of related solutions and services than us. Google and Microsoft may use their experience and resources to compete with us in a variety of ways, including through acquisitions of competitors or related businesses, and could also use campaign management solutions as a loss leader or provide campaign management solutions without charge or below cost in order to encourage customers to use their other product offerings. The EyeWonder business unit also faces significant competition from rich-media solutions companies such as Unicast (a DG FastChannel company) and UK-based Flashtalking, as well as ad serving companies such as Zedo and CheckM8. In addition, we may experience competition from companies that provide web analytics or web intelligence. Other companies, such as Yahoo!, also are developing campaign management solutions.

Our competitors may be able to respond more quickly than we can to new or emerging technologies and changes in customer requirements. Given the relative ease by which customers typically can switch among providers, differentiated offerings or pricing by competitors could lead to a rapid loss of customers. Some of our current or potential competitors may bundle their offerings with other services, software or hardware in a manner that may discourage content providers from purchasing the services that we offer. In addition, as we expand internationally, we face different market characteristics and competition with local content delivery service providers, many of which are very well positioned within their local markets. Increased competition could result in price reductions and revenue shortfalls, loss of customers and loss of market share, which could harm our business, financial condition and results of operations.

***If we fail to manage future growth effectively, we may not be able to market and sell our services successfully.***

Our future operating results depend to a large extent on our ability to manage expansion and growth successfully. Risks that we face in undertaking this expansion include: training new sales personnel to become productive and generate revenue; forecasting revenue; controlling expenses and investments in anticipation of expanded operations; implementing and enhancing our content delivery network, or CDN, and administrative infrastructure, systems and processes; addressing new markets; and expanding international operations. A failure to manage our growth effectively could materially and adversely affect our ability to market and sell our products and services.

***If we fail to maintain proper and effective internal controls or fail to implement our controls and procedures with respect to acquired or merged operations, our ability to produce accurate financial statements could be impaired, which could adversely affect our operating results, our ability to operate our business and investors' views of us.***





---

## **Table of Contents**

We must ensure 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. We are required to spend considerable effort on establishing and maintaining our internal controls, which is costly and time-consuming and needs to be re-evaluated frequently.

We have only operated as a public company since June 2007 and we will continue to incur significant legal, accounting and other expenses as we comply with the Sarbanes-Oxley Act of 2002, as well as new rules subsequently implemented by the Securities and Exchange Commission (SEC) and the Nasdaq Stock Market's Global Market. These rules impose various requirements on public companies, including requiring changes in corporate governance practices, increased reporting of compensation arrangements and other requirements. Our management and other personnel will continue to devote a substantial amount of time to these compliance initiatives. Moreover, these rules and regulations will increase our legal and financial compliance costs and will make some activities more time-consuming and costly. These rules and regulations could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, our board committees or as executive officers.

Section 404 of the Sarbanes-Oxley Act of 2002 requires that we include in our annual report our assessment of the effectiveness of our internal control over financial reporting and our audited financial statements as of the end of each fiscal year. Furthermore, our independent registered public accounting firm, Ernst & Young LLP, (E&Y), is required to report on whether it believes we maintained, in all material respects, effective internal control over financial reporting as of the end of the year. We successfully completed our assessment and obtained E&Y's attestation as to the effectiveness of our internal control over financial reporting as of December 31, 2010, 2009 and 2008, respectively. Our continued compliance with Section 404 will require that we incur substantial expense and expend significant management time on compliance related issues, including our efforts in implementing controls and procedures related to acquired or merged operations. We currently do not have an internal audit group and use an international accounting firm to assist us with our assessment of the effectiveness of our internal controls over financial reporting. In future years, if we fail to timely complete this assessment, or if E&Y cannot timely attest, there may be a loss of public confidence in our internal controls, the market price of our stock could decline and we could be subject to regulatory sanctions or investigations by the Nasdaq Stock Market's Global Market, the SEC or other regulatory authorities, which would require additional financial and management resources. In addition, any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to timely meet our regulatory reporting obligations.

### ***We may lose customers if they elect to develop content delivery solutions internally.***

Our customers and potential customers may decide to develop their own content delivery solutions rather than outsource these solutions to CDN services providers like us. This is particularly true as our customers increase their operations and begin expending greater resources on delivering their content using third party solutions. If we fail to offer CDN services that are competitive to in-sourced solutions, we may lose additional customers or fail to attract customers that may consider pursuing this in-sourced approach, and our business and financial results would suffer.

### ***We may lose customers if they are unable to build business models that effectively monetize delivery of their content.***

Some of our customers will not be successful in selling advertising or otherwise monetizing the content we deliver on their behalf and consequently may not be successful in creating a profitable business model. This will result in some of our customers discontinuing their Internet or web-based business operations and discontinuing use of our services and products. Further, weakness and related uncertainty in the global financial markets and economy which has included, among other things, significant reductions in available capital and liquidity from banks and other providers of credit, substantial reductions and/or fluctuations in equity and currency values worldwide and concerns that the worldwide economy may be in a prolonged recessionary period may materially adversely impact our customers' access to capital or willingness to spend capital on our services or in some cases, ultimately cause the customer to file for protection from creditors under applicable insolvency or bankruptcy laws or simply go out of business. This uncertainty may also impact our customers' levels of cash liquidity, which could affect their ability or willingness to timely pay for services that they will order or have already ordered from us. From time to time we discontinue service to customers for non-payment of services. We expect further customers may discontinue operations or not be willing or able to pay for services that they have ordered from us. Further loss of customers may adversely affect our financial results.

### ***Rapidly evolving technologies or new business models could cause demand for our CDN services to decline or could cause these services to become obsolete.***

Customers or third parties may develop technological or business model innovations that address content delivery requirements in a manner that is, or is perceived to be, equivalent or superior to our CDN services. If competitors introduce new products or services that compete with or surpass the quality or the price/performance of our services, we may be unable to renew our agreements with existing customers or attract new customers at the prices and levels that allow us to generate attractive rates of return on our investment. For example, one or more third parties might develop improvements to current peer-to-peer technology, which is a technology that relies upon the computing power and bandwidth of

its participants, such that this technological approach is better able to deliver content in a way that is competitive to our CDN services, or even makes CDN services obsolete. We may not anticipate

## **Table of Contents**

such developments and may be unable to adequately compete with these potential solutions. In addition, our customers' business models may change in ways that we do not anticipate and these changes could reduce or eliminate our customers' needs for CDN services. If this occurred, we could lose customers or potential customers, and our business and financial results would suffer. As a result of these or similar potential developments, in the future it is possible that competitive dynamics in our market may require us to reduce our prices, which could harm our revenue, gross margin and operating results.

***If we are unable to sell our services at acceptable prices relative to our costs, our revenue and gross margins will decrease, and our business and financial results will suffer.***

Prices for CDN services have fallen in recent years and are likely to fall further in the future. We have invested significant amounts in purchasing capital equipment to increase the capacity of our CDN services. For example, in 2008, 2009 and 2010 we invested \$17.4 million, \$20.4 million and \$34.2 million, respectively, in capital expenditures primarily for computer equipment associated with the build-out and expansion of our CDN. For the three month period ended March 31, 2011, we invested \$8.1 million. Our investments in our infrastructure are based upon our assumptions regarding future demand and also prices that we will be able to charge for our services. These assumptions may prove to be wrong. If the price that we are able to charge customers to deliver their content falls to a greater extent than we anticipate, if we over-estimate future demand for our services or if our costs to deliver our services do not fall commensurate with any future price declines, we may not be able to achieve acceptable rates of return on our infrastructure investments and our gross profit and results of operations may suffer dramatically.

