

# Section 1: 10-Q (10-Q)

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**Form 10-Q**

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(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended September 30, 2014
- 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

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**Limelight Networks, Inc.**

(Exact name of registrant as specified in its charter)

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**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)

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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.

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

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

The number of shares outstanding of the registrant's Common Stock, par value \$0.001 per share, as of October 31, 2014: 98,685,122 shares.

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FORM 10-Q  
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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

**Limelight Networks, Inc.**  
**Consolidated Balance Sheets**  
**(In thousands, except per share data)**

	(Unaudited) September 30, 2014	December 31, 2013
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 67,028	\$ 85,956
Marketable securities	34,228	32,506
Accounts receivable, net	22,443	21,430
Income taxes receivable	289	371
Deferred income taxes	65	93
Prepaid expenses and other current assets	9,040	8,192
Total current assets	133,093	148,548
Property and equipment, net	32,154	32,905
Marketable securities, less current portion	40	46
Deferred income taxes, less current portion	1,337	1,307
Goodwill	76,583	77,035
Other intangible assets, net	1,344	2,354
Other assets	5,098	6,103
Total assets	\$ 249,649	\$ 268,298
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 9,314	\$ 5,473
Deferred revenue	3,503	3,523
Capital lease obligations	219	466
Income taxes payable	634	799
Other current liabilities	12,245	15,022
Total current liabilities	25,915	25,283
Capital lease obligations, less current portion	192	358
Deferred income taxes	181	321
Deferred revenue, less current portion	627	1,500
Other long-term liabilities	2,955	3,505
Total liabilities	29,870	30,967
Commitments and contingencies		
Stockholders' equity:		
Convertible preferred stock, \$0.001 par value; 7,500 shares authorized; no shares issued and outstanding	—	—
Common stock, \$0.001 par value; 300,000 shares authorized at September 30, 2014 and December 31, 2013; 98,655 and 97,677 shares issued and outstanding at September 30, 2014 and December 31, 2013, respectively	99	98
Additional paid-in capital	463,712	458,748
Accumulated other comprehensive loss	(4,596)	(1,663)
Accumulated deficit	(239,436)	(219,852)
Total stockholders' equity	219,779	237,331
Total liabilities and stockholders' equity	\$ 249,649	\$ 268,298

*The accompanying notes are an integral part of the consolidated financial statements.*

**Limelight Networks, Inc.**  
**Unaudited Consolidated Statements of Operations**  
(In thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenues	\$ 39,020	\$ 42,656	\$ 121,533	\$ 131,232
Cost of revenue:				
Cost of services (1)	18,672	22,138	61,563	66,721
Depreciation — network	4,207	5,278	12,688	18,078
Total cost of revenue	22,879	27,416	74,251	84,799
Gross profit	16,141	15,240	47,282	46,433
Operating expenses:				
General and administrative	7,295	8,244	21,966	24,022
Sales and marketing	8,731	10,363	28,356	31,545
Research and development	5,514	5,423	14,951	16,814
Depreciation and amortization	825	1,433	2,868	4,325
Total operating expenses	22,365	25,463	68,141	76,706
Operating loss	(6,224)	(10,223)	(20,859)	(30,273)
Other income (expense):				
Interest expense	(7)	(15)	(26)	(64)
Interest income	66	89	203	238
Other, net	1,192	(557)	1,014	154
Total other income (expense)	1,251	(483)	1,191	328
Loss from continuing operations before income taxes	(4,973)	(10,706)	(19,668)	(29,945)
Income tax provision	98	197	181	328
Loss from continuing operations	(5,071)	(10,903)	(19,849)	(30,273)
Discontinued operations:				
(Loss) income from discontinued operations, net of income taxes	(4)	(15)	265	(15)
Net loss	\$ (5,075)	\$ (10,918)	\$ (19,584)	\$ (30,288)
Net loss per share:				
Basic and diluted				
Continuing operations	\$ (0.05)	\$ (0.11)	\$ (0.20)	\$ (0.31)
Discontinued operations	\$ —	\$ —	\$ —	\$ —
Total	\$ (0.05)	\$ (0.11)	\$ (0.20)	\$ (0.31)
Weighted average shares used in per share calculation:				
Basic and diluted	98,458	96,949	98,274	96,675

