Limelight Networks, Inc.
Form 10-K
March 01, 2013
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2012

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	**20-1677033**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**

222 South Mill Avenue, 8th Floor

Tempe, AZ 85281

(Address of principal executive offices, including Zip Code)

(602) 850-5000

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.001 par value	**NASDAQ Global Select Market**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ¨ No þ

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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.

Large accelerated filer ¨	Accelerated filer þ	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller Reporting Company ¨

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

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant was approximately $169.1 million based on the last reported sale price of the common stock on the Nasdaq Global Select Market on June 30, 2012.

The number of shares outstanding of the registrant s Common Stock, par value $0.001 per share, as of February 20, 2013: 97,026,738 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Registrant s 2013 Annual Meeting of Stockholders are incorporated by reference in Part III of this Form 10-K.

Table of Contents

LIMELIGHT NETWORKS, INC.

ANNUAL REPORT ON FORM 10-K

For the Fiscal Year Ended December 31, 2012

TABLE OF CONTENTS

		Page
PART I		
Item 1.	Business	1
Item 1A.	Risk Factors	13
Item 1B.	Unresolved Staff Comments	32
Item 2.	Properties	32
Item 3.	Legal Proceedings	32
Item 4.	Mine Safety Disclosures	33
PART II		
Item 5.	Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	34
Item 6.	Selected Financial Data	36
Item 7.	Management s Discussion and Analysis of Financial Condition and Results of Operations	39
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	67
Item 8.	Financial Statements and Supplementary Data	68
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	113
Item 9A.	Controls and Procedures	113
Item 9B.	Other Information	116
PART III		
Item 10.	Directors, Executive Officers and Corporate Governance	117
Item 11.	Executive Compensation	117
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	118
Item 13.	Certain Relationships, Related Transactions, and Director Independence	118
Item 14.	Principal Accountant Fees and Services	118
PART IV		
Item 15.	Exhibits and Financial Statement Schedules	119
Signatures		120
Schedule II Valuation and Qualifying Account		121
Exhibits Index and Exhibits		122

Table of Contents

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This annual report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include, among other things, statements as to industry trends, our future expectations, operations, financial condition and prospects, business strategies 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 relying 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 I, Item 1A of this annual report on Form 10-K. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements. We undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

PART I

Item 1. *Business*

Overview

Limelight operates a globally distributed, high-performance computing platform (our global computing platform) and provides a suite of integrated services including content delivery, web and video content management, mobility, web application acceleration, cloud storage, and related consulting services that enable companies and other organizations to create, manage and deliver a global digital presence.

The integrated suite of services that we offer collectively comprises our Orchestrate Digital Presence Platform (Orchestrate, or the Orchestrate Platform). We provide the Orchestrate Platform as Software-as-a-Service (SaaS) and Infrastructure-as-a Service (IaaS), which other than content delivery services, are referred to collectively as value-added services (VAS). We offer VAS both collectively as the end-to-end Orchestrate Platform and individually for customers that may not be inclined or able to adopt the entire platform.

The Orchestrate Platform and services help our customers optimize and streamline their online digital presence across web, mobile, social and large screen channels. The Orchestrate Platform and services enable our customers to remove the complexity of creating, managing, delivering and optimizing their digital presence, which helps them to deliver a high quality online media experience, improve brand awareness, drive revenue and enhance their customer relationships. The Orchestrate Platform and services provide advanced features, which include website content management, personalization and targeting, video publishing, mobile enablement, content delivery, transcoding and cloud storage, combined with social media integration and reporting analytics. These services are provided through the cloud and leverage our global computing platform, which provides highly available, highly redundant storage, bandwidth and computing resources, as well as connectivity to last-mile broadband network providers. Our professional consulting services team helps organizations assess and optimize their digital presence strategies and activities through content management best practices, performance and delivery of online content, and video creation and publishing.

We derive revenue primarily from the sale of the Orchestrate Platform and its components as managed services. We also generate revenue through the sale of professional services and other infrastructure services, such as transit and rack space services. We provide our services to customers that we believe view Internet, mobile, and social initiatives as critical to their success, including traditional and emerging media companies operating in the television, music, radio, newspaper, magazine, movie, videogame, software, and social media industries, as well as to enterprises, technology companies, and government entities conducting business online.

Table of Contents

Our principal executive offices are located at 222 South Mill Avenue, 8th Floor, Tempe, Arizona 85281, and our main telephone number is (602) 850-5000. Our website address is www.limelightnetworks.com. We began development of our infrastructure in 2001 and began generating meaningful revenue in 2002. We began international operations in 2004. As of December 31, 2012, we had approximately 1,451 active customers and had a presence in approximately 67 countries throughout the world. As used herein, Limelight, we, us and our refer to Limelight Networks, Inc. and its subsidiaries, unless the context indicates otherwise.

Recent Developments of the Business

On November 26, 2012, we announced the appointment of Robert A. Lento as interim Chief Executive Officer effective immediately. We had previously announced on November 1, 2012 that Jeffrey W. Lunsford would be stepping down as our Chief Executive Officer in January 2013 and that an executive search firm was engaged to recruit his successor. On January 22, 2013, we announced that the Board of Directors (Board) completed its executive search and appointed Mr. Lento as our President and Chief Executive Officer and that Mr. Lunsford had tendered his resignation as a board member and Chairman of the Board. On February 12, 2013, we announced the appointment of George E. Vonderhaar as Chief Sales Officer and, we recently appointed Jonathan Smith as Managing Director and Vice President of Europe, Middle East and Africa. On February 19, 2013, we announced the appointment of Walter D. Amaral to serve as our non-executive Chairman of the Board. Mr. Amaral fills the Chairman role vacated by the resignation of Mr. Lunsford. We also announced the appointments of Charles Kirby Wadsworth as our Chief Marketing Officer on June 25, 2012 and Indu Kodukula as our Chief Operating Officer on October 29, 2012.

During 2012, we completed two previously announced stock repurchase plans and commenced a third. On September 12, 2011, our Board authorized and approved a repurchase plan that authorized us to purchase up to $25 million of our shares of common stock, exclusive of any commissions, markups or expenses, from time to time through March 12, 2012. During the period September 12, 2011 through March 12, 2012, we purchased and cancelled approximately 9.7 million shares of common stock for approximately $25.0 million ($25.2 million including commissions) under the initial repurchase plan.

On May 3, 2012, we announced a second common stock repurchase plan that authorized us to repurchase up to $15 million of our shares of common stock, exclusive of any commissions, markups or expenses, from time to time through December 15, 2012. During the year ended December 31, 2012, we purchased and cancelled approximately 5.7 million shares of common stock for approximately $15.0 million ($15.1 million including commissions) under the second repurchase plan. On October 29, 2012, our Board authorized and approved a third common stock repurchase plan that authorized us to repurchase up to $10 million of our shares of common stock, exclusive of any commissions, markups or expenses, from time to time through May 9, 2013. Any repurchased shares will be cancelled and return to authorized but unissued status. During the three months ended December 31, 2012, we purchased and cancelled approximately 2.2 million shares under the third repurchase plan for approximately $4.6 million (including commissions).

On August 31, 2012, the Court of Appeals for the Federal Circuit issued its opinion in our on-going patent litigation with Akamai Technologies, Inc. (Akamai). The Court of Appeals stated that the trial court correctly determined that we did not directly infringe Akamai s 6,108,703 patent and upheld the trial court s decision to vacate the original jury s damages award. The Court of Appeals also held that we did not infringe Akamai s 6,553,413 or 7,103,645 patents (the 413 and 645 patents, respectively). A slim majority in this three-way divided opinion also announced a revised legal theory of induced infringement, remanded the case to the trial court, and gave Akamai an opportunity for a new trial to attempt to prove that we induced our customers to infringe Akamai s patent under the Court of Appeals new legal standard. On December 28, 2012, we filed a petition for writ of certiorari to the United States Supreme Court to appeal this sharply divided Court of Appeals decision and sought to stay any proceedings at the trial court until the Supreme Court rules on that petition. Akamai then filed a cross petition for consideration of the Court of Appeals standard for direct infringement. Just as we have successfully shown that we do not directly infringe Akamai s patent, we firmly believe that we ultimately would be successful in showing we do not infringe Akamai s patent under the Court of Appeals majority s new induced infringement theory, and we will continue to vigorously defend against the allegation. We do not believe a loss is probable and therefore no provision for this lawsuit is recorded in our financial statements. For additional information, please see Legal Proceedings in Part I, Item 3 of this Annual Report on Form 10-K.

In May 2010, we made a strategic investment in Gaikai Inc., a private cloud-based gaming technology company (Gaikai). In August 2012, Sony Computer Entertainment Inc. (Sony) acquired Gaikai and we recorded a gain on sale of our cost basis investment in Gaikai of $9.4 million, which has been reflected in other income (expense) in the accompanying consolidated statements of operations for the year ended December 31, 2012. The carrying value of the Gaikai cost basis investment as of the sale date was approximately $2.0 million. The aggregate selling price was $11.4 million consisting of $10.2 million of cash received and $1.2 million held in escrow for a period of up to 15 months to cover any potential indemnification claims. As of December 31, 2012, we are not aware of any potential indemnification claims that are expected to reduce the amount received from escrow and have recorded a current receivable of $1.2 million, which is included in prepaid expenses and other current assets in the accompanying consolidated balance sheet for the year ended December 31, 2012.

We are registered as a reporting company under the Securities Exchange Act of 1934, as amended (Exchange Act). Accordingly, we file or furnish with the Securities and Exchange Commission, or the Commission, annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to such reports as required by the Exchange Act and the rules and regulations of the Commission. We refer to these reports as Periodic Reports. The public may read and copy any Periodic Reports or other materials we file with the Commission at the Commission s Public Reference Room at 100 F. Street, NE, Washington, DC 20549. Information on the operation of the Public Reference Room is available by calling 1-800-SEC-0330. In addition, the Commission maintains an Internet website that contains reports, proxy and information statements and other information regarding issuers, such as Limelight Networks, Inc., that file electronically with the Commission. The address of this website is http://www.sec.gov.

Our Internet website address is www.limelightnetworks.com. We make available, free of charge, on or through our Internet website our Periodic Reports and amendments to those Periodic Reports as soon as reasonably practicable after we electronically file them with the Commission. We are not, however, including the information contained on our website, or information that may be accessed through links on our website, as part of, or incorporating it by reference into, this annual report on Form 10-K.

Five Trends Driving Internet Traffic Growth

We believe there are five important trends driving a substantial need for business enterprises to manage their global online digital presence across web, mobile, social, and large screen channels to a wide variety of online, mobile and connected devices. We believe these trends are:

The evolution of digital marketing. As the global online economy has continued to expand and grow, it has become increasingly difficult for businesses to capture consumer attention. Because of this difficulty, we anticipate that marketing will continue to evolve from broadcast advertising and other marketing messages to engaging with users through conversations associated with content in a variety of places including websites and social networks. We believe this kind of engagement requires that content be dynamic, interactive, and provide rich analytics to assess and gauge the effectiveness of the engagement. To support this trend, we provide a web-based content management system that includes social network publishing and conversation management features. From a single web-based tool, businesses can create, launch, and manage multiple websites, publish new content, and remain actively engaged with users around specific content assets.

The continued growth of online video. Consumers are increasingly demanding and consuming, and publishers are increasingly making available for these consumers, video, music, and other forms of media over the Internet. In particular, we anticipate that consumer demand for online video will

Table of Contents

continue to grow rapidly. Because of this trend, we expect that businesses will continue to incorporate video into their digital marketing efforts as a way to further differentiate their message from competitors and generate new opportunities for engagement. Video consumption is also spreading to mobile devices. To support this trend, we offer video services that enable companies to manage and publish video both to their own website as well as popular third-party websites like YouTube. These services also automatically convert video to many popular mobile formats such as HLS (for Apple-based devices and others that support Apple s HLS standard), HDS (for Flash-enabled devices), and Smooth Streaming (for Microsoft-enabled devices) ensuring that the video is provided to end-users in a manner that supports the best possible playback experience at scale for high-performance, high-quality viewing experiences.

Mobile First. Mobile is becoming increasingly important as a primary method users interact with online content. Mobile devices enable consumers to remain connected and engaged with a marketer s story when they are away from their primary computers or TVs. But in order for those consumers to remain engaged, the experience must be consistent across devices. Marketers dynamic content and video has to be accessible regardless of device and make use of the same social engagement and interaction with which those users are comfortable on their desktop or laptop computers. To support this trend, we provide a variety of functions that offer mobile enablement and optimization, such as automatic rendering of websites into a mobile template, automatic conversion of video into different formats, live mobile video delivery, and advertisement integration into mobile video.

Cloud - The continued migration of IT services into the cloud. Enterprises may seek to decrease infrastructure expenditures by moving to a cloud-based model in which application delivery and storage are available on-demand and paid for on an as-needed basis. We anticipate that the core cloud computing market will continue to grow at a rapid pace as the cloud increasingly becomes a mainstream IT strategy embraced by corporate enterprises and government agencies. This core market includes platform-as-a-service (PaaS) and IaaS offerings, as well as the cloud-delivered software used to build and manage a cloud environment. We offer IaaS and SaaS applications built on that infrastructure that augment customers existing and new cloud network infrastructure.

Social - The rapid growth of use of social media. Consumers are increasingly using social media sites and solutions to communicate and share information. To engage consumers across social media channels, content needs to change constantly and be editable instantaneously by the author and, in some cases, a broader community. Likewise, the audience can interact with and republish social media content. The management of this type of content needs to be scalable, flexible, and fast enough to enable the content to be archived, indexed by search engines, and shared by users in many ways. Our services support this trend letting customers use built-in search engine optimization tools and promotional features to fine-tune marketing programs using blogs and social networking features to engage directly with consumers, and ensuring that dynamic content inherent in social media environments is delivered with a high degree of quality.

Requirements for Managing a Digital Presence

We believe that the challenges of managing and delivering a global digital presence, particularly related to rich media, dynamic content, and applications over the Internet to a wide variety of mobile and connected devices have created a new set of technical, management, and economic requirements for organizations seeking to succeed in the online economy. Our Orchestrate Platform helps content publishers, enterprises, and government entities achieve the following:

Reduction of IT involvement. Our cloud-based services relieve the burden of purchasing and maintaining hardware or software from our customers. Additionally, because our services all include web-based interfaces built using compliant technologies with many of today s most popular Web browsers, there is minimal direct IT-support required to enable adoption and usage by the entire company or organization, regardless of location.

Table of Contents

Business rules-based content delivery. Consumers increasingly expect the ability to consume any form of media content online. To meet this expectation, traditional media companies are making their enormous libraries of content, such as television shows and movies, available to be viewed online. Users expect a consistent media experience across every title in these large libraries, regardless of a title s popularity, each time it is viewed. But companies might have regulations with respect to where they can display that content. Our services include powerful features that enable organizations to dictate where content is stored, for how long, and in what regions it can be delivered.

Ability to scale capacity to handle rapidly accelerating demand. Online businesses must scale delivery of their web presence smoothly as the quantity of their site visitors or audience increases in order to avoid delays for users. When a large number of users simultaneously access a particular website, the operator must be able to meet that surge in demand without making users wait. Rapidly accelerating demand can be related to a single event, such as a breaking news story or seasonal shopping, or can be spread across an entire library of content, such as when a social media website surges in popularity.

Ability to easily publish and deliver online video. As the consumer demand for online video grows, businesses and organizations may be required to adopt video into their marketing messages or risk driving users away. But there are a host of complexities involved in developing and implementing a video publishing workflow. Our video related services include simple and easy methods to publish videos while also leveraging the power of the network to deliver video at scale with the highest performance possible. Additionally, video content can be converted automatically to any mobile device with the opportunity to integrate advertisements into on-demand assets.

Addressing mobile users. With the increasing popularity of smartphones and tablets, businesses and organizations may be required to ensure that their content, whether dynamic web pages or video, display properly in their mobile format. However, adding this requirement to existing content publishing workflows may greatly complicate internal processes that may result in delays for making content available to end users. Additionally, because many mobile devices have separate requirements, handling this requires specialized resources. Our services include features for delivering both web content and video automatically to mobile phones and solves this workflow challenge by automating the delivery of content as part of the existing publishing process.

Reliability. Throughout the path data must traverse to reach a user, and problems with the underlying infrastructure supporting the Internet can occur. For example, servers can crash or network connections can fail. Network, datacenter, or service provider outages can mean frustrated users, lost audiences, and missed revenue opportunities. Our network is a massively redundant network. Spread throughout the globe in over 80 physical locations, the delivery of digital presence assets (like web pages and video files) is always available.

Security. Maintaining effective security is a challenge for any enterprise that operates an Internet presence. Threats, such as attacks, viruses, and piracy can impact online web presence in many ways, including compromising personal and sensitive information, loss of customer trust and loyalty, loss of revenue, and negative publicity and brand reputation. Our services employ a number of software and network features to help mitigate the risk of unauthorized access to content and network-related attacks against web properties.

