

Limelight Networks, Inc.
Form 10-Q
August 09, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2011

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____

Commission file number 001-33508

LIMELIGHT NETWORKS, INC.

(Exact name of registrant as specified in its charter)

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

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

222 South Mill Avenue, 8th Floor

Tempe, AZ 85281

(Address of principal executive offices, including Zip Code)

(602) 850-5000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject

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to such filing requirements for the past 90 days. Yes ☐ No ☐

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

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

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐
(Do not check if a smaller

Smaller reporting company ☐

reporting company)

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

The number of shares outstanding of the registrant's common stock as of August 3, 2011: 113,904,873 shares.

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LIMELIGHT NETWORKS, INC.

FORM 10-Q

Quarterly Period Ended June 30, 2011

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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****LIMELIGHT NETWORKS, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(In thousands, except per share data)**

	June 30, 2011 (Unaudited)	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 109,973	\$ 56,741
Marketable securities	6,474	12,009
Accounts receivable, net of reserves of \$5,398 at June 30, 2011 and \$7,295 at December 31, 2010, respectively	37,008	41,940
Income taxes receivable	946	721
Prepaid expenses and other current assets	12,540	9,628
Total current assets	166,941	121,039
Property and equipment, net	63,555	54,407
Marketable securities, less current portion	1,567	1,755
Deferred income tax, less current portion	944	718
Goodwill	113,006	94,364
Other intangible assets, net	26,755	19,406
Other assets	10,978	6,951
Total assets	\$ 383,746	\$ 298,640
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 11,596	\$ 12,236
Deferred revenue	6,595	6,877
Capital lease obligations, current portion	1,477	1,049
Other current liabilities	19,429	20,000
Total current liabilities	39,097	40,162
Capital lease obligations, less current portion	2,065	1,750
Deferred income tax, less current portion	1,786	598
Other long term liabilities	8,774	21
Total liabilities	51,722	42,531
Commitments and contingencies		
Stockholders' equity:		
Convertible preferred stock, \$0.001 par value; 7,500 shares authorized; 0 shares issued and outstanding		
Common stock, \$0.001 par value; 300,000 shares authorized at June 30, 2011 and 150,000 shares authorized at December 31, 2010; 113,900 and 100,068 shares issued and outstanding at June 30, 2011 and December 31, 2010, respectively	114	100
Additional paid-in capital	479,645	380,338
Contingent consideration	219	1,608

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Accumulated other comprehensive income	2,065	329
Accumulated deficit	(150,019)	(126,266)
Total stockholders' equity	332,024	256,109
Total liabilities and stockholders' equity	\$ 383,746	\$ 298,640

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

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
Revenues	\$ 50,539	\$ 42,195	\$ 100,355	\$ 78,281
Cost of revenue:				
Cost of services (exclusive of amortization)	24,431	18,501	47,117	34,705
Depreciation network	7,430	5,324	14,156	10,102
Total cost of revenue	31,861	23,825	61,273	44,807
Gross profit	18,678	18,370	39,082	33,474
Operating expenses:				
General and administrative	10,435	9,609	19,244	17,735
Sales and marketing	13,023	11,319	26,916	20,706
Research and development	6,279	3,478	11,898	6,122
Depreciation and amortization	2,619	1,603	4,574	2,370
Total operating expenses	32,356	26,009	62,632	46,933
Operating loss	(13,678)	(7,639)	(23,550)	(13,459)
Other income (expense):				
Interest expense	(105)	(7)	(147)	(8)
Interest income	259	255	446	557
Other income	33	28	64	3
Total other income (expense)	187	276	363	552
Loss before income taxes	(13,491)	(7,363)	(23,187)	(12,907)
Income tax expense (benefit)	444	(5,098)	566	(4,857)
Net loss	\$ (13,935)	\$ (2,265)	\$ (23,753)	\$ (8,050)
Net loss per weighted average share:				
Basic	\$ (0.12)	\$ (0.02)	\$ (0.22)	\$ (0.09)
Diluted	\$ (0.12)	\$ (0.02)	\$ (0.22)	\$ (0.09)
Shares used in per weighted average share calculations:				
Basic	113,113	93,889	108,515	89,504
Diluted	113,113	93,889	108,515	89,504

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

Table of Contents**LIMELIGHT NETWORKS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)**

	For the Six Months Ended June 30,	
	2011	2010
	(Unaudited)	
Operating activities		
Net loss	\$ (23,753)	\$ (8,050)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	18,730	12,472
Share-based compensation	9,643	8,503
Deferred income taxes	(184)	(119)
Income tax benefit related to business acquisition		(5,768)
Loss (gain) on foreign currency transactions	74	(164)
Loss on sale of property and equipment		94
Accounts receivable charges	618	1,757
Accretion of marketable securities	(9)	324
Non cash cost basis investment	(282)	
Changes in operating assets and liabilities:		
Accounts receivable	5,243	(417)
Prepaid expenses and other current assets	(725)	599
Income taxes receivable	(219)	227
Other assets	(3,683)	944
Accounts payable	(1,213)	(959)
Deferred revenue	(2,575)	(2,377)
Other current liabilities	(3,202)	(889)
Other long term liabilities	451	(19)
Net cash (used in) provided by operating activities	(1,086)	6,158
Investing activities		
Purchase of marketable securities	(5,628)	(18,755)
Sale of marketable securities	11,170	61,180
Purchases of property and equipment	(19,961)	(13,730)
Acquisition of businesses, net of cash acquired	(7,493)	(63,907)
Net cash used in investing activities	(21,912)	(35,212)
Financing activities		
Payments on capital lease obligations	(690)	
Payments of employee tax withholdings related to restricted stock	(947)	
Proceeds from exercise of stock options	487	127
Proceeds from secondary public offering, net	77,097	
Net cash provided by financing activities	75,947	127
Effect of exchange rate changes on cash	283	189
Net increase in cash and cash equivalents	53,232	(28,738)

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Cash and cash equivalents at beginning of period	56,741	89,509
Cash and cash equivalents at end of period	\$ 109,973	\$ 60,771
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 77	\$ 7
Cash paid for income taxes	\$ 726	\$ 521
Property and equipment remaining in accounts payable and other current liabilities	\$ 4,875	\$ 5,715
Purchase of property and equipment under capital leases	\$ 1,021	\$
Property and equipment acquired through leasehold incentives	\$ 2,361	\$
Common stock issued in connection with acquisition of business	\$ 8,216	\$ 51,527
Contingent consideration common stock issued in connection with acquisition of business	\$ 1,404	\$

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

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LIMELIGHT NETWORKS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Business

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

2. Summary of Significant Accounting Policies and Use of Estimates

Basis of Presentation

The condensed consolidated financial statements include accounts of the Company and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated. The accompanying condensed consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (GAAP) and pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). These principles require management to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, together with amounts disclosed in the related notes to the condensed consolidated financial statements. Actual results and outcomes may differ from management's estimates, judgments and assumptions. Significant estimates used in these condensed consolidated financial statements include, but are not limited to, revenues, accounts receivable and related reserves, useful lives and realizability of long-term assets, provision for litigation, capitalized software, acquired intangibles, income and other taxes, the fair value of share-based compensation and other contingent liabilities. Estimates are periodically reviewed in light of changes in circumstances, facts and experience. The effects of material revisions in estimates are reflected in the condensed consolidated financial statements prospectively from the date of the change in estimate. The accompanying condensed consolidated balance sheet as of June 30, 2011, the condensed consolidated statements of operations for the three and six months ended June 30, 2011 and 2010, and the condensed consolidated statements of cash flows for the six months ended June 30, 2011 and 2010, are unaudited. The condensed consolidated balance sheet information as of December 31, 2010 is derived from the audited consolidated financial statements which were included in our Annual Report on Form 10-K filed with the SEC on March 11, 2011. The consolidated financial information contained in this Quarterly Report on Form 10-Q should be read in conjunction with the audited consolidated financial statements and related notes contained in the Annual Report on Form 10-K filed on March 11, 2011.

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

Recent Accounting Pronouncements

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

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

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description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. ASU 2010-29 is effective prospectively for material (either on an individual or aggregate basis) business combinations entered into in fiscal years beginning on or after December 15, 2010. The Company believes the adoption of this guidance concerns disclosure only and will not have a material impact on its consolidated financial position or results of operations.

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In May 2011, the FASB issued Accounting Standards Update No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* (ASU 2011-04), which changes the wording used to describe the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements in order to improve consistency in the application and description of fair value between U.S. GAAP and International Financial Reporting Standards (IFRS). ASU 2011-04 clarifies how the concepts of highest and best use and valuation premise in a fair value measurement are relevant only when measuring the fair value of nonfinancial assets and are not relevant when measuring the fair value of financial assets or of liabilities. In addition, the guidance expanded the disclosures for the unobservable inputs for Level 3 fair value measurements, requiring quantitative information to be disclosed related to (1) the valuation processes used, (2) the sensitivity of the fair value measurement to changes in unobservable inputs and the interrelationships between those unobservable inputs, and (3) use of a nonfinancial asset in a way that differs from the asset's highest and best use. The revised guidance is effective for interim and annual periods beginning after December 15, 2011 and early application by public entities is prohibited. The Company is currently evaluating the potential impact of adopting this guidance on its consolidated financial position and results of operations.