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

*The accompanying notes are an integral part of the consolidated financial statements.*

**LIMELIGHT NETWORKS, INC.**  
**Unaudited Consolidated Statements of Comprehensive Loss**  
**(In thousands)**

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Net loss	\$ (5,075)	\$ (10,918)	\$ (19,584)	\$ (30,288)
Other comprehensive income (loss), net of tax:				
Unrealized gain (loss) on investments	(37)	55	(30)	(36)
Foreign exchange translation	(3,671)	1,324	(2,903)	(821)
Other comprehensive income (loss), net of tax	(3,708)	1,379	(2,933)	(857)
Comprehensive loss	<u>\$ (8,783)</u>	<u>\$ (9,539)</u>	<u>\$ (22,517)</u>	<u>\$ (31,145)</u>

*The accompanying notes are an integral part of the consolidated financial statements.*

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**Limelight Networks, Inc.**  
**Unaudited Consolidated Statements of Cash Flows**  
**(In thousands)**

	<b>Nine Months Ended September 30,</b>	
	<b>2014</b>	<b>2013</b>
<b>Operating activities</b>		
Net loss	\$ (19,584)	\$ (30,288)
Income (loss) from discontinued operations	265	(15)
Net loss from continuing operations	(19,849)	(30,273)
Adjustments to reconcile net loss from continuing operations to net cash provided by operating activities of continuing operations:		
Depreciation and amortization	15,556	22,403
Share-based compensation	7,800	9,800
Foreign currency remeasurement gain	(1,067)	(504)
Deferred income taxes	(185)	(209)
Accounts receivable charges	483	758
Amortization of premium on marketable securities	374	462
Loss on sale of property and equipment	—	25
Non cash tax benefit associated with income from discontinued operations	(59)	—
Changes in operating assets and liabilities:		
Accounts receivable	(1,496)	177
Prepaid expenses and other current assets	(1,045)	1,930
Income taxes receivable	55	131
Other assets	991	908
Accounts payable	4,762	1,102
Deferred revenue	(893)	256
Other current liabilities	(3,663)	(436)
Income taxes payable	(214)	456
Other long term liabilities	(545)	(448)
Net cash provided by operating activities	1,005	6,538
<b>Investing activities</b>		
Purchases of marketable securities	(17,669)	(49,811)
Maturities of marketable securities	15,550	35,321
Purchases of property and equipment	(13,984)	(12,685)
Proceeds from the sale of discontinued operations	414	124
Net cash used in investing activities	(15,689)	(27,051)
<b>Financing activities</b>		
Payments on capital lease obligations	(412)	(1,124)
Payment of employee tax withholdings related to restricted stock	(1,455)	(2,309)
Cash paid for purchase of common stock	(2,500)	(5,512)
Proceeds from exercise of stock options and employee stock plans	967	29
Net cash used in financing activities	(3,400)	(8,916)
Effect of exchange rate changes on cash and cash equivalents	(840)	(256)
<b>Discontinued operations</b>		
Cash used in operating activities of discontinued operations	(4)	(8)
Net decrease in cash and cash equivalents	(18,928)	(29,693)
Cash and cash equivalents, beginning of period	85,956	108,915
Cash and cash equivalents, end of period	\$ 67,028	\$ 79,222
<b>Supplemental disclosure of cash flow information</b>		
Cash paid during the period for interest	\$ 26	\$ 64
Cash paid during the period for income taxes, net of refunds	\$ 581	\$ (35)
Property and equipment expenditures remaining in accounts payable and other current liabilities	\$ 2,119	\$ 1,028

