

Limelight Networks, Inc.  
Form 10-Q  
May 10, 2013  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2013

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)

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

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

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

**222 South Mill Avenue, 8<sup>th</sup> Floor**  
**Tempe, AZ 85281**

(Address of principal executive offices, including Zip Code)

**(602) 850-5000**

(Registrant's telephone number, including area code)

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

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

The number of shares outstanding of the registrant's common stock as of April 30, 2013: 96,146,449 shares.

**Table of Contents**

**LIMELIGHT NETWORKS, INC.**

**FORM 10-Q**

**Quarterly Period Ended March 31, 2013**

**TABLE OF CONTENTS**

	<b>Page</b>
<b><u>PART I. FINANCIAL INFORMATION</u></b>	<b>3</b>
ITEM 1. <u>FINANCIAL STATEMENTS (unaudited)</u>	3
<u>Condensed Consolidated Balance Sheets as of March 31, 2013 and December 31, 2012</u>	3
<u>Condensed Consolidated Statements of Operations for the Three Months Ended March 31, 2013 and 2012</u>	4
<u>Condensed Consolidated Statements of Comprehensive Loss for the Three Months Ended March 31, 2013 and 2012</u>	5
<u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2013 and 2012</u>	6
<u>Notes to Unaudited Condensed Consolidated Financial Statements for the Three Months Ended March 31, 2013 and 2012</u>	7
ITEM 2. <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	19
ITEM 3. <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	30
ITEM 4. <u>CONTROLS AND PROCEDURES</u>	31
<b><u>PART II. OTHER INFORMATION</u></b>	<b>32</b>
ITEM 1. <u>LEGAL PROCEEDINGS</u>	32
ITEM 1A. <u>RISK FACTORS</u>	33
ITEM 2. <u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	47
ITEM 3. <u>DEFAULTS UPON SENIOR SECURITIES</u>	48
ITEM 4. <u>MINE SAFETY DISCLOSURES</u>	48
ITEM 5. <u>OTHER INFORMATION</u>	48
ITEM 6. <u>EXHIBITS</u>	49
<u>SIGNATURES</u>	50
<u>EXHIBIT INDEX</u>	51

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

	<b>March 31, 2013</b>	<b>December 31, 2012</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 86,163	\$ 108,915
Marketable securities	34,041	19,040
Accounts receivable, net	27,537	26,602
Income taxes receivable	318	471
Deferred income taxes	71	38
Prepaid expenses and other current assets	11,108	12,308
<b>Total current assets</b>	<b>159,238</b>	<b>167,374</b>
Property and equipment, net	35,339	41,251
Marketable securities, less current portion	11	18
Deferred income tax, less current portion	2,849	2,838
Goodwill	80,458	80,278
Other intangible assets, net	5,713	6,387
Other assets	6,600	6,735
<b>Total assets</b>	<b>\$ 290,208</b>	<b>\$ 304,881</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 6,108	\$ 6,730
Deferred revenue	7,107	6,892
Capital lease obligations	1,032	1,301
Income taxes payable	798	519
Other current liabilities	10,722	14,866
<b>Total current liabilities</b>	<b>25,767</b>	<b>30,308</b>
Capital lease obligations, less current portion	664	824
Deferred income tax	423	461
Deferred revenue, less current portion	2,281	797
Other long-term liabilities	5,144	5,261
<b>Total liabilities</b>	<b>34,279</b>	<b>37,651</b>
Commitments and contingencies		
Stockholders' equity:		
Convertible preferred stock, \$0.001 par value; 7,500 shares authorized; 0 shares issued and outstanding	96	98

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

Common stock, \$0.001 par value; 300,000 shares authorized at March 31, 2013 and December 31, 2012; 96,105 and 98,038 shares issued and outstanding at March 31, 2013 and December 31, 2012, respectively		
Additional paid-in capital	450,625	452,258
Contingent consideration	33	33
Accumulated other comprehensive loss	(2,239)	(709)
Accumulated deficit	(192,586)	(184,450)
Total stockholders' equity	255,929	267,230
Total liabilities and stockholders' equity	\$ 290,208	\$ 304,881

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

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

	<b>For the Three Months Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
Revenues	\$ 45,813	\$ 44,316
Cost of revenue:		
Cost of services (1)	22,052	20,501
Depreciation network	6,680	6,829
Total cost of revenue	28,732	27,330
Gross profit	17,081	16,986
Operating expenses:		
General and administrative	8,073	8,320
Sales and marketing	10,484	11,632
Research and development	5,741	5,166
Depreciation and amortization	1,450	1,398
Total operating expenses	25,748	26,516
Operating loss	(8,667)	(9,530)
Other income (expense):		
Interest expense	(27)	(50)
Interest income	70	106
Other, net	568	(86)
Total other income (expense)	611	(30)
Loss from continuing operations before income taxes	(8,056)	(9,560)
Income tax provision	80	137
Loss from continuing operations	(8,136)	(9,697)
Discontinued operations:		
Loss from discontinued operations, net of income taxes		(309)
Net loss	\$ (8,136)	\$ (10,006)
Basic net loss per weighted average share:		
Continuing operations	\$ (0.08)	\$ (0.09)
Discontinued operations		(0.01)
Total	\$ (0.08)	\$ (0.10)
Diluted net loss per weighted average share:		

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

Continuing operations	\$ (0.08)	\$ (0.09)
Discontinued operations		(0.01)
Total	\$ (0.08)	\$ (0.10)
Shares used in per weighted average share calculations:		
Basic	96,818	104,226
Diluted	96,818	104,226

- (1) Cost of services excludes amortization related to certain intangibles, including existing technologies, customer relationships, trade names and trademarks, which are included in depreciation and amortization

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

**Table of Contents**

**LIMELIGHT NETWORKS, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**

**(In thousands, except per share data)**

**(Unaudited)**

	<b>For the Three Months Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
Net loss	\$ (8,136)	\$ (10,006)
Other comprehensive income (loss), net of tax:		
Unrealized loss on investments	(55)	(15)
Foreign exchange translation	(1,475)	457
Other comprehensive income (loss), net of tax	(1,530)	442
Comprehensive loss	\$ (9,666)	\$ (9,564)

*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)****(Unaudited)**

	<b>For the Three Months Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
<b>Operating activities</b>		
Net loss	\$ (8,136)	\$ (10,006)
Loss from discontinued operations		(309)
Net loss from continuing operations	(8,136)	(9,697)
Adjustments to reconcile net loss from continuing operations to net cash provided by (used in) operating activities of continuing operations:		
Depreciation and amortization	8,130	8,227
Share-based compensation	3,350	3,951
Deferred income taxes	(171)	(112)
Foreign currency remeasurement gain	(861)	(97)
Accounts receivable charges	326	426
Accretion of marketable securities	96	99
Non cash increase in cost basis investment		(374)
Changes in operating assets and liabilities:		
Accounts receivable	(1,260)	280
Prepaid expenses and other current assets	1,085	(361)
Income taxes receivable	141	(35)
Other assets	106	(2,130)
Accounts payable	(96)	(625)
Deferred revenue	1,698	774
Other current liabilities	(1,947)	(1,246)
Income taxes payable	307	(500)
Other long term liabilities	(116)	(508)
Net cash provided by (used in) operating activities of continuing operations	2,652	(1,928)
<b>Investing activities</b>		
Purchases of marketable securities	(38,039)	(15,469)
Maturities of marketable securities	22,895	7,303
Purchases of property and equipment	(2,603)	(5,680)
Proceeds from the sale of discontinued operations		5,839
Net cash used in investing activities of continuing operations	(17,747)	(8,007)
<b>Financing activities</b>		
Payments on capital lease obligations	(429)	(436)
Payment of employee tax withholdings related to restricted stock	(1,358)	(259)
Cash paid for purchase of common stock	(5,512)	(1,161)
Proceeds from exercise of stock options		118
Net cash used in financing activities of continuing operations	(7,299)	(1,738)

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

Effect of exchange rate changes on cash and cash equivalents	(358)	57
Net decrease in cash and cash equivalents	(22,752)	(11,616)
Cash and cash equivalents, beginning of period	108,915	120,349
Cash and cash equivalents, end of period	\$ 86,163	\$ 108,733
<b>Supplement disclosure of cash flow information</b>		
Cash paid during the period for interest	\$ 27	\$ 51
Cash paid during the period for income taxes, net of refunds	\$ (194)	\$ 790
Property and equipment remaining in accounts payable and other current liabilities	\$ 233	\$ 1,439
Contingent consideration common stock issued in connection with acquisition of businesses	\$	\$ 109

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

---

**Table of Contents**

**LIMELIGHT NETWORKS, INC.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**1. Nature of Business**

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

The integrated suite of services that the Company offers collectively comprises its Orchestrate Digital Presence Platform (Orchestrate, or the Orchestrate Platform). The Company provides the Orchestrate Platform as Software-as-a-Service (SaaS) and Infrastructure-as-a-Service (IaaS), which other than content delivery services, are referred to collectively as Value Added Services (VAS). The Company offers VAS both collectively as the end-to-end Orchestrate Platform and individually for customers that may not be inclined or able to adopt the entire platform.

The Orchestrate Platform and services help the Company's customers optimize and streamline their online digital presence across web, mobile, social, and large screen channels. The Orchestrate Platform and services provide advanced features which include website content management, personalization and targeting, video publishing, mobile enablement, content delivery, transcoding, and cloud storage, combined with social media integration and reporting analytics. These services are provided through the cloud and leverage the Company's global computing platform, which provides highly available, highly redundant storage, bandwidth, and computing resources, as well as connectivity to last-mile broadband network providers. The Company's professional consulting services team helps organizations access their digital presence requirements and improve their digital presence activities.

The Company derives revenue primarily from the sale of the Orchestrate Platform and its individual components as managed services. The Company also generates revenue through the sale of professional services and other infrastructure services, such as transit and rack space services.

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

The Company has operated in the Phoenix metropolitan area since 2001 and elsewhere throughout the United States since 2003. The Company began international operations in 2004.

**2. Summary of Significant Accounting Policies**

***Basis of Presentation***

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles, consistent in all material respects with those applied in its financial statements included in its Annual Report on Form 10-K for the fiscal year ended December 31, 2012. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. Such interim financial information is unaudited but reflects all adjustments that in the opinion of management are necessary for the fair presentation of the interim periods presented. All such adjustments are, in the opinion of management, of a normal recurring nature. 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, 2013 or for any future periods. This Quarterly Report on Form 10-Q should be read in conjunction with the Company's audited financial statements and footnotes included in its Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

The condensed consolidated financial statements include accounts of the Company and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated. Certain reclassifications have been made to prior year amounts to conform to the current year presentation. The Company has revised the statement of cash flow presentation to reclassify certain remeasurement gains and losses from the "Effect of exchange rate changes on cash and cash equivalents" line item to the "Foreign currency remeasurement gain" line item included

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

in Net cash provided by (used in) operating activities of continuing operations. The amount of this reclassification for the three months ended March 31, 2012 was approximately \$97,000.

On September 1, 2011, the Company completed the sale of its EyeWonder LLC and subsidiaries and chors GmbH video and rich media advertising services (EyeWonder and chors) to DG FastChannel, Inc. (now Digital Generation, Inc.) (DG). The sale of EyeWonder and chors met the criteria for discontinued operations during the year ended December 31, 2011. Accordingly, the results of operations related to EyeWonder and chors have been classified as discontinued operations in all periods presented. See further discussion at Note 4.

**Table of Contents***Use of Estimates*

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual results and outcomes may differ from those estimates.

*Recent Accounting Standards*Recently Adopted Accounting Standard

In February 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2013-02, which requires additional disclosures regarding the reporting of reclassifications out of accumulated other comprehensive income (loss). ASU 2013-02 requires an entity to present, either on the face of the statement where net income (loss) is presented, or in the notes, significant amounts reclassified out of accumulated other comprehensive income (loss) by the respective line items of net income (loss), but only if the amount reclassified is required under U.S. generally accepted accounting principles to be reclassified to net income (loss) in its entirety in the same reporting period. This guidance is effective for reporting periods beginning after December 15, 2012. The Company adopted this guidance effective January 1, 2013, and has included the additional disclosures in Note 15.

Recently Issued Accounting Pronouncements

In March 2013, the FASB issued ASU 2013-05, which permits an entity to release cumulative translation adjustments into net income when a reporting entity (parent) ceases to have a controlling financial interest in a subsidiary or group of assets that is a business within a foreign entity. Accordingly, the cumulative translation adjustment should be released into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided, or, if a controlling financial interest is no longer held. The revised standard is effective for the Company for fiscal years beginning after December 15, 2013; however, early adoption is permitted. The Company does not expect adoption of this ASU to significantly impact its consolidated financial statements.