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, *Presentation of Comprehensive Income* (ASU 2011-05). The amendments in ASU 2011-05 allow an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. The amendments in ASU 2011-05 do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. ASU 2011-05 should be applied retrospectively. For public entities, the amendments in ASU 2011-05 are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company believes the adoption of this guidance concerns disclosure only and will not have a material impact on its consolidated financial position or results of operations.

Foreign Currency Translation

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

Use of Estimates

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

3. Investments in Marketable Securities

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

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

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The following is a summary of available-for-sale securities at June 30, 2011 (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Government agency bonds	\$ 2,691	\$	\$ (1)	\$ 2,690
Commercial paper	1,200			1,200
Corporate notes and bonds	2,584			2,584
Total available-for-sale debt securities	6,475		(1)	6,474
Publicly traded common stock	1,133	434		1,567
Total available-for-sale securities	\$ 7,608	\$ 434	\$ (1)	\$ 8,041

At June 30, 2011, the Company evaluated its investment portfolio in available-for-sale debt securities, and noted unrealized losses of approximately \$1,000 were due to fluctuations in interest rates. Management does not believe any of the unrealized losses represented an other-than-temporary impairment based on its evaluation of available evidence as of June 30, 2011. The Company's intent is to hold these investments to such time as these assets are no longer impaired.

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

The amortized cost and estimated fair value of the available-for-sale debt securities at June 30, 2011, by maturity, are shown below (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale debt securities				
Due in one year or less	\$ 6,475	\$	\$ (1)	\$ 6,474
Due after one year and through five years				
	\$ 6,475	\$	\$ (1)	\$ 6,474

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

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

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

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

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On May 9, 2011, the Company acquired all the issued and outstanding shares of AcceloWeb, (IL) Ltd. (AcceloWeb), a privately-held provider of advanced technology that helps speed the presentation of web sites and applications located in Tel Aviv, Israel. The services provided by AcceloWeb align with the Company's current whole site acceleration strategy, providing a time to market advantage over development of a new product and furthers the Company's value-added services growth strategy. The aggregate purchase price consisted of approximately \$5.0 million of cash paid at the closing (cash paid net of cash acquired was \$4.7 million) and 1,100,629 shares of the Company's common stock with an estimated fair value of approximately \$7.0 million on the acquisition date. The number of common shares issued at the closing was determined on the basis of the average closing market price of the Company's common shares on the five days preceding the acquisition date. In addition, the purchase price included contingent consideration with an aggregate value of \$8.0 million (\$4.0 million payable in cash and \$4.0 million payable in the Company's common stock) which may be earned upon the achievement of certain performance milestones which will be measured quarterly during the eight full consecutive quarters ending June 30, 2013 (the Earn-Out). The fair value of the Earn-Out as of the acquisition date was \$6.2 million which was recorded in other long term liabilities and is comprised of \$3.1 million payable in cash (the Cash Earn-Out) and \$3.1 million payable in common stock (the Common Stock Earn-Out). The carrying value of the Cash Earn-Out is accreted to its estimated redemption value with a charge to interest expense. Interest expense related to accretion of the Cash Earn-Out totaled \$0.1 million in the three and six months ended June 30, 2011. The number of shares of the Company's common stock to be issued upon achievement of the Common Stock Earn-Out will be determined based on the average closing market price of the Company's common shares on the five days preceding the last day of the fiscal quarter in which the Earn-Out consideration is earned. In accordance with Accounting Standards Codification 480,

Distinguishing Liabilities from Equity, the Common Stock Earn-Out has been classified as a liability because it will be settled in a variable number of shares with a fixed monetary value.

Under the terms of the merger agreement, 188,677 shares of the common stock portion of the purchase price with an estimated fair value on the acquisition date of approximately \$1.2 million of the stock portion of the purchase price has been set aside in an escrow account and will be held for a period of up to 18 months following the closing date to satisfy any unresolved indemnification claims. Escrow amounts not then subject to a settled or pending, unsatisfied or unresolved indemnity claims, will be released as soon as practicable following the end of the 18 month escrow period. In addition, the Company incurred approximately \$0.3 million of transaction costs, which primarily consisted of fees for legal services. These transaction costs are included in general and administrative expenses in the Company's statement of operations for the three and six month periods ended June 30, 2011. The Company's consolidated financial statements include the results of operations of AcceloWeb from the date of acquisition. The historical results of operations of AcceloWeb were not significant to the Company's consolidated results of operations for the periods presented. The total purchase consideration was allocated to the assets acquired and liabilities assumed at their estimated fair values as of the date of acquisition, as determined by management. In addition, management has made a preliminary estimate of identifiable intangible assets. The allocation is preliminary and the Company expects it will be finalized during the first quarter of 2012. The excess of the purchase price over the amounts allocated to assets acquired and liabilities assumed has been recorded as goodwill. In accordance with current accounting standards, goodwill associated with the AcceloWeb acquisition will not be amortized and will be tested for impairment at least annually (see Note 7).

The following table presents the preliminary allocation of the purchase price for AcceloWeb:

	(In thousands)
Consideration:	
Cash	\$ 5,000
Common stock	6,989
Contingent consideration cash	3,091
Contingent consideration common stock	3,090
 Total consideration	 \$ 18,170
 Acquisition-related costs (included in general and administrative expenses)	 \$ 304
 Recognized amounts of identifiable assets acquired and liabilities assumed:	
Financial assets	\$ 2,137
Property and equipment	5

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Developed technology intangible asset	5,080
Financial liabilities	(2,574)
Total identifiable net assets	4,648
Goodwill	13,522
	\$ 18,170

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Developed technology with a value of approximately \$5.1 million is being amortized over its expected useful life of 5 years.

The goodwill resulting from the AcceloWeb acquisition is not deductible for income tax purposes.

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

The relief-from-royalty method was used to value the technology acquired from AcceloWeb. The relief-from-royalty method estimates the cost savings that accrue to the owner of an intangible asset that would otherwise be required to pay royalties or license fees on revenues earned through the use of the asset. The royalty rate used is based on an analysis of empirical, market-derived royalty rates for guideline intangible assets. Typically, revenue is projected over the expected remaining useful life of the intangible asset. The royalty rate is then applied to estimate the royalty savings. The key assumptions used in valuing the technology acquired are as follows: royalty rate of 21.2%, discount rate of 25%, tax rate of 39% and an economic life of approximately 5 years.

The Company retained an independent third-party appraiser to assist management in its valuation; however, the purchase price allocation has not been finalized. This could result in adjustments to the carrying value of the assets acquired and liabilities assumed, the useful lives of intangible assets and residual amount allocated to goodwill. The preliminary allocation of the purchase price is based on the best estimates of management and is subject to revision based on the final valuations and estimates of useful lives.

Clickability Acquisition

On May 2, 2011, the Company acquired all the issued and outstanding shares of Clickability, Inc. (Clickability), a privately-held software-as-a-service (SaaS) provider of web content management (WCM) located in San Francisco, California. The services provided by Clickability align with the Company's current value-added services and furthers the Company's value-added services growth strategy. The aggregate purchase price consisted of approximately \$4.9 million of cash paid at the closing (cash paid net of cash acquired was \$2.8 million), \$0.1 million held by the Company to cover future claims and 732,000 shares of the Company's common stock with an estimated fair value of approximately \$4.6 million on the date of acquisition. The Company issued 382,000 common shares with an estimated fair value of approximately \$2.4 million at the closing. Under the terms of the merger agreement, approximately 350,000 shares of the common stock portion of the purchase price with an estimated fair market value on the acquisition date of approximately \$2.2 million and \$0.1 million of cash will remain unissued to cover future claims. Approximately 60% of this amount is subject to an indemnification holdback and the remaining portion is subject to a retention holdback that has been set aside for a period of up to 12 months following the closing date. The indemnification holdback has been set aside for a period of up to 18 months following the closing date. Amounts of the indemnification holdback not then subject to a settled or pending indemnity claim will be released as soon as practicable following the end of the 18 month holdback period. The number of shares of common stock consideration for Clickability was determined on the basis of the average closing market price of the Company's common shares on the thirty days preceding the acquisition date. In addition, the Company incurred approximately \$0.1 million of transaction costs, which primarily consisted of fees for legal services. These transaction costs were included in general and administrative expenses in the Company's statement of operations for the three and six month periods ended June 30, 2011. The Company's consolidated financial statements include the results of operations of Clickability from the date of acquisition. The historical results of operations of Clickability were not significant to the Company's consolidated results of operations for the periods presented. The total purchase consideration was allocated to the assets acquired and liabilities assumed at their estimated fair values as of the date of acquisition, as determined by management. In addition, management has made a preliminary estimate of identifiable intangible assets. The allocation is preliminary and the Company expects it will be finalized during the first quarter of 2012. The excess of the purchase price over the amounts allocated to assets acquired and liabilities assumed has been recorded as goodwill. In accordance with current accounting standards, goodwill associated with the Clickability acquisition will not be amortized and will be tested for impairment at least annually (see Note 7).