*The accompanying notes are an integral part of the consolidated financial statements.*



**Limelight Networks, Inc.**  
**Notes to Unaudited Consolidated Financial Statements**  
**September 30, 2014**  
(In thousands, except per share data)

## 1. Nature of Business

Limelight Networks, Inc. (the Company) operates a globally distributed, high-performance network (its global network) and provides a suite of integrated services including content delivery services, video content management services, performance services for website and web application acceleration, and cloud storage services. These four primary service groups work collectively to enable any organization to deliver digital content to any device, anywhere in the world.

The Company, incorporated in Delaware, 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 pursuant to the rules and regulations of the Securities and Exchange Commission. They do not include all of the information and footnotes required by U.S. generally accepted accounting principles (U.S. GAAP) 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, 2014 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, 2013.

The consolidated financial statements include accounts of the Company and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated. In addition, certain other reclassifications have been made to prior year amounts to conform to the current year presentation.

During the three months ended September 30, 2014, the Company recorded an immaterial error correction of approximately \$1,100 relating to previous over billings by a co-location provider. This correction was recorded as a reduction of costs of revenues.

### *Revision of Previously Issued Financial Statements*

As previously disclosed in our 2013 Form 10-K, the consolidated statement of operations was revised to reclassify certain amounts to cost of revenues that were previously reported in general and administrative expenses for the three and nine months ended September 30, 2013.

The following table summarizes the reclassifications by line item within the unaudited consolidated statement of operations for the three months ended September 30, 2013:

	<b>For the Three Months Ended September 30, 2013</b>		
	<b>As Reported</b>	<b>Reclassifications</b>	<b>As Revised</b>
Cost of services	\$ 21,773	\$ 365	\$ 22,138
Total cost of revenue	27,051	365	27,416
Gross profit	15,605	(365)	15,240
General and administrative	8,609	(365)	8,244
Total operating expenses	25,828	(365)	25,463



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The following table summarizes the reclassifications by line item within the unaudited consolidated statement of operations for the nine months ended September 30, 2013:

	For the Nine Months Ended September 30, 2013		
	As		As
	Reported	Reclassifications	Revised
Cost of services	\$ 65,696	\$ 1,025	\$ 66,721
Total cost of revenue	83,774	1,025	84,799
Gross profit	47,458	(1,025)	46,433
General and administrative	25,047	(1,025)	24,022
Total operating expenses	77,731	(1,025)	76,706

### *Use of Estimates*

The preparation of the consolidated financial statements and related disclosures in conformity with U.S. GAAP requires management to make judgments, assumptions, and estimates that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results and outcomes may differ from those estimates. 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, 2014 or for any other future periods.

### *Recent Accounting Standards*

#### Recently Issued Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-08, which includes amendments that change the requirements for reporting discontinued operations and require additional disclosures about discontinued operations. Under the new guidance, only disposals representing a strategic shift in operations - that is, a major effect on the organization's operations and financial results - should be presented as discontinued operations. Examples include a disposal of a major geographic area, a major line of business, or a major equity method investment. Additionally, this ASU requires expanded disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income, and expenses of discontinued operations. This update is effective for the Company in the first quarter of 2015. The new guidance would only impact the Company upon the disposal of a business.

In May 2014, the FASB issued ASU 2014-09, which provides guidance for revenue recognition. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under today's guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. This guidance will be effective for the Company in the first quarter of 2017. Early adoption is not permitted. The Company is currently in the process of evaluating the impact of adoption of this ASU on its consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, which provides guidance for disclosure of uncertainties about an entity's ability to continue as a going concern. ASU 2014-15 defines management's responsibility to assess an entity's ability to continue as a going concern, and to provide related footnote disclosures in certain circumstances. This guidance will be effective for the Company in the first annual period ending after December 15, 2016; however, early adoption is permitted. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