**3. Investments in Marketable Securities**

The following is a summary of marketable securities (designated as available-for-sale) at March 31, 2013 (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Government agency bonds	\$ 3,091	\$ 2	\$	\$ 3,093
Certificate of deposit	2,744			2,744
Commercial paper	3,998		2	3,996
Corporate notes and bonds	24,250	1	43	24,208
	34,083	3	45	34,041
Publicly traded common stock	12		1	11
<b>Total marketable securities</b>	<b>\$ 34,095</b>	<b>\$ 3</b>	<b>\$ 46</b>	<b>\$ 34,052</b>

At March 31, 2013, the Company evaluated its marketable securities and noted unrealized losses were due to fluctuations in interest rates.

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 marketable securities at March 31, 2013, by maturity, are shown below (in thousands):

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale debt securities				
Due in one year or less	\$ 16,799	\$ 3	\$ 7	\$ 16,795
Due after one year and through five years	17,284		38	17,246
	\$ 34,083	\$ 3	\$ 45	\$ 34,041

**Table of Contents**

The following is a summary of marketable securities (designated as available-for-sale) at December 31, 2012 (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Government agency bonds	\$ 6,266	\$ 4	\$	\$ 6,270
Certificate of deposit	2,741			2,741
Commercial paper	500			500
Corporate notes and bonds	9,527	3	1	9,529
	19,034	7	1	19,040
Publicly traded common stock	12	6		18
<b>Total marketable securities</b>	<b>\$ 19,046</b>	<b>\$ 13</b>	<b>\$ 1</b>	<b>\$ 19,058</b>

The amortized cost and estimated fair value of marketable securities at December 31, 2012, by maturity, are shown below (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale securities				
Due in one year or less	\$ 18,260	\$ 6	\$ 1	\$ 18,265
Due after one year and through five years	774	1		775
	\$ 19,034	\$ 7	\$ 1	\$ 19,040

**4. Discontinued Operations**

On September 1, 2011, the Company completed the sale of its EyeWonder and chors rich media advertising services to DG for net proceeds of \$61.0 million (\$66.0 million gross cash proceeds less \$5.0 million held in escrow), plus an estimated \$10.9 million receivable from DG pursuant to the purchase agreement dated as of August 30, 2011 by and among the Company, DG and Limelight Networks Germany GmbH.

The \$10.9 million receivable from DG was determined by the Company based on estimated future cash payments equal to the excess of certain current assets over certain current liabilities of EyeWonder and chors as of August 30, 2011, as defined in the purchase agreement (the Net Working Capital). The Company estimated the Net Working Capital based on its determination of the current assets and current liabilities in accordance with the relevant provisions of the purchase agreement.

Under the terms of the purchase agreement, \$0.7 million excess of cash and cash equivalents and other current assets over current liabilities was immediately payable to the Company with the remaining Net Working Capital payable as the accounts receivable of \$9.6 million and income tax receivable of \$0.5 million were collected.

The following is a summary of activity related to the receivable from DG for the year ended December 31, 2012 and the three month period ended March 31, 2013 (in thousands):

Balance, December 31, 2011	\$ 10,854
Payments received from DG	(7,440)
Allowance for doubtful accounts receivable and other receivables adjustments	(2,060)
Net Working Capital adjustments	(818)

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

Balance, December 31, 2012	\$ 536
Payments received from DG	
Allowance for doubtful accounts receivable and other receivables adjustments	
Net Working Capital adjustments	
Balance, March 31, 2013	\$ 536



**Table of Contents**

As of March 31, 2013, the Company assessed the collectability of the remaining accounts receivable balance and believes such amount is collectible. The Company expects to continue to pursue collections on all previously reserved amounts and will record recoveries as an adjustment to income (loss) from discontinued operations.

The sale of EyeWonder and chors meets the criteria to be reported as discontinued operations. Accordingly, the operating results of EyeWonder and chors have been reclassified to discontinued operations in the accompanying condensed consolidated statements of operations. The Company includes only revenues and costs directly attributable to the discontinued operations, in determining income (loss) from discontinued operations, and not those attributable to the ongoing entity. Accordingly, no general corporate overhead costs have been allocated to discontinued operations. There were no operating results of discontinued operations for the three months ended March 31, 2013. Operating results of discontinued operations for the three month period ended March 31, 2012, are as follows (in thousands):

	<b>Three Months Ended March 31, 2012</b>
General and administrative expenses	\$ 147
Loss on sale of discontinued operations, net of income taxes	(456)
Loss before income taxes	(309)
Income tax benefit (expense)	
Loss from discontinued operations	\$ (309)
Loss from discontinued operations per weighted average share:	
Basic	\$ (0.01)
Diluted	\$ (0.01)
Shares used in per weighted average share calculation for discontinued operations:	
Basic and diluted	104,226

**5. Accounts Receivable, net**

Accounts receivable, net include (in thousands):

	<b>March 31, 2013</b>	<b>December 31, 2012</b>
Accounts receivable	\$ 23,879	\$ 23,675
Unbilled accounts receivable	6,997	6,997
	30,876	30,672
Less: credit allowance	(600)	(640)
Less: allowance for bad debt	(2,739)	(3,430)
Total accounts receivable, net	\$ 27,537	\$ 26,602

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

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

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

	<b>March 31, 2013</b>	<b>December 31, 2012</b>
Prepaid bandwidth and backbone services	\$ 3,100	\$ 3,614
Gaikai sale escrow receivable	1,237	1,237
Non-income taxes receivable (VAT)	1,131	1,739
Receivable from DG (see note 4)	536	536
Employee advances and prepaid recoverable commissions	440	551
Vendor deposits and other	4,664	4,631
<b>Total prepaid expenses and other current assets</b>	<b>\$ 11,108</b>	<b>\$ 12,308</b>

**Table of Contents**

In May 2010, the Company made a strategic investment in Gaikai Inc., a private cloud-based gaming technology company (Gaikai). In August 2012, Sony Computer Entertainment Inc. acquired Gaikai and the Company recorded a gain on sale of its cost basis investment in Gaikai of \$9.4 million. The carrying value of the Gaikai cost basis investment as of the sale date was approximately \$2.0 million. The aggregate selling price was \$11.4 million consisting of \$10.2 million of cash received and \$1.2 million held in escrow for a period of up to 15 months to cover any potential indemnification claims. As of March 31, 2013, the Company was not aware of any potential indemnification claims that are expected to reduce the amount received from escrow, and recorded a current receivable of approximately \$1.2 million, which is included in prepaid expenses and other current assets in the accompanying condensed consolidated balance sheets as of March 31, 2013 and December 31, 2012.

**7. Goodwill and Other Intangible Assets**

The Company is required to perform an impairment assessment at least annually, and more frequently under certain circumstances. If the Company determines through the impairment process that goodwill has been impaired, the Company will record the impairment charge in the statement of operations. There can be no assurance that future goodwill impairment tests will not result in a charge to earnings.

The changes in the carrying amount of goodwill for the three month period ended March 31, 2013 were as follows (in thousands):

Balance, December 31, 2012	\$ 80,278
Foreign currency translation adjustment	180
<b>Balance, March 31, 2013</b>	<b>\$ 80,458</b>

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

	<b>March 31, 2013</b>		
	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Amount</b>
Existing technologies	\$ 8,529	\$ (4,592)	\$ 3,937
Customer relationships	3,412	(1,636)	1,776
<b>Total other intangible assets</b>	<b>\$ 11,941</b>	<b>\$ (6,228)</b>	<b>\$ 5,713</b>

	<b>December 31, 2012</b>		
	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Amount</b>
Existing technologies	\$ 8,436	\$ (4,035)	\$ 4,401
Customer relationships	3,412	(1,427)	1,985
Trade names and trademark	160	(159)	1
<b>Total other intangible assets</b>	<b>\$ 12,008</b>	<b>\$ (5,621)</b>	<b>\$ 6,387</b>

Aggregate expense related to amortization of other intangible assets included in continuing operations was \$0.7 million for the three month periods ended March 31, 2013 and 2012. Based on the Company's other intangible assets as of March 31, 2013, aggregate expense related to amortization of other intangible assets is expected to be \$2.1 million for the remainder of 2013, and \$2.2 million, \$1.1 million, and \$0.3 million for fiscal years 2014, 2015, and 2016, respectively.

**8. Property and Equipment, net**

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

Property and equipment, net include (in thousands):

	<b>March 31, 2013</b>	<b>December 31, 2012</b>
Network equipment	\$ 168,568	\$ 168,637
Computer equipment	10,560	10,398
Furniture and fixtures	2,600	2,595
Leasehold improvements	6,702	6,684
Other equipment	551	534
	188,981	188,848
Less: accumulated depreciation	(153,642)	(147,597)
Total property and equipment, net	\$ 35,339	\$ 41,251

**Table of Contents****9. Other Assets**

Other assets include (in thousands):

	March 31, 2013	December 31, 2012
Prepaid bandwidth and backbone services	\$ 5,435	\$ 5,799
Vendor deposits and other	812	729
Deferred expenses	353	207
 Total other assets	 \$ 6,600	 \$ 6,735

The Company enters into multi-year arrangements with a telecommunications providers for bandwidth and backbone capacity. The agreements sometimes require the Company to make advanced payments for future services to be received.

**10. Other Current Liabilities**

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

	March 31, 2013	December 31, 2012
Accrued compensation and benefits	\$ 3,648	\$ 6,703
Accrued cost of revenue	1,753	2,307
Accrued legal fees	1,508	1,591
Indirect taxes payable	1,084	1,029
Customer deposits	465	361
Other accrued expenses	2,264	2,875
 Total other current liabilities	 \$ 10,722	 \$ 14,866

**11. Other Long-Term Liabilities**

Other long-term liabilities consist of the following (in thousands):

	March 31, 2013	December 31, 2012
Deferred rent	\$ 3,426	\$ 3,543
Income taxes payable	1,718	1,718
 Total other long-term liabilities	 \$ 5,144	 \$ 5,261

**12. Contingencies*****Akamai Litigation***

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

In June 2006, Akamai Technologies, Inc. (Akamai), and the Massachusetts Institute of Technology (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). Before trial, Akamai waived by stipulation its claims of indirect or induced infringement and proceeded to trial only on the theory of direct infringement. In February 2008, a jury returned a verdict in this lawsuit, finding that the Company infringed four claims of the 703 patent at issue and rejecting

## **Table of Contents**

the Company's invalidity defenses. The jury awarded an aggregate of approximately \$45.5 million which includes lost profits, reasonable royalties and price erosion damages for the period April 2005 through December 31, 2007. In addition, the jury awarded 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 2008, the Company recorded a potential additional provision of approximately \$17.5 million for potential additional infringement damages and interest. 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.*, 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 was entitled to JMOL. Based upon the court's April 24, 2009 order, the Company reversed the \$65.6 million provision for litigation previously recorded for this lawsuit as the Company no longer believed that payment of any amounts represented by the litigation provision was 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. On December 20, 2010, the Court of Appeals for the Federal Circuit issued its opinion affirming the trial court's entry of judgment in the Company's favor. On February 18, 2011, Akamai filed a motion with the Court of Appeals for the Federal Circuit seeking a rehearing and rehearing *en banc*. On April 21, 2011, the Court of Appeals for the Federal Circuit issued an order denying the petition for rehearing, granting the petition for rehearing *en banc*, vacating the December 20, 2010 opinion affirming the trial court's entry of judgment in the Company's favor, and reinstated the appeal.

On August 31, 2012, the Court of Appeals for the Federal Circuit issued its opinion in the case. The Court of Appeals stated that the trial court correctly determined that the Company did not directly infringe Akamai's '703 patent and upheld the trial court's decision to vacate the original jury's damages award. The Court of Appeals also held that the Company did not infringe Akamai's '413 or '645 patents. A slim majority in this three-way divided opinion also announced a revised legal theory of induced infringement, remanded the case to the trial court, and gave Akamai an opportunity for a new trial to attempt to prove that the Company induced its customers to infringe Akamai's patent under the Court of Appeals' new legal standard. On December 28, 2012, the Company filed a petition for writ of certiorari to the United States Supreme Court to appeal this sharply divided Court of Appeals decision and sought to stay any proceedings at the trial court until the Supreme Court rules on that petition. Akamai then filed a cross petition for consideration of the Court of Appeals standard for direct infringement followed by an opposition to the Company's petition. The Company believes that the Court of Appeals' new induced infringement standard runs counter to the Patent Act and Supreme Court precedent, and it should be overturned by the Supreme Court. Additionally, just as the Company has successfully shown that it does not directly infringe Akamai's patent, the Company firmly believes that it ultimately would be successful in showing that it does not infringe Akamai's patent under the Court of Appeals majority's new induced infringement theory, and it will continue to vigorously defend against the allegation. The Company is not able at this time to estimate the range of a potential loss. In light of the status of the litigation, the Company believes there is a reasonable possibility that it has incurred a loss related to the Akamai litigation and believes a loss is not probable, and; therefore, no provision for this lawsuit is recorded in the consolidated 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 incurred, as reported in its consolidated statement of operations.