Engagement. The rapid growth of social media has radically impacted digital marketing by evolving traditional broadcasting of marketing messages to customers to engaging with customers through marketing messages. This engagement largely happens through social media networks like Facebook, Twitter, and other services because consumer behavior has shifted to make social networks one of their primary online activities. Our services include powerful social media integration enabling organizations and businesses to integrate customer engagement via social networks directly into their content, as well as a means to analyze the effectiveness of that engagement (i.e., by monitoring the number of shares, conversation threads, etc.).

Table of Contents

Personalization. The web continues to expand both horizontally (more businesses coming online) and vertically (more content within each subject or topic). This means that it is increasingly difficult for digital marketers to ensure that their message is reaching consumers and that consumer s return to that message, whether it is on a website, in a video, or part of a social network. In order to ensure that the message is received and returned, organizations and businesses are personalizing the content experience based on information about the consumer, such as browsing history (on their site), Facebook likes/shares (available via API), etc. Our services include powerful features that enable marketers to personalize the site to offer content and messaging that is more likely to appeal to specific consumers as well as gather browsing and other information to be used in that personalization.

Globalization. The development and implementation of regional websites is a strategic priority for enterprises as they look to build global brand awareness and drive revenue. Globalizing an organization s digital presence includes developing, deploying, localizing, and maintaining regionally specific sites with fresh content while ensuring brand consistency worldwide.

Our Services

Our integrated, feature-rich, suite of services and solutions are purpose-built to enable customers to build and manage their digital presence across Internet, mobile, and social channels. Our primary services include the following:

Content delivery services improve the reliability and performance of digital media and enterprise websites by using our global computing platform to deliver rich media files such as video, music, games, and software, or live streaming of corporate or entertainment events (we support all major formats including Adobe Flash, QuickTime, Windows Media, RealNetworks RealPlayer, WebM, and MP3 audio).

Video content management services help organizations publish, manage, syndicate, analyze, and monetize video content through a cloud-based service. Services here also include off-the-shelf players for quick deployment, a mobile application to capture video in the field, and monetization features that enable customers to integrate advertising into the video playback experience.

Mobile delivery services help publishers deliver properly-formatted, device-optimized video, and web content to almost any media-enabled mobile device as well as to present dynamic pre-, mid-, or post-roll video and audio advertising into media that is delivered to mobile or connected users. These mobility services automatically detect the requesting mobile device and provide a version of the content suitable to that device.

Web content management services enable content publishers to create, manage, and publish local and global websites through a cloud-based service, combining web content management, site marketing and personalization tools, and mobile publishing to help any organization be a sophisticated web publisher and marketer.

Web acceleration services improve web experiences by providing consistent performance from any geography for dynamic and personalized content, online commerce transactions, and web applications.

Cloud storage services provide customers with a scalable, redundant, geographically diverse storage of media and enterprise content offering policies for global geographic placement, content workflow, and business logic controls.

Professional services help customers assess their Digital Presence Management strategies and optimize their publishing, e-commerce, mobility, content distribution workflows, and provide best practice support for network architecture design, storage infrastructure, web application development, creative design, live event execution, and the design, deployment, and management of infrastructure.

Table of Contents

- ***Reporting and analytics services*** help customers manage and configure how content is delivered and presented to online users. Together, our complete set of reporting and analytics services help online businesses increase efficiency, reduce expenses, improve end-user experience, and provide insight into performance of content delivery or web property. These services include features such as customer provisioning, custom control over delivery and storage options, custom reports, and Internet health monitor which provides insight into potential sources of end user experience issues.

Our evolution from a pure-play content delivery network (CDN) to a provider of integrated cloud-based software and services for Digital Presence Management is reflected in the increasing percentage of total revenue that our VAS represents. VAS represented approximately 32%, 26%, and 16% of our total revenue in 2012, 2011 and 2010 respectively.

Limelight Networks Global Computing Platform

Our global computing platform provides highly available, highly redundant storage, bandwidth, and computing resources in support of our services and solutions. This architecture, managed by our proprietary software, seamlessly and automatically responds to network and datacenter outages and disruptions. All of our delivery locations are interconnected via our global network and also connected to multiple Internet backbone and broadband Internet service provider (ISP) networks. Additionally, each location has redundant network equipment connectivity and server capacity, enabling us to continue serving content even if a network connection or server fails. Automatic failover and recovery not only provide uninterrupted customer service but also simplify network maintenance and upgrades. This platform has three main features:

- ***Densely configured, high-capacity.*** Our global computing platform infrastructure consists of dense clusters of specially configured servers organized into large, multi-tiered, logical delivery locations. The extensive storage capacity of these logical locations leads to fewer cache misses to our network of servers than we believe would occur in an early CDN architecture and provides significant scalability and responsiveness to surges in end-user demand. The clustering of many high-performance CPUs provide us with aggregated computational power.

- ***Many connections to other networks.*** Our logical locations are directly connected to hundreds of ISPs and other user access networks, which are computer networks connected to end-users. In addition, for dedicated connectivity between our logical locations, we operate a dedicated fiber optic backbone and metro area networks. Also, our infrastructure has multiple connections to the Internet. In combination, these connections enable us to frequently bypass the often-congested public Internet, improving the delivery speed of content and applications.

- ***Intelligent software to manage the network.*** We have developed proprietary software that manages our global computing platform. This software manages the delivery of content objects, the retrieval of dynamic content, storage and retrieval of objects, activity logging, and information reporting.

Segment and Geographic Information

We operate in one industry segment, providing content delivery and related services and solutions for global businesses to build and manage their digital presence across Internet, mobile, and social channels. We operate in three geographic areas North America, Europe, Middle East and Africa (EMEA) and Asia Pacific, including Japan. For the years ended December 31, 2012, 2011, and 2010, approximately 31%, 30%, and 27%, respectively, of our total revenue was derived from our operations outside North America. For the years ended December 31, 2012, 2011, and 2010, we derived approximately 47%, 50%, and 57%, respectively of our international revenue from EMEA and approximately 53%, 50%, and 43%, respectively, of our international revenue from Asia Pacific. We anticipate that our Asia Pacific revenue may continue to grow as a percentage of our total international revenue. During 2012, we had two countries, Japan and the United States that represented more than 10% of our total revenues. No single country outside of the United States accounted for 10% or more of our revenues during 2010 and 2011. For a description of risks attendant to our foreign operations, see the section titled Risk Factors set forth in Part 1, Item 1A of this annual report on Form 10-K. For more segment and geographic information, including revenue from customers, a measure of profit or loss, and total assets for each of the last three fiscal years, see our Consolidated Financial Statements included in this annual report on Form 10-K, including Note 22 thereto.

Sales, Service and Marketing

Our sales and service professionals are located in six offices in the United States with an additional 11 office locations in EMEA and Asia Pacific. We target media, high tech, software, gaming, enterprise and government agencies and other providers of online media content through:

- ***Telesales.*** Our telesales force is responsible for qualifying demand, and managing direct sales opportunities within the small and mid-market.

- ***Field sales.*** Our field sales force is responsible for managing direct sales opportunities in major accounts and channels.

- ***Distribution partners.*** We maintain relationships with a selection of partners who embed our services or solutions into their offerings.

- ***Resellers.*** Through our reseller relationships, we sell our services to reseller companies who have relationships with target customers in specific regions or markets.

Our sales and service organization includes employees in telesales and field sales, professional services, account management, and solutions engineering. As of December 31, 2012, we had approximately 178 employees in our sales and service organization. Our ability to achieve revenue growth in the future will depend in large part on whether we successfully recruit, train, and retain sufficient sales, technical, and global services personnel, and how well we establish and maintain our distribution and reseller relationships. We believe that the complexity of our services will continue to require highly trained global sales and services personnel.

To support our sales efforts and promote the Limelight brand, we conduct marketing programs. Our marketing strategies include an active public relations campaign, advertisements, events and trade shows, strategic alliances, and on-going customer communication programs. As of December 31, 2012, we had 12 employees in our global marketing organization.

Customers

Our customers operate in the media, entertainment, gaming, software, enterprise, and public sectors. As of December 31, 2012, we had approximately 1,451 active customers worldwide, including many widely recognized names in the fields of video, digital music, news media, games, rich media applications, and software delivery. During 2012, some of our most notable customers included Amazon, Bell Canada, QVC, Swiss Re, Electronic Arts, Ciena, NetApp, StarTribune, Middle East Broadcasting Company, NFL, Microsoft, Netflix, Nintendo Wii, Nissan, Sony PlayStation, ABC, BBC, NBC, Punjab Kesari Group, and Fasig Tipton.

During 2012 and 2011, we had one customer, Netflix who accounted for more than 10% of our revenue. For each of the years ended December 31, 2012 and 2011, Netflix represented approximately 11% of our total revenue. During 2010, we had no customer that accounted for more than 10% of our revenue. In the past, the customers that comprise our top 10 customers have continually changed, and our large customers may not continue to be as significant going forward as they have been in the past.

From time to time we have discontinued service to customers for non-payment. Although we did not receive continuing revenue from these former customers, these changes provided for a stronger mix of customers across our base, decreased our days sales outstanding (DSO), and allowed us to recoup network capacity to help meet future growth needs. We continue to focus on acquiring and retaining high quality customers across all market segments.

Table of Contents

Competition

We operate in the digital content management and delivery market, which is rapidly evolving and highly competitive. We expect this competitive environment to continue. We believe that the principal competitive factors affecting this market fall into three primary categories: management, delivery, and consumer engagement metrics.

Management for digital presence is measured by the features available for managing and publishing content that is part of a digital presence.

Delivery for digital presence is measured by scale and performance. We measure scale by the number of physical locations in the network and the capabilities for the network to absorb unplanned spikes in requests for content. We measure performance by file delivery time, end-user media consumption rates, quality of the end-user experience, and scalability, both in terms of average capacity and special event capacity. In addition, metrics around the ability to efficiently locate and deliver web content, the ease of implementation, the ability to customize systems for unique content types and mixes, reliability, security, and cost efficiency continue to be key criteria for this market.

Consumer engagement relating to digital content is measured by the ease of management and delivery of digital content across multiple channels and to multiple devices, the ability to conduct visitor tracking, lead capture and lead scoring, the enablement of business users to manage and publish digital content to reduce cost and strain on IT departments, increased website conversion rates, and the ability to quickly monetize digital assets.

The market for digital content management and delivery is increasingly complex and can require multiple vendors to provide customers with a complete set of tools and services to manage and deliver all of their digital content to all audiences as part of a global digital presence. We believe customers will increasingly look for a single vendor to help them manage their digital presence management needs in order to lower costs in relationship and administration management, reduce risk to their business, increase overall quality and speed of delivery, and improve and measure consumer engagement effectiveness.

We believe our integrated suite of services and solutions supported by our global computing platform compete effectively in digital content management and delivery and provide a competitive advantage in that our integrated suite coupled with our global computing platform help obviate the need for customers to seek and manage multiple vendors who provide multiple point solutions. We also believe the combination of cloud-based software (SaaS) and infrastructure/bandwidth associated with the physical network (IaaS) solve multiple challenges for IT departments by removing the need to install, manage, or provision software and hardware to satisfy the requirements for delivering a digital presence.

We believe our future success will depend on our ability to continue to enhance the performance, integration, and functionality of our existing suite of services and of our global computing platform, and on our ability to add additional services and functionality to meet the market s increasing expectations regarding digital content management and delivery and consumer engagement.

Research and Development

Our research and development organization is responsible for the design, development, testing, and certification of the software, hardware, and network architecture of our global computing platform and support of our content delivery and VAS solutions. As of December 31, 2012, we had 120 employees in our research and development group. Our research and development personnel are primarily located in Mountain View and San Francisco, California, Seattle, Washington, Tel Aviv, Israel, Lviv, Ukraine and at our headquarters in Tempe, Arizona. Our engineering efforts support product development across all of our service areas, as well as innovation related to the global computing platform itself. We test our services to ensure scalability in times of peak demand. We use internally-developed and third-party software to monitor and to improve the performance of our platform in the major Internet consumer markets around the world where we provide services for our customers. Our research and development expenses were approximately $20.2 million in 2012, $17.1 million in 2011, and $10.8 million in 2010, including stock-based compensation expense of approximately $2.7 million in 2012, $3.6 million in 2011, and $3.0 million in 2010. We believe that the investments that we have made in research and development have been effectively utilized. In 2013, we anticipate that our research and development expenditures will increase in absolute dollars and increase as a percentage of our revenue.

Intellectual Property

Our success depends in part upon our ability to protect our core technology and other intellectual capital. To accomplish this, we rely on a combination of intellectual property rights, including patents, trade secrets, copyrights, trademarks, domain registrations, and contractual protections.

As of December 31, 2012, we had received 52 patents in the United States, expiring between 2023 and 2032, the Patent and Trademark Office has allowed five more U.S. applications, and we have over 55 U.S. patent applications pending. We have 12 issued patents in Australia and one allowed in China. We do not know whether any of our patent applications will result in the issuance of a patent or whether the examination process will require us to narrow our claims. Any patents that may be issued to us may be contested, circumvented, found unenforceable or invalidated, and we may not be able to prevent third parties from infringing them. Therefore, we cannot predict the exact effect of having a patent with certainty.

As of December 31, 2012, we had received nine trademarks in the United States. Our name, Limelight Networks, has been filed for multiple classes in the United States, Australia, Canada, the European Union, India, Japan, South Korea and Singapore. We have seven pending trademark applications in foreign countries, and 22 non United States trademarks registered. There is a risk that pending trademark applications may not issue, and that those trademarks that have issued may be challenged by others who believe they have superior rights to the marks.

We generally control access to and use of our proprietary software and other confidential information through the use of internal and external controls, including physical and electronic security, contractual protections with employees, contractors, customers and partners, and domestic and foreign copyright laws.

Despite our efforts to protect our trade secrets and proprietary rights and other intellectual property rights by following sound business practices, licenses, and confidentiality agreements, there is risk that unauthorized parties may still copy or otherwise obtain and use our software and technology. In addition, we have been expanding our international operations, and effective patent, copyright, trademark, and trade secret protection may not be available or may be limited in foreign countries. Further, expansion of our business with additional employees, locations, and legal jurisdictions may create greater risk that our trade secrets and proprietary rights will be harmed. If we fail to effectively protect our intellectual property and other proprietary rights, our business could be harmed.

Third parties could claim that our products or technologies infringe their proprietary rights. The Internet content delivery services industry is characterized by the existence of a large number of patents, trademarks, and copyrights and by frequent litigation based on allegations of infringement or other violations of intellectual property rights. We expect that infringement claims may further increase as the number of products, services, and competitors in our market increases. Further, continued success in this market may provide an impetus to those who might use intellectual property litigation as a weapon against us.

As described under Legal Proceedings in Part 1, Item 3 of this annual report on Form 10-K, during 2012 we were party to a lawsuit alleging aspects of our content delivery network infringed upon third party patent rights. Initially at the trial court in Akamai Technologies, Inc. vs. Limelight Networks, Inc., a jury returned a verdict in February 2008 against us finding we infringed four claims of one patent at issue in that lawsuit, and awarded damages of approximately $45.5 million plus pre-judgment interest estimated to be $2.6 million. An additional provision of approximately $17.5 million for potential additional infringement damages and interest was recorded during the year ended December 31, 2008. We filed a renewed motion for judgment as a matter of law (JMOL), and on May 22, 2009, the court entered JMOL that we did not infringe Akamai s patent. Akamai appealed that judgment and on December 20, 2010 the Court of Appeals for the Federal Circuit issued its opinion affirming the trial court s entry of JMOL 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 trial court s entry of judgment in our favor, and reinstated the appeal. On August 31, 2012, the Court of Appeals for the Federal Circuit issued its opinion in the case. The Court of Appeals stated that the trial court correctly determined we did not directly infringe Akamai s 703 patent and upheld the trial court s decision to vacate the original jury s damages award. The court also held that we did not infringe Akamai s 413 or 645 patents. A slim majority in this three-way divided opinion also announced a revised legal theory of induced infringement, remanded the case to the trial court, and gave Akamai an opportunity for a new trial to attempt to prove that we induced our customers to infringe Akamai s patent under the Court of Appeals new legal standard. On December 28, 2012, we filed a petition for writ of certiorari to the United States Supreme Court to appeal this sharply divided Court of Appeals decision and will seek to stay any proceedings at the trial court until the Supreme Court rules on that petition. Akamai then filed a cross petition for consideration of the Court of Appeals standard for direct infringement. We believe that the Court of Appeal s new induced infringement standard runs counter to the Patent Act and Supreme Court precedent, and it should be overturned by the Supreme Court. Additionally, just as we have successfully shown that we do not directly infringe Akamai s patent, we firmly believe that we ultimately would be successful in showing that we do not infringe Akamai s patent under the Court of Appeals majority s new induced infringement theory. We will continue to vigorously defend against the allegation; 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 significant portions of our business and to offer certain of our products and services to our customers. A permanent injunction could prevent us from operating our content delivery services or from delivering certain types of traffic, which could impact the viability of those portions of our business. Any adverse ruling, in turn, would harm our revenue, market share, reputation, liquidity and overall financial position. We are not able at this time to estimate the range of potential loss nor, in light of the status of the litigation, do we believe that a loss is probable. Therefore, we have made no provision for this lawsuit in our financial statements.