### **3. Investments in Marketable Securities**

The following is a summary of marketable securities (designated as available-for-sale) at September 30, 2014:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Certificate of deposit	\$ 7,680	\$ 2	\$ 12	\$ 7,670
Commercial paper	3,399	—	—	3,399
Corporate notes and bonds	23,207	18	26	23,199
Total marketable securities	34,286	20	38	34,268



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At September 30, 2014, the Company evaluated its marketable securities and determined unrealized losses were due primarily to fluctuations in interest rates. Management does not believe any of the unrealized losses represented an other-than-temporary impairment based on its evaluation of available evidence as of September 30, 2014. The Company's intent is to hold these investments to such time as these assets are no longer impaired. The Company views its available-for-sale securities as available for current operations.

The amortized cost and estimated fair value of the marketable debt securities at September 30, 2014, by maturity, are shown below:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
Available-for-sale securities				
Due in one year or less	\$ 20,417	\$ 9	\$ 4	\$ 20,422
Due after one year and through five years	13,869	11	34	13,846
	<u>\$ 34,286</u>	<u>\$ 20</u>	<u>\$ 38</u>	<u>\$ 34,268</u>

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

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
Government agency bonds	\$ 261	\$ —	\$ —	\$ 261
Certificate of deposit	4,080	—	4	4,076
Commercial paper	2,200	—	—	2,200
Corporate notes and bonds	26,001	15	7	26,009
	<u>32,542</u>	<u>15</u>	<u>11</u>	<u>32,546</u>
Publicly traded common stock	12	—	6	6
Total marketable securities	<u>\$ 32,554</u>	<u>\$ 15</u>	<u>\$ 17</u>	<u>\$ 32,552</u>

The amortized cost and estimated fair value of the marketable debt securities at December 31, 2013, by maturity, are shown below:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
Available-for-sale securities				
Due in one year or less	\$ 17,031	\$ 2	\$ 5	\$ 17,028
Due after one year and through five years	15,511	13	6	15,518
	<u>\$ 32,542</u>	<u>\$ 15</u>	<u>\$ 11</u>	<u>\$ 32,546</u>

## **4. Business Disposition**

On December 23, 2013, the Company sold 100% of the outstanding common stock of its Web Content Management (WCM) business for \$12,341 in cash, net of preliminary working capital adjustments. After allocating goodwill of \$3,799 to WCM, the sale resulted in a gain of \$3,836, which was included in Other, net in the consolidated statement of operations for the year ended December 31, 2013. During the three months ended March 31, 2014, the Company recorded a working capital adjustment of \$(62) (expense), related to new information subsequent to the closing of the acquisition, which is included in Other, net in the consolidated statement of operations for the nine months ended September 30, 2014. This sale was not treated as a discontinued operation because the operations and cash flows of the WCM business cannot be clearly distinguished, operationally or for financial reporting purposes, from the rest of the Company.

## **5. Discontinued Operations**

On September 1, 2011, the Company completed the sale of its EyeWonder and chors rich media advertising services to DG FastChannel, Inc. (DG) for net proceeds of \$61,000 plus an estimated \$10,854 receivable from DG pursuant to the purchase agreement.

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The \$10,854 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 as of August 30, 2011. During 2013, the Company wrote-off the remaining receivable balance of \$412 from DG as it believed the balance was no longer collectible.

During the three months ended June 30, 2014, the Company received \$414 from DG as final settlement for the previously written-off receivable. The Company recorded \$269, (\$414 cash received, net of tax of \$145), as income from discontinued operations during the second quarter of 2014.

During the three months ended September 30, 2014, the Company incurred \$4 (net of tax) in expense related to discontinued operations which is recorded in the accompanying consolidated statements of operations for the three and nine months ended September 30, 2014.