During 2011, as we further expand our CDN services and begin to refresh our network equipment, we expect our capital expenditures to be approximately 15% of total revenue. As a consequence, we are dependent on significant future growth in demand for our services to provide the necessary gross profit to pay these additional expenses. If we fail to generate significant additional demand for our services, our results of operations will suffer and we may fail to achieve planned or expected financial results. There are numerous factors that could, alone or in combination with other factors, impede our ability to increase revenue, moderate expenses or maintain gross margins, including:

failure to increase sales of our core services;

increases in electricity, bandwidth and rack space costs or other operating expenses, and failure to achieve decreases in these costs and expenses relative to decreases in the prices we can charge for our services and products;

inability to maintain our prices relative to our costs;

failure of our current and planned services and software to operate as expected;

loss of any significant customers or loss of existing customers at a rate greater than our increase in new customers or our sales to existing customers;

failure to increase sales of our services to current customers as a result of their ability to reduce their monthly usage of our services to their minimum monthly contractual commitment;

failure of a significant number of customers to pay our fees on a timely basis or at all or failure to continue to purchase our services in accordance with their contractual commitments; and

inability to attract high quality customers to purchase and implement our current and planned services.

*If we are unable to develop new services and enhancements to existing services or fail to predict and respond to emerging technological trends and customers' changing needs, our operating results may suffer.*

The market for our CDN and cloud-based services is characterized by rapidly changing technology, evolving industry standards and new product and service introductions. Our operating results depend on our ability to predict user preferences or industry changes, and modify our solutions and services on a timely basis or develop and introduce new services into existing and emerging markets. The process of developing new technologies is complex and uncertain. We must commit significant resources to developing new services or enhancements to our existing services before knowing whether our investments will result in services the market will accept. Furthermore, we may not execute successfully our technology initiatives because of errors in planning or timing, technical hurdles that we fail to overcome in a timely fashion, misunderstandings about market demand or a lack of appropriate resources. As prices for CDN continue to fall, we will increasingly rely on new product offerings and other cloud-based services to maintain or increase our gross margins. Failures in execution or market acceptance of new services we introduce could result in competitors providing those solutions before we do, which could lead to loss of market share, revenue and earnings.

*Advertisers may not find Internet advertising effective and may reduce their allocations of advertisement spending on Internet campaigns.*

Most large advertisers have fixed advertising budgets, a very small portion of which is allocated to Internet advertising. The future success of our EyeWonder business depends highly on an increase in the use of the Internet, the commitment of advertisers and advertising agencies to the Internet as an advertising and marketing medium, the advertisers' implementation of advertising

---

**Table of Contents**

campaigns, and the willingness of current or potential customers to outsource their Internet advertising and marketing needs. If the market for Internet advertising or marketing deteriorates, or develops more slowly than we expect, our business could suffer. The market for Internet advertising and marketing is relatively new and rapidly evolving, and we expect that large advertisers will continue to focus most of their advertising efforts on traditional media. Advertisers, including current and potential customers, may also find Internet advertising or marketing to be less effective than traditional media advertising or marketing methods for promoting their products and services, and therefore may decrease the portion of their budget allocated to Internet advertising or may shift their advertising away from the Internet. Even if Internet advertising increases in the aggregate, if display advertising does not increase, the market for our products and services may not continue to be viable and our revenues may decrease. If we fail to convince these companies to spend a portion of their advertising budgets with us to advertise online, or if our existing advertisers reduce the amount they spend on its services, our business, financial condition or results of operations could be materially adversely affected.

***Our EyeWonder business may be adversely affected by cyclicalities or an extended downturn in the United States or worldwide economy in or related to the industries we serve.***

Revenues for our EyeWonder business unit are generated primarily from providing online campaign management solutions and services to advertising agencies and advertisers across digital media channels and a variety of formats. Demand for these services tends to be tied to economic cycles, reflecting overall economic conditions as well as budgeting and buying patterns. Following the recent negative developments in the world economy, several agency and analyst organizations now predict that the growth in online advertising will be slower than previously expected. We cannot provide assurance that advertising budgets and expenditures by advertising agencies and advertisers will not decline in any given period or that advertising spending will not be diverted to more traditional media or other online marketing products and services, which would lead to a decline in the demand for our campaign management solutions and services. A decline in the economic prospects of advertisers or the economy in general could alter current or prospective customers' spending priorities. As a result, our revenues may not increase or may decline significantly in any given period.

***Consolidation of Internet advertising networks, web portals, Internet search engine sites and web publishers may impair our ability to serve advertisements and to collect campaign data, and could lead to a loss of significant customers.***

The growing trend of consolidation of Internet advertising networks, web portals, Internet search engine sites and web publishers, and increasing industry presence of a small number of large companies, such as Google and Microsoft, could harm our business. We currently are able to serve, track and manage advertisements for our customers in a variety of networks and websites. Concentration of advertising networks or any disruption in our relationship with our publishers could substantially impair our ability to serve advertisements if networks or websites decide not to permit us to serve, track or manage advertisements on their websites, if publishers develop ad placement systems that are not compatible with our systems, or if they use their market power to force their customers to use certain vendors on their networks or websites. These networks or websites also could prohibit or limit our aggregation of advertising campaign data if they use technology that is not compatible with our technology. In addition, concentration of desirable advertising space in a small number of networks and websites could result in pricing pressures and diminish the value of our advertising campaign data, as the value of this data depends to some degree on the continuous aggregation of data from advertising campaigns on a variety of different advertising networks and websites. Additionally, major networks and publishers can terminate our ability to serve advertisements on their properties on short notice. If we are no longer able to serve, track and manage advertisements on a variety of networks and websites, our offerings will be significantly impacted.

***New advertisement blocking technologies could limit or block the delivery or display of advertisements by our service offerings, which could undermine the viability of our business.***

Advertisement blocking technologies, such as filter software programs, that can limit or block the delivery or display of advertisements delivered through our service offerings are currently available for Internet users and are continuing to be developed. If these technologies become widespread, the commercial viability of the current Internet advertisement model may be undermined. As a result, ad-blocking technology could, in the future, have a material adverse affect on our business, financial condition and results of operations.

***More individuals are using non-personal computer devices to access the Internet, and the solutions developed for these devices may not be widely deployed.***

The number of people who access the Internet through devices other than personal computers (PCs), including mobile devices, game consoles and television set-top devices, has increased dramatically in the past few years. The lower resolution, functionality and memory associated with alternative devices make the use of our service offerings through these devices more difficult and potentially less effective. If we are unable to deliver our service offerings to a substantial number of alternative device users or if we are slow to develop services and technologies that are more compatible with non-PC Internet-enabled devices, we will fail to capture a significant share of an increasingly important portion of the market. Such a failure could limit our ability to compete effectively in an industry that is rapidly growing and changing.