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The following table presents the preliminary allocation of the purchase price for Clickability:

	(In thousands)
Consideration:	
Cash	\$ 5,000
Common stock	4,649
 Total consideration	 \$ 9,649
Acquisition-related costs (included in general and administrative expenses)	\$ 111
 Recognized amounts of identifiable assets acquired and liabilities assumed:	
Financial assets	\$ 3,641
Property and equipment	429
Identifiable intangible assets	5,500
Financial liabilities	(4,133)
 Total identifiable net assets	 5,437
Goodwill	4,212
	 \$ 9,649

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

	Amount (In thousands)	Weighted Average useful life (In years)
Technology	\$ 2,120	3.0
Customer relationships	3,250	4.0
Trade names and trademarks	130	0.7
 Total	 \$ 5,500	

The total weighted average amortization period for the identifiable intangible assets acquired from Clickability is 3.5 years.

The goodwill resulting from the Clickability acquisition is not deductible for income tax purposes.

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

The relief-from-royalty method was used to value the trade names and trademarks and technology acquired from Clickability. The relief-from-royalty method estimates the cost savings that accrue to the owner of an intangible asset that would otherwise be required to pay royalties or license fees on revenues earned through the use of the asset. The royalty rate used is based on an analysis of empirical,

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market-derived royalty rates for guideline intangible assets. Typically, revenue is projected over the expected remaining useful life of the intangible asset. The royalty rate is then applied to estimate the royalty savings. The key assumptions used in valuing the existing trade names and trademarks acquired are as follows: royalty rate of 2.5%, discount rate of 21.5%, tax rate of 39% and an economic life of approximately 0.7 years. The key assumptions used in valuing the technology acquired are as follows: royalty rate of 9%, discount rate of 21.5%, tax rate of 39%, and an economic life of approximately 3 years.

The customer relationships were valued using a form of the income approach known as the multi-period excess earnings method. Inherent in the multi-period excess earnings method is the recognition that, in most cases, all of the assets of the business, both tangible and intangible, contribute to the generation of the cash flow of the business and the net cash flows attributable to the subject asset must recognize the support of the other assets which contribute to the realization of the cash flows. The contributory asset charges are based on the fair value of the contributory assets and either pre-tax or after-tax cash flows are assessed charges representing returns on the contributory assets. A contributory asset charge for the use of the technology was assessed on pre-tax cash flows, while contributory asset charges for the use of the working capital, fixed assets, and assembled work force have been deducted from the after-tax cash flow in each year to determine the net future cash flow attributable to the relationships. This future cash flow was then discounted using an estimated required rate of return for the asset to determine the present value of the future cash flows attributable to the asset. The key assumptions used in valuing the customer relationships acquired are as follows: discount rate of 21.5%, tax rate of 39% and estimated average economic life of 4 years.

The Company retained an independent third-party appraiser to assist management in its valuation; however, the purchase price allocation has not been finalized. This could result in adjustments to the carrying value of the assets acquired and liabilities assumed, the useful lives of intangible assets and residual amount allocated to goodwill. The preliminary allocation of the purchase price is based on the best estimates of management and is subject to revision based on the final valuations and estimates of useful lives.

Table of Contents***Delve Networks, Inc. Acquisition***

On July 30, 2010, the Company acquired Delve Networks, Inc. (Delve), a privately-held provider of value-added video publishing and analytics services located in Seattle, Washington. The aggregate purchase price of approximately \$4.1 million consisted of approximately \$2.6 million of cash paid at the closing and 262,453 shares of the Company's common stock with an estimated fair value of approximately \$1.1 million. The fair value of the common stock issued as consideration for Delve was determined on the basis of the closing market price of the Company's common stock on the acquisition date. In addition, the Company recorded as part of the purchase price approximately \$0.4 million of contingent consideration it estimates will be earned relating to an earn-out provision. The estimated earn-out obligation is comprised of approximately \$0.2 million of cash consideration and approximately 51,210 shares of the Company's common stock with an estimated value of approximately \$0.2 million at the time of the acquisition. Under the terms of the merger agreement, approximately \$0.6 million of the cash portion of the purchase price has been set aside in an escrow account and will be held for a period of up to 36 months following the closing date to satisfy any unresolved indemnification claims. In addition, the Company incurred approximately \$0.2 million of transaction costs, which primarily consisted of fees for legal services. These transaction costs were included in general and administrative expenses in the Company's statement of operations for the year ended December 31, 2010. The Company's consolidated financial statements include the results of operations of Delve from the date of acquisition. The historical results of operations of Delve were not significant to the Company's consolidated results of operations for the periods presented. The total purchase consideration was allocated to the assets acquired and liabilities assumed at their estimated fair values as of the date of acquisition, as determined by management and, with respect to identifiable intangible assets, by management with the assistance of an appraisal provided by a third party valuation firm. The excess of the purchase price over the amounts allocated to assets acquired and liabilities assumed has been recorded as goodwill. In accordance with current accounting standards, goodwill associated with the Delve acquisition will not be amortized and will be tested for impairment at least annually (see Note 7). The goodwill resulting from the Delve acquisition is not currently deductible for income tax purposes.

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

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

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

	Amount (In thousands)	Weighted Average useful life (In years)
Technology	\$ 1,830	4.0

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Customer relationships	150	6.0
Trade names and trademarks	30	2.5
Total	\$ 2,010	

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

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

The relief-from-royalty method was used to value the trade names and trademarks and technology acquired from Delve. The relief-from-royalty method estimates the cost savings that accrue to the owner of an intangible asset that would otherwise be required to pay royalties or license fees on revenues earned through the use of the asset. The royalty rate used is based on an analysis of empirical, market-derived royalty rates for guideline intangible assets. Typically, revenue is projected over the expected remaining useful life of the intangible asset. The royalty rate is then applied to estimate the royalty savings. The key assumptions used in valuing the existing trade names and trademarks acquired are as follows: royalty rate of 0.8%, discount rate of 25%, tax rate of 39% and an economic life of approximately 2.5 years. The key assumptions used in valuing the technology acquired are as follows: royalty rate of 20%, discount rate of 25%, tax rate of 39%, and an economic life of approximately 4 years.

The customer relationships were valued using a form of the income approach known as the multi-period excess earnings method. Inherent in the multi-period excess earnings method is the recognition that, in most cases, all of the assets of the business, both tangible and intangible, contribute to the generation of the cash flow of the business and the net cash flows attributable to the subject asset must recognize the support of the other assets which contribute to the realization of the cash flows. The contributory asset charges are based on the fair value of the contributory assets and either pre-tax or after-tax cash flows are assessed charges representing returns on the contributory assets. A contributory asset charge for the use of the technology was assessed on pre-tax cash flows, while contributory asset charges for the use of the working capital, fixed assets, and assembled work force have been deducted from the after-tax cash flow in each year to determine the net future cash flow attributable to the relationships. This future cash flow was then discounted using an estimated required rate of return for the asset to determine the present value of the future cash flows attributable to the asset. The key assumptions used in valuing the customer relationships acquired are as follows: discount rate of 22.5%, tax rate of 39% and estimated average economic life of 6 years.

The Company retained an independent third-party appraiser to assist management in its valuation; however, the purchase price allocation has not been finalized. This could result in adjustments to the carrying value of the assets acquired and liabilities assumed, the useful lives of intangible assets and residual amount allocated to goodwill. The preliminary allocation of the purchase price is based on the best estimates of management and is subject to revision based on the final valuations and estimates of useful lives.

EyeWonder, Inc. Acquisition

On April 30, 2010, the Company acquired EyeWonder, Inc. (EyeWonder), a provider of interactive digital advertising products and services to advertisers, advertising agencies and publishers headquartered in Atlanta, Georgia. The aggregate purchase price of approximately \$114.0 million consisted of approximately \$62.8 million of cash and 12,740,000 shares of the Company's common stock with an estimated fair value of approximately \$51.2 million. The fair value of the common shares issued as consideration for EyeWonder was determined on the basis of the closing market price of the Company's common shares on the acquisition date. Under the terms of the Merger Agreement, 3,013,699 shares of the Company's common stock were set aside in an escrow account subject to any unresolved indemnification claims. On June 28, 2011, 1,592,150 shares were released from the escrow and distributed to the former EyeWonder shareholders. As of June 30, 2011, 1,416,545 shares of common stock remain in the escrow account subject to certain unresolved indemnification claims. The Company has recorded an asset of approximately \$2.4 million related to escrow claims associated with the acquisition which the Company has deemed probable of recovery. As of June 30, 2011, the Company has \$1.4 million of unpaid liabilities associated with the escrow claims. The liabilities are included in other current liabilities and the asset is included in prepaid expenses and other current assets in the accompanying balance sheets.

The excess of the purchase price over the amounts allocated to assets acquired and liabilities assumed has been recorded as goodwill. Goodwill increased by \$0.7 million in the six month ended June 30, 2011 due to an EyeWonder related purchase price allocation adjustment to establish a deferred tax liability associated with the indefinite lived trademark. In accordance with current accounting standards, goodwill associated with the EyeWonder acquisition will not be amortized and will be tested for impairment at least annually (see Note 7). The goodwill resulting from the EyeWonder acquisition is not currently deductible for income tax purposes.