### **6. Accounts Receivable, net**

Accounts receivable, net include:

	<b>September 30,</b>	<b>December 31,</b>
	<b>2014</b>	<b>2013</b>
Accounts receivable	\$ 15,982	\$ 17,497
Unbilled accounts receivable	8,386	5,943
	<u>24,368</u>	<u>23,440</u>
Less: credit allowance	(380)	(610)
Less: allowance for doubtful accounts	(1,545)	(1,400)
Total accounts receivable, net	<u>\$ 22,443</u>	<u>\$ 21,430</u>

### **7. Prepaid Expenses and Other Current Assets**

Prepaid expenses and other current assets include:

	<b>September 30,</b>	<b>December 31,</b>
	<b>2014</b>	<b>2013</b>
Prepaid expenses and insurance	\$ 3,806	\$ 3,371
Prepaid bandwidth and backbone services	1,943	2,045
VAT receivable	1,853	1,588
Vendor deposits and other	1,438	1,188
Total prepaid expenses and other current assets	<u>\$ 9,040</u>	<u>\$ 8,192</u>

### **8. Goodwill and Other Intangible Assets**

The Company has recorded goodwill and other intangible assets as a result of its business acquisitions. Goodwill is recorded when the purchase price paid for an acquisition exceeds the estimated fair value of the net identified tangible and intangible assets acquired. In each of the Company's acquisitions, the objective of the acquisition was to expand the Company's product offerings and customer base and to achieve synergies related to cross selling opportunities, all of which contributed to the recognition of goodwill.

The Company tests goodwill for impairment on an annual basis or more frequently if events or changes in circumstances indicate that goodwill might be impaired. The Company concluded that it has one reporting unit and assigned the entire balance of goodwill to that reporting unit. The fair value of the reporting unit is determined using the Company's market capitalization as of its 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 the Company's stock price due to a decline in its financial performance due to the loss of key customers, loss of key personnel, emergence of new technologies or new competitors;
- decline in overall market or economic conditions leading to a decline in its stock price; and
- decline in observed control premiums paid in business combinations involving comparable companies.



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The estimated fair value of the reporting unit is determined using a market capitalization approach. The Company's market capitalization is adjusted for a control premium based on the estimated average and median control premiums of transactions involving companies comparable to the Company. As of the annual impairment testing date of October 31, 2013 and as of December 31, 2013, the Company determined that goodwill was not impaired. As of September 30, 2014, the Company determined that the estimated fair value of its reporting unit exceeded carrying value by approximately \$103,500 or 47%, using the market capitalization of the Company plus an estimated control premium of 40%. Based on this analysis, management believes goodwill is not impaired as of September 30, 2014; however, adverse changes to certain key assumptions as described above could result in a future charge to earnings.

Foreign currency translation adjustments decreased the carrying amount of goodwill for the three and nine months ended September 30, 2014 by \$581 and \$452, respectively.

Other intangible assets that are subject to amortization consisted of the following:

	September 30, 2014		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Existing technologies	\$ 4,100	\$ (2,802)	\$ 1,298
Customer relationships	150	(104)	46
Total other intangible assets	<u>\$ 4,250</u>	<u>\$ (2,906)</u>	<u>\$ 1,344</u>

  

	December 31, 2013		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Existing technologies	\$ 6,164	\$ (3,875)	\$ 2,289
Customer relationships	150	(85)	65
Total other intangible assets	<u>\$ 6,314</u>	<u>\$ (3,960)</u>	<u>\$ 2,354</u>

Aggregate expense related to amortization of other intangible assets included in operating expenses for the three months ended September 30, 2014 and 2013 was approximately \$259 and \$711, respectively. For the nine months ended September 30, 2014 and 2013 aggregate expense related to the amortization of other intangible assets was approximately \$934 and \$2,161, respectively. Based on the Company's other intangible assets as of September 30, 2014, aggregate expense related to the amortization of other intangible assets is expected to be \$211 for the remainder of 2014, and \$845, \$288, and \$0 for fiscal years 2015, 2016, and 2017, respectively.