---

**Table of Contents**

***Our EyeWonder business may be adversely affected by malicious third-party software applications that interfere with the function of our technology.***

Our EyeWonder business may be adversely affected by malicious software applications that make changes to Internet users' computers and interfere with our technology. These applications may attempt to change the users' experience in using our services, including altering or replacing advertisements delivered by our platform, changing configurations of our user interface, or otherwise interfering with our ability to deliver advertisements to users' devices. The interference may occur without disclosure to or consent from users, resulting in a negative experience that users may associate with our services. If our efforts to combat these malicious software applications are unsuccessful, our reputation may be harmed and the communications with certain users on behalf of our customers could be impaired. This could result in a decline in usage of our services and corresponding revenues, which would have a material adverse effect on our business, financial condition and results of operations.

***If we fail to detect click-through fraud or other invalid clicks, we could lose the confidence of our advertisers, thereby causing our business to suffer.***

We are exposed to the risk of fraudulent clicks and other invalid clicks on advertisements delivered by us from a variety of potential sources. Invalid clicks are clicks that we have determined are not intended by the user to link to the underlying content, such as inadvertent clicks on the same ad twice and clicks resulting from click fraud. Click fraud occurs when a user intentionally clicks on an ad displayed on a web site for a reason other than to view the underlying content. These types of fraudulent activities could harm our business and brand. If fraudulent clicks are not detected, the data that our solutions provide to customers may be less reliable and the affected advertisers may lose confidence in our solutions to deliver a return on their investment. If advertisers become dissatisfied with our solutions, they may choose to do business with our competitors or reduce their Internet advertising spending.

***Our business depends on a strong brand reputation of the EyeWonder and Limelight Networks brands, and if we are not able to maintain and enhance our brands, our business will suffer.***

We believe that maintaining and enhancing the EyeWonder and Limelight Networks brands is important to expanding our base of customers and maintaining brand loyalty among customers, particularly in North America where brand perception can impact the competitive position in other markets worldwide, and that the importance of brand recognition will increase due to the growing number of competitors providing similar services and solutions. Maintaining and enhancing our brand may require us to make substantial investments in research and development and in the marketing of our solutions and services and these investments may not be successful. If we fail to promote and maintain the Limelight Networks and EyeWonder brands, or if we incur excessive expenses in this effort, our business and results of operations could be adversely impacted. We anticipate that, as our market becomes increasingly competitive, maintaining and enhancing our brand may become increasingly difficult and expensive. Maintaining and enhancing our brand will depend largely on our ability to be a technology leader and to continue to provide high quality solutions and services, which we may not do successfully.

***We depend on a limited number of customers for a substantial portion of our revenue in any fiscal period, and the loss of, or a significant shortfall in demand from these customers could significantly harm our results of operations.***

During any given fiscal period, a relatively small number of customers typically account for a significant percentage of our revenue. For example, in 2010, sales to our top 10 customers, in terms of revenue, accounted for approximately 30% of our total revenue. During 2009 and 2008, sales to our top 10 customers, in terms of revenue, accounted for approximately 36% and 38%, respectively, of our total revenue. During 2010, we had no customer who represented more than 10% of our total revenue. During 2009 and 2008, one of these top 10 customers, Microsoft, represented approximately 14% and 18%, respectively of our total revenue for that period. Microsoft, and other large customers, may not continue to be as significant going forward as they have been in the past. For the three month period ended March 31, 2011, sales to our top 10 customers, in terms of revenue, accounted for approximately 33% of our total revenue. During the three month period ended March 31, 2011, we had no customer who represented more than 10% of our total revenue. During 2011, we anticipate that our revenue from Microsoft will decline from that earned in 2010 and as a percent of our total revenue. In the past, the customers that comprised our top 10 customers have continually changed, and we also have experienced significant fluctuations in our individual customers' usage of our services. As a consequence, we may not be able to adjust our expenses in the short term to address the unanticipated loss of a large customer during any particular period. As such, we may experience significant, unanticipated fluctuations in our operating results which may cause us to not meet our expectations or those of stock market analysts, which could cause our stock price to decline.

***If we are unable to attract new customers or to retain our existing customers, our revenue could be lower than expected and our operating results may suffer.***



## Edgar Filing: Limelight Networks, Inc. - Form 10-Q

In addition to adding new customers, to increase our revenue, we must sell additional services to existing customers and encourage existing customers to increase their usage levels. If our existing and prospective customers do not perceive our services to be of sufficiently high value and quality, we may not be able to retain our current customers or attract new customers. We sell our services pursuant to service agreements that generally include some form of financial minimum commitment. Our customers have no obligation to renew their contracts for our services after the expiration of their initial commitment, and these service agreements may

**Table of Contents**

not be renewed at the same or higher level of service, if at all. Moreover, under some circumstances, some of our customers have the right to cancel their service agreements prior to the expiration of the terms of their agreements. This fact, in addition to the changing competitive landscape in our market, means that we cannot accurately predict future customer renewal rates or usage rates. Our customers' renewal rates may decline or fluctuate as a result of a number of factors, including:

their satisfaction or dissatisfaction with our services;

the prices of our services;

the prices of services offered by our competitors;

discontinuation by our customers of their Internet or web-based content distribution business;

mergers and acquisitions affecting our customer base; and

reductions in our customers' spending levels.

If our customers do not renew their service agreements with us or if they renew on less favorable terms, our revenue may decline and our business will suffer. Similarly, our customer agreements often provide for minimum commitments that are often significantly below our customers' historical usage levels. Consequently, even if we have agreements with our customers to use our services, these customers could significantly curtail their usage without incurring any penalties under our agreements. In this event, our revenue would be lower than expected and our operating results could suffer.

It also is an important component of our growth strategy to market our CDN services to industries, such as enterprise and the government. As an organization, we do not have significant experience in selling our services into these markets. We have only recently begun a number of these initiatives, and our ability to successfully sell our services into these markets to a meaningful extent remains unproven. If we are unsuccessful in such efforts, our business, financial condition and results of operations could suffer.

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

Our results of operations may fluctuate as a result of a variety of factors, many of which are outside of our control. If our results of operations fall below the expectations of securities analysts or investors, the price of our common stock could decline substantially. In addition to the effects of other risks discussed in this section, fluctuations in our results of operations may be due to a number of factors, including:

our ability to increase sales to existing customers and attract new customers to our CDN and cloud-based services;

the addition or loss of large customers, or significant variation in their use of our CDN and cloud-based services;

costs associated with current or future intellectual property lawsuits and other lawsuits;

service outages or security breaches;

the amount and timing of operating costs and capital expenditures related to the maintenance and expansion of our business, operations and infrastructure;

the timing and success of new product and service introductions by us or our competitors;

the occurrence of significant events in a particular period that result in an increase in the use of our CDN and cloud-based services, such as a major media event or a customer's online release of a new or updated video game;

changes in our pricing policies or those of our competitors;

the timing of recognizing revenue;

limitations of the capacity of our content delivery network and related systems;

the timing of costs related to the development or acquisition of technologies, services or businesses;

general economic, industry and market conditions (such as the fluctuations experienced in the stock and credit markets during the recent deterioration of global economic conditions) and those conditions specific to Internet usage;

limitations on usage imposed by our customers in order to limit their online expenses; and

geopolitical events such as war, threat of war or terrorist actions.