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

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

	(In thousands)
Consideration:	
Cash	\$ 62,782
Common stock	51,215
 Total consideration	 \$ 113,997
Acquisition-related costs (included in general and administrative expenses)	\$ 2,358
 Recognized amounts of assets acquired and liabilities assumed:	
Financial assets	\$ 13,218
Property and equipment	1,100
Identifiable intangible assets	18,537
Financial liabilities	(7,419)
 Total net assets	 25,436
Goodwill	88,561
	 \$ 113,997

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

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

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

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

chors GmbH Acquisition

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

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

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

	(In thousands)
Consideration (including estimated unpaid contingent consideration):	
Cash	\$ 2,762
Common stock	3,122
 Total consideration	 \$ 5,884
Acquisition-related costs (included in general and administrative expenses)	\$ 265
 Recognized amounts of assets acquired and liabilities assumed:	
Financial assets	\$ 845
Property and equipment	63
Identifiable intangible assets	2,498
Financial liabilities	(1,327)
 Total net assets	 2,079
Goodwill	3,805
	 \$ 5,884

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

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

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

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

5. Accounts Receivable

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

Accounts receivable include (in thousands):

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	As of June 30, 2011	As of December 31, 2010
Accounts receivable	\$ 34,247	\$ 41,167
Unbilled accounts receivable	8,159	8,068
	42,406	49,235
Less: credit allowance	(890)	(1,080)
Less: allowance for doubtful accounts	(4,508)	(6,215)
Total accounts receivable, net	\$ 37,008	\$ 41,940

Table of Contents**6. Prepaid Expenses and Other Current Assets**

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

	As of June 30, 2011	As of December 31, 2010
Prepaid bandwidth and backbone services	\$ 3,218	\$ 3,238
Non-income taxes receivable (VAT)	2,381	2,178
Indemnity claim asset	2,375	513
Employee advances and prepaid recoverable commissions	79	208
Interest receivable	45	97
Other	4,442	3,394
Total prepaid expenses and other current assets	\$ 12,540	\$ 9,628

7. Goodwill and Other Intangible Assets

The Company has recorded goodwill and other intangible assets as a result of its business acquisitions of Kiptronic Inc. (Kiptronic), Chors, EyeWonder, Delve, Clickability and AcceloWeb that occurred in May 2009, January 2010, April 2010, July 2010, May 2011 and May 2011, respectively. As of June 30, 2011, the Company has recorded goodwill of approximately \$113.0 million. During the quarter ended June 30, 2011, goodwill increased by approximately \$17.7 million and other intangible assets increased by approximately \$10.6 million, primarily due to the acquisitions of Clickability and AcceloWeb. The Company reviews goodwill for impairment annually or whenever events or changes in circumstances indicate that the carrying amount may exceed their fair value. The Company concluded that it had one reporting unit and assigned the entire balance of goodwill to this reporting unit as of June 30, 2011.

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

	Gross Carrying Amount	June 30, 2011 Accumulated Amortization	Net Carrying Amount
Existing technologies	\$ 26,424	\$ (6,121)	\$ 20,303
Trade names and trademark	1,968	(13)	1,955
Non-compete agreements	1,112	(485)	627
Patents	830	(242)	588
Usage contract	384	(344)	40
Customer relationships	3,412	(170)	3,242
Domain names	11	(11)	
Total other intangible assets	\$ 34,141	\$ (7,386)	\$ 26,755

	Gross Carrying Amount	December 31, 2010 Accumulated Amortization	Net Carrying Amount
Existing technologies	\$ 19,168	\$ (3,345)	\$ 15,823
Trademark	1,837	(6)	1,831
Non-compete agreements	1,035	(265)	770
Patents	830	(138)	692

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Usage contract	354	(204)	150
Customer relationships	162	(22)	140
Domain names	11	(11)	
Total other intangible assets	\$ 23,397	\$ (3,991)	\$ 19,406

Aggregate expense related to amortization of other intangible assets for the three months ended June 30, 2011 and 2010 was approximately \$1.9 million and \$0.9 million, respectively. For the six months ended June 30, 2011 and 2010, aggregate expense related to amortization of other intangible assets was approximately \$3.3 million and \$1.1 million, respectively. Based on the Company's other intangible assets as of June 30, 2011, aggregate expense related to amortization of other intangible assets is expected to be \$4.2 million for the remainder of 2011, and \$7.9 million, \$7.5 million, \$3.8 million and \$1.7 million for fiscal years 2012, 2013, 2014 and 2015 and beyond, respectively.

Table of Contents**8. Property and Equipment**

Property and equipment include (in thousands):

	As of June 30, 2011	As of December 31, 2010
Network equipment	\$ 171,256	\$ 151,350
Computer equipment	9,546	8,112
Furniture and fixtures	1,771	952
Leasehold improvements	6,379	3,525
Other equipment	676	498
	189,628	164,437
Less: accumulated depreciation	(126,073)	(110,030)
Total property and equipment, net	\$ 63,555	\$ 54,407

9. Other Assets

Other assets include (in thousands):

	As of June 30, 2011	As of December 31, 2010
Prepaid bandwidth and backbone services	\$ 8,198	\$ 4,326
Vendor deposits and other	2,040	1,904
Cost basis investments	690	407
Restricted cash	50	314
Total other assets	\$ 10,978	\$ 6,951

10. Other Current Liabilities

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

	As of June 30, 2011	As of December 31, 2010
Accrued compensation and benefits	\$ 4,830	\$ 7,476
Accrued cost of revenue	4,230	2,795
Accrued legal fees	1,735	1,545
Income taxes payable	2,197	1,643
Non income taxes payable	1,379	1,762
Contingent consideration liability	133	414
Other accrued expenses	4,925	4,365
Total other current liabilities	\$ 19,429	\$ 20,000

11. Other Long Term Liabilities

Other long term liabilities include (in thousands):

	As of June 30, 2011	As of December 31, 2010
Contingent consideration liability	\$ 6,243	\$
Deferred rent	2,511	21
Other liabilities	20	
Total other long term liabilities	\$ 8,774	\$ 21

Table of Contents**12. Litigation**

In June 2006, Akamai Technologies, Inc., or Akamai, and the Massachusetts Institute of Technology, or MIT, filed a lawsuit against the Company in the United States District Court for the District of Massachusetts alleging that the Company was infringing two patents assigned to MIT and exclusively licensed by MIT to Akamai, United States Patent No. 6,553,413 (the 413 patent) and United States Patent No. 6,108,703 (the 703 patent). In September 2006, Akamai and MIT expanded their claims to assert infringement of a third, recently issued patent United States Patent No. 7,103,645 (the 645 patent). In February 2008, a jury returned a verdict in this lawsuit, finding that the Company infringed four claims of the 703 patent at issue and rejecting the Company's invalidity defenses for the period April 2005 through December 31, 2007. The jury awarded an aggregate of approximately \$45.5 million which includes lost profits, reasonable royalties and price erosion damages. In addition, the jury awarded prejudgment interest which the Company estimated to be \$2.6 million at December 31, 2007. The Company recorded an aggregate \$48.1 million as a provision for litigation as of December 31, 2007. During the year ended December 31, 2008, the Company estimated its revenue from alleged infringing methods totaled approximately 25% of total revenue. The Company recorded a potential additional provision for litigation totaling \$15.5 million, plus additional interest of \$2.0 million, for the year ended December 31, 2008. The total provision for litigation at December 31, 2008 was \$65.6 million.

On July 1, 2008, the court denied the Company's Motions for Judgment as a Matter of Law (JMOL), Obviousness, and a New Trial. The court also denied Akamai's Motion for Permanent Injunction as premature and its Motions for Summary Judgment regarding the Company's equitable defenses. The court conducted a bench trial in November 2008 regarding the Company's equitable defenses. The Company also filed a motion for reconsideration of the court's earlier denial of the Company's motion for JMOL. The Company's motion for JMOL was based largely upon a clarification in the standard for a finding of joint infringement articulated by the Federal Circuit in the case of *Muniauction, Inc. v. Thomson Corp.* (the *Muniauction Case*), released after the court denied the Company's initial motion for JMOL. On April 24, 2009 the court issued its order and memorandum setting aside the adverse jury verdict and ruling that the Company did not infringe Akamai's 703 patent and that the Company is entitled to judgment as a matter of law. Based upon the court's April 24, 2009 order the Company has reversed the \$65.6 million provision for litigation previously recorded for this lawsuit as the Company no longer believes that payment of any amounts represented by the litigation provision is probable. The court entered final judgment in favor of the Company on May 22, 2009, and Akamai filed its notice of appeal of the court's decision on May 26, 2009. The court heard arguments by both parties on June 7, 2010. On December 20, 2010 the Court of Appeals for the Federal Circuit issued its opinion affirming the District Court's entry of judgment in our favor. On February 18, 2011, Akamai filed a motion with the Court of Appeals for the Federal Circuit seeking a rehearing and rehearing *en banc*. On April 21, 2011, the Court of Appeals for the Federal Circuit issued an order denying the petition for rehearing, granting the petition for rehearing *en banc*, vacating the December 20, 2010 opinion affirming the District Court's entry of judgment in the Company's favor, and reinstated the appeal. The Company believes that it does not infringe Akamai's patents and will continue to vigorously defend the action. The Company is not able at this time to estimate the range of potential loss nor, in light of the favorable U.S. district court order, does it believe that a loss is probable. Therefore, the Company has made no provision for this lawsuit in its financial statements.