### ***Other Litigation***

The Company is subject to various other legal proceedings and claims, either asserted or unasserted, arising in the ordinary course of business. While the outcome of these claims cannot be predicted with certainty, management does not believe the outcome of any of these matters will have a material adverse effect on the Company's business, financial position, results of operations, or cash flows. Litigation relating to the content delivery 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.

### ***Other Matters***

The Company is subject to indirect taxation in various states and foreign jurisdictions. Laws and regulations that apply to communications and commerce conducted over the Internet are becoming more prevalent, both in the United States and internationally, and may impose additional burdens on the Company conducting business online or providing Internet-related services. Increased regulation could negatively affect the Company's business directly, as well as the businesses of its customers, which could reduce their demand for the Company's services. For example, tax authorities in various states and abroad may impose taxes on the Internet-related revenue the Company generates based on regulations currently being applied to similar but not directly comparable industries.





**Table of Contents**

There are many transactions and calculations where the ultimate tax determination is uncertain. In addition, domestic and international taxation laws are subject to change. In the future, the Company may come under audit, which could result in changes to its tax estimates. The Company believes it maintains adequate tax reserves to offset potential liabilities that may arise upon audit. Although the Company believes its tax estimates and associated reserves are reasonable, the final determination of tax audits and any related litigation could be materially different than the amounts established for tax contingencies. To the extent these estimates ultimately prove to be inaccurate, the associated reserves would be adjusted, resulting in the recording of a benefit or expense in the period in which a change in estimate or a final determination is made.

**13. Net Loss per Share**

The Company calculates basic and diluted earnings per weighted average share based on net income (loss). The Company uses the weighted-average number of common shares outstanding during the period 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. Net income (loss) from continuing operations is utilized in determining whether potential common shares are dilutive or antidilutive for purposes of computing diluted net income (loss) per share.

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):

	<b>For the Three Months Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
Net loss from continuing operations	\$ (8,136)	\$ (9,697)
Net loss from discontinued operations		(309)
<b>Net loss attributable to common stockholders</b>	<b>\$ (8,136)</b>	<b>\$ (10,006)</b>
Basic weighted average common shares	96,818	104,226
Basic weighted average common shares	96,818	104,226
Dilutive effect of stock options and restricted stock units		
<b>Diluted weighted average common shares</b>	<b>96,818</b>	<b>104,226</b>
Basic loss per share:		
Continuing operations	\$ (0.08)	\$ (0.09)
Discontinued operations		(0.01)
<b>Basic net loss per share</b>	<b>\$ (0.08)</b>	<b>\$ (0.10)</b>
Diluted loss per share:		
Continuing operations	\$ (0.08)	\$ (0.09)
Discontinued operations		(0.01)
<b>Diluted net loss per share</b>	<b>\$ (0.08)</b>	<b>\$ (0.10)</b>

For the three month periods ended March 31, 2013 and 2012, outstanding options and restricted stock units of approximately 1.4 million and 2.0 million, respectively, were excluded from the computation of diluted net loss per common share because including them would have been anti-dilutive.

**14. Stockholders Equity***Common Stock*

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

On October 29, 2012, the Company's board of directors authorized and approved a third common stock repurchase plan that authorized the Company to repurchase up to \$10 million of its shares of common stock, exclusive of any commissions, markups or expenses, from time to time through May 9, 2013. During the three months ended March 31, 2013, the Company purchased and cancelled approximately 2.3 million shares under the third repurchase plan for approximately \$5.5 million, including commissions. Any repurchased shares were cancelled and returned to authorized but unissued status. As of March 31, 2013, the Company's third repurchase plan was complete.

**Table of Contents****15. Accumulated Other Comprehensive Loss**

Changes in the components of other comprehensive loss for the three month period ended March 31, 2013 was as follows (in thousands):

	Foreign Currency	Unrealized Gains (Losses) on Available for Sale Securities	Total
Balance, December 31, 2012	\$ (747)	\$ 38	\$ (709)
Other comprehensive income (loss) before reclassifications	(1,475)	(55)	(1,530)
Amounts reclassified from accumulated other comprehensive income (loss)			
Net current period other comprehensive loss	(1,475)	(55)	(1,530)
Balance, March 31, 2013	\$ (2,222)	\$ (17)	\$ (2,239)

**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 month periods ended March 31, 2013 and 2012 (in thousands):

	For the Three Months Ended March 31,	
	2013	2012
Share-based compensation expense by type of award:		
Stock options	\$ 1,886	\$ 1,941
Restricted stock awards and units	1,464	2,010
Total share-based compensation expense	\$ 3,350	\$ 3,951
Effect of share-based compensation expense on statement of operations by categories:		
Cost of services	\$ 505	\$ 506
General and administrative expense	1,621	1,777
Sales and marketing expense	663	837
Research and development expense	561	831
Total cost related to share-based compensation expense	\$ 3,350	\$ 3,951

Unrecognized share-based compensation expense totaled \$26.6 million at March 31, 2013, of which approximately \$13.2 million related to stock options and approximately \$13.4 million related to restricted stock awards. The Company currently expects to recognize share-based compensation expense of approximately \$9.2 million during the remainder of 2013, \$9.4 million in 2014 and the remainder thereafter based upon the scheduled vesting of the stock options and restricted stock units outstanding at March 31, 2013.

**17. Related Party Transactions**

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

The Company leased office space to an entity in which current members of its board of directors have an ownership interest. During the three month periods ended March 31, 2013 and 2012, the Company invoiced this entity approximately \$0 and \$15,640, respectively, for office space rental.

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 approximately 1% of total revenue for the three month periods ended March 31, 2013 and 2012.

Total outstanding accounts receivable from all related parties as of March 31, 2013 and December 31, 2012, was approximately \$1.3 million. As of March 31, 2013 and December 31, 2012, the Company had an allowance for doubtful accounts receivable of approximately \$1.3 million and \$0.8 million, respectively, for an outstanding related party accounts receivable.

**Table of Contents****18. Leases and Commitments*****Operating Leases***

The Company is committed to various non-cancelable operating leases for office space and office equipment that expire through 2019. Certain leases contain provisions for renewal options and rent escalations upon expiration of the initial lease terms. Approximate future minimum lease payments over the remaining lease periods as of March 31, 2013 are as follows (in thousands):

2013	\$ 3,041
2014	3,375
2015	2,731
2016	2,054
2017 and thereafter	4,034
Total minimum payments	\$ 15,235

***Purchase Commitments***

The Company has long-term commitments for bandwidth usage, co-location with various networks and Internet service providers, or ISPs, and for other purchase obligations. The following summarizes minimum commitments as of March 31, 2013 (in thousands):

2013	\$ 30,000
2014	24,373
2015	16,358
2016	4,014
2017 and thereafter	374
Total minimum payments	\$ 75,119

***Capital Leases***

The Company leases equipment under capital lease agreements that extend through 2017. As of March 31, 2013 and December 31, 2012, the outstanding balance for capital leases was approximately \$1.7 million and \$2.1 million, respectively. The Company has recorded assets under capital lease obligations of approximately \$5.1 million as of March 31, 2013 and December 31, 2012. Related accumulated amortization totaled approximately \$3.3 million and \$2.9 million, respectively, as of March 31, 2013 and December 31, 2012. The assets acquired under capital leases and the related accumulated amortization is 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 \$27,000 and \$51,000, respectively, for the three month periods ended March 31, 2013 and 2012.

Future minimum capital lease payments at March 31, 2013 are as follows (in thousands):

2013	\$ 921
2014	498
2015	238
2016	134
2017 and thereafter	5

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

Total	1,796
Amounts representing interest	(100)
Present value of minimum lease payments	\$ 1,696

### 19. Concentrations

For the three month periods ended March 31, 2013 and 2012, Netflix, Inc. represented approximately 13% and 11%, respectively, of the Company's total revenue.

Revenue from customers outside North America totaled approximately \$14.4 million and \$13.8 million, respectively, for the three month periods ended March 31, 2013 and 2012. During the three month periods ended March 31, 2013 and 2012, respectively, no single country outside of the United States accounted for 10% or more of the Company's total revenues.

**Table of Contents****20. Income taxes**

Income taxes for the interim periods presented have been included in the accompanying condensed consolidated financial statements on the basis of an estimated annual effective tax rate. Based on an estimated annual effective tax rate and discrete items, the income tax expense from continuing operations for the three months ended March 31, 2013 and 2012 was \$80,000 and \$137,000, respectively. Income tax expense on the loss from continuing operations before taxes was different than the statutory income tax rate primarily due to the Company providing for a valuation allowance on deferred tax assets in certain jurisdictions, and the recording of state and foreign tax expense for the quarter.

The Company files income tax returns in jurisdictions with varying statutes of limitations. Tax years 2009 through 2012 generally remain subject to examination by federal and most state tax authorities. As of March 31, 2013, the Company is not under any federal or state examinations.

**21. Segment Reporting**

The Company operates in one industry segment – content delivery and related services. The Company operates in three geographic areas – North America, Europe, Middle East and Africa (EMEA) and Asia Pacific, including Japan.

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

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

	<b>For the Three Months Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
Domestic revenue	\$ 31,447	\$ 30,537
International revenue Asia Pacific	7,311	6,964
International revenue EMEA	7,055	6,815
Total revenue	\$ 45,813	\$ 44,316

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

	<b>March 31, 2013</b>	<b>December 31, 2012</b>
Domestic long-lived assets	\$ 30,541	\$ 35,318
International long-lived assets	10,511	12,320
Total long-lived assets	\$ 41,052	\$ 47,638

**22. 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;

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

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 March 31, 2013 and December 31, 2012, the Company held certain assets and liabilities that were required to be measured at fair value on a recurring basis. These include money market funds, commercial paper, corporate notes and bonds, U.S. government agency bonds, and publicly traded stocks, which are classified as either cash and cash equivalents or marketable securities. The Company also had acquisition related contingent consideration which is classified as a current liability on the Company's consolidated balance sheet.



**Table of Contents**

The Company's financial assets are valued using market prices on both active markets (Level 1) and less active markets (Level 2). Level 1 instrument valuations are obtained from real-time quotes for transactions in active exchange markets involving identical assets. Level 2 instrument valuations are obtained from readily available pricing sources for comparable instruments or identical instruments in less active markets. Level 3 inputs are valued using models that take into account the terms of the arrangement as well as multiple inputs where applicable, such as estimated units sold and other customer utilization metrics.

The following is a summary of fair value measurements at March 31, 2013 (in thousands):

Description	Total	Fair Value Measurements at Reporting Date Using		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets:</b>				
Government agency bonds (1)	\$ 3,093	\$	\$ 3,093	\$
Money market funds (2)	10,762	10,762		
Corporate notes and bonds (1)	24,208		24,208	
Commercial paper (1)	3,996		3,996	
Certificate of deposit (1)	2,744		2,744	
Publicly traded common stock (1)	11	11		
Total assets measured at fair value	\$ 44,814	\$ 10,773	\$ 34,041	\$

(1) Classified in marketable securities

(2) Classified in cash and cash equivalents

For the three month period ended March 31, 2013, realized gains and losses for marketable securities are reported in interest income, unrealized gains and losses for marketable securities are included in other comprehensive income and expense. For the three month period ended March 31, 2013, the Company had net unrealized losses of approximately \$55,000.

The following is a summary of fair value measurements at December 31, 2012 (in thousands):

Description	Total	Fair Value Measurements at Reporting Date Using		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets:</b>				
Government agency bonds (1)	\$ 6,270	\$	\$ 6,270	\$
Money market funds (2)	14,697	14,697		
Corporate notes and bonds (1)	9,529		9,529	
Commercial paper (1)	500		500	
Certificate of deposit (1)	2,741		2,741	
Publicly traded common stock (1)	18	18		
Total assets measured at fair value	\$ 33,755	\$ 14,715	\$ 19,040	\$

- (1) Classified in marketable securities
- (2) Classified in cash and cash equivalents

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 represents 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.

