Limelight Networks, Inc.
Form 10-K
March 12, 2010
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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, 2009

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.)**

2220 W. 14th Street

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 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 ¨   No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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. (Check one):

Large accelerated filer ¨	Accelerated filer þ	Non-accelerated filer ¨	Smaller Reporting Company ¨

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(Do not check if a smaller reporting company)

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

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant was approximately $177.8 million based on the last reported sale price of the common stock on the Nasdaq Global Market on June 30, 2009.

The number of shares outstanding of the registrant s Common Stock, par value $0.001 per share, as of March 10, 2010: 85,157,401 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Registrant s 2010 Annual Meeting of Stockholders are incorporated by reference in Part III of this Form 10-K.

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LIMELIGHT NETWORKS, INC.

ANNUAL REPORT ON FORM 10-K

For the Fiscal Year Ended December 31, 2009

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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 statements as to industry trends and future expectations of ours and other matters that do not relate strictly to historical facts. These statements are often identified by the use of words such as may, will, expect, believe, anticipate, intend, could, estimate, or continue, and similar expressions or variations. These statements are based on the beliefs and assumptions of our management based on information currently available to management. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled Risk Factors set forth in Part I, Item 1A of this annual report on Form 10-K. 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 Networks, Inc. (Limelight) is a provider of high-performance content delivery network services. We deliver content for traditional and emerging media companies, or content providers, including businesses operating in the television, music, radio, newspaper, magazine, movie, videogame, software and social media industries; online businesses operating e-commerce storefronts; and government organizations, corporations, or enterprise businesses that operate a web site.

Using Limelight s content delivery network, or CDN, content providers are able to provide their end-users with a high quality media experience for all of their online content, including rich media or large objects such as video, music, games, software and social media as well as small objects that make up many of the components of a typical website such as html, jpeg and, java script. As consumer demands for content and information over the Internet have increased, as businesses have dramatically expanded the use of Internet applications to drive revenue and lower costs, as enabling technologies such as broadband access to the Internet have proliferated, and as the variety of devices that can connect to the Internet has increased, consumption of all types of Internet content in any location, at any time has become increasingly important to end-users and therefore to the content providers that serve them. We developed our services and architected our network to meet the unique demands content providers face in delivering content to large audiences of demanding Internet end-users. Our comprehensive solution delivers content providers a high quality, highly scalable, highly reliable offering. We primarily derive revenue from the sale of services to customers executing 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. We believe that having a consistent and predictable base level of revenue is important to our financial success. Accordingly, to be successful, we must maintain the majority of our base of recurring revenue contracts and build on that base by adding new customers and increasing the number of services and amount of capacity our existing customers purchase. At the same time, we must ensure that our expenses do not increase faster than, or at the same rate as, our revenues. Accomplishing these goals requires that we compete effectively in the marketplace on the basis of scale, service quality, platform capability, and price.

We were formed as an Arizona limited liability company, Limelight Networks, LLC, in June 2001 and converted into a Delaware corporation, Limelight Networks, Inc., in August 2003. Our principal executive offices are located at 2220 W. 14th Street, Tempe, Arizona 85281 and 6119 La Granada, Rancho Santa Fe,

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California 92067, 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. As of December 31, 2009, we had approximately 1,370 active customers and had a presence in 60 countries throughout the world.

In 2009, we announced the acquisition of Kiptronic, Inc. and our pending acquisition of EyeWonder, Inc. We introduced LimelightSITE and our next-generation XD Platform. We announced the continued expansion of our network capacity to almost three-terabits per second, marking the beginning of the era of Internet content delivery to broadcast quantity audiences. We also announced support for Adobe Flash Media Server version 3.5, as well as Microsoft Silverlight 3.0. We also announced new additions to our executive leadership team and in January 2010 our acquisition of a small software company located in Germany.

During the year we extended and established new relationships with customers and partners both in North America and around the world across the enterprise, government and media and entertainment segments, including BT, Blue Cross, Citadel, CBSinteractive/CNET Networks, Harpo Productions, Hobart Corporation, Metropole Television Group, Nissan Motors of Japan, Nintendo of Japan, Sonic, Sun Microsystems, Textron, and Unisys, among others. We also continued to expand our strategic reseller relationships announcing partnerships with Global Crossing, Bell Canada, Bestel and Bharti Airtel.