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

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

In August 2007, the Company, certain of its officers and current and former directors, and the firms that served as the lead underwriters in the Company's initial public offering were named as defendants in several purported class action lawsuits filed in the United States District Courts for the District of Arizona and the Southern District of New York. All of the New York cases were transferred to Arizona and consolidated into a single action. The plaintiffs' consolidated complaint asserted causes of action under Sections 11, 12, and 15 of the Securities Act of 1933, as amended, on behalf of a purported class of individuals who purchased the Company's common stock in its initial public offering and/or pursuant to its Prospectus. The complaint alleges, among other things, that the Company omitted and/or misstated certain facts concerning the seasonality

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of its business and the loss of revenue related to certain customers. On March 17, 2008, the Company and the individual defendants moved to dismiss all of the plaintiffs' claims and a hearing was held on June 16, 2008. On August 8, 2008, the court granted the motion to dismiss, dismissing plaintiffs' claims under Section 12 with prejudice and granting leave to amend the claims under Sections 11 and 15. Plaintiffs chose not to amend the claims under Sections 11 and 15, and on August 29, 2008 the court entered judgment in favor of the Company. On September 5, 2008, plaintiffs filed a notice of appeal, and appellate briefs were filed by the parties in January and February 2009. The Company believes that it and the individual defendants have meritorious defenses to the plaintiffs' claims and intends to contest the lawsuits vigorously.

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In November 2009 the parties entered into a Memorandum of Understanding to settle this lawsuit for an amount well within the coverage limits of the primary carrier of our directors and officers liability insurance, and on July 7, 2010 the parties entered into a settlement agreement consistent with the terms of the Memorandum of Understanding, which required court approval. On March 22, 2011 the Federal District Court held a hearing pursuant to which the Court approved the settlement. Accordingly, the Company does not believe that a loss is probable and believes that this litigation is now successfully concluded. Therefore, the Company has made no provision for this lawsuit in its financial statements.

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

13. Net Loss per Share

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

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
Net loss available to common stockholders	\$ (13,935)	\$ (2,265)	\$ (23,753)	\$ (8,050)
Basic weighted average common shares	113,113	93,889	108,515	89,504
Basic weighted average common shares	113,113	93,889	108,515	89,504
Dilutive effect of stock options and restricted stock units				
Diluted weighted average common shares	113,113	93,889	108,515	89,504
Basic net loss per share	\$ (0.12)	\$ (0.02)	\$ (0.22)	\$ (0.09)
Diluted net loss per share	\$ (0.12)	\$ (0.02)	\$ (0.22)	\$ (0.09)

For the three and six month periods ended June 30, 2011 and 2010, an aggregate of approximately 4,770,000 and 5,320,000 respectively, and 2,646,000 and 2,634,000, respectively, outstanding options and common stock subject to repurchase were excluded from the computation of diluted net loss per common share because including them would have had an antidilutive effect.

14. Comprehensive Loss

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

	For the Three Months Ended	For the Six Months Ended
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	June 30,		June 30,	
	2011	2010	2011	2010
Net loss	\$ (13,935)	\$ (2,265)	\$ (23,753)	\$ (8,050)
Other comprehensive income (loss), net of tax:				
Unrealized (loss) on investments	(45)	(280)	(190)	(329)
Cumulative translation adjustment			494	
Foreign currency translation adjustments	361	(778)	1,432	(952)
Other comprehensive income (loss)	316	(1,058)	1,736	(1,281)
Comprehensive loss	\$ (13,619)	\$ (3,323)	\$ (22,017)	\$ (9,331)

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

	As of June 30, 2011	As of December 31, 2010
Net unrealized gain on investments, net of tax	\$ 309	\$ 499
Foreign currency translation	1,756	(170)
Total accumulated other comprehensive gain	\$ 2,065	\$ 329

15. Stockholders' Equity**Common Stock**

At the Company's annual meeting on June 9, 2011, the stockholders approved an amendment to the Company's Amended and Restated Certificate of Incorporation to increase the number of authorized shares of the Company's common stock, par value \$0.001 per share, from 150,000,000 shares to 300,000,000 shares. The amendment was previously approved by the Company's Board of Directors on February 8, 2011. Following these approvals, on June 13, 2011, the Company filed the amendment to the Amended and Restated Certificate of Incorporation with the state of Delaware, thereby increasing the authorized shares of the Company's common stock.

On March 2, 2011 the Company completed an underwritten public offering of its common stock in which it sold and issued 11,500,000 shares of its common stock, including 1,500,000 shares subject to the underwriters' over-allotment option, at a price to the public of \$7.10 per share. The newly issued common shares began trading on the Nasdaq Global Select Market on March 2, 2011. The Company raised a total of approximately \$81.7 million in gross proceeds from the offering, or approximately \$77.1 million in net proceeds after deducting underwriting discounts and commissions of approximately \$4.0 million and other offering costs of approximately \$0.6 million. The offering was made pursuant to the effective registration statement on Form S-3 (Registration Statement No. 333-170609) previously filed with and declared effective by the SEC on November 26, 2010 and the prospectus supplement thereunder filed with the SEC on February 28, 2011.

On May 2, 2011, the Company acquired Clickability, a privately-held software-as-a-service (SaaS) provider of web content management (WCM) located in San Francisco, California. The purchase price included approximately 732,000 shares of the Company's common stock with an estimated fair value on the acquisition date of approximately \$4.6 million. The Company issued approximately 382,000 common shares at the closing with an estimated fair value of approximately \$2.4 million. Under the terms of the Merger Agreement, approximately 350,000 shares of the common stock portion of the purchase price or approximately \$2.2 million will remain unissued for a period of up to 18 months following the closing date to satisfy any unresolved claims. See footnote 4 for a more detailed description of the Clickability acquisition.

On May 9, 2011, the Company 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 1,100,629 shares of the Company's common stock issued at closing with an estimated fair value of approximately \$7.0 million on the acquisition date. See footnote 4 for a more detailed description of the AcceloWeb acquisition.

16. Share-Based Compensation

The following table summarizes the components of share-based compensation expense included in the Company's condensed consolidated statement of operations for the three and six month periods ended June 30, 2011 and 2010 (in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
Share-based compensation expense by type of award:				
Stock options	\$ 2,833	\$ 2,512	\$ 5,328	\$ 5,006
Restricted stock awards and units	2,532	1,648	4,315	3,497

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Total share-based compensation expense	\$ 5,365	\$ 4,160	\$ 9,643	\$ 8,503
Effect of share-based compensation expense on statement of operations by categories:				
Cost of services	\$ 767	\$ 583	\$ 1,384	\$ 1,181
General and administrative expense	2,052	1,577	3,596	3,412
Sales and marketing expense	1,221	1,272	2,464	2,478
Research and development expense	1,325	728	2,199	1,432
Total cost related to share-based compensation expense	\$ 5,365	\$ 4,160	\$ 9,643	\$ 8,503

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Unrecognized share-based compensation expense totaled \$37.2 million at June 30, 2011, of which approximately \$27.3 million related to stock options and approximately \$9.9 million related to RSUs. The Company currently expects to amortize approximately \$7.9 million during the remainder of 2011, \$12.9 million in 2012 and the remainder thereafter based upon the scheduled vesting of the stock options, restricted stock awards and units outstanding at that time.

In May 2009, the Company granted 282,168 performance based RSUs to various employees. As of June 30, 2011, 206,547 of these RSUs remained outstanding. The performance based RSUs will only vest if a specific revenue target is achieved in any one quarter during the ten full quarters following the date of the grant and provided the employee remains with the Company through the vesting date. During the second quarter of 2011 the Company determined that the performance requirement was probable of being achieved and accordingly recognized compensation expense of \$0.7 million in the three and six months ended June 30, 2011.

On February 26, 2010, the Company granted 300,000 performance-based RSUs to the Company's CEO. The RSUs granted became eligible for vesting based upon the achievement of certain financial performance targets related to the earn-out feature described in the Agreement and Plan of Merger to acquire EyeWonder, Inc. The performance requirements were not achieved and the RSUs were cancelled in April 2011.

On December 30, 2010, the Company approved an award of 300,000 performance-based RSUs to the Company's CEO. All or a portion of the RSUs granted to the CEO (and not forfeited) may become eligible for vesting in three tranches of 100,000 RSUs based upon the achievement of certain financial performance targets, provided that the CEO remains an employee or service provider of the Company on each vesting date. RSUs that do not become eligible are forfeited. As of June 30, 2011, the performance requirements related to two tranches totaling 200,000 RSUs have been established and the Company estimates that the performance requirements related to both of these tranches are probable of being achieved. The performance requirement related to the third tranche will be established in the first quarter of 2012.

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

17. Related Party Transactions

As a result of the acquisition of EyeWonder, the Company leases office space both to and from an entity in which a member of our executive staff and board of directors and a member of our board of directors have an ownership interest. During the three month periods ended June 30, 2011 and 2010, respectively, the Company received approximately \$44,994 and \$0, respectively, from this entity for office space rental. For the six month periods ended June 30, 2011 and 2010, the Company received approximately \$56,208 and \$0, respectively, from this entity for office space rental. During the three month periods ended June 30, 2011 and 2010, respectively, the Company paid approximately \$15,000 and \$0, respectively to this entity for office space rental. For the six month periods ended June 30, 2011 and 2010, the Company paid approximately \$19,193 and \$0, respectively to this entity for office space rental. In addition, the Company incurred expenses from companies in which a member of its board of directors has an ownership interest of approximately \$42,100 and \$66,038 for human resources, public relations, administrative and design services during the three and six month periods ended June 30, 2011.