Additionally, the operating results for our EyeWonder business unit have historically fluctuated on a quarterly basis due to the seasonal nature of brand-oriented advertising on the Internet, and we expect this fluctuation to continue. The fourth calendar quarter is typically the strongest, and the first quarter is often the weakest quarter for the EyeWonder business unit. The increase in revenue in the fourth quarter is primarily the result of heavy advertising and online shopping during November and December due to the holidays. The drop in revenues in the first quarter is linked to the drop in online advertising and shopping that occurs at the beginning of each year. We believe that cyclical and seasonality may have a more pronounced effect on our EyeWonder business unit's operating results in the future, as its growth slows. Our EyeWonder business unit's operating expenses are relatively fixed in the near term. As a result, we cannot quickly react to changes in revenue and therefore, changes in revenue could lead to changes in our operating results.

## **Table of Contents**

We believe that our revenue and results of operations 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 period as an indication of future performance.

***After being profitable in 2004 and 2005, we were unprofitable in 2006, 2007, 2008 and 2010, and would have been unprofitable in 2009, had we not reversed a significant reserve for litigation, primarily due to increased stock-based compensation expense and litigation costs, which could affect our ability to achieve and maintain profitability in the future.***

Our adoption of ASC 718 (formerly FAS 123R) in 2006 substantially increased the amount of share-based compensation expense we record and has had a significant impact on our results of operations. After being profitable in 2004 and 2005, we were unprofitable in 2006, 2007, 2008 and 2010 partially due to our share-based compensation expense which increased from \$0.1 million in 2005 to \$9.2 million in 2006, to \$18.9 million in 2007 to \$18.1 million in 2008 and was \$17.4 million in 2010. We were profitable in 2009 due to the reversal of a significant reserve for litigation; however our share-based compensation was still significant at \$17.5 million for the year. This significant amount of share-based compensation expense reflects an increase in the level of stock options, restricted stock and restricted stock unit (RSU) grants. For the three month period ended March 31, 2011, our share-based compensation expense was \$4.3 million. Our unrecognized share-based compensation expense totaled \$27.4 million at March 31, 2011 based on current outstanding stock options and restricted stock units, of which we expect to amortize \$9.6 million during the remainder of 2011, \$8.4 million in 2012 and the remainder thereafter based upon the scheduled vesting of the options, restricted stock and RSUs outstanding at that time. Our share-based compensation expense could adversely affect our ability to achieve and maintain profitability in the future. In 2006, we were sued by Akamai and MIT alleging infringement of certain patents. In December 2007, we were sued by Level 3 Communications alleging infringement of certain patents. We have incurred, and will potentially continue to incur, significant costs associated with litigation. These costs were \$3.1 million, \$7.3 million, \$20.8 million, \$5.4 million and \$2.1 million, respectively, in 2006, 2007, 2008, 2009 and 2010, respectively. For the three month period ended March 31, 2011, we incurred \$0.3 million in litigation costs. These costs may continue to be significant during 2011.

***We generate our revenue primarily from the sale of CDN services, and the failure of the market for these services to expand as we expect or the reduction in spending on those services by our current or potential customers would seriously harm our business.***

While we offer our customers a number of services associated with our CDN, we generated the majority of our revenue in 2007, 2008, 2009 and 2010 from charging our customers for the content delivered on their behalf through our CDN. We are subject to an elevated risk of reduced demand for these services. Furthermore, if the market for delivery of rich media content in particular does not continue to grow as we expect or grows more slowly, then we may fail to achieve a return on the significant investment we are making to prepare for this growth. Our success, therefore, depends on the continued and increasing reliance on the Internet for delivery of media content and our ability to cost-effectively deliver these services. Factors that may have a general tendency to limit or reduce the number of users relying on the Internet for media content or the number of providers making this content available online include a general decline in Internet usage, litigation involving our customers and third party restrictions on online content, including copyright restrictions, digital rights management and restrictions in certain geographic regions, as well as a significant increase in the quality or fidelity of offline media content beyond that available online to the point where users prefer the offline experience. The influence of any of these factors may cause our current or potential customers to reduce their spending on CDN services, which would seriously harm our operating results and financial condition.

***Many of our significant current and potential customers are pursuing emerging or unproven business models which, if unsuccessful, could lead to a substantial decline in demand for our CDN services.***

Because the proliferation of broadband Internet connections and the subsequent monetization of content libraries for distribution to Internet users are relatively recent phenomena, many of our customers' business models that center on the delivery of rich media and other content to users remain unproven. For example, social media companies have been among our top recent customers and are pursuing emerging strategies for monetizing the user content and traffic on their web sites. Our customers will not continue to purchase our CDN services if their investment in providing access to the media stored on or deliverable through our CDN does not generate a sufficient return on their investment. A reduction in spending on CDN services by our current or potential customers would seriously harm our operating results and financial condition.

***Our business will be adversely affected if we are unable to protect our intellectual property rights from unauthorized use or infringement by third parties.***

We rely on a combination of patent, copyright, trademark and trade secret laws and restrictions on disclosure to protect our intellectual property rights. These legal protections afford only limited protection, and we have only one currently issued patent. Monitoring infringement of our intellectual property rights is difficult, and we cannot be certain that the steps we have taken will prevent unauthorized use of our intellectual property rights. We have applied for patent protection in a number of foreign countries, but the laws in these jurisdictions may not protect our proprietary rights as fully as in the United States. Furthermore, we cannot be certain that any pending or future patent applications will be granted, that any future patent will not be challenged, invalidated or circumvented, or that rights granted under any patent that may be issued will

provide competitive advantages to us.

**Table of Contents**

***Any unplanned interruption in the functioning of our network or services or attacks on our internal information technology systems could lead to significant costs and disruptions that could reduce our revenue and harm our business, financial results and reputation.***

Our business is dependent on providing our customers with fast, efficient and reliable distribution of application and content delivery services over the Internet. Many of our customers depend primarily or exclusively on our services to operate their businesses. Consequently, any disruption of our services could have a material impact on our customers' businesses. Our network or services could be disrupted by numerous events, including natural disasters, failure or refusal of our third party network providers to provide the necessary capacity, failure of our software or CDN delivery infrastructure and power losses. In addition, we deploy our servers in third party co-location facilities, and these third-party co-location providers could experience system outages or other disruptions that could constrain our ability to deliver our services. We may also experience disruptions caused by software viruses or other attacks by unauthorized users.

While we have not experienced any significant, unplanned disruption of our services to date, our CDN may fail in the future. Despite our significant infrastructure investments, we may have insufficient communications and server capacity to address these or other disruptions, which could result in interruptions in our services. Any widespread interruption of the functioning of our CDN and cloud-based services for any reason would reduce our revenue and could harm our business and financial results. If such a widespread interruption occurred or if we failed to deliver content to users as expected during a high-profile media event, game release or other well-publicized circumstance, our reputation could be damaged severely. Moreover, any disruptions could undermine confidence in our services and cause us to lose customers or make it more difficult to attract new ones, either of which could harm our business and results of operations.