We are currently party to two separate lawsuits alleging aspects of our CDN infringe upon third-party patent rights. In one matter, Akamai Technologies, Inc. v. Limelight Networks, Inc., a jury returned a verdict in February 2008 against us finding that 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. On July 1, 2008, the court denied our Motions for Judgment as a Matter of Law (JMOL), Obviousness, and a New Trial. The court also denied Akamai s Motion for Permanent Injunction as premature and denied its Motions for Summary Judgment regarding our equitable defenses. In November 2008, a bench trial was conducted regarding our equitable defenses. We also filed a motion for reconsideration of the court s earlier denial of our motion for JMOL. Our motion for reconsideration of JMOL was based largely upon a clarification in the standard for a finding of joint infringement articulated by the Federal Circuit in the case of *Muniauction, Inc. v. Thomson Corp.* (the *Muniauction* Case), released after the court denied our initial motion for JMOL. On April 24, 2009 the court issued its order and memorandum setting aside the adverse jury verdict and ruling that we did not infringe Akamai s 703 patent and that we are entitled to judgment as a matter of law. Based upon the court s April 24, 2009 order we have reversed the $65.6 million provision for litigation previously recorded for this lawsuit as we no longer believe that payment of any amounts represented by the litigation provision is probable. The court entered final judgment in our favor. Akamai filed a notice of appeal of the court s decision on May 26, 2009 and filed its appeal brief on September 15, 2009, we filed our reply brief on December 9, 2009 and each party has since filed further appeal briefs. A date has not been set by the appeals court for a hearing. We will continue to defend the case vigorously, but we cannot assure you that this lawsuit ultimately will be resolved in our favor.

In December 2007, Level 3 Communications, LLC, or Level 3, filed a lawsuit against us in the United States District Court for the Eastern District of Virginia alleging we infringe three patents owned by it. On January 23, 2009, a jury returned a favorable verdict finding that we did not infringe the Level 3 patents. We believe the jury verdict finding we do not infringe the Level 3 patents is correct, and that the claims of infringement asserted against us by Level 3 in the litigation were without merit. The court denied Level 3 s subsequent motion for judgment as a matter of law or alternatively for a new trial, and entered a judgment in our favor. Level 3 filed a notice of appeal on July 21, 2009 and filed its appeal brief on October 5, 2009. We filed our reply brief on January 19, 2010. A date has not been set by the court for a hearing. We intend to continue to vigorously defend the action. There can be no assurance at this time that the lawsuit ultimately will be resolved in our favor.

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In August 2007, we, certain of our officers and directors, and the firms that served as the lead underwriters in our initial public offering were named as defendants in several purported class action lawsuits. These lawsuits have been consolidated into a single lawsuit in United States District Court for the District of Arizona. On March 17, 2008, we and the individual defendants moved to dismiss all of the plaintiffs claims, and a hearing was held on this motion on June 16, 2008. On August 8, 2008, the court granted the motion to dismiss, dismissing plaintiffs claims under Section 12 with prejudice and granting leave to amend the claims under Sections 11 and 15. Plaintiffs chose not to amend the claims under Sections 11 and 15, and on August 29, 2008 the court entered judgment in favor of us. On September 5, 2008 plaintiffs filed a notice of appeal, and appellate briefs were filed by both parties in January and February 2009. We believe that we and the individual defendants have meritorious defenses to the claims made in the complaint and we intend to contest the lawsuit vigorously. In November 2009 the parties entered into a Memorandum of Understanding to settle this lawsuit for an amount well within the coverage limits of the primary carrier of our directors and officers liability insurance, and we are seeking court approval to finalize the settlement.

This lawsuit and other ongoing legal proceedings are described under Legal Proceedings in Part 1, Item 3 of this annual report on Form 10-K.

We are registered as a reporting company under the Securities Exchange Act of 1934, as amended, which we refer to as the 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.

Consumption and Distribution of Content Expanding

Multiple forces have created, and continue to drive, a substantial need to rapidly and efficiently deliver broadcast-quality rich media and web applications over the Internet. These forces include the following:

Proliferation of broadband Internet connections. According to a 2009 Frost and Sullivan Report (Worldwide Video Content Delivery Networks Market), over 800 million consumers will have high-speed wired broadband access in 2010, with that number expected to increase to over 1 billion wired broadband connections by 2012. This means that more consumers will have access to even faster Internet connections than ever before. This proliferation of broadband Internet connections and increased broadband speeds provides an increasing number of users with the capability to access rich media content efficiently.

Consumption of media via Internet-connected devices is rivaling consumption via other media channels. The proliferation of broadband connectivity into everyday devices has fundamentally changed the way that consumers access and interact with Internet content. TNS Research found in a survey of consumers living in 16 countries that people spent approximately 30% of their leisure time online (Digital World, Digital Life, November 2008), and that over 50% of the global online audience

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now watches online video. Additionally, a December 2009 Morgan Stanley survey found that in 2010, there will be almost 900 million devices, such as mobile phones, netbooks, tablet form-factor computers, home appliances, and embedded devices, that will incorporate high-speed wireless Internet connectivity. Finally, comScore reported that in November 2009, United States Internet users viewed a record 30 billion online videos during the month, more than doubling the amount viewed in the same month of the previous year.