## Table of Contents

### **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, 2012 included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission, or SEC, on March 1, 2013. 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, among other things, statements as to industry trends, our future expectations, operations, financial condition and prospects, business strategies and other matters that do not relate strictly to historical facts. These statements are often identified by the use of words such as may, will, expect, believe, anticipate, intend, could, estimate, or continue, and similar expressions or variations. These statements are based on the beliefs and assumptions of our management based on information currently available to management. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled Risk Factors set forth in Part II, Item 1A of the Quarterly Report on Form 10-Q. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements. We undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements. Prior period information has been modified to conform to current year presentation.*

#### **Overview**

We were founded in 2001 as a provider of content delivery network services to deliver digital content over the Internet. We began development of our infrastructure in 2001 and began generating meaningful revenue in 2002. Today, we operate a globally distributed, high-performance computing platform (our global computing platform) and provide a suite of integrated services including content delivery, web and video content management, mobility, web application acceleration, cloud storage, and related consulting services that enable companies and other organizations to create, manage, and deliver a global digital presence.

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

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

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

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

We provide services to customers in three geographic areas—North America, EMEA, and Asia Pacific, including Japan. As of March 31, 2013, we had 1,406 active customers worldwide.

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



**Table of Contents**

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

On October 29, 2012, our board of directors authorized and approved a third common stock repurchase plan that authorized us to repurchase up to \$10 million of our shares of common stock, exclusive of any commissions, markups or expenses, from time to time through May 9, 2013. During the three months ended March 31, 2013, we purchased and cancelled approximately 2.3 million shares under the third repurchase plan for approximately \$5.5 million including commissions. Repurchased shares were cancelled and returned to authorized but unissued status. Our third common stock repurchase plan is now complete.

Traffic on our network and our VAS offerings continued to grow during the three month period ended March 31, 2013. This traffic growth is primarily the result of growth in the traffic delivered to existing customers, and to a lesser extent to new customers. Our content delivery revenue is generated by charging for traffic delivered. Our content delivery revenue decreased during the three month period ended March 31, 2013, compared to the three month period ended March 31, 2012. The decrease was primarily due to a decrease in our reseller revenue from Global Crossing, whose reseller contract ended during the second quarter of 2012, and a decrease in our transit and colocation services revenue. Our VAS revenue represented substantially all of our revenue growth during the three month period ended March 31, 2013. During 2012, we continued to add new customers, experienced some attrition and elected not to renew some customers. During the three month period ended March 31, 2013, we continued with that same focus to add new customers and also elected to not renew some customers as we continue to focus on customer quality. Our customer churn has been higher than we would like and is an area of focus for us. While the rate is not significant, it is less than 1% per month for the quarter, which we still think is too high and led to a net customer loss during the quarter. Our average number of products per customer during the three month period ended March 31, 2013 was 1.8. For new customers added during the quarter we averaged 2.1 products. We continue to have success selling new products to our customer base.

Our international revenue has continued to grow, 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, 2012, revenue derived from customers outside North America accounted for approximately 31% of our total revenue. For the year ended December 31, 2012, we derived approximately 47% of our international revenue from EMEA, and approximately 53% of our international revenue from Asia Pacific. During 2012, two countries, Japan and the United States, accounted for 10% or more of our total revenues. For the three month periods ended March 31, 2013 and 2012, respectively, revenue derived from customers outside North America accounted for approximately 31%, respectively, of our total revenue. For the three month periods ended March 31, 2013 and 2012, respectively, we derived approximately 49%, respectively, of our international revenue from EMEA and approximately 51%, respectively, of our international revenue from Asia Pacific. For the three month periods ended March 31, 2013 and 2012, no single country outside of the United States accounted for 10% or more of our total revenue. We expect foreign revenue to continue to increase in absolute dollars in 2013. Our business is managed as a single segment, and we report our financial results on this basis.

During any given fiscal period, a relatively small number of customers typically account for a significant percentage of our revenue. For example, in 2012, sales to our top 10 customers accounted for approximately 33% of our total revenue, and we had one customer, Netflix, which represented approximately 11% of our total revenue. For the three month periods ended March 31, 2013 and 2012, sales to our top 10 customers accounted for approximately 35% and 33%, respectively, of our total revenue. During the three month periods ended March 31, 2013 and 2012, Netflix represented approximately 13% and 11%, respectively, of our total revenue. In 2013, we anticipate that our top 10 customer concentration levels will remain consistent with 2012. In the past, the customers that comprised our top 10 customers have continually changed, and our large customers may not continue to be as significant going forward as they have been in the past.

On September 21, 2006, we entered into a service agreement with Netflix. This agreement sets forth the terms by which our delivery of services will be subject if and when Netflix places a service order form with us for specified services, upon which such order form will be incorporated into the agreement. The term of the agreement continues until the expiration of Netflix's last active service order form and is cancellable by either party if the other party is in material breach of the agreement upon 30 days prior notice. Netflix's last active service order form placed to date will expire on December 31, 2013.

In addition to selling to our direct customers, we maintain relationships with a number of resellers that purchase our services for resale to their end customers. Revenue generated from sales to reseller customers accounted for approximately 3% of our total revenue for the year ended December 31, 2012. For the three month periods ended March 31, 2013 and 2012, revenue generated from sales to reseller customers accounted for approximately 3%, respectively, of our total revenue.



---

**Table of Contents**

In addition to the revenue-related business trends, our cost of revenue increased in absolute dollars and increased as a percentage of revenue for the three month period ended March 31, 2013, compared to the three month period ended March 31, 2012. The increase in absolute dollars was primarily due to increased aggregate bandwidth and co-locations fees, increased professional fees, and increased payroll and related employee costs. These increases were offset by a decrease in other costs of revenue and decreased fees and licenses.

We enter into contracts with third party network and data center providers, with terms typically ranging from several months to several years. Our contracts related to transit bandwidth provided by network operators generally commit us to pay a fixed monthly fee or monthly fees, plus additional fees for bandwidth usage above a specified level. We entered into an agreement with Global Crossing in January 2009 for use of private lines for additional bandwidth and backbone services with a term of four years from installation. We executed subsequent amendments in September 2009, March 2011, and January 2012 for additional bandwidth and backbone services. The agreement and subsequent amendments required substantial prepayment for such services, and the amendments extended the original term for some services through June 2014. In addition to purchasing services from communications providers, we connect directly to approximately 600 broadband ISPs, generally without either party paying the other. This industry practice, known as settlement free peering, benefits us by allowing us to place content objects directly on user access networks, which helps us provide higher performance delivery for our customers, and eliminate paying transit bandwidth fees to network operators. This practice also benefits the ISP and its customers by allowing them to receive improved content delivery through our local servers and eliminate the cost of transit bandwidth associated with delivery receipt of the traffic. We do not consider these relationships to represent the culmination of an earnings process. Accordingly, we do not recognize as revenue the value to the ISPs associated with the use of our servers nor do we recognize as expense the value of the bandwidth received at discounted or no cost. These peering relationships are mutually beneficial and are not contractual commitments. In addition to settlement free peering, we incur costs for non-settlement free peering as well as costs associated with connecting to the ISPs.

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

For the three month period ended March 31, 2013, operating expenses decreased in absolute dollars and decreased as a percentage of revenue compared to the three month period ended March 31, 2012. This decrease was primarily due to decreased general and administrative costs and decreased sales and marketing expenses. The decrease in general and administrative costs was primarily due to decreased professional fees for accounting and legal services, decreased share-based compensation, and the receipt of a non-income tax based refund of approximately \$0.8 million. The decrease in sales and marketing expenses was primarily due to decreased payroll and related employee costs, including decreased variable compensation, decreased salaries, and decreased travel and travel related expenses. These decreases were offset by an increase in research and development costs. For the three month period ended March 31, 2013, research and development costs increased primarily as a result of increased payroll and related employee costs due to increased staffing.

We make our capital investment decisions based upon careful evaluation of a number of variables, such as the amount of traffic we anticipate on our network, the cost of the physical infrastructure required to deliver that traffic, and the forecasted capacity utilization of our network. Our capital expenditures have varied over time, in particular as we purchased servers and other network equipment associated with our network build-out. For example, in 2012, 2011, and 2010 we made capital purchases of \$18.4 million, \$30.4 million, and \$33.5 million, respectively, which represented 10%, 18% and 22%, respectively, of total revenue for each of those years. For the three month period ended March 31, 2013, we made capital investments of \$2.6 million, which represented 6% of total revenue for that period. We expect to have ongoing capital expenditure requirements as we continue to invest in, refresh, and expand our global computing platform.

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

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

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

successfully manage our litigation with Akamai Technologies, Inc. or 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;



**Table of Contents**

successfully integrate the businesses we have acquired; and

successfully manage the disposition of businesses we have divested from.

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

**Critical Accounting Policies and Estimates**

Our critical accounting policies and estimates are disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012. During the three months ended March 31, 2013, there have been no significant changes in our critical accounting policies and estimates. However, we have supplemented our disclosures contained in our Annual Report on Form 10-K for the year ended December 31, 2012, as noted below.

**Goodwill and Other Intangible Assets**

We test goodwill for impairment on an annual basis or more frequently if events or changes in circumstances indicate that goodwill might be impaired. We have concluded that we have one reporting unit and have assigned the entire balance of goodwill to this reporting unit. The fair value of the reporting unit is determined using our market capitalization as of our annual impairment assessment date or each reporting date if circumstances indicate the goodwill might be impaired. Items that could reasonably be expected to negatively affect key assumptions used in estimating fair value include but are not limited to:

Sustained decline in our stock price due to a decline in our financial performance due to the loss of key customers, loss of key personnel, emergence of new technologies or new competitors

Decline in overall market/economic conditions leading to decline in our stock price

Decline in observed control premiums paid in business combinations involving comparable companies

The estimated fair value of the reporting unit is determined using a market approach utilizing our market capitalization as adjusted for a control premium based on the estimated average and median control premiums of transactions involving companies comparable to us. As of the annual impairment testing date and at December 31, 2012, we determined that goodwill was not impaired. We also performed a similar analysis at March 31, 2013 and noted that the estimated fair value of our reporting unit exceeded carrying value by approximately \$24 million or 9% using the market capitalization on March 31, 2013. Based on this analysis, management determined that goodwill continues to not be impaired at March 31, 2013.

**Results of Continuing Operations****Three Months Ended March 31, 2013 Compared to Three Months Ended March 31, 2012****Revenue**

	2013	2012 (in thousands)	Three months ended March 31, Increase (Decrease)	Percent Change
Revenue	\$ 45,813	\$ 44,316	\$ 1,497	3%

Revenue increased 3%, or \$1.5 million, to \$45.8 million for the three month period ended March 31, 2013 as compared to \$44.3 million for the three month period ended March 31, 2012. The increase in revenue for the three month period ended March 31, 2013 as compared to the same period in the prior year was attributable to an increase in our VAS revenue of approximately \$2.2 million. The increase in VAS revenue was primarily attributable to increases in our video publishing and acceleration service offerings. The increase in VAS revenue was offset by a

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

decrease in our content delivery services revenue of approximately \$0.7 million, even though we continued to increase the amount of traffic moving through our network. The decrease was primarily due to a decline in our reseller revenue from Global Crossing, whose reseller contract ended during the second quarter of 2012, and a decline in our transit and colocation services revenue.

As of March 31, 2013, we had 1,406 customers as compared to 1,562 as of March 31, 2012. Our customer churn has been higher than we would like and is an area of focus for us. The decrease in customer count was primarily attributable to the loss of smaller revenue generating customers.

In the past, the customers that comprise our top 10 customers have continually changed, and our large customers such as Netflix may not continue to be as significant going forward as they have been in the past. Netflix's last active service order form placed to date will expire on December 31, 2013.

We anticipate revenues will increase in 2013. We expect to deliver more traffic on our network and expect continued growth in our VAS. We anticipate that our customer concentrations levels will be consistent with 2012.

### *Cost of Revenue*

	Three months ended March 31,			Percent Change
	2013	2012 (in thousands)	Increase (Decrease)	
Cost of revenue	\$ 28,732	\$ 27,330	\$ 1,402	5%

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

Cost of revenue increased 5%, or approximately \$1.4 million, to \$28.7 million for the three month period ended March 31, 2013 as compared to \$27.3 million for the three month period ended March 31, 2012. This increase was primarily due to an increase in aggregate bandwidth and co-location fees of approximately \$1.2 million, primarily associated with increased peering costs of approximately \$0.5 million, increased rack fees of approximately \$0.4 million, and increased other costs of recurring services of approximately \$0.2 million. Additionally, we had increases in professional fees and outside services of approximately \$0.4 million, primarily due to an increase in outside consulting expense, and we had an increase in payroll and related employee costs of approximately \$0.2 million due to increased staffing, primarily related to professional services. These increases were offset by a decrease in other costs of approximately \$0.3 million, which was the result of a reduction in other costs of revenue and a decrease in fees and licenses. In addition, depreciation expense decreased approximately \$0.1 million.