As we gain greater visibility and market exposure as a public company, we are likely to face an increased risk of being the subject of intellectual property infringement claims from other third parties.

Employees

As of December 31, 2012, we had 511 employees. Of these employees, 416 are based in North America, 68 are based in EMEA and 27 are based in Asia Pacific. None of our employees are represented by a labor union, and we have not experienced any work stoppages to date. We consider the relationships with our employees to be positive. Competition for technical personnel in the industry in which we compete is intense. We believe that our future success depends in part on our continued ability to hire, assimilate, and retain qualified personnel. To date, we believe that we have been successful in recruiting and retaining qualified employees, but there is no assurance that we will continue to be successful in the future.

Table of Contents

Executive Officers

Our executive officers and their ages and positions as of February 21, 2013 are as follows:

Name	Age	Position
Robert A. Lento	51	President, Chief Executive Officer and Director
Indu Kodukula	39	Chief Operating Officer
Douglas S. Lindroth	46	Senior Vice President, Chief Financial Officer and Treasurer
Philip C. Maynard	58	Senior Vice President, Chief Legal Officer and Secretary
Nathan F. Raciborski	46	Co-Founder, Chief Technology Officer and Director
Charles Kirby Wadsworth	56	Chief Marketing Officer
George E. Vonderhaar	52	Chief Sales Officer

Robert A. Lento has served as our Chief Executive Officer since November 2012 and has served as a member of our board of directors since January 2013. Prior to joining us, Mr. Lento was a senior sales executive at Convergys Corporation, a provider of customer management services, from July 1998 to May 2012, most recently serving as President Information Management Division from September 2007 to May 2012. Prior to that, from 1997 to 1998, Mr. Lento served as President of LAN Systems for Donnelly Enterprise Solutions, Inc., a provider of information management solutions. From 1989 to 1996, Mr. Lento served in leadership positions at ENTEX Information Services, Inc., a provider of computing infrastructure services. Mr. Lento received a B.S. in Management from the State University of New York.

Indu Kodukula has served as our Chief Operating Officer since October 2012. Prior to joining us, Mr. Kodukula served as Executive Vice President, Products and Chief Technology Officer for SunGard Availability Services, Inc., a provider of cloud computing services, from August 2009 to September 2012. Prior to that, from December 2005 to July 2009, Mr. Kodukula served as Vice President of Products, GM for Oracle Corporation s Service Delivery Platform division, a provider of network communications services. Prior to that, from 2001 to 2005, Mr. Kodukula served as Senior Director of Product Management for BEA Systems, Inc., a provider of enterprise application infrastructure solutions. Mr. Kodukula received a Ph.D. in Computer Science from Cornell University and a B. Tech. in Computer Science from the Indian Institute of Technology.

Douglas S. Lindroth has served as our Senior Vice President and Chief Financial Officer since October 2008 and Treasurer since January 2009. Prior to joining us, Mr. Lindroth served as a member of our board of directors since February 2008. Mr. Lindroth has also served as a General Partner of Bayview Investment Company, a real estate investment company, since November 2005. From April 2006 to May 2007, Mr. Lindroth served as Senior Vice-President and Chief Financial Officer of BakBone Software Incorporated, a developer and distributor of data backup, restoration, disaster recovery, replication and storage reporting software. From 1997 through February 2006, Mr. Lindroth served in various capacities for Memec Group Holdings Limited, a privately held company and a specialty semiconductor distributor, including as its Chief Financial Officer beginning in 2003. Mr. Lindroth formerly served on the board of directors of Visual Sciences, Inc. (formerly WebSideStory, Inc.) from May 2006 to January 2008 and BakBone Software Incorporated from May 2007 to January 2011. He is a Certified Public Accountant and received a B.A. in Business Administration from San Diego State University.

Philip C. Maynard has served as our Senior Vice President, Chief Legal Officer and Secretary since October 2007. From August 2004 to October 2006, Mr. Maynard served as Senior Vice President, Chief Legal Officer and Secretary of FileNet Corporation, a provider of data and content management software for managing and sharing information across corporate networks and the Internet, and as Associate General Counsel for IBM Corporation from October 2006 to October 2007, following IBM s acquisition of FileNet. From March 2004 to August 2004, Mr. Maynard served as Executive Vice President and Chief Legal Officer of SRS Labs, Inc., a leading provider of audio enhancement and integrated circuit solutions. From 2003 to 2004, Mr. Maynard was of counsel with the law firm of Stradling Yocca Carlson & Rauth in Newport Beach, California. From 2000 to 2002, Mr. Maynard served as Vice President & Division General Counsel for Invensys Software Systems, a

Table of Contents

division of Invensys, PLC, a UK-based engineering firm. From 1997 to 2000, Mr. Maynard was General Counsel for Wonderware Corporation, a leading developer of industrial automation software solutions, which was acquired by Invensys. Mr. Maynard received his J.D. (*magna cum laude*) from Loyola Law School in Los Angeles, California.

Nathan F. Raciborski co-founded Limelight Networks in 2001. He has been a Director since July 2006, served as Chief Technology Officer (CTO) through 2012 and currently holds the title of Founder. Mr. Raciborski is the inventor on over thirty patents related to the acceleration of Internet content, the scalability of Internet platforms, and the enhancement of content delivery to mobile devices. Starting in 1993, prior to co-founding Limelight, Mr. Raciborski founded numerous companies including Aerocast (acquired by Motorola), Entera (acquired by Blue Coat Systems, formerly Cacheflow) and Primenet Services for the Internet (merged with GlobalCenter, later acquired by Level3 formerly Frontier/Global Crossing).

Charles Kirby Wadsworth has served as our Chief Marketing Officer since June 2012. Prior to joining us, Mr. Wadsworth served as Vice President, Global Marketing for F5 Networks, Inc., a provider of cloud computing services, from July 2006 to May 2012. Prior to that, Mr. Wadsworth served as Senior Vice President, Marketing and Business Development for Acopia Networks, Inc., a provider of file virtualization services, from August 2002 to July 2006. Mr. Wadsworth received an M.B.A. from the Kellogg School of Management at Northwestern University and a B.S. in Information Systems from Northeastern University.

George E. Vonderhaar has served as our Chief Sales Officer since February 2013. Prior to joining us, Mr. Vonderhaar served in various capacities for Convergys Corporation, a provider of customer management services, from 1984 through 2012, including as Senior Vice President, General Manager Cable and Satellite from January 2011 until the division was acquired by NEC Corporation in May 2012, where Mr. Vonderhaar then served as Vice President, General Manager North America Cable from May 2012 to July 2012. Mr. Vonderhaar also was Senior Vice President Human Resources Management at Convergys Corporation from April 2006 through June 2010, when the Human Resources Outsourcing division was acquired by NorthgateArinso, where Mr. Vonderhaar then served as Vice President, Client Services and General Manager from June 2010 to December 2010. Mr. Vonderhaar also served as General Manager Mobile Cable Solutions Group at Convergys Corporation from November 2004 to April 2006. Mr. Vonderhaar received a B.S. in Business Administration from Marquette University.

Item 1A. *Risk Factors*

You should carefully consider the risks described below. These risks are not the only risks that we may face. Additional risks and uncertainties that we are unaware of, or that we currently deem immaterial, also may become important factors that affect us. If any of the following risks occurs, our business, financial condition or results of operations could be materially and adversely affected which could cause our actual operating results to differ materially from those indicated or suggested by forward-looking statements made in this annual report on Form 10-K or presented elsewhere by management from time to time.

Risks Related to Our Business

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.

Table of Contents

Our primary competitors for content delivery services include Akamai, Level 3 Communications, AT&T, Amazon, CDNetworks, Edgecast, 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. Given the relative ease by which customers typically can switch among content delivery service 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.

Our primary competitors for our software-as-a-service (SaaS) offerings include Brightcove, Ooyala, Unicorn Media, Sitecore, Adobe, Crown Peak and Interwoven, as well as open source products such as Drupal. However, the competitive landscape is different from content delivery in this area in that changing vendors can be costly and complicated for the customer, which could make it difficult for us to attract new customers and increase our market share. If we are unable to increase our customer base and increase our market share, our business, financial condition and results of operations may suffer.

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 content delivery 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 global computing network. 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.

As we further expand our global computing network and the suite of content delivery services and value-added services (VAS), and as we refresh our network equipment, we are dependent on significant future growth in demand for our services to justify additional capital expenditures. 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:

- continued price declines arising from significant competition with respect to content delivery services and our VAS;
- increasing settlement fees for certain peering relationships;
- failure to increase sales of our core content delivery services or to grow our VAS;
- 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;

Table of Contents

- 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.

We expect a significant and increasing portion of our revenue to be derived from our VAS offerings. Our VAS tend to have higher gross margins than our content delivery services. We do not have a long history of offering VAS, and we may not be able to achieve the growth rates in such services revenue that we or our investors expect or have experienced in the past. There are numerous companies that compete in providing VAS, and many of these companies have greater financial and sales resources than we do. We may not be successful in competing against current and new providers of VAS. If we are unable to achieve the growth rates in our VAS revenue that we expect, our revenue and operating results could be significantly and negatively affected.

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 content delivery services and VAS 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 content delivery services continue to fall, we will increasingly rely on new product offerings and other VAS to maintain or increase our gross margins. Failures in execution, delays in bringing new or improved products or services to market, failure to effectively integrate service offerings 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.

Rapidly evolving technologies or new business models could cause demand for our content delivery services and VAS to decline or could cause these services to become obsolete.

Customers or third parties may develop technological or business model innovations that address content management and delivery requirements in a manner that is, or is perceived to be, equivalent or superior to our content delivery services and VAS. If competitors introduce new products or services that compete with or surpass the quality or the price or 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 content delivery services, or even makes content delivery services obsolete. We may not anticipate 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 content delivery or digital asset management 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 faster than we anticipate, which could harm our revenue, gross margin and operating results.

Table of Contents

More individuals are using mobile 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 PCs, including mobile devices, game consoles and television set-top devices, has increased dramatically in the past few years. The capabilities of these devices are advancing dramatically and the increasing need to provide a high quality video experience will present us and other providers with significant challenges. If we are unable to deliver our service offerings to a substantial number of alternative device users and at a high quality or if we are slow to develop services and technologies that are more compatible with mobile 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.

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 content delivery and digital asset management services over the Internet every minute of every day. 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 or access, failure of our software or global computing platform 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, unauthorized hacking of our systems, security breaches or other cyber attacks by unauthorized users. Any unauthorized hacking of our systems or other cyber attacks by unauthorized users could lead to the unauthorized release of confidential information that could damage our business.

We have not experienced any significant, unplanned disruption of our services to date; however, our network 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 content delivery services and VAS 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 or security breaches 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 are a party to a lawsuit with a significant competitor, and an adverse outcome in that lawsuit 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 some significant portion of our content delivery services.

We are currently a defendant in one significant lawsuit (see discussion in Legal Proceedings in Part I, Item 3 of this annual report on Form 10-K). The expenses of defending this lawsuit and other lawsuits to which we are or 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 such lawsuits. Also, this litigation has been a distraction to our management and technical personnel.

On August 31, 2012, the Court of Appeals for the Federal Circuit issued its opinion in Akamai Technologies, Inc. v. Limelight Networks, Inc. The court stated that the trial court correctly determined that we did not directly infringe Akamai s 703 patent, and as such it upheld the trial court s decision to vacate the original jury s damages award. The court also held that we did not infringe Akamai s 413 or 645 patents. However, a slim majority in this three-way divided opinion also announced a revised legal theory of induced infringement, remanded the case to the trial court, and gave Akamai an opportunity for a new trial to attempt to prove that we induced our customers to infringe Akamai s patent under the court s new legal standard. We have filed a petition to appeal this sharply divided Court of Appeals decision to the Supreme Court and will seek to stay any proceedings at the trial court until the Supreme Court rules on that petition. An adverse ruling could seriously impact our ability to conduct our business and to offer our products and services to our customers. A permanent injunction could prevent us from operating our content delivery services or from delivering certain types of traffic, which could impact the viability of those portions of our business. Any adverse ruling, in turn, would harm our revenue, market share, reputation, liquidity and overall financial position.

We are from time to time party to other lawsuits in addition to that described above. Lawsuits are expensive to defend and to prosecute, and require a diversion of management time and attention away from other activities to pursue the defense or prosecution of such matters. Adverse ruling in such lawsuits either alone or cumulatively may have an adverse impact on our revenue, expenses, market share, reputation, liquidity and overall financial position.

We need to defend our intellectual property and processes against patent or copyright infringement claims, which may 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. 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.

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. We have applied for patent protection in the United States and a number of foreign countries. These legal protections afford only limited protection and laws in foreign jurisdictions may not protect our proprietary rights as fully as in the United States. 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. Developments and changes in patent law, such as changes in interpretations of the joint infringement standard, could restrict how we enforce certain patents we hold. We also 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.

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 cost. Because we use open-source code, we may be required to take remedial action 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.

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 successfully manage our operations. For example, we must be effective in training new sales personnel in our varied and increasing offerings to become productive and generate revenue; forecasting revenue; controlling expenses and investments in anticipation of expanded operations; implementing and enhancing our global computing platform and administrative infrastructure, systems and processes; addressing new markets; and expanding our 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.

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 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 implemented from time to time by the SEC and the Nasdaq Global Select 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, new rules and regulations will likely increase our legal and financial compliance costs and 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 (Board), our board committees or as executive officers.

Table of Contents

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. 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 Global Select 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.

In the previously filed financial statements included in our Form 10-Q for the period ended March 31, 2012 and the period ended June 30, 2012, we improperly classified cash collected from DG Fastchannel, Inc. (currently Digital Generation, Inc.) (DG) related to the sale of EyeWonder, LLC (EyeWonder) and chors GmbH (chors) as cash provided by operating activities of continuing operations in the unaudited Condensed Consolidated Statements of Cash Flows. As a result of the error, we identified a material weakness in our system of internal controls over financial reporting with regard to evaluating the proper cash flow classification of cash collected from DG. We corrected the classification error in our third quarter Form 10-Q and amended our March 31, 2012 Form 10-Q and June 30, 2012 Form 10-Q to reflect the correct classification.

Since the date of discovery of this material weakness and through the date of this Form 10-K, we have taken steps which we feel strengthen our internal controls, including implementing a stronger review process around the preparation of our consolidated statement of cash flows and updating our processes and procedures to ensure that accounting personnel have sufficient guidance to remediate the material weakness. As of December 31, 2012, we consider this material weakness to have been fully remediated. The actions we have taken to remediate this material weaknesses are subject to continued management review supported by confirmation and testing, as well as oversight by the Audit Committee of our Board of Directors. We cannot assure you that material weaknesses or significant deficiencies will not occur in the future and that we will be able to remediate such weaknesses or deficiencies in a timely manner, which could impair our ability to accurately and timely report our financial position, results of operations or cash flows.

We may lose customers if they elect to develop content delivery services and other competitive VAS solutions internally.

Our customers and potential customers may decide to develop their own content delivery, web and video content management and other digital presence management solutions rather than outsource these solutions to 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 content delivery, web and video content management and other related 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 solutions. 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 portions of 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.

Our business depends on a strong brand reputation, and if we are not able to maintain and enhance our brands, our business will suffer.

We believe that maintaining and enhancing the Limelight Networks brand 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 brand, 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. Sales to our top 10 customers in 2012 accounted for approximately 33% of our total revenue. For each of fiscal 2012 and fiscal 2011, we had one customer, Netflix, which represented approximately 11% of our total revenue. Large customers may not continue to be as significant going forward as they have been in the past.

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.

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

Table of Contents

their contracts for our services after the expiration of their initial commitment, and these service agreements may 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 may 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 services and solutions 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 content delivery services and VAS;
- the addition or loss of large customers, or significant variation in their use of our content delivery services and VAS;
- costs associated with current or future intellectual property lawsuits and other lawsuits;

service outages or third party security breaches to our platform or to one or more of our customers platforms;

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 content delivery services and VAS, such as a major media event or a customer s online release of a new or updated video game;

Table of Contents

- changes in our pricing policies or those of our competitors;
- the timing of recognizing revenue;
- limitations of the capacity of our global computing platform and related systems;
- the timing of costs related to the development or acquisition of technologies, services or businesses;
- the potential write-down or write-off of goodwill associated with business operations that have been disposed of, such as goodwill currently on our balance sheet associated with the initial acquisitions of EyeWonder and chors;
- 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
- war, threat of war or terrorist actions, including cyber terrorism targeted broadly, at us, or our customers, or both, and inadequate cyber security.

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.

We have a history of losses and we may not achieve or maintain profitability in the future.