Consumers increasingly desire on-demand access to a broad range of personalized entertainment and commerce content. Through technologies like Internet search, personal digital video recorders, video-on-demand and social media platforms, consumers are increasingly accustomed to immediate, on-demand access to content and information, including videos, music and photos provided by media outlets, retailers, or by other users. In an August 2009 Internet retailer survey, over 35% of online retailers planned to expand the use of video and over 22% planned to increase their use of interactive rich media on their websites in the next twelve months.

Proliferation of Internet-connected devices. The proliferation of devices that are capable of connecting to the Internet, such as mobile phones, Blu-ray players, netbooks, videogame consoles, and MP3 players, has given users even more control and flexibility over how and where they access and use media content from the Internet.

Growth of usage of outsourced infrastructure. Enterprises are looking to decrease infrastructure expenditures by moving to a cloud-based model where application delivery and storage are available on-demand and paid for on an as-needed basis. Content providers and traditional enterprise companies have recognized this evolving shift in consumer behavior and the consumption of online content. Television, music, radio, newspaper, magazine, movie, videogame, software and other traditional and emerging media companies all have or are developing large libraries of rich media and video content. The broad reach provided by the Internet allows these companies to distribute their content through content aggregators or directly to consumers. The Internet also enables content providers to offer their entire content libraries to consumers. As a result, content providers are able to monetize a much larger portion of their media content libraries than has been possible under offline, non-Internet modes of distribution. Additionally, enterprises, e-commerce businesses, and governmental agencies are creating rich-media web applications for customer-relationship services such as product information, training and support. They are also leveraging the always-available attributes of the Internet to make critical business applications, processes, and data instantly and securely available to their employees.

Alternatives for Delivering Content over the Internet

Companies that deliver content to users via the Internet have two primary alternatives: deliver content using basic Internet connectivity, in some cases with significant investment in additional infrastructure, or utilize a CDN.

Content Delivery via Basic Internet Connectivity

Basic Internet connectivity is capable of delivering media content to users, but is ill-suited for delivering the large media files and broadcast-quality media that are commonplace today. The Internet is a complex network of networks that was designed principally to connect every Internet network point to every other Internet network point via multiple, redundant paths. To reach a given user, content from a provider s website must normally traverse multiple networks. These networks include those of the website s Internet service provider, or ISP, one or more Internet backbone carriers each of which provides a network of high-speed communication lines between major interconnection points and the user s ISP. At any point along this path, data packets associated with the website s content can be lost or delayed, impeding the transfer of data to the user. Internet protocols are designed to reliably transport data packets, but do not always ensure end-to-end performance. When data packets

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are lost or delayed during the delivery of rich media content, the result is noticeable to users because playback is interrupted. This interruption causes songs to skip, videos to freeze and downloads to be slower than acceptable for demanding consumers. This lack of performance and its effect on user experience make the delivery of rich media content via the basic Internet challenging.

In response, some content providers have chosen to invest significant capital to build the infrastructure of servers, storage and networks necessary to bypass, to the extent possible, the public Internet cloud . This substantial capital outlay and the development of the expertise and other technical resources required to manage such a complex infrastructure can be time-consuming and expensive.

Content Delivery via Content Delivery Networks

A CDN offloads the delivery of content from a publisher or corporation s central website infrastructure to the CDN s service delivery infrastructure. In general, the infrastructure of a CDN is composed of hundreds or thousands of servers distributed at various points around the Internet, linked together by software that manages the storage and delivery of media content objects to end-users. Deploying content objects in numerous, distributed locations can reduce the network distance between users and the media content they seek, reducing the potential for performance-inhibiting network congestion. The architecture of early CDNs reflected the importance and prevalence, at the time, of web page objects such as photos and graphics. Early CDNs typically deployed small server clusters in a large number of locations, relied on the public Internet to connect the clusters, and stored only the most popular content objects in their local caches, which are the repositories where frequently accessed data are stored for rapid access. Because each server cluster was small, with few servers available for the storage and delivery of content, and with rarely more than a single network connection, some early CDNs employed optimization algorithms in an effort to effectively manage and allocate these relatively scarce resources.

When a requested content object is unavailable on the server cluster a cache miss occurs, which is a failed attempt to acquire a requested content object in a local cache. To handle a cache miss, early CDNs would access the missing object over the Internet from the content provider s servers. A cache miss, and the time required to obtain the missing object over the Internet, may degrade the end-user s experience and increases the computing resource cost of servicing the end-user s request. As the consumption of large libraries of rich media has grown, the need to cache a sufficient number of media objects to assure a high quality end-user experience at an efficient price has grown with it.