The Company sells services to entities owned, in whole or in part, by certain of the Company's executive staff and board of directors. Revenue derived from related parties was less than 1% of the Company's total revenue for the three and six month periods ended June 30, 2011 and 2010, respectively.

The Company leased office space from a company owned by one of the Company's executives. Rent expense for the lease, including reimbursement for telecommunication lines, was approximately \$0 and \$1,000, respectively, for each of the three month periods ended June 30, 2011 and 2010, respectively. For the six month periods ended June 30, 2011 and 2010, rent expense for the lease, including reimbursement for telecommunication lines, was approximately \$0 and \$4,000, respectively.

18. Leases and Commitments

Operating Leases

The Company is committed to various non-cancelable operating leases for office space and office equipment which expire through 2019. Certain leases contain provisions for renewal options and rent escalations upon expiration of the initial lease terms. Approximate future minimum lease payments over the remaining lease periods as of June 30, 2011 are as follows (in thousands):

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2011	\$ 1,564
2012	3,121
2013	3,168
2014	2,998
2015 and thereafter	8,848
Total minimum payments	\$ 19,699

Table of Contents***Purchase Commitments***

The Company has long-term commitments for bandwidth usage and co-location with various networks and ISPs. The following summarizes minimum commitments as of June 30, 2011 (in thousands):

2011	\$ 17,316
2012	25,285
2013	17,725
2014	15,982
2015 and thereafter	15,931
Total minimum payments	\$ 92,239

Capital Leases

The Company leases equipment under capital lease agreements which extend through 2016. As of June 30, 2011, the outstanding balance for capital leases was approximately \$3.5 million. The Company has recorded assets under capital lease obligations of approximately \$5.7 million as of June 30, 2011. Related accumulated amortization totaled approximately \$1.9 million as of June 30, 2011. The assets acquired under capital leases and related accumulated amortization are included in property and equipment, net in the condensed consolidated balance sheet. The related amortization is included in depreciation and amortization expense in the condensed consolidated statements of operations. Interest expense related to capital leases was approximately \$41,500 and \$4,000, respectively, for the three month periods ended June 30, 2011 and 2010, respectively. For the six month periods ended June 30, 2011 and 2010, interest expense related to capital leases was approximately \$81,700 and \$4,000, respectively.

Future minimum capital lease payments at June 30, 2011 are as follows (in thousands):

2011	\$ 797
2012	1,546
2013	933
2014	238
2015 and thereafter	357
Total	3,871
Amounts representing interest	(329)
Present value of minimum lease payments	\$ 3,542

19. Income taxes

Income taxes for the interim periods presented have been included in the accompanying financial statements on the basis of an estimated annual effective tax rate. Based upon our estimated annual effective tax rate and discrete items, our tax expense for the three and six months ended June 30, 2011 was approximately \$0.4 and \$0.6 million, respectively. For the three months and six months ended June 30, 2010 we had a tax benefit of approximately \$5.1 million and \$4.9 million, respectively. Our income tax expense of \$0.6 million on our loss before taxes of \$23.2 million during the six months ended June 30, 2011 was different than our statutory income tax rate due primarily to our providing for a valuation allowance on deferred tax assets in certain jurisdictions, and recording of discrete items and foreign tax for the period.

During the six months ended June 30, 2010, we performed an assessment of the recoverability of deferred tax assets. As a result of the acquisition of EyeWonder, \$5.8 million of net deferred tax liabilities were recorded resulting from the temporary differences generated by the differences between the fair value of assets and liabilities acquired (mainly intangible assets such as existing technologies) and their corresponding tax bases. We determined that \$5.8 million of our pre-acquisition deferred tax assets that had a full valuation allowance are now more-likely-than-not to be realized as a result of the acquisition by offsetting such deferred tax assets against the \$5.8 million net deferred tax

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liabilities recorded as of the acquisition date. Therefore, we recorded a tax benefit of \$5.8 million related to the partial release of the related valuation allowance. For the remaining balance of deferred tax assets, there was sufficient negative evidence as a result of our cumulative losses to conclude that it was more likely than not that our deferred tax assets would not be realized and we accordingly maintained the remaining valuation allowance.

As of June 30, 2011, the Company has approximately \$53,000 of total unrecognized tax benefits. This total of unrecognized tax benefits, if recognized, would favorably affect the effective income tax rate. Unrecognized tax benefits did not change materially for the three and six months ended June 30, 2011. The Company anticipates its unrecognized tax benefits will continue to decrease within twelve months of the reporting date, as a result of settling potential tax liabilities in certain foreign jurisdictions. The Company

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recognizes interest and penalties related to unrecognized tax benefits in its tax provision. As of June 30, 2011, the Company has recorded a liability of \$132,000 for the accrual of deficiency interest and penalties, which did not materially change during the three and six months ended June 30, 2011.

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

20. Segment Reporting

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

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

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
Domestic revenue	\$ 34,011	\$ 29,686	\$ 68,163	\$ 55,768
International revenue	16,528	12,509	32,192	22,513
Total revenue	\$ 50,539	\$ 42,195	\$ 100,355	\$ 78,281

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

	As of June 30, 2011	As of December 31, 2010
Domestic long-lived assets	\$ 48,592	\$ 38,757
International long-lived assets	14,963	15,650
Total long-lived assets	\$ 63,555	\$ 54,407

21. Fair Value Measurements

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

Level 1 – defined as observable inputs such as quoted prices in active markets;

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Level 2 defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and

Level 3 defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

As of June 30, 2011 and December 31, 2010, the Company held certain assets and liabilities that are required to be measured at fair value on a recurring basis. These include commercial paper, corporate notes and bonds and US Government Agency Bonds, publicly traded stocks, and private equity securities which are classified as marketable securities and acquisition related contingent consideration which is classified as a current liability on the Company's condensed consolidated balance sheet.

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The following is a summary of marketable securities, other investment-related assets and current liabilities held at June 30, 2011 (in thousands):

		Fair Value Measurements at Reporting Date Using		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Description	Total			
Assets:				
Government agency bonds	\$ 2,690	\$ 2,690	\$	\$
Commercial paper	1,200		1,200	
Corporate notes and bonds	2,584	2,584		
Publicly traded common stock	1,567	1,567		
Total assets measured at fair value	\$ 8,041	\$ 6,841	\$ 1,200	\$
Liabilities:				
Acquisition related contingent consideration	\$ 6,376	\$	\$	\$ 6,376
Total liabilities measured at fair value	\$ 6,376	\$	\$	\$ 6,376

For the six month period ended June 30, 2011, realized gains and losses for marketable securities are reported in interest income, unrealized gains and losses for marketable securities are included in other comprehensive income and expense. For the six month period ended June 30, 2011, the Company had net unrealized losses of approximately \$190,000.

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

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

Description	Total	Fair Value Measurements at Reporting Date Using		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Government agency bonds	\$ 8,986	\$ 8,986	\$	\$
Corporate notes and bonds	3,023	3,023		
Private equity security	407			407
Publicly traded common stock	1,755	1,755		
Total assets measured at fair value	\$ 14,171	\$ 13,764	\$	\$ 407
Liabilities:				
Acquisition related contingent consideration	\$ 414	\$	\$	\$ 414

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Total liabilities measured at fair value	\$	414	\$		\$		\$	414
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The progressions of the Company's Level 3 instruments for the six month period ended June 30, 2011 are shown in the table below (in thousands):

	Acquisition Related Contingent Consideration
Balance at January 1, 2011	\$ 414
Additions	
Change in value	
Balance at March 31, 2011	\$ 414
Additions	6,243
Change in value	(281)
Balance at June 30, 2011	\$ 6,376

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The progressions of the Company's Level 3 instruments for the six month period ended June 30, 2010 are shown in the table below (in thousands):

	Acquisition Related Contingent Consideration	Private Equity Securities
Balance at January 1, 2010	\$	\$
Additions	3,092	
Change in value		
Balance at March 31, 2010	\$ 3,092	\$
Additions		66
Change in value	(38)	
Balance at June 30, 2010	\$ 3,054	\$ 66

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

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the condensed consolidated financial statements and the related notes thereto included elsewhere in this quarterly report on Form 10-Q and the audited consolidated financial statements and notes thereto and management's discussion and analysis of financial condition and results of operations for the year ended December 31, 2010 included in our annual report on Form 10-K filed with the Securities and Exchange Commission, or SEC, on March 11, 2011. This quarterly report on Form 10-Q contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements include statements as to industry trends and future expectations of ours and other matters that do not relate strictly to historical facts. These statements are often identified by the use of words such as may, will, expect, believe, anticipate, intend, could, estimate, or continue, and similar expressions or variations. These statements are based on the beliefs and assumptions of our management based on information currently available to management. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled Risk Factors set forth in Part II, Item 1A of this quarterly report on Form 10-Q and in our other SEC filings. We undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements. Prior period information has been modified to conform to current year presentation.