Additionally, during the three month periods ended March 31, 2013 and 2012, cost of revenue included share-based compensation expense of approximately \$0.5 million, respectively.

**Table of Contents**

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

	For the Three Months Ended March 31,	
	2013	2012
Bandwidth and co-location fees	\$ 14.8	\$ 13.6
Depreciation network	6.7	6.8
Payroll and related employee costs	4.6	4.4
Professional fees and outside services	0.7	0.3
Share-based compensation	0.5	0.5
Royalty expenses	0.2	0.2
Travel and travel-related expenses	0.2	0.2
Other costs	1.0	1.3
<b>Total cost of revenue</b>	<b>\$ 28.7</b>	<b>\$ 27.3</b>

We anticipate cost of revenue will increase in 2013. We expect to deliver more traffic on our network, which would result in higher expenses associated with increased bandwidth, peering, rack and co-location costs to support increased traffic; however, such costs are likely to be partially offset by lower bandwidth costs per unit. We anticipate depreciation expense related to our network equipment to decrease compared to 2012 in absolute dollars. Additionally, we expect an increase in payroll and related costs, as we continue to make investments in our network to service our expanding customer base as well as our increase in VAS personnel. We expect that share-based compensation expense will decrease in absolute dollars and remain consistent with 2012 as a percentage of revenue.

**General and Administrative**

	2013	Three months ended March 31,		Percent Change
		2012 (in thousands)	Increase (Decrease)	
General and administrative	\$ 8,073	\$ 8,320	\$ (247)	(3)%

General and administrative expenses consist primarily of the following components:

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

fees for professional services and litigation expenses;

rent and other facility-related expenditures for leased properties;

the provision for doubtful accounts; and

non-income based taxes.

General and administrative expenses decreased 3%, or \$0.2 million, to \$8.1 million for the three month period ended March 31, 2013 as compared to \$8.3 million for the three month period ended March 31, 2012. This decrease was primarily due to lower professional fees of

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

approximately \$0.4 million, which includes decreased accounting fees of approximately \$0.3 million and decreased legal fees related to intellectual property of approximately \$0.1 million. In addition, bad debt expense decreased \$0.1 million. These decreases were offset by an increase in other costs of \$0.3 million, which was primarily due to an increase in supplies and other employee costs, and an increase in payroll and related employee costs of approximately \$0.2 million, which was primarily due to increased salaries. For the three month period ended March 31, 2013, other expenses included a refund of non-income based taxes of approximately \$0.8 million. For the three months ended March 31, 2012, other expenses included the reversal of previously recorded contingent considerations of approximately \$0.8 million. Other expenses include such items as rent, utilities, telephone, insurance, fees and licenses, office supplies, and non-income taxes.

Additionally, general and administrative share-based compensation expense decreased \$0.2 million for the three months ended March 31, 2013 compared to March 31, 2012.

**Table of Contents**

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

	For the Three Months Ended March 31,	
	2013	2012
Payroll and related employee costs	\$ 2.8	\$ 2.6
Professional fees	1.8	2.2
Share-based compensation	1.6	1.8
Litigation expenses		
Bad debt expense	0.3	0.4
Travel and travel-related expenses	0.2	0.2
Other expenses	1.4	1.1
 Total general and administrative	 \$ 8.1	 \$ 8.3

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

**Sales and Marketing**

	2013	Three months ended March 31,		Percent Change
		2012 (in thousands)	Increase (Decrease)	
Sales and marketing	\$ 10,484	\$ 11,632	\$ (1,148)	(10)%

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

Sales and marketing expenses decreased 10%, or \$1.1 million, to \$10.5 million for the three month period ended March 31, 2013 compared to \$11.6 million for the three month period ended March 31, 2012. The decrease in sales and marketing expenses was primarily due to a decrease in payroll and related employee costs of approximately \$1.0 million, primarily due to decreased variable compensation costs of approximately \$0.5 million and a decrease in salaries of approximately \$0.4 million. In addition, our travel and travel-related expenses decreased approximately \$0.3 million. These decreases were offset by an increase in other costs of approximately \$0.3 million and an increase in marketing expenses of approximately \$0.1 million. The increase in other costs was primarily due to increased fees and licenses and increased facility and facility-related costs.

Additionally, sales and marketing share-based compensation expense decreased \$0.1 million for the three months ended March 31, 2013 compared to March 31, 2012.

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

	For the Three Months Ended March 31,	
	2013	2012
Payroll and related employee costs	\$ 6.3	\$ 7.3

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

Travel and travel-related expenses	0.7	1.0
Share-based compensation	0.7	0.8
Marketing programs	0.6	0.5
Professional fees and outside services	0.4	0.5
Other expenses	1.8	1.5
<b>Total sales and marketing</b>	<b>\$ 10.5</b>	<b>\$ 11.6</b>

We anticipate our sales and marketing expenses will decrease in 2013 in absolute dollars and as a percentage of revenue compared to 2012. The decrease in absolute dollars is due to expected decreases in salaries and related employee costs and travel and entertainment expenses. These decreases are offset by expected increases in variable compensation on higher forecast sales, and an expected increase in facility and facility-related expenses for our sales and marketing personnel. We expect that share-based compensation expense will decrease slightly in absolute dollars and remain constant as a percentage of revenue in 2013 compared to 2012.

**Table of Contents****Research and Development**

	2013	2012 (in thousands)	Three months ended March 31, Increase (Decrease)	Percent Change
Research and development	\$ 5,741	\$ 5,166	\$ 575	11%

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

Research and development expenses increased 11%, or \$0.6 million, to \$5.7 million for the three month period ended March 31, 2013 as compared to \$5.2 million for the three month period ended March 31, 2012. The increase in research and development expenses was primarily due to an increase of approximately \$0.4 million in payroll and related employee costs and an increase in professional fees of approximately \$0.1 million, an increase in travel and travel-related expenses of \$0.1 million and an increase in other costs of \$0.1 million. The increase in payroll and related employee costs was primarily due to increased salaries as result of additional network, software engineering and product management personnel. Other expenses include such items as fees and licenses, telephone, and office supplies.

Additionally, research and development share-based compensation expense decreased \$0.2 million for the three months ended March 31, 2013 compared to March 31, 2012.

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

	For the Three Months Ended March 31,	
	2013	2012
Payroll and related employee costs	\$ 4.3	\$ 3.9
Share-based compensation	0.6	0.8
Professional fees and outside services	0.3	0.2
Travel and travel-related expenses	0.2	0.1
Other expenses	0.3	0.2
Total research and development	\$ 5.7	\$ 5.2

We anticipate our research and development expenses will increase in 2013 in absolute dollars and slightly increase as a percentage of revenue as we continue to make investments in our core technology, refinements, and additions to our other service offerings. We expect increased payroll and related employee costs associated with continued hiring of research and development personnel. We expect that share-based compensation expense will decrease in both absolute dollars and as a percentage of revenue in 2013 compared to 2012.

**Depreciation and Amortization (Operating Expenses)**

	2013	2012 (in thousands)	Three months ended March 31, Increase (Decrease)	Percent Change
Depreciation and amortization	\$ 1,450	\$ 1,398	\$ 52	4%

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

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

Depreciation and amortization expense was approximately \$1.4 million, for each of the three month periods ended March 31, 2013 and 2012. General administrative depreciation and amortization expense was approximately \$0.7 million, in each of the three month periods ended March 31, 2013 and 2012. Amortization of intangible assets was approximately \$0.7 million, for each of the three month periods ended March 31, 2013 and 2012. Based on our intangible assets at March 31, 2013, we expect amortization of other intangible assets to be approximately \$2.1 million for the remainder of 2013, and \$2.2 million, \$1.1 million, and \$0.3 million for fiscal years 2014, 2015, and 2016, respectively.



**Table of Contents****Interest Expense**

	2013	2012 (in thousands)	Three months ended March 31, Increase (Decrease)	Percent Change
Interest expense	\$ 27	\$ 50	\$ (23)	(46)%

Interest expense consists of interest accrued and paid.

Interest expense decreased to \$27,000 for the three month period ended March 31, 2013, as compared to \$50,000 for the three month period ended March 31, 2012. Interest expense for the three month periods ended March 31, 2013 and 2012, was primarily comprised of interest paid on capital leases. As of March 31, 2013, with the exception of our capital leases, we had no outstanding credit facilities.

**Interest Income**

	2013	2012 (in thousands)	Three months ended March 31, Increase (Decrease)	Percent Change
Interest income	\$ 70	\$ 106	\$ (36)	(34)%

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

Interest income was approximately \$0.1 million for each of the three month periods ended March 31, 2013 and 2012, respectively.

**Other Income (Expense)**

	2013	2012 (in thousands)	Three months ended March 31, Increase (Decrease)	Percent Change
Other (expense) income	\$ 568	\$ (86)	\$ (654)	760%

Other income was approximately \$0.6 million for three month period ended March 31, 2013 compared to \$0.1 million other expense for the three month period ended March 31, 2012. Other income for the three month period ended March 31, 2013 consists primarily of foreign currency transaction gains. Other expense for the three month period ended March 31, 2012, consists primarily of foreign currency transaction losses.

**Income Tax Expense**

	2013	2012 (in thousands)	Three months ended March 31, Increase (Decrease)	Percent Change
Income tax expense	\$ 80	\$ 137	\$ (57)	(42)%

Based on an estimated annual effective tax rate and discrete items, the estimated tax expense from continuing operations for the three months ended March 31, 2013 and 2012 was \$80,000 and \$137,000, respectively. Income tax expense on the loss from continuing operations before taxes was different than the statutory income tax rate primarily due to our providing for a valuation allowance on deferred tax assets in certain jurisdictions, and recording of state and foreign tax expense for the quarter. The effective income tax rate is based primarily upon forecasted income or loss for the year, the composition of the income or loss in different countries, and adjustments, if any, for the potential tax

consequences, benefits, or resolutions for tax audits.

**Table of Contents*****Income (loss) from Discontinued Operations***

	2013	2012 (in thousands)	Three months ended March 31, Increase (Decrease)	Percent Change
Income (loss) from discontinued operations	\$	\$ (309)	\$ (309)	(100)%

Discontinued operations relates to our EyeWonder and chors rich media advertising services. On September 1, 2011, we completed the sale of EyeWonder, LLC (EyeWonder) and chors GmbH (chors) to DG FastChannel, Inc. (currently Digital Generation, Inc.) (DG). See Note 4 of Notes to Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for additional information about discontinued operations.

**Liquidity and Capital Resources**

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

private sales of common and preferred stock and subordinated notes;

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

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

borrowing on capital leases;

borrowing on credit facilities;

sale of EyeWonder and chors in September 2011;

sale of our cost basis investment in Gaikai in August 2012; and

cash generated from operations.

As of March 31, 2013, our cash, cash equivalents, and marketable securities classified as current totaled \$120.2 million. Included in this amount is approximately \$8.4 million of cash and cash equivalents held outside the United States.

***Operating Activities***

Net cash provided by operating activities of continuing operations increased by \$4.6 million, with net cash provided by operating activities of continuing operations equaling \$2.7 million for the three month period ended March 31, 2013, compared to net cash used in operating activities of continuing operations of approximately \$1.9 million for the three month period ended March 31, 2012. The change in operating cash flows comparing the three month period ended March 31, 2013 to the three month period ended March 31, 2012 was primarily due to a larger net loss in 2012 compared to 2013 offset by changes in operating assets and liabilities. Cash used in operating activities of continuing operations related to changes in operating assets and liabilities was \$0.1 million in the three months ended March 31, 2013, compared to \$4.4 million in the three months ended March 31, 2012. The change relates primarily to changes in accounts receivable, prepaid expenses, other assets, income taxes

payable, and deferred revenue during each period.

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

***Investing Activities***

Cash used in investing activities of continuing operations was \$17.8 million for the three months ended March 31, 2013, compared to \$8.0 million for the three months ended March 31, 2012. Cash used in investing activities was principally comprised of cash generated from maturities of short-term marketable securities, off-set by the purchase of short-term marketable securities and capital expenditures primarily for computer equipment associated with the build-out and expansion of our global computing platform.