### 9. Property and Equipment, net

Property and equipment, net include:

	September 30,	December 31,
	2014	2013
Network equipment	\$ 190,949	\$ 180,896
Computer equipment	11,381	11,073
Furniture and fixtures	2,733	2,723
Leasehold improvements	7,353	7,162
Other equipment	590	570
Total property and equipment	<u>213,006</u>	<u>202,424</u>
Less: accumulated depreciation and amortization	<u>(180,852)</u>	<u>(169,519)</u>
Total property and equipment, net	<u>\$ 32,154</u>	<u>\$ 32,905</u>

Depreciation and amortization expense related to property and equipment (classified in operating expenses) was \$566 and \$722 for the three months ended September 30, 2014 and 2013, respectively, and was \$1,934 and \$2,164 for the nine months ended September 30, 2014 and 2013, respectively.

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### 10. Other Assets

Other assets include:

	September 30, 2014	December 31, 2013
Prepaid bandwidth and backbone services	\$ 3,102	\$ 4,268
Vendor deposits and other	1,996	1,835
Total other assets	<u>\$ 5,098</u>	<u>\$ 6,103</u>

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

### 11. Other Current Liabilities

Other current liabilities include:

	September 30, 2014	December 31, 2013
Accrued compensation and benefits	\$ 4,526	\$ 6,682
Accrued cost of revenue	1,680	1,833
Accrued legal fees	1,717	1,769
Deferred rent	1,277	1,074
Indirect taxes payable	746	639
Customer deposits	181	635
Other accrued expenses	2,118	2,390
Total other current liabilities	<u>\$ 12,245</u>	<u>\$ 15,022</u>

### 12. Other Long Term Liabilities

Other long term liabilities include:

	September 30, 2014	December 31, 2013
Deferred rent	\$ 2,832	\$ 3,384
Income taxes payable	123	121
Total other long term liabilities	<u>\$ 2,955</u>	<u>\$ 3,505</u>

### 13. Contingencies

#### *Akamai Litigation*

In June 2006, Akamai Technologies, Inc., or Akamai, and the Massachusetts Institute of Technology, or MIT, filed a lawsuit against the Company in the United States District Court for the District of Massachusetts alleging that the Company was infringing two patents assigned to MIT and exclusively licensed by MIT to Akamai, United States Patent No. 6,553,413 (the '413 patent) and United States Patent No. 6,108,703 (the '703 patent). In September 2006, Akamai and MIT expanded their claims to assert infringement of a third 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 the Company's invalidity defenses. The jury awarded an aggregate of approximately \$45,500 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 \$2,600 at December 31, 2007. The Company recorded an aggregate \$48,100 as a provision for litigation as of December 31, 2007. During 2008, the Company recorded a potential additional provision of approximately \$17,500 for potential additional infringement damages and interest. The total provision for litigation at December 31, 2008 was \$65,600.





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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 \$65,600 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. 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. On January 10, 2014, the Supreme Court granted our petition for writ of certiorari and did not act on Akamai's cross petition. On April 30, 2014, the Supreme Court heard oral argument in our case. On June 2, 2014, the Supreme Court issued its decision and reversed the Federal Circuit's decision, remanding the case back to that court. On July 24, 2014, the Federal Circuit issued an order vacating its prior judgment, reinstating the appeals, dissolving its *en banc* status, and referring the case back to the original Court of Appeals panel for further proceedings. The Federal Circuit heard arguments on September 11, 2014. The Company does not believe an ultimate loss is probable; therefore, no provision for this lawsuit is recorded in the consolidated financial statements.

In light of the status of the litigation, the Company believes that there is a reasonable possibility that it has incurred a loss related to the Akamai litigation. While the Company believes that there is a reasonable possibility that a loss has been incurred, the Company is not able to estimate a range of the loss due to the complexity and procedural status of the case. The Company will continue to vigorously defend against the allegation.

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 the 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.

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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.