***We may have difficulty scaling and adapting our existing architecture to accommodate increased traffic and technology advances or changing business requirements, which could lead to the loss of customers and cause us to incur unexpected expenses to make network improvements.***

Our CDN services are highly complex and are designed to be deployed in and across numerous large and complex networks. Our network infrastructure has to perform well and be reliable for us to be successful. The greater the user traffic and the greater the complexity of our products and services, the more resources we will need to invest in additional infrastructure and support. Further, as a result of the adverse jury verdict in February 2008 in the Akamai Technologies, Inc. v. Limelight Networks, Inc. lawsuit, which verdict was overturned by the court's April 24, 2009 order granting our motion for judgment as a matter of law, we made significant investment in designing and implementing changes to our CDN architecture in order to implement our CDN services in a manner we believe does not infringe the claims of Akamai's 703 patent as alleged in the February 2008 trial. We have spent and expect to continue to spend substantial amounts on the purchase and lease of equipment and data centers and the upgrade of our technology and network infrastructure to handle increased traffic over our network, implement changes to our CDN architecture and to roll out new products and services. This expansion is expensive and complex and could result in inefficiencies, operational failures or defects in our network and related software. If we do not implement such changes or expand successfully, or if we experience inefficiencies and operational failures, the quality of our products and services and user experience could decline. From time to time, we have needed to correct errors and defects in our software or in other aspects of our CDN. In the future, there may be additional errors and defects that may harm our ability to deliver our services, including errors and defects originating with third party networks or software on which we rely. These occurrences could damage our reputation and lead us to lose current and potential customers. We must continuously upgrade our infrastructure in order to keep pace with our customers' evolving demands. Cost increases or the failure to accommodate increased traffic or these evolving business demands without disruption could harm our operating results and financial condition.

***Our operations are dependent in part upon communications capacity provided by third party telecommunications providers. A material disruption of the communications capacity we have leased could harm our results of operations, reputation and customer relations.***

We lease private line capacity for our backbone from a third party provider, Global Crossing Ltd., or Global Crossing. Our contracts for private line capacity with Global Crossing generally have terms of three to four years. In March 2011 and January and September 2009, we amended our agreement with Global Crossing to enhance the private line capacity for our backbone. The communications capacity we have leased may become unavailable for a variety of reasons, such as physical interruption, technical difficulties, contractual disputes, or the financial health of our third party provider. As it would be time consuming and expensive to identify and obtain alternative third party connectivity, we are dependent on Global Crossing in the near term. Financial failure of Global Crossing could jeopardize utilization of the service fees pre-paid by us under our agreement with Global Crossing. Additionally, as we grow, we anticipate requiring greater private line capacity than we currently have in place. If we are unable to obtain such capacity on terms commercially acceptable to us or at all, our business and financial results would suffer. We may not be able to deploy on a timely basis enough network capacity to meet the needs of our customer base or effectively manage demand for our services.

---

**Table of Contents**

***Our business depends on continued and unimpeded access to third party controlled end-user access networks.***

Our content delivery services depend on our ability to access certain end-user access networks in order to complete the delivery of rich media and other online content to end-users. Some operators of these networks may take measures, such as the deployment of a variety of filters, that could degrade, disrupt or increase the cost of our or our customers' access to certain of these end-user access networks by restricting or prohibiting the use of their networks to support or facilitate our services, or by charging increased fees to us, our customers or end-users in connection with our services. This or other types of interference could result in a loss of existing customers, increased costs and impairment of our ability to attract new customers, thereby harming our revenue and growth.

In addition, the performance of our infrastructure depends in part on the direct connection of our CDN to a large number of end-user access networks, known as peering, which we achieve through mutually beneficial cooperation with these networks. In some instances, network operators charge us for the peering connections. If, in the future, a significant percentage of these network operators elected to no longer peer with our CDN or peer with our CDN on less favorable economic terms, then the performance of our infrastructure could be diminished, our costs could increase and our business could suffer.

***If our ability to deliver media files in popular proprietary content formats was restricted or became cost-prohibitive, demand for our content delivery services could decline, we could lose customers and our financial results could suffer.***

Our business depends on our ability to deliver media content in all major formats. If our legal right or technical ability to store and deliver content in one or more popular proprietary content formats, such as Adobe Flash or Windows Media, was limited, our ability to serve our customers in these formats would be impaired and the demand for our CDN services would decline by customers using these formats. Owners of proprietary content formats may be able to block, restrict or impose fees or other costs on our use of such formats, which could lead to additional expenses for us and for our customers, or which could prevent our delivery of this type of content altogether. Such interference could result in a loss of existing customers, increased costs and impairment of our ability to attract new customers, which would harm our revenue, operating results and growth.

***As part of our business strategy, we may acquire businesses or technologies and may have difficulty integrating these operations.***

We may seek to acquire businesses or technologies that are complementary to our business. For example, in May 2009, we acquired substantially all of the assets of Kiptronic Inc., a developer of mobility and monetization solutions for content publishers, in January 2010, we acquired chors GmbH, an on-line and direct marketing solutions provider located in Germany, in April 2010, we acquired EyeWonder, Inc., a provider of interactive digital advertising products and services to advertisers, and in July 2010, we acquired Delve Networks, Inc., a provider of online video solutions to manage, publish, measure and monetize high quality video content on the Internet. Acquisitions involve a number of risks to our business, including the difficulty of integrating the operations and personnel of the acquired companies, the potential disruption of our ongoing business, the potential distraction of management, the possibility that our business culture and the business culture of the acquired companies will not be compatible, the difficulty of incorporating acquired technology and rights into our operations, expenses related to the acquisition and to the integration of the acquired companies, the impairment of relationships with employees and customers as a result of any integration of new personnel, risks related to the businesses of acquired companies that may continue to impact the businesses following the merger and potential unknown liabilities associated with acquired companies. Any inability to integrate operations or personnel in an efficient and timely manner could harm our results of operations.

In order to realize the expected benefits and synergies of our recent merger with EyeWonder, we must meet a number of significant challenges, including:

integrating the management teams, strategies, cultures, technologies and operations of the two businesses;

retaining and assimilating the key personnel of each company;

retaining existing customers; and

## Edgar Filing: Limelight Networks, Inc. - Form 10-Q

implementing and retaining uniform standards, controls, procedures, policies and information systems.

Until the completion of the merger on April 30, 2010, we and EyeWonder had operated independently. It is possible that the integration process could result in the loss of the technical skills and management expertise of key employees, the disruption of each company's ongoing businesses or inconsistencies in standards, controls, procedures and policies due to possible cultural conflicts or differences of opinions on technical decisions and services. A failure to integrate the two organizations successfully could adversely affect our ability to maintain relationships with customers, suppliers and employees or to achieve the anticipated benefits of the merger. Even if we are able to integrate the EyeWonder business operations successfully, this integration may not result in the realization of the full benefits of synergies, cost savings, innovation and operational efficiencies that may be possible from this integration, and these benefits may not be achieved within a reasonable period of time.



## **Table of Contents**

We have little prior experience as a company in this complex process of acquiring and integrating businesses. If we are not successful in completing acquisitions that we may pursue in the future, we may be required to reevaluate our business strategy, and we may incur substantial expenses and devote significant management time and resources without a productive result. In addition, future acquisitions will require the use of our available cash or dilutive issuances of securities. Future acquisitions or attempted acquisitions could also harm our ability to achieve profitability. We may also experience significant turnover from the acquired operations or from our current operations as we integrate businesses.

*If we are unable to retain our key employees and hire qualified sales and technical personnel, our ability to compete could be harmed.*

Our future success depends upon the continued services of our executive officers and other key technology, sales, marketing and support personnel who have critical industry experience and relationships that they rely on in implementing our business plan. In particular, we are dependent on the services of our Chief Executive Officer, Jeffrey W. Lunsford and also our Chief Technical Officer, Nathan F. Raciborski. Neither of these officers nor any of our other key employees is bound by an employment agreement for any specific term. There is increasing competition for talented individuals with the specialized knowledge to deliver CDN services and this competition affects both our ability to retain key employees and hire new ones. The loss of the services of any of our key employees could disrupt our operations, delay the development and introduction of our services, and negatively impact our ability to sell our services.