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

**Table of Contents****Financing Activities**

Net cash used in financing activities of continuing operations was approximately \$7.3 million for the three month period ended March 31, 2013, compared to \$1.7 million of cash used in financing activities of continuing operations for the three month period ended March 31, 2012. Net cash used in financing activities of continuing operations in the three months ended March 31, 2013 primarily related to payments made for the repurchase of our common stock of approximately \$5.5 million, payments of employee tax withholdings related to restricted stock of approximately \$1.4 million, and payments made on our capital lease obligations of approximately \$0.4 million.

Net cash used in financing activities of continuing operations was approximately \$1.7 million for the three month period ended March 31, 2012. Net cash used in financing activities of continuing operations in the three months ended March 31, 2012 primarily related to payments made for the repurchase of our common stock of approximately \$1.2 million, payments of employee tax withholdings related to restricted stock of approximately \$0.3 million, and payments made on our capital lease obligations of approximately \$0.4 million, off-set by cash received from the exercise of stock options of \$0.1 million.

As of March 31, 2013, the Company had no outstanding bank debt other than the aforementioned capital leases.

On October 29, 2012, our board of directors authorized and approved a third common stock repurchase plan that authorized us to repurchase up to \$10 million of our shares of common stock, exclusive of any commissions, markups or expenses, from time to time through May 9, 2013. During the three months ended March 31, 2013, we purchased and cancelled approximately 2.3 million shares under the third repurchase plan for approximately \$5.5 million including commissions. Any repurchased shares were cancelled and returned to authorized but unissued status. Our third common stock repurchase plan is now complete.

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

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

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

In the normal course of business, we make certain long-term commitments for operating leases, primarily office facilities, bandwidth, computer rack space, and other purchase obligations. These leases and obligations expire on various dates ranging from 2013 to 2019. We expect that the growth of our business will require us to continue to add to and increase our long-term commitments in 2013 and beyond. As a result of our growth strategies, we believe that our liquidity and capital resources requirements will grow.

The following table presents our contractual obligations and commercial commitments, as of March 31, 2013 over the next five years and thereafter (in thousands):

Contractual obligations as of March 31, 2013	Total	Payments Due by Period			More than 5 years
		Less than 1 year	1-3 years	3-5 years	
Operating Leases					
Bandwidth leases	\$ 27,447	\$ 19,302	\$ 7,002	\$ 1,143	\$
Rack space leases	45,980	17,720	27,643	617	
Real estate leases	15,235	3,908	5,811	3,712	1,804
<b>Total operating leases</b>	<b>88,662</b>	<b>40,930</b>	<b>40,456</b>	<b>5,472</b>	<b>1,804</b>
Capital leases	1,796	1,092	624	80	
Other purchase obligations	1,692	517	1,128	47	
<b>Total commitments</b>	<b>\$ 92,150</b>	<b>\$ 42,539</b>	<b>\$ 42,208</b>	<b>\$ 5,599</b>	<b>\$ 1,804</b>

**Off Balance Sheet Arrangements**

As of March 31, 2013, we are not involved in any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

---

**Table of Contents**

**Use of Non-GAAP Financial Measures**

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

In our May 9, 2013 earnings press release, as furnished on Form 8-K, we included Non-GAAP net income (loss), EBITDA and Adjusted EBITDA. The terms Non-GAAP net income (loss), EBITDA, and Adjusted EBITDA are not defined under United States GAAP, and are not measures of operating income, operating performance, or liquidity presented in accordance with United States GAAP. Our Non-GAAP net income (loss), EBITDA, and Adjusted EBITDA have limitations as analytical tools, and when assessing our operating performance, Non-GAAP net income (loss), EBITDA, and Adjusted EBITDA should not be considered in isolation, or as a substitute for net income (loss) or other consolidated income statement data prepared in accordance with United States GAAP. Some of these limitations include, but are not limited to:

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

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

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

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

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

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

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

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

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

**Reconciliation of Non-GAAP Financial Measures**

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

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

(In thousands)

(Unaudited)

	<b>Three Months Ended</b>	
	<b>March 31,</b>	<b>March 31,</b>
	<b>2013</b>	<b>2012</b>
GAAP net loss	\$ (8,136)	\$ (10,006)
Share-based compensation	3,350	3,951
Litigation defense expenses	42	49
Acquisition related expenses	(24)	(488)
Amortization of intangible assets	732	695
Loss from discontinued operations		309
Non-GAAP net loss	\$ (4,036)	\$ (5,490)



**Table of Contents****Reconciliation of GAAP Net Income (Loss) to EBITDA to Adjusted EBITDA****(In thousands)****(Unaudited)**

	<b>Three Months Ended</b>	
	<b>March 31,</b>	<b>March 31,</b>
	<b>2013</b>	<b>2012</b>
GAAP net loss	\$ (8,136)	\$ (10,006)
Depreciation and amortization	8,130	8,227
Interest expense	27	50
Interest and other income (expense)	(638)	(20)
Income tax expense	80	137
Loss from discontinued operations		309
<b>EBITDA</b>	<b>\$ (537)</b>	<b>\$ (1,303)</b>
Share-based compensation	3,350	3,951
Litigation defense expenses	42	49
Acquisition related expenses	(24)	(488)
<b>Adjusted EBITDA</b>	<b>\$ 2,831</b>	<b>\$ 2,209</b>

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

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

***Foreign Currency Risk***

We operate in North America, EMEA and Asia-Pacific, including Japan. As a result of our international business activities, our financial results could be affected by factors such as changes in foreign currency exchange rates or economic conditions in foreign markets, and there is no assurance that exchange rate fluctuations will not harm our business in the future. We have foreign currency exchange rate exposure on our results of operations as it relates to revenues and expenses denominated in foreign currencies. A portion of our cost of revenues and operating expenses are denominated in foreign currencies as are revenues associated with certain international customers. To the extent that the U.S. dollar weakens, similar foreign currency denominated transactions in the future will result in higher revenues and higher cost of revenues and operating expenses, with expenses having the greater impact on our financial results. Similarly, our revenues and expenses will decrease if the U.S. dollar strengthens against these foreign currencies. Although we will continue to monitor our exposure to currency fluctuations, and, where appropriate, may use financial hedging techniques in the future to minimize the effect of these fluctuations, we are not currently engaged in any financial hedging transactions. We performed a sensitivity analysis of our foreign currency exposure as of December 31, 2012 to assess the potential impact of fluctuations in exchange rates for all foreign denominated revenues and expenses. Assuming a 10 percent weakening of the U.S. dollar relative to our foreign currency denominated revenues and expenses, our net loss for the year ended December 31, 2012 and the three months ended March 31, 2013 would have been higher by approximately \$3.0 million and \$1.0 million, respectively. There are inherent limitations in the sensitivity analysis presented, primarily due to the assumption that foreign exchange rate movements across multiple jurisdictions are similar and would be linear and instantaneous. As a result, the analysis is unable to reflect the potential effects of more complex markets or other changes that could arise which may positively or negatively affect our results of operations.



**Table of Contents**

***Inflation Risk***

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

**ITEM 4. CONTROLS AND PROCEDURES**

***Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures***

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

As required by SEC Rule 13a-15(b), we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of March 31, 2013. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

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

There have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter ended March 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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

We are involved in litigation with Akamai and the Massachusetts Institute of Technology (MIT) relating to a claim of patent infringement. The action was filed in June 2006 in the United States District Court for the District of Massachusetts. The trial date was set for February 2008 with respect to four claims relating to United States Patent No. 6,108,703 (the '703 patent). Before trial, Akamai waived by stipulation its claims of indirect or induced infringement and proceeded to trial only on the theory of direct infringement. In February 2008, a jury returned a verdict in this lawsuit, finding that we infringed four claims of the '703 patent at issue and rejecting our invalidity defenses. The jury awarded an aggregate of approximately \$45.5 million which includes lost profits, reasonable royalties and price erosion damages for the period April 2005 through December 31, 2007. In addition, the jury awarded pre-judgment interest which we estimated to be \$2.6 million at December 31, 2007. We recorded the aggregate \$48.1 million as a provision for litigation as of December 31, 2007. During 2008, we recorded an additional provision of approximately \$17.5 million for potential additional infringement damages and interest. On July 1, 2008, the court denied our motions for JMOL, Obviousness, and a New Trial. The court also denied Akamai's Motion for Permanent Injunction as premature and denied its Motions for Summary Judgment regarding our equitable defenses. The court conducted a bench trial in November 2008 regarding our equitable defenses. We also filed a motion for reconsideration of the court's earlier denial of our motion for JMOL. Our motion for reconsideration of JMOL was based largely upon a clarification in the standard for a finding of joint infringement articulated by the Federal Circuit in the case of *Muniauction, Inc. v. Thomson Corp.*, released after the court denied our initial motion for JMOL. On April 24, 2009, the court issued its order and memorandum setting aside the adverse jury verdict and ruling that we did not infringe Akamai's '703 patent and that we were entitled to JMOL. Based upon the court's April 24, 2009 order, we reversed the \$65.6 million provision for litigation previously recorded for this lawsuit as we no longer believed that payment of any amounts represented by the litigation provision was probable. The court entered final judgment in our favor on May 22, 2009, and Akamai filed a notice of appeal of the court's decision on May 26, 2009. On December 20, 2010, the Court of Appeals for the Federal Circuit issued its opinion affirming the trial court's entry of judgment in our favor. On February 18, 2011, Akamai filed a motion with the Court of Appeals for the Federal Circuit seeking a rehearing and rehearing *en banc*. On April 21, 2011, the Court of Appeals for the Federal Circuit issued an order denying the petition for rehearing, granting the petition for rehearing *en banc*, vacating the December 20, 2010 opinion affirming the trial court's entry of judgment in our favor, and reinstated the appeal.

On August 31, 2012, the Court of Appeals for the Federal Circuit issued its opinion in the case. The Court of Appeals stated that the trial court correctly determined we did not directly infringe Akamai's '703 patent and upheld the trial court's decision to vacate the original jury's damages award. The Court of Appeals also held that we did not infringe Akamai's '413 or '645 patents. A slim majority in this three-way divided opinion also announced a revised legal theory of induced infringement, remanded the case to the trial court, and gave Akamai an opportunity for a new trial to attempt to prove that we induced our customers to infringe Akamai's patent under the Court of Appeals' new legal standard. On December 28, 2012, we filed a petition for writ of certiorari to the United States Supreme Court to appeal this sharply divided Court of Appeals decision and will seek to stay any proceedings at the trial court until the Supreme Court rules on that petition. Akamai then filed a cross petition for consideration of the Court of Appeals standard for direct infringement followed by an opposition to our petition. We believe that the Court of Appeals' new induced infringement standard runs counter to the Patent Act and Supreme Court precedent, and that it should be overturned by the Supreme Court. Additionally, just as we have successfully shown that we do not directly infringe Akamai's patent, we firmly believe that we ultimately would be successful in showing we do not infringe Akamai's patent under the Court of Appeals' majority's new induced infringement theory. We will continue to vigorously defend against the allegation; however, we cannot provide any assurance that the lawsuit ultimately will be resolved in our favor. An adverse ruling could seriously impact our ability to conduct significant portions of our business and to offer certain of our products and services to our customers. A permanent injunction could prevent us from operating our content delivery services or from delivering certain types of traffic, which could impact the viability of those portions of our business. Any adverse ruling, in turn, would harm our revenue, market share, reputation, liquidity and overall financial position. We are not able at this time to estimate the range of a potential loss. In light of the status of the litigation, we believe there is a reasonable possibility that we have incurred a loss related to the Akamai litigation and believe that a loss is not probable, and; therefore, no provision for this lawsuit is recorded in our consolidated financial statements.

## **Table of Contents**

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

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

*Investments in the equity securities of publicly traded companies involve significant risks. Our business, prospects, financial condition or operating results could be materially adversely affected by the risks identified below, as well as other risks not currently known to us or that we currently consider immaterial. The trading price of our common stock could decline due to any of these risks, and you may lose all or part of your investment. In assessing the risks described below, you should also refer to the information contained in this Quarterly Report on Form 10-Q, including our unaudited condensed consolidated financial statements and the related notes, as well as our Annual Report on Form 10-K for the year ended December 31, 2012 and other documents that we file from time to time with the Securities and Exchange Commission.*

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

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

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

Our primary competitors for content delivery services include Akamai, Level 3 Communications, AT&T, Amazon, CDNetworks, and Edgecast. Also, as a result of the growth of the content delivery market, a number of companies have recently entered or are currently attempting to enter our market, either directly or indirectly, some of which may become significant competitors in the future. Given the relative ease by which customers typically can switch among content delivery service providers, differentiated offerings or pricing by competitors could lead to a rapid loss of customers. Some of our current or potential competitors may bundle their offerings with other services, software or hardware in a manner that may discourage content providers from purchasing the services that we offer. In addition, as we expand internationally, we face different market characteristics and competition with local content delivery service providers, many of which are very well positioned within their local markets. Increased competition could result in price reductions and revenue shortfalls, loss of customers and loss of market share, which could harm our business, financial condition and results of operations.