Since 2006, we have been profitable only one year, which was as a result of a reversal of a significant reserve for litigation. 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. 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. Also, we have incurred, and continue to incur significant costs associated with litigation. Our share-based compensation expense and any material ongoing litigation costs could adversely affect our ability to achieve and maintain profitability in the future. While our revenue has grown in recent periods, this growth may not be sustainable and we may not achieve sufficient revenue to achieve or maintain profitability. We may incur significant losses in the future for a number of reasons, including slowing demand for our services, increasing competition, as well as other risks described herein, and we may encounter unforeseen expenses, difficulties, complications and delays, and other unknown factors. Accordingly, we may not be able to achieve or maintain profitability and we may continue to incur significant losses in the future, and this could cause the price of our common stock to decline.

We generate our revenue primarily from the sale of content delivery 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 and solutions associated with our global computing platform, we generate the majority of our revenue from charging our customers for the content delivered on their behalf through our global computing platform. 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, the amount of content consumed by our customers users 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

22

geographic regions, system impairments or outages, including those caused by hacking or cyber attacks, 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 content delivery 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 content delivery services and VAS.

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 websites. Our customers will not continue to purchase our content delivery services and VAS if their investment in providing access to the media stored on or deliverable through our global computing platform does not generate a sufficient return on their investment. A reduction in spending on services by our current or potential customers would seriously harm our operating results and financial condition.

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 content delivery services and VAS are highly complex and are designed to be deployed in and across numerous large and complex networks. Our global computing platform 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 solutions and services, the more resources we will need to invest in additional infrastructure and support. Further, as a result of our on-going litigation in the Akamai Technologies, Inc. v. Limelight Networks, Inc. lawsuit (including the adverse jury verdict in February 2008 in that matter which verdict was overturned by the court s April 24, 2009 order granting our motion for JMOL), we made significant investment in designing and implementing changes to our network architecture in order to implement our content delivery 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 network architecture and integrate existing solutions and to roll out new solutions 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 solutions 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 network. 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. Our contracts for private line capacity with Global Crossing generally have terms of three to four years. 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. Further one of our direct competitors acquired Global Crossing. Although alternative providers are available, it would be time consuming and expensive to identify and obtain alternative third party connectivity, and accordingly we are dependent on Global Crossing in the near term. 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.

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 global computing platform 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 network or peer with our network 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 content delivery services and VAS would decline by customers using these formats. Owners of propriety 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 have completed a number of business acquisitions in recent years and may seek to acquire businesses or technologies that are complementary to our business in the future. Acquisitions are often complex and involve a number of risks to our business, including the difficulty of integrating the operations, services, solutions 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 or integrating acquired technology and rights with or into our other services and solutions, 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 services, solutions, 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 acquisition of acquired businesses, we must meet a number of significant challenges, including:

- integrating the management teams, strategies, cultures, technologies and operations of the businesses;
- retaining and assimilating the key personnel of each company;
- retaining existing customers; and
- implementing and retaining uniform standards, controls, procedures, policies and information systems.

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 acquired organizations successfully could adversely affect our ability to maintain relationships with customers, suppliers and employees or to achieve the anticipated benefits of an acquisition. Even if we are able to integrate acquired business operations successfully, these integrations may not result in the realization of the full benefits of synergies, cost savings, innovation and operational efficiencies that may be possible from these integrations, and these benefits may not be achieved within a reasonable period of time.

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. There is increasing competition for talented individuals with the specialized knowledge to deliver content delivery services and VAS and this competition affects both our ability to retain key employees and hire new ones. Historically, we have experienced a significant amount of employee turnover, especially with respect to our sales personnel. As a result, a significant number of our sales personnel are relatively new and may need time to become fully productive. 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.

Our senior management team has limited experience working together as a group, and may not be able to manage our business effectively.

Four members of our senior management team, our President and Chief Executive Officer, Robert A. Lento, our Chief Operating Officer, Indu Kodukula, our Chief Marketing Officer, Charles Kirby Wadsworth, and our Chief Sales Officer, George E. Vonderhaar, have been hired by us since June 2012. As a result, our senior management team has limited experience working together as a group. This lack of shared experience could harm our senior management team s ability to quickly and efficiently respond to problems and effectively manage our business.

Table of Contents

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. 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. 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 or limiting us from operating our global computing platform 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 and repatriation of funds;
- 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.

We are subject to the effects of fluctuations in foreign exchange rates, which could affect our operating results.

The financial condition and results of operations of our operating foreign subsidiaries are reported in the relevant local currency and are then translated into U.S. dollars at the applicable currency exchange rate for inclusion in our consolidated U.S. dollar financial statements. Also, although a large portion of our customer agreements are denominated in U.S. dollars, we may be exposed to fluctuations in foreign exchange rates with respect to customer agreements with certain of our international customers. Exchange rates between these currencies and U.S. dollars in recent years have fluctuated significantly and may do so in the future. In addition to currency translation risk, we incur currency transaction risk whenever one of our operating subsidiaries enters into a transaction using a different currency than the relevant local currency. Given the volatility of exchange rates, we may be unable to manage our currency transaction risks effectively. Currency fluctuations could have a material adverse effect on our future international sales and, consequently, on our financial condition and results of operations.

Table of Contents

Internet-related and other laws relating to taxation issues, privacy, data security 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 our services in order to maintain their operations. In addition, the laws relating to the liability of private network operators for information carried on, processed by 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 certain statutory requirements. 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. Also, there are emerging regulation and industry standards regarding the collection and use of personal information and protecting the security of data on networks. Compliance with these laws, regulations and standards 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 use cookies and video player cookies that are crucial to our ability to provide services to our customers.

Our ability to compile data for customers depends on the use of cookies and video player cookies to identify certain online behavior that allows our customers to measure a website or video s effectiveness. A cookie is a small file of information stored on a user s computer that allows us to recognize that user s browser or video player when the user makes a request for a web page or to play a video. Government authorities inside the United States concerned with the privacy of Internet users have suggested limiting or eliminating the use of cookies. Bills aimed at regulating the collection and use of personal data from Internet users are currently pending in United States 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, 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 also places restrictions on the sending of unsolicited communications. Each European Union member country was required

Table of Contents

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 and in their video player software. Internet browser software upgrades also may result in limitations on the use of cookies. Technologies like the Platform for Privacy Preferences Project may limit collection of cookies. 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 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 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 is 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 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.

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 and accurate billing for these services.

Table of Contents

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.

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 Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and the Sarbanes-Oxley Act of 2002, as well as rules subsequently implemented by the SEC and the Nasdaq Global Select Market, impose 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.

Divestiture of our businesses or product lines, including those that we have acquired or will acquire, may materially adversely affect our financial condition, results of operations or cash flows, or may result in impairment charges that may adversely affect our results of operations.

On September 1, 2011, we sold our EyeWonder and chors rich media advertising unit to DG. Divestitures involve risks, including difficulties in the separation of operations, services, products and personnel, the diversion of management s attention from other business concerns, the disruption of our business, the potential loss of key employees and the retention of uncertain contingent liabilities related to the divested business, any of which could result in a material adverse effect to our financial condition, results of operations or cash flows. Divestitures of previously acquired businesses, such as the divestiture of the EyeWonder and chors rich media advertising services, may result in significant asset impairment charges, including those related to goodwill and other intangible assets, which could have a material adverse effect on our financial condition and results of operations. Future impairment may result from, among other things, deterioration in the performance of the acquired business or product line, adverse market conditions and changes in the competitive landscape, adverse changes in applicable laws or regulations, including changes that restrict the activities of the acquired business or product line, changes in accounting rules and regulations, and a variety of other circumstances. The amount of any impairment is recorded as a charge to the statement of operations. We may never realize the full value of our goodwill and intangible assets, and any determination requiring the write-off of a significant portion of these assets may have an adverse effect on our financial condition and results of operations. We cannot assure you that we will be successful in managing these or any other significant risks that we encounter in divesting a business or product line.

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. We have a concentration of our sales force at our headquarters in Tempe, Arizona but we also have a widely deployed field sales force. We are

Table of Contents

growing our sales force and realigning our sales resources to improve our sales productivity and efficiency and to bring our sales personnel closer to our current and potential customers. Growing and realigning sales force has been and will continue to be expensive and could cause some near-term productivity impairments. As a result, we may not be successful in growing and improving the productivity and efficiency of our 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. 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 our sales force 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.

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.

Risks Related to Ownership of Our Common Stock

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;

Table of Contents

- commencement or resolution of, our involvement in and uncertainties arising from, litigation, particularly our current litigation with Akamai and the Massachusetts Institute of Technology (MIT);
- 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.

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 or speculation of 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 December 31, 2012, our directors and executive officers and their affiliates beneficially owned, in the aggregate, approximately 43% of our outstanding common stock, including approximately 31% 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.

31

Table of Contents

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;
- 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.

Item 1B. ***Unresolved Staff Comments***

None.

Item 2. ***Properties***

Our global corporate headquarters is located in approximately 64,000 square feet of leased office space in Tempe, Arizona. We also lease space for a data center and warehouse in Phoenix, Arizona. We lease offices in several other locations in the United States, including in or near Los Angeles, Mountain View, San Diego and San Francisco, California, New York, New York, Grand Rapids, Michigan, Seattle, Washington and Washington DC. We also lease offices in Europe and Asia in or near Munich, Germany, London, England, Paris, France, Tel Aviv, Israel, Lviv, Ukraine, Tokyo, Japan, Bangalore, Delhi and Mumbai, India, Seoul, Korea and Singapore. We believe our facilities are sufficient to meet our needs for the foreseeable future and, if needed, additional space will be available at a reasonable cost.

Item 3. ***Legal Proceedings***

We are involved in litigation with Akamai and the Massachusetts Institute of Technology (MIT) 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). Before trial, Akamai waived by stipulation its claims of indirect or induced infringement and proceeded to trial only on the theory of direct infringement. 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

Table of Contents

and interest. On July 1, 2008, the court denied our motions for 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.*, 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 were entitled to JMOL. 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 believed that payment of any amounts represented by the litigation provision was probable. The court entered final judgment in our favor on May 22, 2009, and Akamai filed a notice of appeal of the court s decision on May 26, 2009. On December 20, 2010, the Court of Appeals for the Federal Circuit issued its opinion affirming the trial 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 trial court s entry of judgment in our favor, and reinstated the appeal.

On August 31, 2012, the Court of Appeals for the Federal Circuit issued its opinion in the case. The Court of Appeals stated that the trial court correctly determined we did not directly infringe Akamai s 703 patent and upheld the trial court s decision to vacate the original jury s damages award. The Court of Appeals also held that we did not infringe Akamai s 413 or 645 patents. A slim majority in this three-way divided opinion also announced a revised legal theory of induced infringement, remanded the case to the trial court, and gave Akamai an opportunity for a new trial to attempt to prove that we induced our customers to infringe Akamai s patent under the Court of Appeals new legal standard. On December 28, 2012, we filed a petition for writ of certiorari to the United States Supreme Court to appeal this sharply divided Court of Appeals decision and will seek to stay any proceedings at the trial court until the Supreme Court rules on that petition. Akamai then filed a cross petition for consideration of the Court of Appeals standard for direct infringement. We believe that the Court of Appeals new induced infringement standard runs counter to the Patent Act and Supreme Court precedent, and that it should be overturned by the Supreme Court. Additionally, just as we have successfully shown that we do not directly infringe Akamai s patent, we firmly believe that we ultimately would be successful in showing we do not infringe Akamai s patent under the Court of Appeals majority s new induced infringement theory. We will continue to vigorously defend against the allegation; 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 significant portions of our business and to offer certain of our products and services to our customers. A permanent injunction could prevent us from operating our content delivery services or from delivering certain types of traffic, which could impact the viability of those portions of our business. Any adverse ruling, in turn, would harm our revenue, market share, reputation, liquidity and overall financial position. We are not able at this time to estimate the range of a potential loss nor in light of the status of the litigation do we believe a loss is probable, and therefore no provision for this lawsuit is recorded in our financial statements.

In the ordinary course of our business, we are 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 we are a party, although the outcomes of these actions are not generally determinable, we believe that the ultimate resolution of these matters will not have a material adverse effect on our financial position, cash flows or results of operations. Litigation relating to the content delivery services industry is not uncommon, and we are, and from time to time have 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 4. ***Mine Safety Disclosures.***
Not applicable.

Table of Contents

PART II

Item 5. ***Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

Market Information

Our common stock, par value $0.001 per share, trades on The Nasdaq Global Select Market under the symbol LLNW .

The following table sets forth, for the periods indicated, the high and low sale price per share of our common stock on The Nasdaq Global Select Market:

	High	Low
2011:		
First Quarter	$ 8.58	$ 5.72
Second Quarter	$ 7.39	$ 4.17
Third Quarter	$ 5.16	$ 1.95
Fourth Quarter	$ 3.28	$ 2.03
2012:		
First Quarter	$ 4.33	$ 2.91
Second Quarter	$ 3.35	$ 2.30
Third Quarter	$ 3.17	$ 2.22
Fourth Quarter	$ 2.42	$ 1.62

Holders

As of February 22, 2013, there were 354 holders of record of our common stock.

Dividends

We have never paid or declared any cash dividends on shares of our common stock or other securities and do not anticipate paying any cash dividends in the foreseeable future. We currently intend to retain all future earnings, if any, for use in the operation of our business.

Issuer Purchases of Equity Securities

The following is a summary of our repurchases of our common stock during the three month period ended December 31, 2012:

Period	Total Number of Shares Purchased	Average Price Paid per Share (1)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (2)
October 1, October 31, 2012				
November 1, November 30, 2012	373,500	$ 1.90	373,500	$ 9,297,890
December 1, December 31, 2012	2,086,000	$ 2.17	2,086,000	$ 4,806,122
Total	2,459,500	$ 2.13	2,459,500	

(1) Includes commissions, markups and expenses.

(2) On October 29, 2012, our board of directors authorized and approved a third common stock repurchase plan that authorizes us to use up to $10 million to repurchase shares of our common stock, exclusive of any commissions, markups or expenses, under which we may purchase shares of our common stock through May 9, 2013. Any repurchased shares will be cancelled and return to authorized but unissued status.

Table of Contents

During 2012, we completed two previously announced stock repurchase plans and commenced a third. On September 12, 2011, our board of directors authorized and approved a repurchase plan that authorized us to purchase up to $25 million of our shares of common stock, exclusive of any commissions, markups or expenses, from time to time through March 12, 2012. During the period September 12, 2011 through March 12, 2012, we purchased and cancelled approximately 9.7 million shares of common stock for approximately $25.0 million ($25.2 million including commissions) under the initial repurchase plan. On May 3, 2012, we announced a second common stock repurchase plan that authorized us to repurchase up to $15 million of our shares of common stock, exclusive of any commissions, markups or expenses, from time to time through December 15, 2012. During the year ended December 31, 2012, we purchased and cancelled approximately 5.7 million shares of common stock for approximately $15.0 million ($15.1 million including commissions) under the second repurchase plan.

On October 29, 2012, the Company s Board authorized and approved a third common stock repurchase plan that authorized the Company to repurchase up to $10 million of its shares of common stock, exclusive of any commissions, markups or expenses, from time to time through May 9, 2013. Any repurchased shares will be cancelled and return to authorized but unissued status. During the three months ended December 31, 2012, the Company purchased and cancelled approximately 2.2 million shares under the third repurchase plan for approximately $4.6 million including commissions.

We did not repurchase any equity securities in 2010 or prior years.

STOCK PERFORMANCE GRAPH

The graph set forth below compares the cumulative total stockholder return on our common stock between December 31, 2007 and December 31, 2012, with the cumulative total return of (i) the Nasdaq Composite Index and (ii) the S&P Information Technology Sector Index, over the same period. This graph assumes the investment of $100 on December 31, 2007 in our common stock, the Nasdaq Composite Index and the S&P Information Technology Sector Index, and assumes the reinvestment of dividends, if any. The comparisons shown in the graph below are based upon historical data. We caution that the stock price performance shown in the graph below is not necessarily indicative of, nor is it intended to forecast, the potential future performance of our common stock.

This graph assumes an investment on December 31, 2007 of $100 in our common stock (based on the closing sale price of our common stock), and in each of such indices (including the reinvestment of all dividends). Measurement points are to the last trading day for each respective period. The performance shown is not necessarily indicative of future performance.

Table of Contents

Item 6. ***Selected Financial Data***

The following selected consolidated financial data should be read in conjunction with our Consolidated Financial Statements and related notes and with Management Discussion and Analysis of Financial Condition and Results of Operations and other financial data included elsewhere in this annual report on Form 10-K. In January 2010 and April 2010, we acquired chors and EyeWonder, respectively. On September 1, 2011, we completed the sale of EyeWonder and chors video and rich media advertising services to DG. Accordingly, the results related to the sale of EyeWonder and chors for the year ended December 31, 2011 and prior periods have been reclassified to discontinued operations and have not been included in our selected financial data and management s discussion and analysis of financial condition and results of operations.