### 14. 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 shares of common stock 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 shares of common stock outstanding.

The following table sets forth the components used in the computation of basic and diluted net loss per share for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Loss from continuing operations	\$ (5,071)	\$ (10,903)	\$ (19,849)	\$ (30,273)
(Loss) income from discontinued operations	(4)	(15)	265	(15)
Net loss	<u>\$ (5,075)</u>	<u>\$ (10,918)</u>	<u>\$ (19,584)</u>	<u>\$ (30,288)</u>
Basic and diluted weighted average outstanding shares of common stock	<u>98,458</u>	<u>96,949</u>	<u>98,274</u>	<u>96,675</u>
Basic and diluted loss per share:				
Continuing operations	\$ (0.05)	\$ (0.11)	\$ (0.20)	\$ (0.31)
Discontinued operations	—	—	—	—
Basic and diluted net loss per share	<u>\$ (0.05)</u>	<u>\$ (0.11)</u>	<u>\$ (0.20)</u>	<u>\$ (0.31)</u>

For the three months ended September 30, 2014 and 2013, outstanding options and restricted stock units of 2,593 and 1,415, respectively, were excluded from the computation of diluted net loss per share because including them would have been anti-dilutive.

For the nine months ended September 30, 2014 and 2013, outstanding options and restricted stock units of 2,323 and 1,689, respectively, were excluded from the computation of diluted net loss per share because including them would have been anti-dilutive.

### 15. Stockholders' Equity

#### *Common Stock*

On February 12, 2014, the Company's board of directors authorized a \$15,000 share repurchase program. Under the current authorization, the Company may repurchase shares periodically in the open market or through privately negotiated transactions, in accordance with applicable securities rules regarding issuer repurchases. During the three and nine months ended September 30, 2014, the Company purchased and canceled 447 and 947 shares, respectively, for \$1,267 and \$2,500, respectively, including commissions and expenses. All repurchased shares were canceled and returned to authorized but unissued status.

During the nine months ended September 30, 2013, the Company purchased and canceled approximately 2,300 shares for approximately \$5,512, including commissions and expenses under a previously authorized share repurchase program. All repurchased shares were canceled and returned to authorized but unissued status.

In June 2013, the Company's stockholders approved the Company's 2013 Employee Stock Purchase Plan (ESPP). The ESPP allows participants to purchase the Company's common stock at a 15% discount of the lower of the beginning or end of the offering period using the closing price on that day. During the nine months ended September 30, 2014, the Company issued 141 shares under the ESPP. Total cash proceeds from the purchase of shares under the ESPP were approximately \$235. As of



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September 30, 2014, shares reserved for issuance to employees under this plan totaled 4,000 and the Company held employee contributions of \$210, (included in other current liabilities) for future purchases under the ESPP. The ESPP is considered compensatory. The Company recorded compensation expense of \$41 and \$128 during the three and nine months ended September 30, 2014, respectively, related to the ESPP.

### 16. Accumulated Other Comprehensive Loss

Changes in the components of accumulated other comprehensive loss, net of tax, for the nine months ended September 30, 2014 was as follows:

	Foreign Currency	Unrealized Gains (Losses) on Available for Sale Securities	Total
Balance, December 31, 2013	\$ (1,688)	\$ 25	\$ (1,663)
Other comprehensive loss before reclassifications	(2,903)	(30)	(2,933)
Amounts reclassified from accumulated other comprehensive income (loss)	—	—	—
Net current period other comprehensive loss	(2,903)	(30)	(2,933)
Balance, September 30, 2014	\$ (4,591)	\$ (5)	\$ (4,596)