*We face risks associated with international operations that could harm our business.*

We have operations in numerous foreign countries and may continue to expand our sales and support organizations internationally. As part of our growth strategy, we intend to expand our sales and support organizations internationally, as well as to further expand our international network infrastructure. We have limited experience in providing our services internationally and such expansion could require us to make significant expenditures, including the hiring of local employees, in advance of generating any revenue. As a consequence, we may fail to achieve profitable operations that will compensate our investment in international locations. In addition, expansion into international markets is important to the long-term success of our EyeWonder business, which has only limited experience with operations outside the United States. We are subject to a number of risks associated with international business activities that may increase our costs, lengthen our sales cycle and require significant management attention.

These risks include:

increased expenses associated with sales and marketing, deploying services and maintaining our infrastructure in foreign countries;

competition from local content delivery service providers, many of which are very well positioned within their local markets;

challenges caused by distance, language and cultural differences;

unexpected changes in regulatory requirements preventing us from operating our CDN or resulting in unanticipated costs and delays;

interpretations of laws or regulations that would subject us to regulatory supervision or, in the alternative, require us to exit a country, which could have a negative impact on the quality of our services or our results of operations;

longer accounts receivable payment cycles and difficulties in collecting accounts receivable;

corporate and personal liability for violations of local laws and regulations;

currency exchange rate fluctuations;

potentially adverse tax consequences;

credit risk and higher levels of payment fraud; and

foreign exchange controls that might prevent us from repatriating cash earned in countries outside the United States.

***Internet-related and other laws relating to taxation issues, privacy and consumer protection and liability for content distributed over our network, could harm our business.***

Laws and regulations that apply to communications and commerce conducted over the Internet are becoming more prevalent, both in the United States and internationally, and may impose additional burdens on companies conducting business online or providing Internet-related services such as ours. Increased regulation could negatively affect our business directly, as well as the businesses of our customers, which could reduce their demand for our services. For example, tax authorities abroad may impose taxes on the Internet-related revenue we generate based on where our internationally deployed servers are located. In addition, domestic and international taxation laws are subject to change. Our services, or the businesses of our customers, may become subject to increased taxation, which could harm our financial results either directly or by forcing our customers to scale back their operations and use of

---

## **Table of Contents**

our services in order to maintain their operations. In addition, the laws relating to the liability of private network operators for information carried on or disseminated through their networks are unsettled, both in the United States and abroad. Network operators have been sued in the past, sometimes successfully, based on the content of material disseminated through their networks. We may become subject to legal claims such as defamation, invasion of privacy and copyright infringement in connection with content stored on or distributed through our network. In addition, our reputation could suffer as a result of our perceived association with the type of content that some of our customers deliver. If we need to take costly measures to reduce our exposure to these risks, or are required to defend ourselves against such claims, our financial results could be negatively affected.

Several other federal laws also could expose us to liability and impose significant additional costs on us. For example, the Digital Millennium Copyright Act has provisions that limit, but do not eliminate, our liability for the delivery of customer content that infringe copyrights or other rights, so long as we comply with the statutory requirements of the Act. In addition, the Children's Online Privacy Protection Act restricts the ability of online services to collect information from minors and the Protection of Children from Sexual Predators Act of 1998 requires online service providers to report evidence of violations of federal child pornography laws under certain circumstances. Compliance with these laws and regulations is complex and any failure on our part to comply with these regulations may subject us to additional liabilities.

***Privacy concerns could lead to legislative and other limitations on our ability to collect usage data from Internet users, including limitations on our use of cookie or conversion tag technology and user profiling, which is crucial to our ability to provide services to our customers.***

Our ability to conduct targeted advertising campaigns and compile data that we use to formulate campaign strategies for customers depends on the use of cookies and conversion tags to track Internet users and their online behavior, which allows us to measure an advertising campaign's effectiveness and avoid repeatedly delivering the same ad to a particular user's device. A cookie is a small file of information stored on a user's computer that allows us to recognize that user's browser when it serves advertisements. A conversion tag functions similarly to a banner advertisement, except that the conversion tag is not visible. Our conversion tags may be placed on specific pages of clients of customers' or prospective customers' websites. Government authorities inside the United States concerned with the privacy of Internet users have suggested limiting or eliminating the use of cookies, conversion tags or user profiling. Bills aimed at regulating the collection and use of personal data from Internet users are currently pending in U.S. Congress and many state legislatures. Attempts at such regulation may be drafted in such a way as to limit or prohibit the use of technology like cookies and conversion tags, thereby creating restrictions that could reduce our ability to use them. In addition, the Federal Trade Commission and the Department of Commerce have conducted hearings regarding user profiling, the collection of non-personally identifiable information and online privacy.

Our foreign operations may also be adversely affected by regulatory action outside the United States. For example, the European Union has adopted a directive addressing data privacy that limits the collection, disclosure and use of information regarding European Internet users. In addition, the European Union has enacted an electronic communications directive that imposes certain restrictions on the use of cookies and conversion tags and also places restrictions on the sending of unsolicited communications. Each European Union member country was required to enact legislation to comply with the provisions of the electronic communications directive by October 31, 2003 (though not all have done so). Germany has also enacted additional laws limiting the use of user profiling, and other countries, both in and out of the European Union, may impose similar limitations.

Internet users may directly limit or eliminate the placement of cookies on their computers by using third-party software that blocks cookies, or by disabling or restricting the cookie functions of their Internet browser software. Internet browser software upgrades also may result in limitations on the use of cookies or conversion tags. Technologies like the Platform for Privacy Preferences (P3P) Project may limit collection of cookie and conversion tag information. Plaintiffs' attorneys also have organized class action suits against companies related to the use of cookies and several companies, including companies in the Internet advertising industry, have had claims brought against them before the Federal Trade Commission regarding the collection and use of Internet user information. We may be subject to such suits in the future, which could limit or eliminate our ability to collect such information. If our ability to use cookies or conversion tags or engage in other user profiling were substantially restricted due to the foregoing, or for any other reason, we would have to generate and use other technology or methods that allow the gathering of user profile data in order to provide services to customers. This change in technology or methods could require significant reengineering time and resources, and may not be complete in time to avoid negative consequences to our business. In addition, alternative technology or methods might not be available on commercially reasonable terms, if at all. If the use of cookies and conversion tags are prohibited and we are not able to efficiently and cost-effectively create new technology, our business, financial condition and results of operations would be materially adversely affected. In addition, any compromise of security that results in the release of Internet users' and/or our customers' data could seriously limit the adoption of our service offerings as well as harm our reputation and brand, expose us to liability and subject us to reporting obligations under various state laws, which could have an adverse effect on our business. The risk that these types of events could seriously harm our business is likely to increase as the amount of data stored for customers on our servers (including personal information) and the number of countries where we operate has been increasing, and we may need to expend significant resources to protect against security breaches, which could have an adverse effect on our business, financial condition or results of operations.