	Limelight Networks, Inc. Year Ended December 31,				
	2012	**2011**	**2010**	**2009**	**2008**
Revenues	$ 180,236	$ 171,292	$ 154,223	$ 131,663	$ 129,530
Cost of revenue:					
Cost of services (1)	83,723	81,556	72,358	61,572	58,186
Depreciation network	27,992	28,030	22,224	24,051	25,675
Total cost of revenue	111,715	109,586	94,582	85,623	83,861
Gross profit	68,521	61,706	59,641	46,040	45,669
Operating expenses:					
General and administrative (1)	36,003	32,138	29,827	34,128	52,440
Sales and marketing (1)	45,044	40,081	38,614	32,587	34,916
Research and development (1)	20,182	17,146	10,841	7,937	7,365
Depreciation and amortization	5,843	4,787	2,460	2,351	1,356
Provision for litigation (2)				(65,645)	17,515
Total operating expenses	107,072	94,152	81,742	11,358	113,592
Operating (loss) income	(38,551)	(32,446)	(22,101)	34,682	(67,923)
Other income (expense):					
Interest expense	(177)	(299)	(62)	(39)	(55)
Interest income	356	752	910	1,345	5,098
Gain on sale of cost basis investment	9,420				
Other, net	(602)	(311)	(250)	(14)	(171)
Total other income	8,997	142	598	1,292	4,872
(Loss) income from continuing operations before income taxes	(29,554)	(32,304)	(21,503)	35,974	(63,051)
Income tax expense (benefit)	481	(2,238)	727	1,084	16
(Loss) income from continuing operations	(30,035)	(30,066)	(22,230)	34,890	(63,067)
Discontinued operations:					
(Loss) income from discontinued operations, net of income taxes	(2,861)	4,778	1,879		
Net (loss) income	$ (32,896)	$ (25,288)	$ (20,351)	$ 34,890	$ (63,067)
Basic net (loss) income per weighted average share:					
Continuing operations	$ (0.30)	$ (0.28)	$ (0.24)	$ 0.41	$ (0.76)
Discontinued operations	(0.02)	0.05	0.02		
Total	$ (0.32)	$ (0.23)	$ (0.22)	$ 0.41	$ (0.76)

Diluted net (loss) income per weighted average share:					
Continuing operations	$ (0.30)	$ (0.28)	$ (0.24)	$ 0.40	$ (0.76)
Discontinued operations	(0.02)	0.05	0.02		
Total	$ (0.32)	$ (0.23)	$ (0.22)	$ 0.40	$ (0.76)
Shares used in per weighted average share calculations:					
Basic	101,283	109,236	94,300	84,202	82,932
Diluted	101,283	109,236	94,300	87,972	82,932

(1) Includes share-based compensation as follows:

	Limelight Networks, Inc. Year Ended December 31,				
	2012	2011	2010	2009	2008
	(In thousands)				
Cost of revenue	$ 2,117	$ 2,419	$ 2,359	$ 2,414	$ 2,243
General and administrative	6,511	6,132	5,984	7,556	8,060
Sales and marketing	3,104	3,776	4,840	4,970	5,400
Research and development	2,743	3,554	2,999	2,523	2,355
Total	$ 14,475	$ 15,881	$ 16,182	$ 17,463	$ 18,058

(2) In February 2008, a jury returned a verdict in a patent infringement lawsuit filed by Akamai and 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. During 2008, we recorded an additional potential damage liability relating to this infringement of $15.5 million, plus additional interest of $2.0 million. The total provision for litigation at December 31, 2008 was $65.6 million. 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 JMOL. 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; 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 trial 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 trial court s entry of judgment in our favor, and reinstated the appeal. On August 31, 2012, the Court of Appeals for the Federal Circuit issued its opinion in the case. The Court of Appeals stated that the trial court correctly determined we did not directly infringe Akamai s 703 patent and upheld the trial court s decision to vacate the original jury s damages award. The court also held that we did not infringe Akamai s 413 or 645 patents. A slim majority in this three-way divided opinion also announced a revised legal theory of induced infringement, remanded the case to the trial court, and gave Akamai an opportunity for a new trial to attempt to prove that we induced our customers to infringe Akamai s patent under the Court of Appeals new legal standard. On December 28, 2012, we filed a petition for writ of certiorari to the United States Supreme Court to appeal this sharply divided Court of Appeals decision and sought to stay any proceedings at the trial court until the Supreme Court rules on that petition. Akamai then filed a cross petition for consideration of the Court of Appeals standard for direct infringement. We believe that the Court of Appeal s new induced infringement standard runs counter to the Patent Act and Supreme Court precedent, and it should be overturned by the Supreme Court. Additionally, just as we have successfully shown that we do not directly infringe Akamai s patent, we firmly believe that we ultimately would be successful in showing that we do not infringe Akamai s patent under the Court of Appeals majority s new induced infringement theory. We will continue to vigorously defend against the allegation; 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 significant portions of our business and to offer certain of our products and services to our customers.

Table of Contents

A permanent injunction could prevent us from operating our content delivery services or from delivering certain types of traffic, which could impact the viability of those portions of our business. Any adverse ruling, in turn, would harm our revenue, market share, reputation, liquidity and overall financial position. We are not able at this time to estimate the range of potential loss nor, in light of the status of the litigation, do we believe that a loss is probable. Therefore, we have made no provision for this lawsuit in our financial statements.

	Limelight Networks, Inc. Year Ended December 31,				
	2012	2011	2010	2009	2008
			(In thousands)		
Consolidated Balance Sheet Data:					
Cash and cash equivalents and marketable securities, current	$ 127,955	$ 140,199	$ 66,870	$ 154,379	$ 174,643
Non-current marketable securities	18	51	103	12	13
Working capital	137,066	159,180	127,280	159,530	116,608
Property and equipment, net	41,251	56,368	52,891	35,524	40,185
Total assets	304,881	346,345	298,640	235,670	256,792
Long-term debt, less current portion	824	2,124	1,641		
Total stockholders equity	267,230	309,105	256,109	202,800	150,131

Table of Contents

Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

This annual report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include, among other things, statements as to industry trends, our future expectations, operations, financial condition and prospects, business strategies 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 I, Item 1A of this annual report on Form 10-K. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements. 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 CDN services to deliver digital content over the Internet. We began development of our infrastructure in 2001 and began generating meaningful revenue in 2002. Today, we operate a globally distributed, high-performance computing platform (our global computing platform) and provide a suite of integrated services including content delivery, web and video content management, mobility, web application acceleration, cloud storage, and related consulting services that enable companies and other organizations to create, manage, and deliver a global digital presence.

The integrated suite of services that we offer collectively comprises our Orchestrate Platform. We provide the Orchestrate Platform as SaaS and IaaS, which other than content delivery services, are referred to collectively as VAS. We offer VAS both collectively as the end-to-end Orchestrate Digital Presence Platform and individually for customers that may not be inclined or able to adopt the entire platform.

The Orchestrate Platform and services help our customers optimize and streamline their online digital presence across web, mobile, social and large screen channels. The Orchestrate Platform and services enable our customers to remove the complexity of creating, managing, delivering and optimizing their digital presence, which helps them to deliver a high quality online media experience, improve brand awareness, drive revenue and enhance their customer relationships. The Orchestrate Platform and services provide advanced features which include website content management, personalization and targeting, video publishing, mobile enablement, content delivery, transcoding and cloud storage, combined with social media integration and reporting analytics. These services are provided through the cloud and leverage our global computing platform, which provides highly available, highly redundant storage, bandwidth and computing resources, as well as connectivity to last-mile broadband network providers. Our professional consulting services team helps organizations assess their digital presence requirements and improve their digital presence activities.

We derive revenue primarily from the sale of the Orchestrate Platform and its components as managed services. We also generate revenue through the sale of professional services and other infrastructure services, such as transit and rack space services.

We provide our services to customers that we believe view Internet, mobile and social initiatives as critical to their success, including traditional and emerging media companies operating in the television, music, radio, newspaper, magazine, movie, videogame, software and social media industries, as well as to enterprises, technology companies, and government entities conducting business online. Our offerings enable organizations to remove the complexity of creating, managing, delivering and optimizing their digital presence by streamlining processes and optimizing business results across all customer interaction channels which helps them to deliver a high quality online media experience, improve brand awareness, drive revenue and enhance their customer relationships.

We provide services to customers in three geographic areas North America, EMEA, and Asia Pacific, including Japan. As of December 31, 2012, we had 1,451 active customers worldwide.

In addition to expanding our suite of VAS, we continue to expand the capacity and capabilities, and to enhance the performance and efficiency, of our global computing platform. Although we believe that we may have improved margins in our content delivery services as we expand our customer base and use a greater proportion of our capacity, we expect the majority of our margin increases to result from our VAS increasing as a percentage of our revenue.

On November 26, 2012, we announced the appointment of Robert A. Lento as interim Chief Executive Officer effective immediately. We had previously announced on November 1, 2012 that Jeffrey W. Lunsford would be stepping down as our Chief Executive Officer in January 2013 and that an executive search firm was engaged to recruit his successor. On January 22, 2013, we announced that the board of directors completed its executive search and appointed Mr. Lento as our President and Chief Executive Officer and that Mr. Lunsford had tendered his resignation as a board member and Chairman of the Board. On February 12, 2013, we announced George E. Vonderhaar as Chief Sales Officer and recently appointed Jonathan Smith as Managing Director and Vice President of Europe, Middle East and Africa. On February 19, 2013, we announced the appointment of Walter D. Amaral to serve as our non-executive Chairman of the Board. Mr. Amaral fills the Chairman role vacated by the resignation of Mr. Lunsford. We also announced the appointments of Charles Kirby Wadsworth as our Chief Marketing Officer on June 25, 2012 and Indu Kodukula as our Chief Operating Officer on October 29, 2012.

During 2012, we completed two previously announced stock repurchase plans and commenced a third. On September 12, 2011, our Board authorized and approved a repurchase plan that authorized us to purchase up to $25 million of our shares of common stock, exclusive of any commissions, markups or expenses, from time to time through March 12, 2012. During the period September 12, 2011 through March 12, 2012, we purchased and cancelled approximately 9.7 million shares of common stock for approximately $25.0 million ($25.2 million including commissions) under the initial repurchase plan.

On May 3, 2012, we announced a second common stock repurchase plan that authorized us to repurchase up to $15 million of our shares of common stock, exclusive of any commissions, markups or expenses, from time to time through December 15, 2012. During the year ended December 31, 2012, we purchased and cancelled approximately 5.7 million shares of common stock for approximately $15.0 million ($15.1 million including commissions) under the second repurchase plan. On October 29, 2012, our Board of Directors authorized and approved a third common stock repurchase plan that authorized us to repurchase up to $10 million of our shares of common stock, exclusive of any commissions, markups or expenses, from time to time through May 9, 2013. Any repurchased shares will be cancelled and return to authorized but unissued status. During the three months ended December 31, 2012, we purchased and cancelled approximately 2.2 million shares under the third repurchase plan for approximately $4.6 million including commissions.

On August 31, 2012, the Court of Appeals for the Federal Circuit issued its opinion in our on-going patent litigation with Akamai. The Court of Appeals stated that the trial court correctly determined that we did not directly infringe Akamai s 6,108,703 patent and upheld the trial court s decision to vacate the original jury s damages award. The court also held that we did not infringe Akamai s 6,553,413 or 7,103,645 patents. A slim majority in this three-way divided opinion also announced a revised legal theory of induced infringement, remanded the case to the trial court, and gave Akamai an opportunity for a new trial to attempt to prove that we induced our customers to infringe Akamai s patent under the Court of Appeals new legal standard. On December 28, 2012, we filed a petition for writ of certiorari to the United States Supreme Court to appeal this

Table of Contents

sharply divided Court of Appeals decision and will seek to stay any proceedings at the trial court until the Supreme Court rules on that petition. Akamai then filed a cross petition for consideration of the Court of Appeals standard for direct infringement. Just as we have successfully shown that we do not directly infringe Akamai s patent, we firmly believe that we ultimately would be successful in showing we do not infringe Akamai s patent under the Court of Appeals majority s new induced infringement theory, and we will continue to vigorously defend against the allegation. We do not believe a loss is probable and therefore no provision for this lawsuit is recorded in our financial statements. For additional information, please see Legal Proceedings in Part I, Item 3 of this Annual Report on Form 10-K.

In May 2010, we made a strategic investment in Gaikai, a private cloud-based gaming technology company. In August 2012, Sony acquired Gaikai and we recorded a gain on sale of our cost basis investment in Gaikai of $9.4 million, which has been reflected in other income (expense) in the accompanying consolidated statements of operations for the year ended December 31, 2012. The carrying value of the Gaikai cost basis investment as of the sale date was approximately $2.0 million. The aggregate selling price was $11.4 million, consisting of $10.2 million of cash received and $1.2 million held in escrow for a period of up to 15 months to cover any potential indemnification claims. As of December 31, 2012, we are not aware of any potential indemnification claims that are expected to reduce the amount received from escrow and have recorded a current receivable of $1.2 million which is included in prepaid expenses and other current assets in the accompanying consolidated balance sheet for the year ended December 31, 2012.

Table of Contents

The following table sets forth our historical operating results, as a percentage of revenue for the periods indicated.

	Year Ended December 31,		
	2012	2011	2010
Consolidated Statement of Operations Data:			
Revenue	100%	100%	100%
Cost of revenue:			
Cost of services	46	48	47
Depreciation network	16	16	14
Total cost of revenue	62	64	61
Gross profit	38	36	39
Operating expenses:			
General and administrative	20	19	19
Sales and marketing	25	23	25
Research and development	11	10	7
Depreciation and amortization	3	3	2
Total operating expenses	59	55	53
Operating loss	(21)	(19)	(14)
Other income (expense):			
Interest expense			
Interest income			1
Gain on sale of cost basis investment	5		
Other, net			
Total other income (expense)	5		
Loss from continuing operations before income taxes	(16)	(19)	(14)
Income tax provision (benefit)		(1)	
Loss from continuing operations	(16)	(18)	(14)
Discontinued operations:			
(Loss) income from discontinued operations, net of income taxes	(2)	3	1
Net loss	(18)%	(15)%	(13)%

Traffic on our network and our VAS offerings continued to grow during the year ended December 31, 2012. This traffic growth was primarily the result of growth in the traffic delivered to existing customers and to a lesser extent to new customers. Our content delivery revenue is generated by charging for traffic delivered. While our traffic continued to grow, our CDN revenue decreased approximately $4.8 million during 2012 when compared to 2011. The decrease was primarily due to lower reseller revenue and other non-traffic related revenue. Our VAS revenue represented substantially all of our revenue growth during the year ended December 31, 2012. During 2012, we continued to add new customers, experienced some attrition and elected not to renew some customers as we continue to focus on customer quality. Our average number of products per customer during the three month period ended December 31, 2012 was 1.8. For new customers added during the quarter we averaged 2.2 products. We continue to have success selling new products to our customer base.

Our international revenue continued to grow in 2012, and we expect this trend to continue as we focus on our strategy of expanding our network and customer base internationally. For the years ended December 31, 2012, 2011 and 2010, respectively, revenue derived from customers outside North America accounted for approximately 31%, 30% and 27% respectively, of our total revenue. For the years ended December 31, 2012, 2011 and 2010, respectively, we derived approximately 47%, 50% and 57%, respectively of our international

revenue from EMEA and approximately 53%, 50% and 43%, respectively of our international revenue from Asia Pacific. We anticipate that our Asia Pacific revenue may continue to grow as a percentage of our total international revenue. During 2012, two countries, Japan and the United States accounted for 10% or more of our total revenues. No single country outside of the United States accounted for 10% or more of our total revenues during the years ended December 31, 2011 and 2010. We expect international revenue to continue to increase in absolute dollars in 2013. Our business is managed as a single 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 2012, sales to our top 10 customers, in terms of revenue, accounted for approximately 33% of our total revenue. During 2011 and 2010, revenue generated from sales to our top 10 customers, in terms of revenue, accounted for approximately 34% respectively, of our total revenue. During 2012 and 2011, we had one customer, Netflix, who accounted for more than 10% of our total revenue. For each of the years ended December 31, 2012 and 2011, Netflix represented approximately 11% of our total revenue. During 2010, we had no customer that accounted for more than 10% of our total revenue. In 2013, we anticipate our top 10 customer concentration levels will be consistent with 2012. In the past, the customers that comprise our top 10 customers have continually changed, and our large customers may not continue to be as significant going forward as they have been in the past.

In addition to selling to our direct customers, we maintain relationships with a number of resellers that purchase our services for resale to their customers. Revenue generated from sales to reseller customers was approximately 3%, 4%, and 5%, respectively of our total revenue for the years ended December 31, 2012, 2011, and 2010, respectively.

We occasionally generate revenue from certain customers that are entities related to certain of our executive officers and directors. For the year ended December 31, 2012, revenue generated from these related party transactions was approximately 1% of our total revenue. For the year ended December 31, 2011, revenue generated from these related party transactions was less than 1% of our total revenue. For the year ended December 31, 2010, we did not generate any revenue from related parties.