The New Requirements for Delivering Content

We believe the unique characteristics of content delivery and the rapid growth of online content consumption have created a new set of technical, management and economic requirements for businesses seeking to deliver rich media content. These requirements include the following:

> *Delivering a consistent high quality media experience.* User experience is critical for content providers because consumers increasingly expect a high quality experience, will not tolerate interruptions or inconsistency in the delivery of content, and may never return to a particular media provider if that provider is unable to meet their expectations. A media stream, for example, should begin immediately and play continuously without interruption every time a customer accesses that stream.

> *Delivering expansive libraries of content.* Consumers, particularly those who are accustomed to broadband-enabled Internet services such as high quality television and radio, increasingly demand the ability to consume any form of media content online. To meet this demand, traditional media companies are moving their enormous libraries of content, such as television shows and movies, online. At the same time, emerging content businesses, such as user-generated content companies, are creating

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expansive libraries of rich media. Users expect a consistent media experience across every title in these large libraries, for each title regardless of its popularity, each time it is viewed.

Ability to scale content delivery capacity to handle rapidly accelerating demand and diversity of audience interest. Content providers also need to scale delivery of their content smoothly as the size of their audience increases. When a large number of users simultaneously access a particular website, the content provider 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 major news or sporting event, or can be spread across an entire library of content, such as when a social media website surges in popularity.

Reliability. Throughout the path data must traverse to reach a user, problems with the underlying infrastructure supporting the Internet can occur. For instance, servers can crash, or network connections can fail. Avoiding these problems is important to content providers because network, datacenter, or service provider outages can mean frustrated users, lost audiences and missed revenue opportunities.

Flexibility and manageability. Content providers are making significant investments in preparing their media libraries for delivery over the Internet. Once content is ready for Internet distribution, content providers must be able to support a wide range of formats, begin to distribute their content quickly, and monitor their delivery activities.

Managing delivery costs. Managing the cost of content delivery is important for content providers so that they can maximize profits. As a result, the combination of major capital outlays and operating expenditures required to build and maintain large server clusters, peak period capacity, extensive Internet backbone networks and multiple connections to global broadband access networks may not be practical for many companies. As users increasingly demand access to large files and media streams, the infrastructure needs associated with providing this content increase accordingly.

The capital, expertise, and other managerial effort necessary to meet these requirements can be challenging. As demand for the delivery of rich media content increases, these challenges will become increasingly difficult to meet. We believe, therefore, that there is a demand and opportunity for outsourced Internet content delivery services.

The Limelight Networks Solution for Content Delivery

We deliver content for traditional and emerging media companies, or content providers, including businesses operating in the television, music, radio, newspaper, magazine, movie, videogame, software and social media industries; online businesses operating e-commerce storefronts; and government organizations, corporations, or enterprise businesses that operate a web site.

We designed our delivery solution to meet the demanding requirements of delivering content over the Internet to a variety of connected devices, including desktop computers, laptops, netbooks, and mobile phones. Our solutions enable content providers and enterprises to provide their end-users with high quality experiences across multiple media formats, library sizes, audience sizes, and device types without expending the capital and developing the expertise needed to build out and manage their own networks.

In designing and building our content delivery network, we built and deployed a globally-distributed network of thousands of servers specially configured for the acceleration of all types of IP content with the following design advantages:

Densely Configured, High-Capacity Architecture. Our infrastructure consists of dense clusters of specially configured servers organized into large, multi-tiered, logical CDN locations. The extensive storage capacity of these logical CDN 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.

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Many Connections to Other Networks. Our logical CDN locations are directly connected to hundreds of user access networks, which are computer networks connected to end-users. In addition, for dedicated connectivity between our logical CDN locations, we operate our own private optical backbone and metro area networks. Lastly, our infrastructure has multiple connections to the Internet. In combination, these connections enable us to frequently bypass the often-congested public Internet, improving the speed of content delivery.

Intelligent Software to Manage the Network. We have developed proprietary software that manages our content delivery system. This software manages the delivery of content objects, storage and retrieval of customer content libraries, activity logging and information reporting.

Flexibility to Meet Varying Customer Demands. We support both download and streaming deliveries, and do so across what we believe is one of the broadest range of formats in our industry, including Adobe Flash, Microsoft Silverlight, Move Networks, MP3 audio, QuickTime, RealNetworks RealPlayer and Windows Media.