Overview

We were founded in 2001 as a provider of content delivery network, or CDN, services to deliver digital content over the Internet. We began development of our infrastructure in 2001 and began generating meaningful revenue in 2002. In May 2009, January 2010, April 2010, July 2010, May 2011 and May 2011, respectively, we acquired Kiptronic, Chorus, EyeWonder, Delve, Clickability and AcceloWeb. In April 2011, we moved into our new Global Headquarters in downtown Tempe, Arizona. Today, Limelight Networks provides on-demand software, platform, and infrastructure services that help global businesses reach and engage audiences on any mobile or connected device, enabling them to enhance their brand presence, build stronger customer relationships, manage video assets, analyze viewer preferences, optimize their advertising, and monetize their digital assets. We provide services to customers in North America, EMEA, and the Asia Pacific region. As of June 30, 2011, we had approximately 1,873 active customers worldwide. We derive revenue from the sale of services to our customers. These services include the delivery of digital media, including video, music, games, software and social media, the acceleration of web sites and web-based applications, and value-added services such as mobility, interactive advertising, storage, video and web content management and consulting. We operate in one business segment. Our CDN and web content management customers normally execute contracts with terms of one year or longer, which we

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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

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commitment. We define usage as customer data sent or received using our content delivery network (*CDN*) service, or content that is hosted or cached by us at the request or direction of our customer. Usage is tracked using a software system that measures either the gigabytes transferred (*GB Transfer*) or megabits per second (*Mbps*) of usage per customer per month. GB Transfer measures usage by counting each GB of a customer's content that is sent or received using our network. Mbps measures usage by determining the rate at which a customer's content moves across our network. We have entered into an increasing number of customer contracts that have minimum usage commitments that are based on twelve-month or longer periods and in some cases, other arrangements. The nature of services provided as part of the minimum commitment may vary by customer; but substantially all of the services provided us and associated with a minimum commitment are core CDN services. We believe that having a consistent and predictable base level of revenue is important to our financial success. Accordingly, to be successful, we must maintain our base of recurring revenue contracts by eliminating or reducing any customer cancellations or terminations and build on that base by adding new customers and increasing the number of services, features and functionalities our existing customers purchase. We also derive revenue from campaigns, services and events sold as discrete, non-recurring events or based solely on usage. For these services, we recognize revenue after an enforceable contract has been signed by both parties, the fee is fixed or determinable, the event or usage has occurred and collection is reasonably assured.

During the second quarter, we achieved revenue of \$50.5 million, which did not meet our expectations. There were two primary factors that contributed to this revenue shortfall. First, we encountered delays in the completion of our ad server product, which impacted the revenue growth we had anticipated achieving from our interactive advertising services. This made up just over half of our shortfall in the quarter. We believe that until this ad server is brought to market in early 2012, growth of our interactive advertising services revenue will be stalled. Our CDN services contributed just under half of our revenue shortfall in the quarter. The bulk of the CDN shortfall was the result of a widely reported third party security breach on a customer's platform which led to less content streaming and less software downloads to that platform, which led to lighter than forecasted revenue from two of our largest customers.

We continue to see strong momentum in the long-term growth trends that drive demand for our services. These trends include the ongoing shift of content and advertising to online properties; the growth of mobile devices, applications, and content consumption; and the migration of software applications; data, and IT services into multi-tenant large scale distributed computing platforms, sometimes referred to as the cloud.

We continue to make progress on our long-term, strategic growth plan, which has four components. First, grow our CDN market share to be #1 or #2 in the world; expand our services to be relevant in the web and application acceleration segment of the CDN market; build a value-added services business that is complimentary to our CDN business; and develop products and services that enable us to increase our participation in the online advertising market.

As part of this overall strategy, we plan to grow our value-added services to 50% of our revenue by the end of 2014. Our value-added services are comprised of our EyeWonder interactive advertising services, as well as our software-as-a-service solutions for mobility, web and video content management, web application acceleration, cloud storage, and consulting.

As our value-added services grow as a percentage of revenue, we believe they will help us deepen our relationships with our customers and improve our overall margin mix.

On March 2, 2011 we completed an underwritten public offering of our common stock in which we sold and issued 11,500,000 shares of our common stock, including 1,500,000 shares subject to the underwriters' over-allotment option, at a price to the public of \$7.10 per share. The newly issued common shares began trading on the Nasdaq Global Select Market on March 2, 2011. We raised a total of approximately \$81.7 million in gross proceeds from the offering, or approximately \$77.1 million in net proceeds after deducting underwriting discounts and commissions of approximately \$4.0 million and other offering costs of approximately \$0.6 million. The offering was made pursuant to the effective registration statement on Form S-3 (Registration Statement No. [333-170609](#)) previously filed with and declared effective by the SEC on November 26, 2010 and the prospectus supplement thereunder filed with the SEC on February 28, 2011.

On May 2, 2011, we acquired Clickability Inc. (Clickability), a privately-held software-as-a-service (SaaS) provider of web content management (WCM) located in San Francisco, California. The aggregate purchase price consisted of approximately \$4.9 million of cash paid at the closing (cash paid net of cash acquired was \$2.8 million), \$0.1 million held by us to cover future claims and 732,000 shares of our common stock with an estimated fair value of approximately \$4.6 million on the date of acquisition. We issued 382,000 common shares at the closing with an estimated fair value of approximately \$2.4 million. Under the terms of the merger agreement, 350,000 shares of the common stock portion of the purchase price or approximately \$2.2 million will remain unissued for a period of up to 18 months following the closing date to satisfy any unresolved future claims. (See footnote 4 for a more detailed description of the Clickability acquisition.)

On May 9, 2011, we acquired AcceloWeb, (IL) Ltd. (AcceloWeb), a privately-held provider of advanced technology that helps speed the presentation of web sites and applications located in Tel Aviv, Israel. The aggregate purchase price consisted of approximately \$5.0 million of cash paid at the closing (cash paid net of cash acquired was \$4.7 million) and 1,100,629 shares of our common stock issued at closing with an

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estimated fair value of approximately \$7.0 million on the acquisition date. In addition, the purchase price included contingent consideration with an aggregate value of \$8.0 million (\$4.0 million payable in cash and \$4.0 million payable in our common stock) which may be earned upon the achievement of certain performance milestones which will be measured quarterly during the eight full consecutive quarters ending June 30, 2013. The fair value of the contingent consideration as of the acquisition date was \$6.2 million. (See footnote 4 for a more detailed description of the AcceloWeb acquisition.)

Traffic on our network and our value-added services business has continued to grow. This traffic growth is primarily the result of growth in the traffic delivered to existing customers and to a lesser extent on behalf of new customers. Our CDN revenue is generated by charging for traffic delivered. While our traffic continued to grow, our revenue generated from such traffic grew at a much slower rate. Our value-added services revenue represented substantially all of our revenue growth during the three month period ended June 30, 2011. During 2010, we added new customers both through new business and through our business acquisitions. During the three month period ended June 30, 2011, we continued to add new customers, again through new business and our business acquisitions, and we also elected to not renew some customers as we continue to focus on customer quality. We have increased our average number of products per customer to 1.8, as we continue to see that new and existing customers want the benefits of the specialized services that we bring to the market. Both our value-added services and our core CDN business (to a much lesser extent) continue to show year over year growth, which we believe is a result of growth in traffic on our network, our acquisitions and market share gains.

Historically, we have derived a portion of our revenue from outside of the United States. Our international revenue has grown recently, and we expect this trend to continue as we focus on our strategy of expanding our network and customer base internationally. For the year ended December 31, 2010 revenue derived from customers outside North America accounted for approximately 29% of our total revenue. For the year ended December 31, 2010 we derived approximately 65% of our international revenue from EMEA and approximately 35% of our international revenue from Asia Pacific. For the three month periods ended June 30, 2011 and 2010,

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revenue derived from customers outside North America accounted for approximately 33% and 30%, respectively, of our total revenue. For the six month periods ended June 30, 2011 and 2010 revenue derived from customers outside North America accounted for approximately 32% and 29%, respectively, of our total revenue. For the three and six month periods ended June 30, 2011, we derived approximately 62% and 63%, respectively, of our international revenue from EMEA and approximately 38% and 37%, respectively, of our international revenue from Asia Pacific, respectively. We expect foreign revenue to continue to increase in absolute dollars in 2011. Our international business is managed as a single-geographic segment, and we report our financial results on this basis.

During any given fiscal period, a relatively small number of customers typically account for a significant percentage of our revenue. For example, in 2010, sales to our top 10 customers, in terms of revenue, accounted for approximately 30% of our total revenue and we had no customer that accounted for more than 10% of our revenue. For the three and six month periods ended June 30, 2011, sales to our top 10 customers, in terms of revenue, accounted for approximately 30% and 31%, respectively, of our total revenue. During the three and six month periods ended June 30, 2011 we had no customer that accounted for more than 10% of our revenue during the period. We anticipate customer concentration levels will remain consistent with 2010. In addition to selling to our direct customers, we maintain relationships with a number of resellers that purchase our services and charge a mark-up to their end customers. Revenue generated from sales to reseller customers accounted for approximately 5% of our total revenue for the year ended December 31, 2010. For the three and six month periods ended June 30, 2011, revenue generated from sales to reseller customers accounted for approximately 3% of our total revenue.