In addition to these revenue-related business trends, our cost of revenue increased in absolute dollars and decreased as a percentage of revenue in 2012 when compared to 2011. The increase in absolute dollars was primarily due to increased payroll and related employee costs for our operations personnel, increased professional fees, and increases in other costs associated with the delivery of our services, as well as additional fees and licenses. These increases were offset by decreased bandwidth and co-location costs, which were primarily due to lower transit costs, offset by an increase in paid peering. In addition, 2012 includes a full year of cost of revenue for Clickability, Inc. (Clickability) and AcceloWeb (IL) Ltd. (AcceloWeb) compared to 2011 cost of revenue which includes eight months for Clickability and AcceloWeb which were both acquired in May 2011.

We enter into contracts with third party network and data center providers, with terms typically ranging from several months to several years. Our contracts related to transit bandwidth provided by network operators generally commit us to pay a fixed monthly fee or monthly fees plus additional fees for bandwidth usage above a specified level. We entered into an agreement with Global Crossing in January 2009 for use of private lines for additional bandwidth and backbone services with a term of four years from installation. We executed subsequent amendments in September 2009, March 2011 and January 2012 for additional bandwidth and backbone services. The agreement and subsequent amendments required substantial prepayment for such services, and the amendments extended the original term for some services through June 2014. In addition to purchasing services from communications providers, we connect directly to approximately 600 broadband ISPs, generally without either party paying the other. This industry practice, known as settlement free peering, benefits us by allowing us to place content objects directly on user access networks, which helps us provide higher performance delivery for our customers and eliminate paying transit bandwidth fees to network operators. This practice also benefits the ISP and its customers by allowing them to receive improved content delivery through our local servers and

Table of Contents

eliminate the cost of transit bandwidth associated with delivery receipt of the traffic. We do not consider these relationships to represent the culmination of an earnings process. Accordingly, we do not recognize as revenue the value to the ISPs associated with the use of our servers nor do we recognize as expense the value of the bandwidth received at discounted or no cost. These peering relationships are mutually beneficial and are not contractual commitments. In addition to settlement free peering, we incur costs for non-settlement free peering as well as costs associated with connecting to the ISPs.

During 2012, we continued to reduce our network transit bandwidth delivery costs per gigabyte transferred by entering into new supplier contracts with lower pricing and amending existing contracts to take advantage of price reductions from our existing suppliers associated with higher purchase commitments. While we had increased traffic delivered over our network, our total transit bandwidth delivery costs decreased during 2012. We anticipate our overall transit bandwidth delivery costs will continue to increase in absolute dollars as a result of expected higher traffic levels, and we expect this increase to be partially offset by continued reductions in bandwidth costs per unit. We expect that our overall transit bandwidth delivery costs as a percentage of revenue will increase in 2013 compared to 2012.

For the year ended December 31, 2012, operating expenses increased in absolute dollars and increased as a percentage of revenue compared to the year ended December 31, 2011. This increase was primarily due to increased sales and marketing expenses, increased general and administrative expenses, increased research and development costs, and increased non-network related depreciation and amortization. The increase in sales and marketing expenses was primarily due to increased payroll and related employee costs, due to increased staffing, increased travel, increased professional fees, and increased facility and facility-related costs, offset by a decrease in share-based compensation. The increase in general and administrative expenses was primarily due to increased professional fees, primarily due to increased consulting and outside professional services, legal fees associated with intellectual property and general corporate legal matters, and recruiting costs. The increase in research and development costs was primarily due to increased payroll and related employee costs due to increased staffing. The increase in non-network related depreciation and amortization was due to increased amortization of intangible assets from our business acquisitions and administrative depreciation and amortization. For the year ended December 31, 2011, operating expenses included approximately eight months of operating expenses from our May 2011 acquisitions of Clickability and AcceloWeb.

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 2012, 2011, and 2010, we made capital purchases of $18.4 million, $30.4 million, and $33.5 million, respectively, which represented 10%, 18%, and 22%, respectively, of total revenue for each of those years. We expect to have ongoing capital expenditure requirements, as we continue to invest in, refresh and expand our global computing platform.

Our future results will be affected by many factors identified in the section captioned Risk Factors, in this annual report on Form 10-K, 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;

- continue to deliver a significant portion of our traffic through settlement free peering relationships which significantly reduce our cost of delivery;

- successfully integrate the businesses we have acquired; and

- successfully manage the disposition of businesses we have divested from.

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

Critical Accounting Policies and Estimates

The preparation of consolidated financial statements and related disclosures in conformity with U.S. generally accepted accounting principles requires management to make judgments, assumptions, and estimates that affect the amounts reported in the consolidated financial statements and accompanying notes. Note 2 to the consolidated financial statements describes the significant accounting policies and methods used in the preparation of the consolidated financial statements. The accounting policies described below are significantly affected by critical accounting estimates. Such accounting policies require significant judgments, assumptions, and estimates used in the preparation of the consolidated financial statements, and actual results could differ materially from the amounts reported based on these policies.

Revenue Recognition

We primarily derive revenue from the sale of content delivery and value-added services to our customers. Our customers generally 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 define usage as customer data sent or received using our content delivery service, or content that is hosted or cached by us at the request or direction of our customer. We recognize the monthly minimum as revenue each month provided that an enforceable contract has been signed by both parties, the service has been delivered to the customer, the fee for the service is fixed or determinable, and collection is reasonably assured. Should a customer s usage of our services exceed the monthly minimum commit, we recognize revenue for such excess in the period of the usage. For annual or other non-monthly period revenue commitments, we recognize revenue monthly based upon the customer s actual usage each month of the commitment period and only recognize any remaining committed amount for the applicable period in the last month thereof.

We typically charge the customer an installation fee when the services are first activated. We do not charge installation fees for contract renewals. Installation fees are recorded as deferred revenue and recognized as revenue ratably over the estimated life of the customer arrangement. We also derive revenue from 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.

We have on occasion entered into multi-element arrangements. Revenue arrangements with multiple deliverables are divided into separate units of accounting if each deliverable has stand-alone value to the customer and there is objective and reliable evidence of the fair value of each deliverable. Arrangements not meeting these criteria are combined into a single unit of accounting.

For services sold in multiple-element arrangements, consideration is allocated to each deliverable at the inception of an arrangement based on relative selling prices. Substantially all services are sold on a stand-alone basis, providing vendor specific objective evidence (VSOE) of selling prices. In the absence of VSOE or third-party evidence of selling prices, consideration would be allocated based on management s best estimate of such prices.

Table of Contents

We recognized approximately $2.8 million, $4.3 million, and $11.0 million, respectively, in revenue under multi-element arrangements for the years ended December 31, 2012, 2011, and 2010. As of December 31, 2012, we had deferred revenue related to these multi-element arrangements of approximately $0.2 million that will be recognized over the remaining terms of the respective arrangements based on the underlying elements of the arrangements in accordance with our revenue recognition policies.

We sell services through a reseller channel. Assuming all other revenue recognition criteria are met, revenue from reseller arrangements is recognized over the term of the contract, based on the reseller s contracted non-refundable minimum purchase commitments plus amounts sold by the reseller to its customers in excess of the minimum commitments. These excess commitments are recognized as revenue in the period in which the service is provided. Reseller revenue was approximately 3%, 4%, and 5%, respectively, of our total revenue for the years ended December 31, 2012, 2011, and 2010, respectively.

At the inception of a customer contract for service, we make an assessment as to that customer s ability to pay for the services provided. If we subsequently determine that collection from the customer is not reasonably assured, we record an allowance for doubtful accounts and bad debt expense or deferred revenue for all of that customer s unpaid invoices and cease recognizing revenue for continued services provided until cash is received.

Deferred revenue represents amounts billed to customers for which revenue has not been recognized. Deferred revenue primarily consists of the unearned portion of monthly billed service fees, prepayments made by customers for future periods, and deferred installation fees.

Accounts Receivable and Related Reserves

Trade accounts receivable are recorded at the invoiced amounts and do not bear interest. We record reserves as a reduction of our 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.

Our reserve for service credits relates to service credits that are expected to be issued to customers during the ordinary course of business, as well as for billing disputes. These credits typically relate to customer disputes and billing adjustments and are estimated at the time the revenue is recognized and recorded as a reduction of revenues. Estimates for service credits are based on an analysis of credits issued in previous periods.

Our allowance for doubtful accounts is based upon a calculation that uses our aging of accounts receivable and applies a reserve percentage to the specific age of the receivable to estimate the allowance for doubtful accounts. The reserve percentages are determined based on our historical write-off experience. These estimates could change significantly if our customers financial condition changes or if the economy in general deteriorates. We perform on-going credit evaluations of our customers. If such an evaluation indicates that payment is no longer reasonably assured for current services provided, any future services provided to that customer will result in the deferral of revenue until payment is made or we determine payment is reasonably assured.

Goodwill and Other Intangible Assets

We test goodwill for impairment on an annual basis or more frequently if events or changes in circumstances indicate that goodwill might be impaired. As of December 31, 2012 and 2011, we concluded that we had one reporting unit and assigned the entire balance of goodwill to this reporting unit. The fair value of the reporting unit was determined using our market capitalization as of October 31, 2012 and 2011. We performed an impairment test of goodwill as of each of such date and the tests did not indicate an impairment of goodwill.

Other intangible assets consist of existing technologies, customer relationships, trade names, and trademarks. Purchased intangible assets, other than goodwill, are amortized over their estimated useful lives based upon the estimated economic value derived from the related intangible assets. Amortization of other intangible assets is included in depreciation and amortization in the accompanying consolidated statements of operations.

Table of Contents

Impairment and Useful Lives of Long-Lived Assets

We review our long-lived assets, such as fixed assets and amortizable intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Events that would trigger an impairment review include a change in the use of the asset or forecasted negative cash flows related to the asset. When such events occur, we compare the carrying amount of the asset to the undiscounted expected future cash flows related to the asset. If this comparison indicates that impairment is present, the amount of the impairment is calculated as the difference between the carrying amount and the fair value of the asset. If a readily determinable market price does not exist, fair value is estimated using discounted expected cash flows attributable to the asset. The estimates required to apply this accounting policy include forecasted usage of the long-lived assets, the useful lives of these assets, and expected future cash flows. Changes in these estimates could materially impact results from operations.

Contingencies

We record contingent liabilities resulting from asserted and unasserted claims when it is probable that a liability has been incurred and the amount of the loss is reasonably estimable. We disclose contingent liabilities when there is a reasonable possibility that the ultimate loss will exceed the recorded liability. Estimating probable losses requires analysis of multiple factors, in some cases including judgments about the potential actions of third party claimants and courts. Therefore, actual losses in any future period are inherently uncertain.

Deferred Taxes and Tax Reserves

Our provision for income taxes is comprised of a current and a deferred portion. The current income tax provision is calculated as the estimated taxes payable or refundable on tax returns for the current year. The deferred income tax provision is calculated for the estimated future tax effects attributable to temporary differences and carryforwards using expected tax rates in effect during the years in which the differences are expected to reverse or the carryforwards are expected to be realized.

The Company currently has net deferred tax assets consisting of net operating loss (NOL) carryforwards, tax credit carryforwards and deductible temporary differences. Management periodically weighs the positive and negative evidence to determine if it is more likely than not that some or all of the deferred tax assets will be realized. Forming a conclusion that a valuation allowance is not required is difficult when there is negative evidence such as cumulative losses in recent years. As a result of our recent cumulative losses, we have recorded a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. In the event we were to determine that we would be able to realize our deferred income tax assets in the future in excess of their net recorded amount, we would make an adjustment to the valuation allowance which would reduce the provision for income taxes in the period of such realization.

The Company has recorded certain tax reserves to address potential exposures involving its income tax and sales and use tax positions. These potential tax liabilities result from the varying application of statutes, rules, regulations and interpretations by different taxing jurisdictions. The Company s estimate of the value of its tax reserves contains assumptions based on past experiences and judgments about the interpretation of statutes, rules and regulations by taxing jurisdictions. It is possible that the costs of the ultimate tax liability or benefit from these matters may be materially more or less than the amount that the Company estimated.

Uncertainty in income taxes is recognized in the Company s financial statements under guidance that prescribes a two-step process to determine the amount of tax benefit to be recognized. First, the tax position must be evaluated to determine the likelihood that it will be sustained upon external examination. If the tax position is deemed more-likely-than-not to be sustained, the tax position is then assessed to determine the amount of benefit to recognize in the financial statements. The amount of the benefit that may be recognized is the largest amount that has a greater than 50% likelihood of being realized upon ultimate settlement. Our unrecognized tax benefit

Table of Contents

from uncertain tax positions increased from January 1, 2012 to December 31, 2012. We anticipate that our unrecognized tax benefits may increase or decrease within twelve months of the reporting date, as audits or reviews are initiated or settled and as a result of settling potential tax liabilities in certain foreign jurisdictions. It is not currently reasonably possible to estimate the range of change. We recognize interest and penalties related to unrecognized tax benefits in our tax provision.

Our effective tax rate is influenced by the recognition of tax positions pursuant to the more likely than not standard that such positions will be sustained upon examination by the taxing authority. In addition, other factors such as changes in tax laws, rulings by taxing authorities and court decisions, and significant changes in our operations through acquisitions or divestitures can have a material impact on the effective tax rate. Differences between our estimated and actual effective income tax rates and related liabilities are recorded in the period they become known.

We conduct business in various foreign countries. As a multinational corporation, we are subject to taxation in multiple locations, and the calculation of our foreign tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations in various taxing jurisdictions. If we ultimately determine that the payment of these liabilities will be unnecessary, we reverse the liability and recognize a tax benefit during the period in which we determine the liability no longer applies. Conversely, we record additional tax charges in a period in which we determine that a recorded tax liability is less than we expect the ultimate assessment to be.

The application of tax laws and regulations is subject to legal and factual interpretation, judgment and uncertainty. Tax laws and regulations themselves are subject to change as a result of changes in fiscal policy, changes in legislation, the evolution of regulations and court rulings. Therefore, the actual liability for United States or foreign taxes may be materially different from our estimates, which could result in the need to record additional tax liabilities or potentially reverse previously recorded tax liabilities.

Share-Based Compensation

We account for our share-based compensation awards using the fair-value method. The grant date fair value was determined using the Black-Scholes-Merton pricing model. The Black-Scholes-Merton valuation calculation requires us to make key assumptions such as future stock price volatility, expected terms, risk-free rates, and dividend yield. Our expected volatility is derived from our volatility rate as a publicly traded company and historical volatilities of similar public companies within the Internet services and network industry. Each company s historical volatility is weighted based on certain qualitative factors and combined to produce a single volatility factor used by us. We do not have enough historical experience as a public company to provide a reasonable estimate of the expected term; therefore, expected term is calculated using the short-cut method, which takes into consideration the grant s contractual life and the vesting periods. The risk-free interest factor is based on the United States Treasury yield curve in effect at the time of the grant for zero coupon United States Treasury notes with maturities of approximately equal to each grant s expected term.

We develop an estimate of the number of share-based awards that will be forfeited due to employee turnover. Annual changes in the estimated forfeiture rate may have a significant effect on share-based payments expense, as the effect of adjusting the rate is recognized in the period the forfeiture estimate is changed. If the actual forfeiture rate is higher than the estimated forfeiture rate, then an adjustment is made to increase the estimated forfeiture rate, which will result in a decrease to the expense recognized in the financial statements. If the actual forfeiture rate is lower than the estimated forfeiture rate, then an adjustment is made to decrease the estimated forfeiture rate, which will result in an increase to the expense recognized in the financial statements. We have never paid cash dividends and do not currently intend to pay cash dividends, and therefore, we have assumed a 0% dividend yield.

We will continue to use judgment in evaluating the expected term, volatility, and forfeiture rate related to our own share-based awards on a prospective basis, and in incorporating these factors into the model. If our actual experience differs significantly from the assumptions used to compute our share-based compensation cost, or if different assumptions had been used, we may have recorded too much or too little share-based compensation cost.

Table of Contents

We apply the straight-line attribution method to recognize compensation costs associated with awards that are not subject to graded vesting. For awards that are subject to graded vesting and performance based awards, we recognize compensation costs separately for each vesting tranche. We also estimate when and if performance-based awards will be earned. If an award is not considered probable of being earned, no amount of stock-based compensation is recognized. If the award is deemed probable of being earned, related compensation expense is recorded over the estimated service period. To the extent our estimates of awards considered probable of being earned changes, the amount of stock-based compensation recognized will also change.