All of the elements of our infrastructure work seamlessly together. Our customers either upload content directly to us or store it on their own web servers. Upon request from an end-user, we distribute that content to one or more storage server clusters which feed hundreds of specially configured servers at each content delivery location around the world. The content is then delivered directly to end-users through our relationships with over 900 broadband Internet service providers, or over the public Internet if appropriate. Our customers compensate us for this service by paying us on a per-gigabyte basis, or on a variable basis based on peak delivery rate for a fixed period of time, as our services are used.

Key Benefits of the Limelight Networks Solution

Our content delivery architecture and service offering were designed and built to meet the demands of accelerating IP content over the Internet. We believe we are able to deliver the following customer benefits:

High Quality User Experience

We enable content providers to bypass much of the congestion typically experienced in the busy public Internet and deliver IP content directly to their audiences. This allows our customers to deliver engaging and reliable experiences to end-users around the world. We accomplish this by delivering content from globally distributed servers that are directly connected to over 900 broadband access networks   the networks that users connect with to reach the Internet. Tying it all together is a high-speed, dedicated global optical network that interconnects our thousands of servers and provides just-in-time delivery of any part of a customer s library.

High Scalability across the Four Dimensions of Delivery

At the technology level, our success is predicated in part on a high-speed, highly scalable global network that has been designed to address four dimensions of delivery   object size, library size, audience size and object popularity. For each dimension, our supporting technology takes an innovative approach:

> ***Object size.*** Our network was designed with extensive storage capacity and substantial computing power to handle the demands of delivering massive media files to users around the world.

> ***Library size.*** Our regional content delivery centers use multi-tiered cache architecture to store large content libraries for immediate access.

> ***Audience size.*** The current global delivery capability of our network exceeds 3 terabits per second, enabling us to respond instantly to surges in end-user demand from large global audiences.

> ***Object popularity.*** Our CDN is designed to ensure that every object in a content library   whether the most popular title or the least popular   will be consistently available to users, on demand.

High Reliability

Our distributed CDN architecture, managed by our proprietary software, seamlessly and automatically responds to network and datacenter outages and disruptions. All of our content delivery locations are interconnected via our global optical network and also connected to multiple Internet backbone and broadband Internet service provider networks. Additionally, each location has redundant servers, 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.

Comprehensive Solution

Enabled by a broad range of innovative products and services, customers can reach their audiences in two ways: via streaming delivery, which allows the simultaneous delivery and viewing of rich media such as live events and on-demand content; and via object delivery, for distributing such content as high quality video and music, games, social media and software downloads. We can also create customized, private CDNs to meet the specific needs of highly customized content delivery requirements, including enabling Software as a Service (SaaS) businesses, public sector entities and corporate organizations for which security and privacy are important considerations. We support a broad variety of formats including Adobe Flash, Microsoft Silverlight, MP3 audio, QuickTime, RealNetworks RealPlayer and Windows Media. In addition, our value-added services include a web-based customer portal that provides management information reports and a download manager that simplifies the downloading process for the end user. We can begin delivery services for a new customer within days of a customer placing an order.

Low Capital Investment

Our customers can take advantage of our robust network to handle their rich media content delivery needs without having to invest in expensive equipment, software licenses, and operational expertise or support and maintenance costs. Customers benefit from the lower cost associated with the delivery of content using our infrastructure and the expertise we have acquired from serving our customers. Our customers pay for the traffic we deliver for them, and they have the flexibility to purchase additional delivery capacity at any time to support their changing business needs.

Services

In October 2009, we announced XD, an upgrade to the software layer that manages our global content delivery infrastructure. This new software platform adds a new technique, named Adaptive Intelligence that can enable customers to benefit from performance improvements in speed, consistency of delivery, and experience quality. The XD Platform also can provide customers with visibility into Internet conditions that can help them increase conversion rates, lengthen viewing or gaming times, and provide higher-quality end-user experiences.

The Adaptive Intelligence software layer includes innovations that enable this higher quality service;

> Protocol Maximization, a patent-pending technique that dynamically adjusts in real-time the parameters of standard Internet protocols on a connection-by-connection basis. For customers, Protocol Maximization enables faster, more consistent delivery of objects even in the most difficult of network conditions.

> Globally Distributed User Agents, small programs that travel into the last mile network and collect data about Internet conditions. This data is then used in Protocol Maximization techniques to adapt how we deliver each object. For customers, these User Agents also provide detailed insight into the end-user experience through our user portal.

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Dynamic Origin, a technique which upon request replicates origin content inside our private network reducing origin load by creating subsequent requests for origin caused by cache misses. For customers, this technique improves responsiveness of the content delivery service in cases where a Limelight delivery center does not have a local cached copy of the file to send to end users and create a cost savings associated with the reduced load on origin hardware and bandwidth.