In addition to these revenue-related business trends, our cost of revenue increased in absolute dollars and as a percentage of revenue for the three and six month periods ended June 30, 2011 compared to the three and six month periods ended June 30, 2010. The three and six month periods ended June 30, 2011 includes two months of cost of revenue from our acquisitions of Clickability and AcceloWeb and also includes a full quarter and full six months of cost of revenue for EyeWonder, whom we acquired on April 30, 2010. The increase in absolute dollars was primarily due to increased bandwidth and co-location fees, due to increased traffic and expansion of our CDN, increased payroll and related employee costs for operations personnel, who are responsible for managing and monitoring our CDN and delivery of our value-added services and increased depreciation expense on our network equipment.

Operating expenses increased in absolute dollars and as a percentage of revenue for the three month period ended June 30, 2011 compared to the three month period ended June 30, 2010. The three month period ended June 30, 2011 includes two months of operating expenses from our recent acquisitions of Clickability and AcceloWeb and also includes a full quarter of operating expenses for EyeWonder, whom we acquired on April 30, 2010. This increase was primarily due to increased general and administrative costs (primarily payroll and related employee costs, due to increased staffing, increased facilities and facilities related costs, increased professional fees and increased fees and licenses, off-set by lower litigation expenses), increased sales and marketing expenses (primarily payroll and related employee costs due to increased staffing and increased marketing programs), increased research and development costs (primarily payroll and related employee costs due to increased staffing and increased stock based compensation), and increased non-network related depreciation and amortization (primarily due to increased amortization of intangible assets from our business acquisitions).

For the six month period ended June 30, 2011, operating expenses increased in absolute dollars and as a percentage of revenue compared to the six month period ended June 30, 2010. The six month period ended June 30, 2011 includes two months of operating expenses from our recent acquisitions of Clickability and AcceloWeb and also includes a six months of operating expenses for EyeWonder, whom we acquired on April 30, 2010. This increase was primarily due to increased general and administrative costs (primarily payroll and related employee costs, due to increased staffing, increased facilities and facilities related costs, increased professional fees, and increased fees and licenses, off-set by lower litigations expenses, lower acquisition related expenses and lower bad debt expense), increased sales and marketing expenses (primarily payroll and related employee costs due to increased staffing, increased marketing expenses, increased travel and travel related expenses and increased employee events), increased research and development costs (primarily payroll and related employee costs due to increased staffing and increased professional services) and increased non-network related depreciation and amortization (primarily due to increased amortization of intangible assets from our business acquisitions).

We make our capital investment decisions based upon careful evaluation of a number of variables, such as the amount of traffic we anticipate on our network, the cost of the physical infrastructure required to deliver that traffic, and the forecasted capacity utilization of our network. Our capital expenditures have varied over time, in particular as we purchased servers and other network equipment associated with our network build-out. For example, in 2008, 2009, and 2010 we made capital purchases of \$17.4 million, \$20.4 million, and \$34.2 million, respectively. For the six month period ended June 30, 2011, we made capital investments of \$20.0 million. We expect to have ongoing capital expenditure requirements as we continue to invest in, refresh and expand our CDN. For 2011, we currently anticipate making aggregate capital expenditures of approximately 13%-15% of total revenue for the year.

Occasionally we generated revenue from certain customers that are entities related to certain of our founders. For the year ended December 31, 2010 revenue derived from these related parties was less than 1% of our total revenue. For the three and six month periods ended June 30, 2011, revenue generated from related parties was less than 1% of our total revenue.

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

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

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

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

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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;

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successfully manage our litigation with Akamai to a favorable conclusion;

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

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

successfully integrate the businesses we have acquired.

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

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our unaudited condensed consolidated financial statements included elsewhere in this quarterly report on Form 10-Q, which have been prepared by us in accordance with United States generally accepted accounting principles for interim periods. These principles require us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, cash flow and related disclosure of contingent assets and liabilities. Our estimates include those related to revenue recognition, accounts receivable and related reserves, useful lives and realizability of long-term assets, capitalized software, acquired intangibles, provision for litigation, income and other taxes, the fair value of stock-based compensation and other contingent liabilities. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Our results may differ from these estimates due to actual outcomes being different from those on which we based our assumptions. We review these estimates and judgments on an ongoing basis. We also have other policies that we consider key accounting policies, such as our policy regarding foreign currency translation described below; however, we do not believe this policy requires us to make estimates or judgments that are as difficult or subjective as those noted above and disclosed in our annual report on Form 10-K for the year ended December 31, 2010, filed with the SEC on March 11, 2011.

Foreign Currency Translation

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

As of June 30, 2011, there have been no material changes to any of the critical accounting policies as described in our annual report on Form 10-K for the year ended December 31, 2010, filed with the SEC on March 11, 2011.

Results of Operations

Revenue

	Three months ended June 30,		Six months ended June 30,
2011	2010	2011	2010

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	(in thousands)		Increase (Decrease)	Percent Change	(in thousands)		Increase (Decrease)	Percent Change
Revenue	\$ 50,539	\$ 42,195	\$ 8,344	20%	\$ 100,355	\$ 78,281	\$ 22,074	28%

Revenue increased 20%, or \$8.3 million, to \$50.5 million for the three months ended June 30, 2011 as compared to \$42.2 million for the three months ended June 30, 2010. For the six months ended June 30, 2011, total revenues increased 28%, or \$22.1 million, to \$100.4 million as compared to \$78.3 million for the six months ended June 30, 2010. The increase in revenue for the three and six month periods ended June 30, 2011 as compared to the same periods in the prior year was primarily attributable to an increase in our value-added services revenue of approximately \$8.2 million and \$19.4 million, respectively, which includes revenue from the date of acquisition of Chorus, EyeWonder, Delve, and Clickability. We provide value-added services in the following areas: mobility, web and video content management, web application acceleration, interactive advertising services, storage services, and strategic consulting. We continued to increase the amount of traffic moving through our network; however the revenue generated from

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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 delivery revenue increased approximately \$0.1 million and \$2.7 million, respectively, for the three and six month periods ended June 30, 2011, compared to the same periods in the prior year. This small increase is the results of a reduction in our core revenue generated from Microsoft. As of June 30, 2011, we had approximately 1,873 customers compared to approximately 1,655 as of June 30, 2010.

For the three months ended June 30, 2011 and 2010, approximately 33% and 30%, respectively, of our total revenues were derived from our operations located outside of North America. For the three months ended June 30, 2011 and 2010, we derived approximately 62% and 65%, respectively of our international revenue from EMEA and approximately 38% and 35%, respectively of our international revenue from Asia Pacific. For the six months ended June 30, 2011 and 2010, approximately 32% and 29%, respectively, of our total revenues were derived from our operations located outside of North America. For the six months ended June 30, 2011 and 2010, we derived approximately 68% and 62%, respectively of our international revenue from EMEA and approximately 32% and 38%, respectively of our international revenue from Asia Pacific. No single country outside of the United States accounted for 10% or more of revenues during these periods.

Cost of Revenue

	Three months ended June 30,				Six months ended June 30,			
	2011	2010	Increase (Decrease)	Percent Change	2011	2010	Increase (Decrease)	Percent Change
	(in thousands)				(in thousands)			
Cost of revenue	\$ 31,861	\$ 23,825	\$ 8,036	34%	\$ 61,273	\$ 44,807	\$ 16,466	37%

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

Cost of revenue increased 34%, or \$8.0 million, to \$31.9 million for the three months ended June 30, 2011 as compared to \$23.8 million for the three months ended June 30, 2010. These increases were primarily due to an increase in aggregate bandwidth and co-location fees of \$2.5 million due to higher traffic levels, increased peering costs, and increased amounts of deployed network assets, an increase in payroll and related employee costs of \$2.4 million associated with increased staff to build and operate our CDN, as well as increased operations personnel from our business acquisitions whose primary focus is on our delivery of value-added services, an increase in depreciation of \$2.1 million, due to increased amounts of deployed assets, as we continue to build-out our expanding network and to re-fresh our network equipment, and an increase in other costs of \$0.6 million. The increase in other costs is primarily related to costs associated with our value-added services.

For the six months ended June 30, 2011, cost of revenues increased 37%, or \$16.5 million, to \$61.3 million as compared to \$44.8 million for the six months ended June 30, 2010. These increases were primarily due to an increase in payroll and related employee costs of \$5.5 million associated with increased staff to build and operate our CDN, as well as increased operations personnel from our business acquisitions whose primary focus is on our delivery of value-added services, an increase in aggregate bandwidth and co-location fees of \$5.0 million due to higher traffic levels, increased peering costs, and increased amounts of deployed network assets, an increase in depreciation of \$4.1 million, due to increased amounts of deployed assets, as we continue to build-out our expanding network and to re-fresh our network equipment, and an increase in other costs of \$0.6 million. Additionally, we had increases in professional fees and outside services of \$0.3 million, an increase in travel and travel-related expenses of \$0.2 million and an increase in royalty expense of \$0.3 million.

Cost of revenue share-based compensation expense increased \$0.2 million for both the three and six month periods ended June 30, 2011 compared to the three and six month periods ended June 30, 2010.

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
Bandwidth and co-location fees	\$ 14.8	\$		