Results of Continuing Operations

Comparison of the Years Ended December 31, 2012 and 2011

Revenue

	Year Ended December 31, 2012	2011	Increase (Decrease)	Percent Change
		(in thousands)		
Revenue	$ 180,236	$ 171,292	$ 8,944	5%

Revenue increased 5%, or $8.9 million, to $180.2 million for the year ended December 31, 2012 compared to $171.3 million for the year ended December 31, 2011. The increase in revenue for the year ended December 31, 2012 compared to the year ended December 31, 2011 was primarily attributable to an increase in our VAS revenue of approximately $13.8 million. Our VAS revenue, which collectively refers to our mobility, web and video content management, web application acceleration, cloud storage, and consulting revenue, includes revenue from the date of acquisition of Delve Networks, Inc. (Delve), Clickability, and AcceloWeb. The increase in VAS revenue was primarily attributable to increases in our web content management, video publishing, and cloud storage revenue. The increase in VAS revenue was offset by a decrease in our content delivery services revenue. During 2012, we continued to increase the amount of traffic moving through our network, however, we also saw price compression. Our content delivery services revenue decreased approximately $4.8 million. The decrease was primarily due to lower reseller revenue and other non-traffic related revenue. In addition, approximately $1.8 million was due to a reduction in our network pop-build and license revenue from Microsoft.

As of December 31, 2012, we had 1,451 customers compared to 1,565 as of December 31, 2011. The decrease in customers count was primarily attributable to the loss of smaller revenue generating customers.

For the years ended December 31, 2012 and 2011, approximately 31% and 30%, respectively, of our total revenues were derived from our operations located outside of North America. For the years ended December 31, 2012 and 2011, we derived approximately 47% and 50%, respectively, of our international revenue from EMEA and approximately 53% and 50%, respectively, of our international revenue from Asia Pacific. During 2012, two countries, Japan and the United States, respectively, accounted for 10% or more of our total revenues. During 2011, no single country outside of the United States accounted for 10% or more of our total revenues.

We anticipate revenues will increase in 2013. We expect to deliver more traffic on our network and expect continued growth in our VAS. Additionally, we expect our international revenue to continue to increase in absolute dollars and that our Asia Pacific revenue may continue to grow as a percentage of our total international revenue compared to 2012. We anticipate that our customer concentrations levels will be consistent with 2012.

Table of Contents

Cost of Revenue

	Year Ended December 31, 2012	2011	Increase (Decrease)	Percent Change
	(in thousands)			
Cost of revenue	$ 111,715	$ 109,586	$ 2,129	2%

Cost of revenue consists primarily of fees paid to network providers for bandwidth and backbone, costs incurred for non-settlement free peering and connection to ISPs, and fees paid to data center operators for housing of our network equipment in third party network data centers, also known as co-location costs. Cost of revenue also includes depreciation of network equipment used to deliver our content delivery services, payroll and related costs and share-based compensation for our network operations, and professional services personnel.

Cost of revenue increased 2%, or $2.1 million, to $111.7 million for the year ended December 31, 2012 compared to $109.6 million for the year ended December 31, 2011. This increase was primarily due to an increase in payroll and related employee costs of approximately $2.5 million primarily associated with increased salaries and bonus accrual, increased professional fees of approximately $0.7 million, consisting of approximately $0.5 million of consulting fees and approximately $0.1 million of recruiting fees, and an increase in other costs of approximately $1.3 million. The increase in other costs was primarily due to $0.5 million of other costs associated with the delivery of our services and increased fees and licenses of approximately $0.5 million. These increases were offset by a decrease of approximately $2.2 million in bandwidth and co-location fees. The decrease in bandwidth and co-location fees was primarily due to reduced transit costs of approximately $3.2 million, reduced rack fees of approximately $0.3 million, and a reduction of approximately $0.7 million in other recurring costs of sales and services, offset by increased peering costs of approximately $2.4 million. For the year ended December 31, 2012 share-based compensation expense decreased $0.3 million compared to the same period of the prior year.

Cost of revenue in 2012 and 2011 was composed of the following:

	Year Ended December 31, 2012	2011
	(in millions)	
Bandwidth and co-location fees	$ 55.2	$ 57.4
Depreciation network	28.0	28.0
Payroll and related employee costs	18.1	15.6
Share-based compensation expense	2.1	2.4
Professional fees and outside services	1.6	0.9
Travel and travel-related expenses	0.9	0.9
Royalty expenses	0.9	0.8
Other costs	4.9	3.6
Total cost of revenue	$ 111.7	$ 109.6

We anticipate cost of revenue will increase in 2013. We expect to deliver more traffic on our network, which would result in higher expenses associated with 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 decrease compared to 2012 in absolute dollars. 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 VAS personnel. We expect that share-based compensation expense will decrease in absolute dollars and remain consistent with 2012 as a percentage of revenue.

Table of Contents

General and Administrative

	Year Ended December 31,		Increase	Percent
	2012	2011	(Decrease)	Change
		(in thousands)		
General and administrative	$ 36,003	$ 32,138	$ 3,865	12%

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 12%, or $3.9 million, to $36.0 million for the year ended December 31, 2012 compared to $32.1 million for the year ended December 31, 2011. This increase was primarily due to an increase in professional fees of $2.3 million which was due to increased consulting and outside professional services of $1.5 million, legal fees related to intellectual property matters and other matters of $0.4 million, and increased recruiting fees of approximately $0.4 million. In addition, our bad debt expense increased $0.9 million and stock-based compensation increased $0.4 million. The increase in bad debt expense included approximately $0.8 million for a related party entity. Our payroll and payroll-related costs increased approximately of $0.3 million during 2012. These increases were off-set by a decrease in litigation costs of approximately $0.9 million, and a decrease in travel and travel-related costs of approximately $0.2 million. Other costs increased $1.1 million which was primarily due to increased facilities and facilities-related costs of $0.2 million, primarily due to our relocation to our new worldwide headquarters in Tempe, Arizona in April 2011, and increased fees, licenses and non-income taxes of $1.8 million, off-set by the reversal of previously recorded contingent consideration for which we no longer believe that payment is probable of approximately $0.8 million and reduced office supplies of approximately $0.2 million. Other expenses include such items as rent, utilities, telephone, insurance, fees and licenses, and property taxes.

Additionally, general and administrative share-based compensation expense increased $0.4 million for the year ended December 31, 2012 compared to the year ended December 31, 2011.

General and administrative expenses in 2012 and 2011 were composed of the following:

	Year Ended December 31,	
	2012	2011
	(in millions)	
Payroll and related employee costs	$ 9.4	$ 9.1
Professional fees	8.1	5.8
Share-based compensation	6.5	6.1
Bad debt expense	2.0	1.1
Travel and travel related expenses	0.6	0.8

Litigation expenses	0.5	1.4
Other expenses	8.9	7.8
Total general and administrative	$ 36.0	$ 32.1

Table of Contents

In 2013, we expect our general and administrative expenses to decrease in absolute dollars and as a percentage of revenue. During 2013, we expect to see increased salaries and related employee cost. These increases will be offset by lower consulting, bad debt expense and lower non-income tax related taxes. We expect that share-based compensation expense will decrease in absolute dollars and decrease as a percentage of revenue compared to 2012.

Sales and Marketing

	Year Ended December 31, 2012	2011	Increase (Decrease)	Percent Change
	(in thousands)			
Sales and marketing	$ 45,044	$ 40,081	$ 4,963	12%

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, travel and travel-related expenses, and advertising and promotional expenses.

Sales and marketing expenses increased 12%, or $4.9 million, to $45.0 million for the year ended December 31, 2012 compared to $40.1 million for the year ended December 31, 2011. This increase was primarily due to an increase in payroll and related employee costs of $3.0 million, primarily due to increased salaries and benefits of $2.5 million, and to a lesser extent increased variable compensation costs of $0.4 million, an increase in travel and travel-related expenses of $0.7 million, an increase in professional fees of $0.5 million, primarily for consulting, recruiting fees, and casual services, an increase in marketing programs of $0.3 million, and an increase in other costs of $1.1 million. The increase in other costs was primarily due to increased facility and facility-related costs, fees and licenses, office supplies, and costs associated with our website design.

Additionally, sales and marketing share-based compensation expense decreased $0.7 million for the year ended December 31, 2012 compared to the same period of the prior year.

Sales and marketing expenses in 2012 and 2011 were composed of the following:

	Year Ended December 31, 2012	2011
	(in millions)	
Payroll and related employee costs	$ 27.3	$ 24.3
Travel and travel-related expense	3.9	3.2
Share-based compensation expense	3.1	3.8
Marketing programs	2.6	2.3
Professional fees and outside services	2.0	1.5
Other expenses	6.1	5.0
Total sales and marketing	$ 45.0	$ 40.1

We anticipate our sales and marketing expense will increase in 2013 in absolute dollars and decrease as a percentage of revenue compared to 2012. The increase in absolute dollars is due to expected increases in marketing expenses,variable compensation on higher forecast sales, and an increase in facility and facility-related expenses for our sales and marketing personnel. We expect that share-based compensation expense will decrease in absolute dollars and as a percentage of revenue in 2013 compared to 2012.

Table of Contents

Research and Development

	Year Ended December 31, 2012	2011	Increase (Decrease)	Percent Change
	(in thousands)			
Research and development	$ 20,182	$ 17,146	$ 3,036	18%

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 18%, or $3.0 million, to $20.2 million for the year ended December 31, 2012, compared to $17.1 million for the year ended December 31, 2011. This increase was primarily due to an increase of $3.2 million in payroll and related employee costs and increases in professional fees of $0.3 million, and in other costs of $0.4 million. The increase in payroll and related employee costs was primarily due to our hiring of additional network and software engineering personnel. Other expenses include such items as telephone, fees and licenses, office supplies and other employee costs.

Additionally, research and development share-based compensation expense decreased $0.8 million for the year ended December 31, 2012 compared to the same period of the prior year.

Research and development expenses in 2012 and 2011 were composed of the following:

	Year Ended December 31, 2012	2011
	(in millions)	
Payroll and related employee costs	$ 15.0	$ 11.8
Share-based compensation expense	2.8	3.6
Professional fees and outside services	1.0	0.7
Travel and travel-related expense	0.5	0.5
Other	0.9	0.5
Total research and development	$ 20.2	$ 17.1

We anticipate our research and development expenses will increase in 2013 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. We expect that share-based compensation expense will decrease in both absolute dollars and as a percentage of revenue in 2013 compared to 2012.

Depreciation and Amortization (Operating Expenses)

	Year Ended December 31, 2012	2011	Increase (Decrease)	Percent Change
	(in thousands)			
Depreciation and amortization	$ 5,843	$ 4,787	$ 1,056	22%

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 22%, or approximately $1.1 million, to $5.8 million for the year December 31, 2012, compared to $4.8 million for the year ended December 31, 2011. The increase in

depreciation and amortization expense was due to an increase of approximately $0.5 million in amortization of intangible assets acquired in business combinations, and to increased general and administrative depreciation and amortization of $0.5 million. For the year ended December 31, 2012, amortization of intangibles was approximately $2.9 million.

Based on our other intangible assets as of December 31, 2012, aggregate expense related to amortization of other intangible assets is expected to be $2.8 million for 2013, and $2.1 million, $1.1 million, and $0.3 million for fiscal years 2014, 2015, and 2016, respectively.

Interest Expense

	Year Ended December 31, 2012	2011	Increase (Decrease)	Percent Change
		(in thousands)		
Interest expense	$ 177	$ 299	$ (122)	(41)%

Interest expense consisted primarily of interest paid on capital leases and accretion of contingent consideration related to our business acquisitions.

Interest expense decreased 41%, or $0.1 million, to $0.2 million for the year ended December 31, 2012, compared to $0.3 million for the year ended December 31, 2011. Interest expense for year ended December 31, 2012, was primarily comprised of interest paid on capital leases. Interest expense for the year ended December 31, 2011, was comprised of interest paid on capital leases of approximately $186,000, the accretion of contingent consideration related to our business acquisitions of approximately $97,000 and bank fees of approximately $16,000.

As of December 31, 2012, with the exception of our capital leases, we had no outstanding credit facilities.

Interest Income

	Year Ended December 31, 2012	2011	Increase (Decrease)	Percent Change
		(in thousands)		
Interest income	$ 356	$ 752	$ (396)	(53)%

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

Interest income decreased 53%, or $0.4 million to $0.4 million for the year ended December 31, 2012, compared to $0.8 million for the year ended December 31, 2011. The decrease in interest income during the year ended December 31, 2012 was primarily due to lower interest rates on our cash and marketable securities balances.

Other (Expense) Income

	Year Ended December 31, 2012	2011	Increase (Decrease)	Percent Change
		(in thousands)		
Other (expense) income	$ (602)	$ (311)	$ 291	94%

Other expense increased $0.3 million to $0.6 million for year ended December 31, 2012, compared to $0.3 million for the year ended December 31, 2011. Other income (expense) consists primarily of foreign currency gains and losses.

Table of Contents

Income Tax Expense (Benefit)

	Year Ended December 31,		Increase	Percent
	2012	2011	(Decrease)	Change
	(in thousands)			
Income tax expense (benefit)	$ 481	$ (2,238)	$ (2,719)	(121)%

We had an income tax expense during the year ended December 31, 2012 of $0.5 million or 2% of our pre-tax loss of $29.6 million which was different than our statutory income tax rate due primarily to our providing for a valuation allowance on tax assets in certain jurisdictions, state tax, and foreign tax for the year. For the year ended December 31, 2011, we had an income tax benefit of $2.2 million or 7% of our pre-tax loss of $32.3 million.

(Loss) Income from Discontinued Operations

	Year Ended December 31,		Increase	Percent
	2012	2011	(Decrease)	Change
	(in thousands)			
(Loss) income from discontinued operations	$ (2,861)	$ 4,778	$ (7,639)	(160)%

On September 1, 2011, we completed the sale of EyeWonder and subsidiaries and chors video and rich media advertising services to DG. The sale of EyeWonder and chors met the criteria for discontinued operations during the year ended December 31, 2011. Accordingly, the results of operations related to EyeWonder and chors were classified as discontinued operations in the periods presented. See Note 5 of Notes to Consolidated Financial Statements included in Part II, Item 8 of this annual report on Form 10-K for additional information about discontinued operations.

Comparison of the Years Ended December 31, 2011 and 2010

Revenue

	Year Ended December 31,		Increase	Percent
	2011	2010	(Decrease)	Change
	(in thousands)			
Revenue	$ 171,292	$ 154,223	$ 17,069	11%

Revenue increased 11%, or $17.0 million, to $171.3 million for the year ended December 31, 2011 as compared to $154.2 million for the year ended December 31, 2010. The increase in revenue for the year ended December 31, 2011 as compared to the year ended December 31, 2010, was primarily attributable to an increase in our value-added services revenue of approximately $19.6 million. Our value-added services revenue, which collectively refers to our SaaS solutions for mobility, web and video content management, web application acceleration, cloud storage, and consulting, includes revenue from the date of acquisition of Delve, Clickability and AcceloWeb. The increase in value-added services revenue is primarily attributable to increases in our web content management, storage, video publishing, and mobile product offerings. The increase in value-added services revenue was offset by a decrease in our content delivery services revenue of approximately $2.5 million. During 2011, we continued to increase the amount of traffic moving through our network; however, the revenue generated from the increase in traffic grew at a much lower rate and we continue to see a decline in our average unit sales price. Our core content delivery services revenue increased approximately $3.7 million; however, this increase was offset by a decrease of approximately $6.2 million in our network pop-build and license revenue from Microsoft. As of December 31, 2011, we had approximately 1,565 customers as compared to approximately 1,567 as of December 31, 2010.

Table of Contents

For the years ended December 31, 2011 and 2010, approximately 30% and 27%, respectively, of our total revenues were derived from our operations located outside of North America. For the years ended December 31, 2011 and 2010, we derived approximately 50% and 57%, respectively, of our international revenue from EMEA and approximately 50% and 43%, 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

	Year Ended December 31,		Increase	Percent
	2011	2010	(Decrease)	Change
	(in thousands)			
Cost of revenue	$ 109,586	$ 94,582	$ 15,004	16%

Cost of revenue includes fees paid to network providers for bandwidth and backbone, costs incurred for non-settlement free peering and connection to 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 content delivery services, payroll and related costs and equity-related compensation for our network operations, and professional services personnel.

Cost of revenue increased 16%, or $15.0 million, to $109.6 million for the year ended December 31, 2011 as compared to $94.6 million for the year ended December 31, 2010. These increases were primarily due to an increase in aggregate bandwidth and co-location fees of $6.1 million. This increase was primarily due to increased peering costs of approximately $7.6 million, increased costs associated with our transit backbone of approximately $0.7 million, and an increase in rack fees of approximately $0.5 million, associated with increased amounts of deployed network assets. These increases were offset by a decrease in our cost of bandwidth transit of approximately $2.3 million, and a decrease in other recurring cost of sales of approximately $0.4 million. In addition, depreciation increased approximately $5.8 million, due to increased amounts of deployed assets, as we continue to build-out our expanding network and to refresh our network equipment, and an increase in payroll and related employee costs of $2.9 million associated with increased staff to build and operate our global computing platform, as well as increased and professional services personnel. Additionally, we had increases in professional fees and outside services of $0.3 million, primarily due to an increase in outside consulting expense, an increase in royalty expense of $0.4 million, and an increase in travel and travel-related expenses of $0.2 million. These increases were offset by a decrease in other costs of $0.7 million. The decrease in other costs is primarily related to $0.8 million of costs in 2010 associated with the sale of equipment to a customer and reduced fees and licenses of approximately $0.4 million in 2011. These decreases were offset by an increase of approximately $0.4 million in other costs associated with the delivery of our services and an increase in office and computer supplies of approximately $0.1 million.