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

**Table of Contents**

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

Prices for content delivery services have fallen in recent years and are likely to fall further in the future. We have invested significant amounts in purchasing capital equipment to increase the capacity of our global computing network. Our investments in our infrastructure are based upon our assumptions regarding future demand and also prices that we will be able to charge for our services. These assumptions may prove to be wrong. If the price that we are able to charge customers to deliver their content falls to a greater extent than we anticipate, if we over-estimate future demand for our services or if our costs to deliver our services do not fall commensurate with any future price declines, we may not be able to achieve acceptable rates of return on our infrastructure investments and our gross profit and results of operations may suffer dramatically.

As we further expand our global computing network and the suite of content delivery services and VAS, and as we refresh our network equipment, we are dependent on significant future growth in demand for our services to justify additional capital expenditures. If we fail to generate significant additional demand for our services, our results of operations will suffer, and we may fail to achieve planned or expected financial results. There are numerous factors that could, alone or in combination with other factors, impede our ability to increase revenue, moderate expenses or maintain gross margins, including:

continued price declines arising from significant competition with respect to content delivery services and our VAS;

increasing settlement fees for certain peering relationships;

failure to increase sales of our core content delivery services or to grow our VAS;

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

inability to maintain our prices relative to our costs;

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

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

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

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

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

We expect a significant and increasing portion of our revenue to be derived from our VAS offerings. Our VAS tend to have higher gross margins than our content delivery services. We do not have a long history of offering VAS, and we may not be able to achieve the growth rates in such services revenue that we or our investors expect or have experienced in the past. There are numerous companies that compete in

providing VAS, and many of these companies have greater financial and sales resources than we do. We may not be successful in competing against current and new providers of VAS. If we are unable to achieve the growth rates in our VAS revenue that we expect, our revenue and operating results could be significantly and negatively affected.

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

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

## **Table of Contents**

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

Customers or third parties may develop technological or business model innovations that address content management and delivery requirements in a manner that is, or is perceived to be, equivalent or superior to our content delivery services and VAS. If competitors introduce new products or services that compete with or surpass the quality or the price or performance of our services, we may be unable to renew our agreements with existing customers or attract new customers at the prices and levels that allow us to generate attractive rates of return on our investment. For example, one or more third parties might develop improvements to current peer-to-peer technology, which is a technology that relies upon the computing power and bandwidth of its participants, such that this technological approach is better able to deliver content in a way that is competitive to our content delivery services, or even makes content delivery services obsolete. We may not anticipate such developments and may be unable to adequately compete with these potential solutions. In addition, our customers' business models may change in ways that we do not anticipate, and these changes could reduce or eliminate our customers' needs for content delivery or digital asset management services. If this occurred, we could lose customers or potential customers, and our business and financial results would suffer. As a result of these or similar potential developments, in the future it is possible that competitive dynamics in our market may require us to reduce our prices faster than we anticipate, which could harm our revenue, gross margin and operating results.

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

The number of people who access the Internet through devices other than PCs, including mobile devices, game consoles and television set-top devices, has increased dramatically in the past few years. The capabilities of these devices are advancing dramatically and the increasing need to provide a high quality video experience will present us and other providers with significant challenges. If we are unable to deliver our service offerings to a substantial number of alternative device users and at a high quality or if we are slow to develop services and technologies that are more compatible with mobile devices, we will fail to capture a significant share of an increasingly important portion of the market. Such a failure could limit our ability to compete effectively in an industry that is rapidly growing and changing.

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

Our business is dependent on providing our customers with fast, efficient and reliable distribution of content delivery and digital asset management services over the Internet every minute of every day. Many of our customers depend primarily or exclusively on our services to operate their businesses. Consequently, any disruption of our services could have a material impact on our customers' businesses. Our network or services could be disrupted by numerous events, including natural disasters, failure or refusal of our third party network providers to provide the necessary capacity or access, failure of our software or global computing platform infrastructure and power losses. In addition, we deploy our servers in third party co-location facilities, and these third-party co-location providers could experience system outages or other disruptions that could constrain our ability to deliver our services. We may also experience disruptions caused by software viruses, unauthorized hacking of our systems, security breaches or other cyber attacks by unauthorized users. Any unauthorized hacking of our systems or other cyber attacks by unauthorized users could lead to the unauthorized release of confidential information that could damage our business.

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

***We are a party to a lawsuit with a significant competitor, and an adverse outcome in that lawsuit is possible, which could have a significant, adverse effect on our financial condition and operations. If an injunction were entered against us, it could force us to cease providing some significant portion of our content delivery services.***

We are currently a defendant in one significant lawsuit (see discussion in "Legal Proceedings" in Part II, Item 1 of this Quarterly Report on Form 10-Q). The expenses of defending this lawsuit and other lawsuits to which we are or may become a party, particularly fees paid to our lawyers and expert consultants, have been significant and may continue to adversely affect our operating results during the pendency of such lawsuits. Also, this litigation has been a distraction to our management and technical personnel.





---

**Table of Contents**

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

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

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

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

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

pay substantial damages;

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

redesign products or services.

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

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

We rely on a combination of patent, copyright, trademark and trade secret laws and restrictions on disclosure to protect our intellectual property rights. We have applied for patent protection in the United States and a number of foreign countries. These legal protections afford only limited protection and laws in foreign jurisdictions may not protect our proprietary rights as fully as in the United States. Monitoring infringement of our intellectual property rights is difficult, and we cannot be certain that the steps we have taken will prevent unauthorized use of our intellectual property rights. Developments and changes in patent law, such as changes in interpretations of the joint infringement standard, could restrict how we enforce certain patents we hold. We also cannot be certain that any pending or future patent applications will be granted, that any future patent will not be challenged, invalidated or circumvented, or that rights granted under any patent that may be issued will provide competitive

advantages to us.

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

Certain of our service offerings use software that is subject to open-source licenses. Open-source code is software that is freely accessible, usable and modifiable. Certain open-source code is governed by license agreements, the terms of which could require users of such open-source code to make any derivative works of such open-source code available to others on unfavorable terms or at no cost. Because we use open-source code, we may be required to take remedial action to protect our proprietary software. Such action could include replacing certain source code used in our software, discontinuing certain of our products or taking other actions that could divert resources away from our development efforts.

## **Table of Contents**

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

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

Our future operating results depend to a large extent on our ability to successfully manage our operations. For example, we must be effective in training new sales personnel in our varied and increasing offerings to become productive and generate revenue; forecasting revenue; controlling expenses and investments in anticipation of expanded operations; implementing and enhancing our global computing platform and administrative infrastructure, systems and processes; addressing new markets; and expanding our international operations. A failure to manage our growth effectively could materially and adversely affect our ability to market and sell our products and services.

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

We must ensure that we have adequate internal financial and accounting controls and procedures in place so that we can produce accurate financial statements on a timely basis. We are required to spend considerable effort on establishing and maintaining our internal controls, which is costly and time-consuming and needs to be re-evaluated frequently.

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

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

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

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



---

## **Table of Contents**

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

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

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

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

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

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

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

During any given fiscal period, a relatively small number of customers typically account for a significant percentage of our revenue. Sales to our top 10 customers in 2012 accounted for approximately 33% of our total revenue. For the three month period ended March 31, 2013, sales to our top 10 customers accounted for approximately 35% of our total revenue. During 2012, we had one customer, Netflix, which represented approximately 11% of our total revenue. For the three month period ended March 31, 2013, we had one customer Netflix, which represented approximately 13% of our total revenue. The last active service order we received from Netflix will expire on December 31, 2013. Large customers may not continue to be as significant going forward as they have been in the past.

In the past, the customers that comprised our top 10 customers have continually changed, and we also have experienced significant fluctuations in our individual customers' usage of our services. As a consequence, we may not be able to adjust our expenses in the short term to address the unanticipated loss of a large customer during any particular period. As such, we may experience significant, unanticipated fluctuations in our operating results which may cause us to not meet our expectations or those of stock market analysts, which could cause our stock price to decline.

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

In addition to adding new customers, to increase our revenue, we must sell additional services to existing customers and encourage existing customers to increase their usage levels. If our existing and prospective customers do not perceive our services to be of sufficiently high value and quality, we may not be able to retain our current customers or attract new customers. We sell our services pursuant to service agreements

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

that generally include some form of financial minimum commitment. Our customers have no obligation to renew their contracts for our services after the expiration of their initial commitment, and these service agreements may

## Table of Contents

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

their satisfaction or dissatisfaction with our services;

the prices of our services;

the prices of services offered by our competitors;

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

mergers and acquisitions affecting our customer base; and

reductions in our customers' spending levels.

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

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

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

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

our ability to increase sales to existing customers and attract new customers to our content delivery services and VAS;

the addition or loss of large customers, or significant variation in their use of our content delivery services and VAS;

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

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



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

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

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

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

changes in our pricing policies or those of our competitors;

the timing of recognizing revenue;

limitations of the capacity of our global computing platform and related systems;

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

the potential write-down or write-off of goodwill associated with business operations that have been disposed of, such as goodwill currently on our balance sheet associated with the initial acquisitions of EyeWonder and Chorus;

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

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

war, threat of war or terrorist actions, including cyber terrorism targeted broadly, at us, or our customers, or both, and inadequate cyber security.

---

**Table of Contents**

We believe that our revenue and results of operations may vary significantly in the future and that period-to-period comparisons of our operating results may not be meaningful. You should not rely on the results of one period as an indication of future performance.

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

Since 2006, we have been profitable only one year, which was as a result of a reversal of a significant reserve for litigation. Our adoption of ASC 718 (formerly FAS 123R) in 2006 substantially increased the amount of share-based compensation expense we record and has had a significant impact on our results of operations. This significant amount of share-based compensation expense reflects an increase in the level of stock options, restricted stock and restricted stock unit grants. Also, we have incurred, and continue to incur significant costs associated with litigation. Our share-based compensation expense and any material ongoing litigation costs could adversely affect our ability to achieve and maintain profitability in the future. While our revenue has grown in recent periods, this growth may not be sustainable and we may not achieve sufficient revenue to achieve or maintain profitability. We may incur significant losses in the future for a number of reasons, including slowing demand for our services, increasing competition, as well as other risks described herein, and we may encounter unforeseen expenses, difficulties, complications and delays, and other unknown factors. Accordingly, we may not be able to achieve or maintain profitability and we may continue to incur significant losses in the future, and this could cause the price of our common stock to decline.

***We could incur charges due to impairment of goodwill and long-lived assets.***

As of March 31, 2013 we had a goodwill balance of \$80.5 million, which is subject to periodic testing for impairment. Our long-lived assets also are subject to periodic testing for impairment. A significant amount of judgment is involved in the periodic testing. Failure to achieve sufficient levels of cash flow could result in impairment charges for goodwill or fixed asset impairment for long-lived assets, which could have a material adverse effect on our reported results of operations. Our goodwill impairment analysis also includes a comparison of the aggregate estimated fair value of our reporting unit to our total market capitalization. If our stock trades below our book value a significant and sustained decline in our stock price and market capitalization could result in goodwill impairment charges. During times of financial market volatility, significant judgment will be used to determine the underlying cause of the decline and whether stock price declines are short-term in nature or indicative of an event or change in circumstances. Impairment charges, if any, resulting from the periodic testing are non-cash.

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

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

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

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



---

**Table of Contents**

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

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

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

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

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

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

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

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

Our business depends on our ability to deliver media content in all major formats. If our legal right or technical ability to store and deliver content in one or more popular proprietary content formats, such as Adobe Flash or Windows Media, was limited, our ability to serve our customers in these formats would be impaired and the demand for our content delivery services and VAS would decline by customers using these formats. Owners of proprietary content formats may be able to block, restrict or impose fees or other costs on our use of such formats, which

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

could lead to additional expenses for us and for our customers, or which could prevent our delivery of this type of content altogether. Such interference could result in a loss of existing customers, increased costs and impairment of our ability to attract new customers, which would harm our revenue, operating results and growth.