Custom Cache Hierarchies, a technique which expedites the transfer of content to the edge by providing a uniquely tailored map through the in-network cache hierarchy. Maps are configured based on the location and diversity of the customer s origin servers, the location and distribution of the customer s users, and the customer s content demand and library access patterns.

Our services are purpose-built for the delivery of digital content to large, global audiences. Our primary services include the following:

LimelightDELIVER provides HTTP/web distribution of digital media files such as video, music, games, software and social media.

LimelightSTREAM provides on-demand and/or live streaming for all major formats including Adobe Flash, MP3 audio, QuickTime, RealNetworks RealPlayer and Windows Media. When media files are streamed to an end-user, the files are not stored on the user s computer, but rather are received directly and played by the user s media player software in real-time.

LimelightSITE speeds the delivery of the static, dynamic, and personalization elements that make up an entire web-site, by routing content over our infrastructure, and not over the often congested, public Internet.

LimelightREACH helps publishers deliver properly-formatted, device optimized content to almost any media-enabled mobile handset by auto-detecting the end-user device.

LimelightADS allows publishers to present dynamic pre-, mid-, or post-roll video and audio advertising into media that is delivered to mobile or connected users.

LimelightPS, our professional services division, helps customers determine content distribution strategies, network architecture design, content storage infrastructure, live event execution, and best practices spanning the design, deployment and management of on-line web infrastructure.

LimelightSUPPORT, provides customers with expert, on-demand engineering resources that keep customers on-line initiatives a top priority.

We provide an enhanced delivery option for LimelightDELIVER, called DELIVER XD, which uses our adaptive intelligence innovations to improve the consistency and performance of delivery across a wide variety of devices, network types and geographies.

Advanced reporting and control

LimelightCONTROL

LimelightCONTROL is a new, advanced management and reporting suite that enables customers to exercise more control over their Limelight Networks content delivery service, including the advanced technologies and software in the XD Platform. This new service suite replaces the former LimelightEXCHANGE portal and includes an upgraded user interface; enhanced reporting that includes data on Internet conditions, granular control over storage utilization, and more.

LimelightCONTROL helps customers analyze their online operations through a set of reports that allow customers to monitor various aspects of their streaming or content delivery, such as object-level details, bandwidth and storage utilization, most requested content, and minutes listened

or watched on each stream. Customers can request raw logs every 24 hours or live logs every 15 minutes, both of which are delivered in

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industry-standard format. LimelightCONTROL also enables customers to control how we publish and present their content. For example, to maintain content freshness or for managing exceptions, the Purge Utility allows authorized individuals to delete content cached across our CDN. Multi-user access and permission controls give customers the ability to limit access to reporting only, or to reporting and control functions.

LimelightCONTROL XD, a premium offering, offers advanced management applications that help to increase efficiency, reduce expenses, improve the user experience, and provide insight into performance of an online business. The service includes customer provisioning of services, custom control over CDN storage options, and the innovative Internet Health Monitor (LINK), which provides customers with insight into potential sources of end user experience issues, collected in by millions of globally distributed user agents that are part of the XD Platform.

LimelightHD

LimelightHD is an extension to our LimelightSTREAM and LimelightDELIVER services that enables customers to efficiently delivery high-definition content to end users. The service includes a programming interface that verifies if an end-user has sufficient bandwidth available to receive HD content, and, if so, delivers a high quality stream. The service also tracks the delivery of HD content separately from standard-definition content.

MediaVault

We offer a scalable security option that helps to protects customers content from unauthorized access. With MediaVault, customers can associate a protected URL for each user and/or each request as part of the download URL. This allows customers to provide authorized users access to content without having to modify the content itself for each user. It also helps to prevent abuse from spiders, bots, and deep linking. Additional MediaVault controls include settings for start and stop dates/times for time-sensitive content and the ability to limit access for Windows Media streams to a block of IP addresses.

Geo Reporting

With the Geo Reporting option, customers can assess traffic at the global, continent or city-by-city levels. Customers may view geographic information in a selection of table and map formats, including color-coded maps that show customers the active spots around the world. Customers may choose to display all geographies at once or only the top 10 locations. Using the LimelightCONTROL portal, customers can compare locations based on number of requests, bytes sent, and total seconds, or as a percent of total volume. Customers may view the map to see data associated with that location, or click for more detail by country, state, or city. With quick and easy views of traffic data in different geographies, customers are in a position to determine and deliver targeted content and advertising to audiences around the world.

Geo-Compliance

The Geo-Compliance option uses a geo-IP database to match requestors IP address with predefined rule sets. This helps to ensure that customers content is not accessible outside of a defined geographic area ideal for managing media licenses with geographic restrictions. For sites where advertising is a primary driver, Geo-Compliance can help a customer constrain its audience to the target geography of the customer s site s advertisers.