---

**Table of Contents**

*If we are required to seek funding, such funding may not be available on acceptable terms or at all.*

We may need to obtain funding due to a number of factors beyond our control, including a shortfall in revenue, increased expenses, final adverse judgments in litigation matters, increased investment in capital equipment or the acquisition of significant businesses or technologies. We believe that our cash, cash equivalents and marketable securities classified as current plus cash from operations will be sufficient to fund our operations and proposed capital expenditures for at least the next 12 months. However, we may need or desire funding before such time. If we do need to obtain funding, it may not be available on commercially reasonable terms or at all. If we are unable to obtain sufficient funding, our business would be harmed. Even if we were able to find outside funding sources, we might be required to issue securities in a transaction that could be highly dilutive to our investors or we may be required to issue securities with greater rights than the securities we have outstanding today. We might also be required to take other actions that could lessen the value of our common stock, including borrowing money on terms that are not favorable to us. If we are unable to generate or raise capital that is sufficient to fund our operations, we may be required to curtail operations, reduce our capabilities or cease operations in certain jurisdictions or completely.

*Our business requires the continued development of effective business support systems to support our customer growth and related services.*

The growth of our business depends on our ability to continue to develop effective business support systems. This is a complicated undertaking requiring significant resources and expertise. Business support systems are needed for:

implementing customer orders for services;

delivering these services; and

timely billing for these services.

Because our business plan provides for continued growth in the number of customers that we serve and services offered, there is a need to continue to develop our business support systems on a schedule sufficient to meet proposed service rollout dates. The failure to continue to develop effective business support systems could harm our ability to implement our business plans and meet our financial goals and objectives.

*Changes in financial accounting standards or practices may cause adverse, unexpected financial reporting fluctuations and affect our reported results of operations.*

A change in accounting standards or practices can have a significant effect on our operating results and may affect our reporting of transactions completed before the change is effective. New accounting pronouncements and varying interpretations of existing accounting pronouncements have occurred and may occur in the future. Changes to existing rules or the questioning of current practices may adversely affect our reported financial results or the way we conduct our business. For example, our adoption of ASC 718 (formerly FAS 123R) in 2006 increased the amount of stock-based compensation expense we recorded. This, in turn, has impacted our results of operations for the periods since this adoption and has made it more difficult to evaluate our recent financial results relative to prior periods.

*We have incurred, and will continue to incur significantly increased costs as a result of operating as a public company, and our management is required to devote substantial time to compliance initiatives.*

As a public company, we have incurred, and will continue to incur, significant accounting and other expenses that we did not incur as a private company. These expenses include increased accounting, legal and other professional fees, insurance premiums, investor relations costs, and costs associated with compensating our independent directors. In addition, the Frank-Dodd Act and the Sarbanes-Oxley Act of 2002, as well as rules subsequently implemented by the SEC and the Nasdaq Global Select Market, imposes additional requirements on public companies, including requiring changes in corporate governance practices. For example, the listing requirements of the Nasdaq Global Select Market require that we satisfy certain corporate governance requirements relating to independent directors, audit committees, distribution of annual and interim reports, stockholder meetings, stockholder approvals, solicitation of proxies, conflicts of interest, stockholder voting rights and codes of conduct. Our management and other personnel need to devote a substantial amount of time to these compliance initiatives. Moreover, these rules and regulations have increased our legal and financial compliance costs and make some activities more time-consuming and costly. For example, these rules and regulations make it more difficult and more expensive for us to obtain director and officer liability insurance. These rules and regulations could also make it more difficult for us to identify and retain qualified persons to serve on our board of directors, our board

committees or as executive officers.

---

## **Table of Contents**

***Failure to effectively expand our sales and marketing capabilities could harm our ability to increase our customer base and achieve broader market acceptance of our services.***

Increasing our customer base and achieving broader market acceptance of our services will depend to a significant extent on our ability to expand our sales and marketing operations. Historically, we have concentrated our sales force at our headquarters in Tempe, Arizona. However, we are also building a field sales force to augment our sales efforts and to bring our sales personnel closer to our current and potential customers. Developing such a field sales force has been and will continue to be expensive and we have limited knowledge in developing and operating a widely dispersed sales force. As a result, we may not be successful in developing an effective sales force, which could cause our results of operations to suffer.

We believe that there is significant competition for both inside and direct sales personnel with the sales skills and technical knowledge that we require. Our ability to achieve significant growth in revenue in the future will depend, in large part, on our success in recruiting, training and retaining sufficient numbers of inside and direct sales personnel. We have expanded our sales and marketing personnel from a total of 13 at December 31, 2004 to 226 at December 31, 2010. As of March 31, 2011, we had 238 sales and marketing personnel. New hires require significant training and, in most cases, take a significant period of time before they achieve full productivity. Our recent hires and planned hires may not become as productive as we would like, and we may be unable to hire or retain sufficient numbers of qualified individuals in the future in the markets where we do business. Our business will be seriously harmed if these expansion efforts do not generate a corresponding significant increase in revenue.

***If the accounting estimates we make, and the assumptions on which we rely, in preparing our financial statements prove inaccurate, our actual results may be adversely affected.***

Our financial statements have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments about, among other things, taxes, revenue recognition, share-based compensation costs, contingent obligations and doubtful accounts. These estimates and judgments affect the reported amounts of our assets, liabilities, revenue and expenses, the amounts of charges accrued by us, and related disclosure of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances and at the time they are made. If our estimates or the assumptions underlying them are not correct, we may need to accrue additional charges or reduce the value of assets that could adversely affect our results of operations, investors may lose confidence in our ability to manage our business and our stock price could decline.

### **Risks Related to Ownership of Our Common Stock**

***Our limited operating history makes evaluating our business and future prospects difficult, and may increase the risk of your investment.***

Our Company has only been in existence since 2001. A significant amount of our growth, in terms of employees, operations and revenue, has occurred. For example, our revenue has grown from \$5.0 million in 2003 to \$65.2 million in 2006 to \$183.3 million in 2010. As a consequence, we have a limited operating history which makes it difficult to evaluate our 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, such as the risks described in this report on Form 10-Q. If we do not address these risks successfully, our business will be harmed.

***The trading price of our common stock has been, and is likely to continue to be, volatile.***

The trading prices of our common stock and the securities of technology companies generally have been highly volatile. Factors affecting the trading price of our common stock will include:

variations in our operating results;

announcements of technological innovations, new services or service enhancements, strategic alliances or significant agreements by us or by our competitors;

## Edgar Filing: Limelight Networks, Inc. - Form 10-Q

commencement or resolution of, our involvement in and uncertainties arising from, litigation, particularly our current litigation with Akamai and MIT, and our Securities Litigation matter;

recruitment or departure of key personnel;

changes in the estimates of our operating results or changes in recommendations by any securities analysts that elect to follow our common stock;

developments or disputes concerning our intellectual property or other proprietary rights;

the gain or loss of significant customers;

market conditions in our industry, the industries of our customers and the economy as a whole; and

adoption or modification of regulations, policies, procedures or programs applicable to our business.



## **Table of Contents**

In addition, if the market for technology stocks or the stock market in general experiences loss of investor confidence, the trading price of our common stock could decline for reasons unrelated to our business, operating results or financial condition. The trading price of our common stock might also decline in reaction to events that affect other companies in our industry even if these events do not directly affect us.

***If securities or industry analysts do not publish research or reports about our business or if they issue an adverse or misleading opinion or report, our stock, 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 publish about us or our business. If any of the analysts who cover us issue an adverse or misleading opinion regarding our stock, our stock price would likely decline. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline.