Additionally, for both the years ended December 31, 2011 and 2010, cost of revenue includes share-based compensation expense of approximately $2.4 million.

Table of Contents

Cost of revenue in 2011 and 2010 was composed of the following:

	Year Ended December 31, 2011	2010
	(in millions)	
Bandwidth and co-location fees	$ 57.4	$ 51.3
Depreciation network	28.0	22.2
Payroll and related employee costs	15.6	12.7
Share-based compensation expense	2.4	2.4
Travel and travel-related expenses	0.9	0.7
Professional fees and outside services	0.9	0.6
Royalty expenses	0.8	0.4
Other costs	3.6	4.3
Total cost of revenue	$ 109.6	$ 94.6

General and Administrative

	Year Ended December 31, 2011	2010	Increase (Decrease)	Percent Change
		(in thousands)		
General and administrative	$ 32,138	$ 29,827	$ 2,311	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 $2.3 million, to $32.1 million for the year ended December 31, 2011 as compared to $29.8 million for the year ended December 31, 2010. These increases were primarily due to an increase in payroll and related employee costs of $0.6 million, which was primarily due to new hires and, to a lesser extent, to the addition of general and administrative personnel of our business acquisitions, an increase in travel and travel-related expenses of $0.2 million, and an increase in other costs of $2.4 million. The increase in other costs was primarily due to increased facilities and facilities-related costs of $1.3 million, primarily due to our relocation to our new worldwide headquarters in Tempe, Arizona in April 2011, increased fees, licenses and non-income taxes of $0.6 million, an increase in telephone and other employee costs of $0.3 million and an increase in general office expenses (office and computer supplies, postage and shipping) of approximately $0.2 million. These increases were offset by a decrease in litigation expenses of $0.7 million and a decrease in bad debt expense of $0.2 million.

Other expenses include such items as rent, utilities, telephone, insurance, fees and licenses, and property taxes.

Additionally, general and administrative share-based compensation expense increased $0.1 million for the year ended December 31, 2011 compared to the year ended December 31, 2010.

Table of Contents

General and administrative expenses in 2011 and 2010 were composed of the following:

	Year Ended December 31, 2011 (in millions)	Year Ended December 31, 2010
Payroll and related employee costs	$ 9.1	$ 8.5
Share-based compensation	6.1	6.0
Professional fees	5.8	5.9
Litigation expenses	1.4	2.1
Bad debt expense	1.1	1.3
Travel and travel related expenses	0.8	0.6
Other expenses	7.8	5.4
Total general and administrative	$ 32.1	$ 29.8

Sales and Marketing

	Year Ended December 31, 2011	2010 (in thousands)	Increase (Decrease)	Percent Change
Sales and marketing	$ 40,081	$ 38,614	$ 1,467	4%

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 4%, or $1.5 million, to $40.1 million for the year ended December 31, 2011, as compared to $38.6 million for the year ended December 31, 2010. The increase in sales and marketing expenses was primarily due to an increase in marketing programs of approximately $0.8 million, an increase in travel and travel-related expenses of $0.2 million and an increase in other costs of $1.9 million. The increase in other costs was primarily due to increased employee events of $0.5 million, increased fees and licenses of $0.4 million, increased facility and facility-related costs of $0.3 million, increased training and seminars of $0.2 million and an increase in telephone costs of $0.2 million. These increases were offset by a decrease in share-based compensation of $1.0 million, a decrease in payroll and payroll-related expenses of $0.3 million, primarily due to increased salaries and related employee costs of $1.6 million, which included approximately $0.5 million of salaries and related employee costs from our business acquisitions, offset by lower variable compensation of $1.3 million and a lower annual bonus accrual of approximately $0.6 million. In addition, professional fees and outside services decreased $0.1 million.

As mentioned above, sales and marketing share-based compensation expense decreased $1.0 million for the year ended December 31, 2011 compared to the year ended December 31, 2010.

Table of Contents

Sales and marketing expenses in 2011 and 2010 were composed of the following:

	Year Ended December 31, 2011	2010
	(in millions)	
Payroll and related employee costs	$ 24.3	$ 24.6
Share-based compensation expense	3.8	4.8
Travel and travel-related expense	3.2	3.0
Marketing programs	2.3	1.5
Professional fees and outside services	1.5	1.6
Other expenses	5.0	3.1
Total sales and marketing	$ 40.1	$ 38.6

Research and Development

	Year Ended December 31, 2011	2010	Increase (Decrease)	Percent Change
	(in thousands)			
Research and development	$ 17,146	$ 10,841	$ 6,305	58%

Research and development expenses consisted 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 58%, or $6.3 million, to $17.1 million for the year ended December 31, 2011, as compared to $10.8 million for the year ended December 31, 2010. The increase in research and development expenses was primarily due to an increase of $5.0 million in payroll and related employee costs, primarily due to the addition of research and development personnel from our acquisitions, an increase in share-based compensation of $0.6 million, an increase in professional fees and outside services of $0.3 million and an increase in other costs of $0.4 million. The increases in payroll and related employee costs is primarily associated with our hiring of additional network and software engineering personnel and the addition of research and development personnel resulting from our business acquisitions. Other expenses include such items as travel and travel-related expenses, consulting, contract labor, telephone, and office supplies.

Research and development expenses in 2011 and 2010 were composed of the following:

	Year Ended December 31, 2011	2010
	(in millions)	
Payroll and related employee costs	$ 11.8	$ 6.8
Share-based compensation expense	3.6	3.0
Professional fees and outside services	0.7	0.4
Other	1.0	0.6
Total research and development	$ 17.1	$ 10.8

Depreciation and Amortization (Operating Expenses)

	Year Ended December 31, 2011	2010	Increase (Decrease)	Percent Change

		(in thousands)		
Depreciation and amortization	$ 4,787	$ 2,460	$ 2,327	95%

Table of Contents

Depreciation expense consisted 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 95%, or $2.3 million, to $4.8 million for the year December 31, 2011, as compared to $2.5 million for the year ended December 31, 2010. The increase in depreciation and amortization expense was primarily due to an increase of approximately $2.0 million in amortization of intangible assets acquired in business combinations, and to a lesser extent increased general and administrative depreciation and amortization of $0.3 million when compared to the year ended December 31, 2010. For the year ended December 31, 2011, amortization of intangibles was approximately $2.3 million.

Interest Expense

	Year Ended December 31, 2011	2010	Increase (Decrease)	Percent Change
		(in thousands)		
Interest expense	$ 299	$ 62	$ 237	382%

Interest expense consisted of interest paid on capital leases and accretion of contingent consideration related to our business acquisitions.

Interest expense increased 382%, or $237,000, to $299,000 for the year ended December 31, 2011, as compared to $62,000 for the year ended December 31, 2010. The increase in interest expense was primarily related to increased interest expense on capital leases (approximately $127,000), the accretion of contingent consideration related to our business acquisitions (approximately $97,000), and other interest (approximately $13,000). Interest expense for the year ended December 31, 2010 included interest paid in association with a filing of non-income tax related payments and interest paid on capital leases. As of December 31, 2011, with the exception of our capital leases, we had no outstanding credit facilities.

Interest Income

	Year Ended December 31, 2011	2010	Increase (Decrease)	Percent Change
		(in thousands)		
Interest income	$ 752	$ 910	$ (158)	(17)%

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

Interest income decreased 17%, or $158,000 to $752,000 for the year ended December 31, 2011, as compared to $910,000 for the year ended December 31, 2010.

Other (Expense) Income

	Year Ended December 31, 2011	2010	Increase (Decrease)	Percent Change
		(in thousands)		
Other (expense) income	$ (311)	$ (250)	$ 61	24%

Other expense increased $61,000 to $311,000 for year ended December 31, 2011, as compared to $250,000 for the year ended December 31, 2010. Other income (expense) consists primarily of foreign currency gains and losses.

Table of Contents

Income Tax (Benefit) Expense

	Year Ended December 31, 2011	2010	Increase (Decrease)	Percent Change
	(in thousands)			
Income tax (benefit) expense	$ (2,238)	$ 727	$ (2,965)	(408)%

We had an income tax benefit during the year ended December 31, 2011 of $2.2 million or 7% of our pre-tax loss of $32.3 million which was different than our statutory income tax rate due primarily to the tax benefit on losses from continuing operations associated with the sale of EyeWonder and chors. For the year ended December 31, 2010, we had an income tax provision of $0.7 million or (3%) of our pre-tax loss of $21.5 million.

Income (Loss) from Discontinued Operations

	Year Ended December 31, 2011	2010	Increase (Decrease)	Percent Change
	(in thousands)			
Income (loss) from discontinued operations	$ 4,778	$ 1,879	$ 2,899	154%

Discontinued operations relates to our EyeWonder and chors rich media advertising services. On September 1, 2011, we completed the sale of EyeWonder and chors to DG. See Note 5 of Notes to Consolidated Financial Statements included in Part II, Item 8 of this annual report on Form 10-K for additional information about discontinued operations.

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;
- sale of EyeWonder and chors in September 2011;
- sale of our cost basis investment in Gaikai in August 2012; and
- cash generated by operations.

As of December 31, 2012, our cash, cash equivalents and marketable securities classified as current totaled $128.0 million. Included in this amount is approximately $5.3 million of cash and cash equivalents held outside the United States.

Cash Flow for the Years Ended December 31, 2012, 2011, and 2010

Operating Activities

Net cash provided by operating activities of continuing operations increased by $7.6 million, with net cash provided by operating activities equaling $12.5 million for the year ended December 31, 2012, compared to net cash provided by operating activities of approximately $4.9 million for the year ended December 31, 2011. The change in operating cash flows comparing the year ended December 31, 2012 to the year ended December 31, 2011 was primarily due to changes in operating assets and liabilities. Cash provided by operating activities of continuing operations related to changes in operating assets and liabilities was $1.7 million during the year ended December 31, 2012 compared to $11.0 million of cash used during the year ended December 31, 2011. The difference relates primarily to changes in prepaid and other current assets and other assets associated with lower advanced payments for bandwidth and backbone services in 2012, an increase in accounts payable associated with the timing of vendor payments and less cash used related to payments on other current liabilities during 2012 compared to 2011.

Net cash provided by operating activities of continuing operations decreased by $10.1 million, with net cash provided by operating activities equaling $4.9 million for the year ended December 31, 2011, compared to net cash provided by operating activities of approximately $15.0 million for the year ended December 31, 2010. The change in operating cash flows comparing the year ended December 31, 2011 to the year ended December 31, 2010 was primarily due to a larger net loss from continuing operations 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 $11.0 million in the year ended December 31, 2011, compared to cash used of $4.2 million in the year ended December 31, 2010. The change related primarily to greater cash usage during the year ended December 31, 2011 related primarily to an increase in prepaid expenses and other current and long-term assets associated with advanced payments for bandwidth and backbone services with a telecommunications provider, a decrease in accounts payable related to the timing of payments, a decrease in other current liabilities primarily related to employee salary related expenditures in 2011, and a decrease in deferred revenue.

We expect that cash provided by operating activities may not be sufficient to cover new purchases of property and equipment during 2013, re-purchases of common stock and potential litigation expenses associated with patent litigation. The timing and amount of future working capital changes and our ability to manage our DSO will also affect the future amount of cash used in or provided by operating activities.

Investing Activities

Net cash used in investing activities of continuing operations was $0.5 million for the year ended December 31, 2012, compared to cash provided by investing activities of $15.5 million for the year ended December 31, 2011. Net cash used in investing activities was principally comprised of cash used for the purchase of short-term marketable securities and capital expenditures primarily for computer equipment associated with the build-out and expansion of our global computing platform, offset by cash generated from maturities of short-term marketable securities, cash collected on the DG receivable, and proceeds from the sale of our investment in Gaikai.

In May 2010, we made a strategic investment in Gaikai, a private cloud-based gaming technology company. In August 2012, Sony acquired Gaikai for approximately $380 million and we received approximately $10.2 million in proceeds from the sale of our investment in Gaikai and expect to receive an additional $1.2 million depending upon the amount of indemnification claims made during the 15 month indemnification period.

Cash provided by investing activities was $15.5 million for the year ended December 31, 2011, compared to cash used in investing activities of $47.6 million for the year ended December 31, 2010. Cash provided by investing activities was principally comprised of cash received from DG for the sale of EyeWonder and chors, offset by cash used for the acquisition of businesses, the purchase of short-term marketable securities, and capital expenditures primarily for computer equipment associated with the build-out and expansion of our global computing platform, offset by cash generated from the sale of short-term marketable securities.

On May 9, 2011, we acquired AcceloWeb, a privately-held provider of advanced technology that helps speed the presentation of web sites and applications located in Tel Aviv, Israel. The purchase price included both cash and company stock for the acquisition. Cash paid, net of cash acquired, was $4.7 million.

On May 2, 2011, we acquired Clickability, a privately-held SaaS provider of web content management located in San Francisco, California. The purchase price included both cash and company stock for the acquisition. Cash paid, net of cash acquired, was $2.7 million.

On September 1, 2011, we sold EyeWonder and chors to DG for net proceeds of $61.0 million ($66.0 million gross cash proceeds less $5.0 million held in escrow) plus an estimated $10.9 million receivable. As of December 31, 2012, approximately $7.4 million of the receivable had been received from DG.

We expect to have ongoing capital expenditure requirements as we continue to invest in and expand our global computing platform.

Financing Activities

Net cash used in financing activities of continuing operations was approximately $23.1 million for the year ended December 31, 2012, compared to $50.8 million of net cash provided by financing activities of continuing operations for the year ended December 31, 2011. Net cash used in financing activities during the year ended December 31, 2012 related to payments made for the purchase of shares of our common stock under our stock repurchase plans of approximately $20.9 million, payments made on our capital lease obligations of approximately $1.7 million, and payments of employee tax withholdings related to RSUs of approximately $0.7 million, offset by cash received from the exercise of stock options of $0.2 million.

Net cash provided by financing activities increased to approximately $50.8 million for the year ended December 31, 2011 compared to $0.2 million for the year ended December 31, 2010. Net cash provided by financing activities in the year ended December 31, 2011 primarily related to proceeds from the public offering of our common stock of approximately $77.0 million and the exercise of stock options of $0.7 million offset by payments made for the re-purchase of our common stock of approximately $24.4 million, payments of employee tax withholdings related to restricted stock of approximately $1.2 million, and payments made on our capital lease obligations of approximately $1.4 million.

As of December 31, 2012, we had no outstanding debt other than the aforementioned capital leases.

During 2012, we completed two stock repurchase plans and commenced a third. On October 29, 2012, our Board authorized a third common stock repurchase plan that authorized us to repurchase up to $10 million of our shares of common stock, exclusive of any commissions, markups or expenses, from time to time through May 9, 2013. Any repurchased shares will be cancelled and return to authorized but unissued status. During the three months ended December 31, 2012, we purchased and cancelled approximately 2.2 million shares under the third repurchase plan for approximately $4.6 million (including commissions).

In May 2012, our Board approved a second common stock repurchase plan that authorized us to repurchase up to $15 million of our shares of common stock, exclusive of any commissions, markups or expenses, from time to time through December 15, 2012. Any repurchased shares will be cancelled and return to authorized but unissued status. During the year ended December 31, 2012, we purchased and cancelled approximately 5.7 million shares of common stock for approximately $15.0 million ($15.1 million including commissions) under the second repurchase plan. Our second stock repurchase plan is now complete.

On September 12, 2011, our Board approved an initial repurchase plan that authorized us to repurchase up to $25 million of our shares of common stock, exclusive of any commissions, markups or expenses, from time to time through March 12, 2012. During the year ended December 31, 2012, we repurchased and cancelled approximately 0.3 million shares under the initial repurchase plan. During the period September 12, 2011 through March 12, 2012, we repurchased and cancelled approximately 9.7 million shares of common stock for approximately $25.0 million ($25.2 million including commissions) under the initial repurchase plan. All repurchased shares were cancelled and returned to authorized but unissued status. Our initial repurchase plan is complete.

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

Table of Contents

over-allotment option, at a price to the public of $7.10 per share. The newly issued shares of common stock 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 $77.0 million in net proceeds after deducting underwriting discounts and commissions of approximately $3.9 million and other offering costs of approximately $0.8 million.

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.

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 2013 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 2013 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 December 31, 2012 over the next five years and thereafter (in thousands):

		Payments Due by Period			
Contractual Obligations as of December 31, 2012	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Operating Leases					
Bandwidth leases	$ 22,105	$ 14,680	$ 6,580	$ 845	$
Rack space leases	51,840	18,858	30,180	2,802	
Real estate leases	15,313	3,559	5,667	3,833	2,254
Total operating leases	89,258	37,097	42,427	7,480	2,254
Capital leases	2,251	1,377	736	138	
Total commitments	$ 91,509	$ 38,474	$ 43,163	$ 7,618	$ 2,254