User-generated content

We allow for our customers to easily add user-generated content to customers sites in the customers choice of major media formats, including Windows Media, Flash, RealPlayer, QuickTime, and 3GPP. Starting

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with a customer s source content, a customer can define its workflow: choose its encoding/transcoding profile, specify one or more target formats, set the bit rate, and specify the destination sites or devices and the customer s media is transformed and published automatically. As part of the workflow, a customer can also choose to generate thumbnails, create titles, or add watermarks to video content. Customers can customize the included workflow templates, or build their own.

Managed Infrastructure Services

Through our Professional Services organization, LimelightPS, we can help customers build a custom CDN solution. Typically used in a customized content delivery deployment scenario, the custom CDN solution can include some or all of our standard CDN components, but in a configuration unique to the customer. A typical managed infrastructure solution includes specific servers and related resources dedicated to a particular customer so that custom applications or services may be placed on our network along with the customer s digital media content.

Complementary Partner Services

As a leader in the industry, we have attracted a list of partners that use our network to enhance their own service offerings. Additionally, these partners offer services that complement our core offerings. These partner services include digital rights management, content management, advertising insertion, content encoding and transcoding, e-commerce and managed hosting.

Technology

We have developed an innovative, network-based on-demand computing platform that enables companies to scale their businesses without having to scale their own data center, network, server footprint, or software operations. This system and technology platform has the following key elements:

Globally-Deployed Servers

We have built and deployed a globally distributed network of more than 15,000 servers specially configured for the delivery of rich media content at 76 points of presence, or POPs, in 25 logical CDN locations, or a group of POPs, in the United States, Europe and Asia. Distributing servers around the world can eliminate much of the Internet congestion and inconsistent network performance that would otherwise affect the delivery of content. This reduces or eliminates the visible symptoms of poor Internet performance, including slow start times and stopping or skipping during playback. We currently have POPs in the United States, Australia, Canada, France, Germany, Hong Kong, Ireland, Italy, Japan, Singapore, South Korea, Spain, Sweden, the Netherlands and the United Kingdom.

Densely-Configured, High-Capacity Architecture

Our architecture consists of dense clusters of specially-configured edge servers and storage servers deployed at each POP. A logical CDN location is typically provisioned with hundreds of edge servers, which store our customers most popular content files. A logical CDN location also contains one or more intermediate storage systems, which act as large, deep file caches and store less frequently requested content files. When an edge server in the logical CDN location needs a file that it does not have, it can often retrieve that object from the intermediate storage system, rather than from a customer s website servers or from another location in our system. These retrievals from intermediate storage systems are very fast, because they occur across a local area or metro area Ethernet network, rather than across our backbone or across the public Internet. This architecture enables us to maximize the amount of content stored at each CDN location without requiring that we store every content file on every edge server.

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We have configured each of our CDN locations to connect with hundreds of last mile networks. The locations are also equipped with the capacity to support additional network connections as needed. This design allows us to provide maximum scalability and responsiveness as end-user demand increases. In addition, any server within a CDN location can send and receive data via any network at that location. This any-to-any capability allows us to use our network connections to the greatest extent possible, without needing to simultaneously optimize servers and networks, as some CDNs do. Each of our edge servers has access to whichever locally attached network is suitable for each delivery.

Connectivity

In aggregate, our logical CDN locations are directly connected to over 900 broadband Internet access networks around the world. Whenever possible, we use these interconnections to place content objects directly on users access networks, which means those users requested files reach them without ever traversing the public Internet. More than 80% of our total content delivery volume is delivered in this fashion.

When we are not connected directly to the user s broadband Internet access provider, we use commercial Internet carriers to deliver content objects to the user s broadband provider. We maintain commercial relationships with many of the world s largest Internet carriers, including AT&T, Deutsche Telekom, France Telecom and Global Crossing, with multiple commercial Internet carrier connections at each of our CDN locations.

Our CDN locations in the United States, Europe and Japan are connected together via a dedicated optical network, which we operate, that includes redundant connections with capacities up to 40 gigabits per second to nearly all locations. Our logical CDN locations in Asia are connected to our United States/Europe network via managed circuits. By connecting all of our locations with a network infrastructure that we operate and on which we manage the traffic flows (rather than relying on the often-congested public Internet), we are able to rapidly move objects around our network when needed to service user requests. Also, using our own network, rather than relying on the public Internet, means that the stream our edge server acquires will be as high quality as the stream we receive from our customer.