***Insiders have substantial control over us and will be able to influence corporate matters.***

As of March 31, 2011, our directors and executive officers and their affiliates beneficially owned, in the aggregate, approximately 39% of our outstanding common stock, including approximately 27% beneficially owned by investment entities affiliated with Goldman, Sachs & Co. These stockholders are able to exercise significant influence over all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions, such as a merger or other sale of our company or its assets. This concentration of ownership could limit other stockholders' ability to influence corporate matters and may have the effect of delaying or preventing a third party from acquiring control over us.

***Future equity issuances or a sale of a substantial number of shares of our common stock may cause the price of our common stock to decline.***

Because we may need to raise additional capital in the future to continue to expand our business and our research and development activities, among other things, we may conduct additional equity offerings. If we or our stockholders sell substantial amounts of our common stock (including shares issued upon the exercise of options and warrants) in the public market, the market price of our common stock could fall. A decline in the market price of our common stock could make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem appropriate.

***Management has broad discretion as to the use of the proceeds from our recently completed underwritten public offering of our common stock, and we may not use the proceeds effectively.***

Our management has broad discretion in the application of the net proceeds from the recently completed underwritten public offering of our common stock and could spend the proceeds in ways that do not improve our results of operations or enhance the value of our common stock. Our failure to apply these funds effectively could have a material adverse effect on our business, delay the development of our product candidates and cause the price of our common stock to decline.

***Anti-takeover provisions in our charter documents and Delaware law could discourage, delay or prevent a change in control of our company and may affect the trading price of our common stock.***

Provisions of our amended and restated certificate of incorporation and bylaws, as well as provisions of Delaware law, could make it more difficult for a third party to acquire us, even if doing so would benefit our stockholders. These provisions:

establish that members of the board of directors may be removed only for cause upon the affirmative vote of stockholders owning a majority of our capital stock;

authorize the issuance of blank check preferred stock that could be issued by our board of directors to increase the number of outstanding shares and thwart a takeover attempt;

## Edgar Filing: Limelight Networks, Inc. - Form 10-Q

limit who may call special meetings of stockholders;

prohibit stockholder action by written consent, thereby requiring stockholder actions to be taken at a meeting of the stockholders;

establish advance notice requirements for nominations for election to the board of directors or for proposing matters that can be acted upon at stockholder meetings;

provide for a board of directors with staggered terms; and

provide that the authorized number of directors may be changed only by a resolution of our board of directors.

In addition, Section 203 of the Delaware General Corporation Law, which imposes certain restrictions relating to transactions with major stockholders, may discourage, delay or prevent a third party from acquiring us.

**Table of Contents**

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

On June 7, 2007, our registration statement on Form S-1 (No. 333-141516) was declared effective in connection with our initial public offering. The offering closed on June 13, 2007, and, as a result, we received net proceeds of approximately \$203.9 million after underwriters' discounts and commissions of approximately \$15.6 million and additional offering-related costs of approximately \$4.0 million.

In June 2007, we used \$23.8 million of the net proceeds to repay the outstanding balance of our credit facility with Silicon Valley Bank. We expect to use the remaining net proceeds for acquisitions of companies complementary to our core CDN business, capital expenditures, working capital and other general corporate purposes. For the year ended December 31, 2010, we made capital expenditures of \$34.2 million and expect aggregate capital expenditures of approximately 15% of total revenue in 2011. We may also use a portion of our net proceeds to fund acquisitions of complementary businesses, products or technologies. In July 2010, we acquired Delve Networks, Inc. for which we used approximately \$2.6 million, net of cash acquired, and could use an additional \$1.2 million if certain financial targets are achieved. On April 30, 2010 we acquired EyeWonder, Inc. for which we used approximately \$62.0 million, net of cash acquired, and in January 2010 we acquired chors GmbH, for which we used approximately \$2.0 million, net of cash acquired, and will use an additional \$0.3 million for the achievement of specific financial targets during 2010. During 2011 pending the uses described above, we intend to invest the net proceeds in a variety of short-term, interest-bearing, investment grade securities. Depending upon the final outcome of pending litigation a portion of the net proceeds may be used to satisfy a final damages judgment, if any.

On January 27, 2010 we acquired all of the outstanding capital stock of chors GmbH, an on-line and direct marketing solutions provider located in Germany. The aggregate purchase price, including the earn-out provision, consisted of approximately \$2.8 million of cash and up to 860,000 shares of our common stock. At the closing of the acquisition, we issued 86,000 shares of our common stock to the two individual shareholders of chors, both residents of the Federal Republic of Germany. In November 2010 (50%) and March 2011 (50%), the additional 774,000 shares of our common stock were issued to the two individual shareholders based upon the achievement of certain financial performance targets during calendar year 2010. We relied upon Regulation S in issuing the shares of our common stock in this transaction without registration under the Securities Act of 1933, as amended.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Not applicable

**ITEM 4. REMOVED AND RESERVED**

**ITEM 5. OTHER INFORMATION**

Not applicable

**Table of Contents****ITEM 6. EXHIBITS**

<b>Exhibit</b>		<b>Incorporated by Reference</b>				<b>Provided Herewith</b>
		<b>Form</b>	<b>File No.</b>	<b>Exhibit</b>	<b>Filing Date</b>	
<b>Number</b>	<b>Exhibit Description</b>					
3.02	Amended and Restated Certificate of Incorporation of Limelight Networks, Inc.	S-1	333-141516	3.2	5/21/07	
3.04	Amended and Restated Bylaws of Limelight Networks, Inc.	S-1	333-141516	3.4	3/22/07	
31.01	Certification of Principal Executive Officer Pursuant to Securities Exchange Act Rule 13a-14(a).					X
31.02	Certification of Principal Financial Officer Pursuant to Securities Exchange Act Rule 13a-14(a).					X
32.01	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350 and Securities Exchange Act Rule 13a-14(b).*					X
32.02	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350 and Securities Exchange Act Rule 13a-14(b).*					X

\* This certification is not deemed filed for purposes of Section 18 of the Securities Exchange Act, or otherwise subject to the liability of that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that Limelight Networks, Inc. specifically incorporates it by reference.

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

LIMELIGHT NETWORKS, INC.

Date: May 6, 2011

By: /s/ Douglas S. Lindroth  
Douglas S. Lindroth  
Senior Vice President, Chief Financial Officer and Treasurer  
(Principal Financial Officer and Principal Accounting Officer)

**Table of Contents****EXHIBIT INDEX**

<b>Exhibit</b>		<b>Incorporated by Reference</b>				
		<b>Form</b>	<b>File No.</b>	<b>Exhibit</b>	<b>Filing Date</b>	<b>Provided Herewith</b>
<b>Number</b>	<b>Exhibit Description</b>					
3.02	Amended and Restated Certificate of Incorporation of Limelight Networks, Inc.	S-1	333-141516	3.2	5/21/07	
3.04	Amended and Restated Bylaws of Limelight Networks, Inc.	S-1	333-141516	3.4	3/22/07	
31.01	Certification of Principal Executive Officer Pursuant to Securities Exchange Act Rule 13a-14(a).					X
31.02	Certification of Principal Financial Officer Pursuant to Securities Exchange Act Rule 13a-14(a).					X
32.01	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350 and Securities Exchange Act Rule 13a-14(b).*					X
32.02	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350 and Securities Exchange Act Rule 13a-14(b).*					X

\* This certification is not deemed filed for purposes of Section 18 of the Securities Exchange Act, or otherwise subject to the liability of that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that Limelight Networks, Inc. specifically incorporates it by reference.