---

**Table of Contents**

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

We have completed a number of business acquisitions in recent years and may seek to acquire businesses or technologies that are complementary to our business in the future. Acquisitions are often complex and involve a number of risks to our business, including the difficulty of integrating the operations, services, solutions and personnel of the acquired companies, the potential disruption of our ongoing business, the potential distraction of management, the possibility that our business culture and the business culture of the acquired companies will not be compatible, the difficulty of incorporating or integrating acquired technology and rights with or into our other services and solutions, expenses related to the acquisition and to the integration of the acquired companies, the impairment of relationships with employees and customers as a result of any integration of new personnel, risks related to the businesses of acquired companies that may continue to impact the businesses following the merger and potential unknown liabilities associated with acquired companies. Any inability to integrate services, solutions, operations or personnel in an efficient and timely manner could harm our results of operations.

In order to realize the expected benefits and synergies of our acquisition of acquired businesses, we must meet a number of significant challenges, including:

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

retaining and assimilating the key personnel of each company;

retaining existing customers; and

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

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

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

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

Our future success depends upon the continued services of our executive officers and other key technology, sales, marketing and support personnel who have critical industry experience and relationships that they rely on in implementing our business plan. There is increasing competition for talented individuals with the specialized knowledge to deliver content delivery services and VAS and this competition affects both our ability to retain key employees and hire new ones. Historically, we have experienced a significant amount of employee turnover, especially with respect to our sales personnel. As a result, a significant number of our sales personnel are relatively new and may need time to become fully productive. The loss of the services of any of our key employees could disrupt our operations, delay the development and introduction of our services, and negatively impact our ability to sell our services.

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

Four members of our senior management team, our President and Chief Executive Officer, Robert A. Lento, our Chief Operating Officer, Indu Kodukula, our Chief Marketing Officer, Charles Kirby Wadsworth, and our Chief Sales Officer, George E. Vonderhaar, have been hired by us

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

since June 2012. As a result, our senior management team has limited experience working together as a group. This lack of shared experience could harm our senior management team's ability to quickly and efficiently respond to problems and effectively manage our business.

**Table of Contents**

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

We have operations in numerous foreign countries and may continue to expand our sales and support organizations internationally. As part of our growth strategy, we intend to expand our sales and support organizations internationally, as well as to further expand our international network infrastructure. Expansion could require us to make significant expenditures, including the hiring of local employees, in advance of generating any revenue. As a consequence, we may fail to achieve profitable operations that will compensate our investment in international locations. We are subject to a number of risks associated with international business activities that may increase our costs, lengthen our sales cycle and require significant management attention. These risks include:

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

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

challenges caused by distance, language and cultural differences;

unexpected changes in regulatory requirements preventing or limiting us from operating our global computing platform or resulting in unanticipated costs and delays;

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

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

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

currency exchange rate fluctuations and repatriation of funds;

potentially adverse tax consequences;

credit risk and higher levels of payment fraud; and

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

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

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



adverse effect on our future international sales and, consequently, on our financial condition and results of operations.

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

Laws and regulations that apply to communications and commerce conducted over the Internet are becoming more prevalent, both in the United States and internationally, and may impose additional burdens on companies conducting business online or providing Internet-related services such as ours. Increased regulation could negatively affect our business directly, as well as the businesses of our customers, which could reduce their demand for our services. For example, tax authorities abroad may impose taxes on the Internet-related revenue we generate based on where our internationally deployed servers are located. In addition, domestic and international taxation laws are subject to change. Our services, or the businesses of our customers, may become subject to increased taxation, which could harm our financial results either directly or by forcing our customers to scale back their operations and use of our services in order to maintain their operations. In addition, the laws relating to the liability of private network operators for information carried on, processed by or disseminated through their networks are unsettled, both in the United States and abroad. Network operators have been sued in the past, sometimes successfully, based on the content of material disseminated through their networks. We may become subject to legal claims such as defamation, invasion of privacy and copyright infringement in connection with content stored on or distributed through our network. In addition, our reputation could suffer as a result of our perceived association with the type of content that some of our customers deliver. If we need to take costly measures to reduce our exposure to these risks, or are required to defend ourselves against such claims, our financial results could be negatively affected.

## **Table of Contents**

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

***Privacy concerns could lead to legislative and other limitations on our ability to use cookies and video player cookies that are crucial to our ability to provide services to our customers.***

Our ability to compile data for customers depends on the use of cookies and video player cookies to identify certain online behavior that allows our customers to measure a website or video's effectiveness. A cookie is a small file of information stored on a user's computer that allows us to recognize that user's browser or video player when the user makes a request for a web page or to play a video. Government authorities inside the United States concerned with the privacy of Internet users have suggested limiting or eliminating the use of cookies. Bills aimed at regulating the collection and use of personal data from Internet users are currently pending in United States Congress and many state legislatures. Attempts at such regulation may be drafted in such a way as to limit or prohibit the use of technology like cookies, thereby creating restrictions that could reduce our ability to use them. In addition, the Federal Trade Commission and the Department of Commerce have conducted hearings regarding user profiling, the collection of non-personally identifiable information and online privacy.

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

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

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

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

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

that are not favorable to us. If we are unable to generate or raise capital that is sufficient to fund our operations, we may be required to curtail operations, reduce our capabilities or cease operations in certain jurisdictions or completely.

---

**Table of Contents**

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

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

implementing customer orders for services;

delivering these services; and

timely and accurate billing for these services.

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

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

As a public company, we have incurred, and will continue to incur, significant accounting and other expenses that we did not incur as a private company. These expenses include increased accounting, legal and other professional fees, insurance premiums, investor relations costs, and costs associated with compensating our independent directors. In addition, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and the Sarbanes-Oxley Act of 2002, as well as rules subsequently implemented by the SEC and the Nasdaq Global Select Market, impose additional requirements on public companies, including requiring changes in corporate governance practices. For example, the listing requirements of the Nasdaq Global Select Market require that we satisfy certain corporate governance requirements relating to independent directors, audit committees, distribution of annual and interim reports, stockholder meetings, stockholder approvals, solicitation of proxies, conflicts of interest, stockholder voting rights and codes of conduct. Our management and other personnel need to devote a substantial amount of time to these compliance initiatives. Moreover, these rules and regulations have increased our legal and financial compliance costs and make some activities more time-consuming and costly. For example, these rules and regulations make it more difficult and more expensive for us to obtain director and officer liability insurance. These rules and regulations could also make it more difficult for us to identify and retain qualified persons to serve on our board of directors, our board committees or as executive officers.

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

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

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

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

Increasing our customer base and achieving broader market acceptance of our services will depend to a significant extent on our ability to expand our sales and marketing operations. We have a concentration of our sales force at our headquarters in Tempe, Arizona but we also have a widely deployed field sales force. We are growing our sales force and realigning our sales resources to improve our sales productivity and efficiency and to bring our sales personnel closer to our current and potential customers. Growing and realigning sales force has been and will continue to be expensive and could cause some near-term productivity impairments. As a result, we may not be successful in growing and improving the productivity and efficiency of our sales force, which could cause our results of operations to suffer.

---

## **Table of Contents**

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

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

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

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

A change in accounting standards or practices can have a significant effect on our operating results and may affect our reporting of transactions completed before the change is effective. New accounting pronouncements and varying interpretations of existing accounting pronouncements have occurred and may occur in the future. Changes to existing rules or the questioning of current practices may adversely affect our reported financial results or the way we conduct our business.

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

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

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

variations in our operating results;

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

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

recruitment or departure of key personnel;

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

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

the gain or loss of significant customers;

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

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

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

***If securities or industry analysts do not publish research or reports about our business or if they issue an adverse or misleading opinion or report, our stock, our stock price and trading volume could decline.***

The trading market for our common stock will be influenced by the research and reports that industry or securities analysts publish about us or our business. If any of the analysts who cover us issue an adverse or misleading opinion regarding our stock, our stock price would likely decline. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline.

---

**Table of Contents**

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

As of March 31, 2013, our directors and executive officers and their affiliates beneficially owned, in the aggregate, approximately 42% of our outstanding common stock, including approximately 31% beneficially owned by investment entities affiliated with Goldman, Sachs & Co. These stockholders are able to exercise significant influence over all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions, such as a merger or other sale of our company or its assets. This concentration of ownership could limit other stockholders' ability to influence corporate matters and may have the effect of delaying or preventing a third party from acquiring control over us.

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

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

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

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

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

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

limit who may call special meetings of stockholders;

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

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

provide for a board of directors with staggered terms; and

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

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



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

*Issuer Purchases of Equity Securities*

The following is a summary of our repurchases of our common stock during the three month period ended March 31, 2013:

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share(1)</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(2)</b>	<b>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs(2)</b>
January 1, January 31, 2013	891,000	\$ 2.39	891,000	\$ 2,691,419
February 1, February 28, 2013	878,200	\$ 2.29	878,200	\$ 697,216
March 1, March 31, 2013	319,600	\$ 2.20	319,600	\$
<b>Total</b>	<b>2,088,800</b>	<b>\$ 2.32</b>	<b>2,088,800</b>	

(1) Includes commissions, markups and expenses.

**Table of Contents**

- (2) On October 29, 2012, our board of directors authorized and approved a third common stock repurchase plan that authorized us to use up to \$10 million to repurchase shares of our common stock, exclusive of any commissions, markups, or expenses, under which we purchased shares of our common stock through March 15, 2013. Any repurchased shares were cancelled and return to authorized but unissued status. Our third common stock repurchase plan is now complete.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Not applicable

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable

**ITEM 5. OTHER INFORMATION**

Not applicable

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

Exhibit Number	Exhibit Description	Incorporated by Reference				Provided Herewith
		Form	File No.	Exhibit	Filing Date	
3.01	Amended and Restated Certificate of Incorporation of Limelight Networks, Inc.	8-K	001-33508	3.1	6/14/11	
3.02	Second Amended and Restated Bylaws of Limelight Networks, Inc.	8-K	001-33508	3.2	2/19/13	
10.10.02	Amendment No. 2 to Employment Agreement between the Registrant and Nathan F. Raciborski dated September 22, 2008					X
31.01	Certification of Principal Executive Officer Pursuant to Securities Exchange Act Rule 13a-14(a).					X
31.02	Certification of Principal Financial Officer Pursuant to Securities Exchange Act Rule 13a-14(a).					X
32.01	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350 and Securities Exchange Act Rule 13a-14(b).*					X
32.02	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350 and Securities Exchange Act Rule 13a-14(b).*					X
101.INS**	XBRL INSTANCE DOCUMENT.					X
101.SCH**	XBRL TAXONOMY EXTENSION SCHEMA DOCUMENT.					X
101.CAL**	XBRL TAXONOMY EXTENSION CALCULATION LINKBASE DOCUMENT.					X
101.DEF**	XBRL TAXONOMY EXTENSION DEFINITION LINKBASE DOCUMENT.					X
101.LAB**	XBRL TAXONOMY EXTENSION LABEL LINKBASE DOCUMENT.					X
101.PRE**	XBRL TAXONOMY EXTENSION PRESENTATION LINKBASE DOCUMENT.					X

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

\*\* In accordance with Rule 406T of Regulation S-T, XBRL (Extensible Business Reporting Language) information deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

**Table of Contents**

**SIGNATURES**

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

LIMELIGHT NETWORKS, INC.

Date: May 10, 2013

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

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

Exhibit Number	Exhibit Description	Incorporated by Reference				Provided Herewith
		Form	File No.	Exhibit	Filing Date	
3.01	Amended and Restated Certificate of Incorporation of Limelight Networks, Inc.	8-K	001-33508	3.1	6/14/11	
3.02	Second Amended and Restated Bylaws of Limelight Networks, Inc.	8-K	001-33508	3.2	2/19/13	
10.10.02	Amendment No. 2 to Employment Agreement between the Registrant and Nathan F. Raciborski dated September 22, 2008					X
31.01	Certification of Principal Executive Officer Pursuant to Securities Exchange Act Rule 13a-14(a).					X
31.02	Certification of Principal Financial Officer Pursuant to Securities Exchange Act Rule 13a-14(a).					X
32.01	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350 and Securities Exchange Act Rule 13a-14(b).*					X
32.02	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350 and Securities Exchange Act Rule 13a-14(b).*					X
101.INS**	XBRL INSTANCE DOCUMENT					X
101.SCH**	XBRL TAXONOMY EXTENSION SCHEMA DOCUMENT					X
101.CAL**	XBRL TAXONOMY EXTENSION CALCULATION LINKBASE DOCUMENT.					X
101.DEF**	XBRL TAXONOMY EXTENSION DEFINITION LINKBASE DOCUMENT.					X
101.LAB**	XBRL TAXONOMY EXTENSION LABEL LINKBASE DOCUMENT.					X
101.PRE**	XBRL TAXONOMY EXTENSION PRESENTATION LINKBASE DOCUMENT.					X

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

\*\* In accordance with Rule 406T of Regulation S-T, XBRL (Extensible Business Reporting Language) information deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.