Intelligence

Our proprietary, patent-pending XD Platform software manages our content delivery system. This software consists of several components:

Edge server software for managing download and streaming delivery of content objects;

Software for assigning resources within our infrastructure and for systematically improving our infrastructure over time as our customers and infrastructure components change;

Intermediate cache server systems and software for storing customer content libraries; and

Customer portal and customer reporting software.

Flexibility

Using our proprietary edge server software, we handle both download and streaming deliveries across what we believe is one of the broadest ranges of formats in our industry, including Adobe Flash, Microsoft Silverlight, MP3 audio, QuickTime, RealNetworks

RealPlayer and Windows Media.
Business Segments and Geographic Information

We operate in one business segment: providing content delivery network services. We operate in three geographic areas   the United States, Europe and Asia Pacific. For the years ended December 31, 2009, 2008

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and 2007, approximately 22%, 16% and 13%, respectively, of our total revenue was derived from our operations outside the United States. For the year ended December 31, 2007 nearly all of our international revenue was derived from operations in Europe. For the years ended December 31, 2009 and 2008 we derived approximately 69% and 75%, respectively of our international revenue from Europe and approximately 31% and 25%, respectively of our international revenue from Asia Pacific. No single country outside of the United States accounted for 10% or more of our revenues in any of such years. 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 23 thereto.

Sales, Service and Marketing

Our sales and service professionals are located in 4 offices in the United States with additional locations in Europe and Asia. We sell our services directly through our telesales and field sales forces. We also have customers who incorporate our services into their offerings and function as resellers, as well as other distribution partners. We target media, high tech, software, gaming, enterprise and government agencies and other providers of online media content through our:

Telesales force. Our telesales force is responsible for managing direct sales opportunities within the small and mid-market within North America.

Field sales force. Our field sales force is responsible for managing direct sales opportunities in major accounts in North America, Europe and the Asia Pacific region.

Distribution partners. We have certain customers who incorporate our services into their offerings, and we also maintain relationships with a number distribution partners.

Resellers. We sell our services to resellers who have a relationship with us that entitle them to represent our products and/or services to their customers. The customer, when purchasing our services from the reseller, often has a direct relationship with the third party company. Additionally, support for our product and/or services are handled by the reseller on behalf of the customer.

Our sales and service organization includes employees in telesales and field sales, professional services, account management and solution engineering. As of December 31, 2009, we had approximately 140 employees in our sales and support 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 strategic alliances. We believe that the complexity of our services will continue to require a number of highly trained global sales and services personnel.

To support our sales efforts and promote the Limelight brand, we conduct comprehensive marketing programs. Our marketing strategies include an active public relations campaign, print advertisements, on-line advertisements, participation at trade shows, strategic alliances and on-going customer communication programs. As of December 31, 2009, we had 8 employees in our global marketing organization, which is a component of our sales and support organization.

Customers

Our core set of customers are media, software, web 2.0, enterprises, government agencies and other providers of online media content. As of December 31, 2009, we had approximately 1,370 active customers worldwide, including many top names in the fields of video, digital music, new media, games, rich media applications and software delivery. During 2009, some of our most notable customers included ABC Radio, Amazon, Blue Cross, Deutsche Bank, Electronic Arts, Facebook, Microsoft, MySpace.com, Netflix, Nintendo Wii, Nissan, Oracle, Sony Playstation, Sun Microsystems, Textron Corporation, Toyota of Japan, University of Virginia, and Valve Corporation.

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One customer, Microsoft, accounted for more than 10% of our revenue for the years ended December 31, 2009, 2008 and 2007. During the first quarter of 2008, one large traffic customer shut down its site, and customers do, from time to time, shut down sites. Also, 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 our strategic and government, emerging, channel and international market segments.

Competition

The content delivery network market is highly competitive and is characterized by unit volume growth offset by declining unit prices and multiple types of vendors offering varying combinations of computing and bandwidth services to content providers. A few 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. Our primary competitors include content delivery service providers such as Akamai, Level 3 Communications, AT&T, CD Networks, Internap Network Services Corporation, which acquired VitalStream, and other large telecommunications companies. Also, as a result of the growth of the content delivery market, a number of companies are entering or attempting to enter the CDN market, either directly or indirectly, some of which may become significant competitors in the future. Internationally, we compete with local content delivery service providers, many of which are very well positioned within their local markets.

We believe that the principal competitive factors affecting the content delivery market include such attributes as:

Performance, as measured by file delivery time, end-user media consumption rates and quality of the end-user experience;

Scalability; both in terms of average capacity and special event capacity;

Proprietary software designed to efficiently locate and deliver web content;

Ease of implementation;

Flexibility in designing delivery systems for unique content types and mixes;

Reliability; and