### 17. Share-Based Compensation

The following table summarizes the components of share-based compensation expense included in the Company's consolidated statement of operations for the three and nine months ended September 30, 2014 and 2013:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Share-based compensation expense by type:				
Stock options	\$ 1,120	\$ 1,614	\$ 3,545	\$ 5,214
Restricted stock units	1,426	1,609	4,127	4,586
ESPP	41	—	128	—
Total share-based compensation expense	\$ 2,587	\$ 3,223	\$ 7,800	\$ 9,800
Share-based compensation expense included in our consolidated statements of operations:				
Cost of services	\$ 464	\$ 499	\$ 1,466	\$ 1,518
General and administrative expense	1,174	1,591	3,539	4,817
Sales and marketing expense	567	638	1,693	1,896
Research and development expense	382	495	1,102	1,569
Total share-based compensation expense	\$ 2,587	\$ 3,223	\$ 7,800	\$ 9,800

Unrecognized share-based compensation expense totaled approximately \$19,380 at September 30, 2014, of which \$7,470 related to stock options and \$11,910 related to restricted stock awards. The Company currently expects to recognize share-based compensation expense of \$2,568 during the remainder of 2014, \$8,161 in 2015 and the remainder thereafter based on scheduled vesting of the stock options and restricted stock units outstanding at September 30, 2014.

### 18. Leases and Commitments

#### *Operating Leases*

The Company is committed to various non-cancellable operating leases for office space and office equipment which expire through 2023. 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 September 30, 2014 are as



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follows:

Remainder of 2014	\$	1,045
2015		3,394
2016		2,746
2017		2,343
2018 and thereafter		4,096
Total minimum payments	\$	<u>13,624</u>

### *Purchase Commitments*

The Company has long-term commitments for bandwidth usage and co-location with various networks and Internet service providers, or ISPs.

The following summarizes minimum commitments as of September 30, 2014:

Remainder of 2014	\$	11,470
2015		26,155
2016		5,648
2017		974
2018 and thereafter		449
Total minimum payments	\$	<u>44,696</u>

### *Capital Leases*

The Company leases equipment under capital lease agreements which extend through 2017. The outstanding balance for capital leases was \$411 and \$824 as of September 30, 2014 and December 31, 2013, respectively. The Company recorded assets under capital lease obligations of \$2,267 and \$2,312 as of September 30, 2014 and December 31, 2013, respectively. Related accumulated amortization totaled \$2,224 and \$1,878 as of September 30, 2014 and December 31, 2013, respectively. The assets acquired under capital leases and related accumulated amortization is included in property and equipment, net in the consolidated balance sheets. The related amortization is included in depreciation and amortization expense in the consolidated statements of operations. Interest expense related to capital leases was \$7 and \$15 for the three months ended September 30, 2014 and 2013, respectively. Interest expense related to capital leases was \$26 and \$64 for the nine months ended September 30, 2014 and 2013, respectively.

Future minimum capital lease payments at September 30, 2014 were as follows:

Remainder of 2014	\$	59
2015		238
2016		134
2017		4
2018 and thereafter		—
Total		<u>435</u>
Amounts representing interest		<u>(24)</u>
Present value of minimum lease payments	\$	<u>411</u>

## **19. Concentrations**

For the three months ended September 30, 2014 and 2013, and the nine months ended September 30, 2014, the Company had no customer who represented 10% or more of its total revenue. For the nine months ended September 30, 2013, Netflix, Inc. represented approximately 12% of the Company's total revenue.

Revenue from sources outside America totaled approximately \$15,467 and \$14,069 for the three months ended September 30, 2014 and 2013, respectively. Revenue from sources outside of America totaled approximately \$44,776 and \$41,769 for the nine months ended September 30, 2014 and 2013, respectively.

During the three and nine months ended September 30, 2014, and the three months ended September 30, 2013, the Company had two countries, the United States and Japan, that accounted for 10% or more of the Company's total revenues.

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During the nine months ended September 30, 2013, the Company had no single country outside of the United States that accounted for 10% or more of the Company's total revenues.

### 20. Income Taxes

Income taxes for the interim periods presented have been included in the accompanying 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 for the three and nine months ended September 30, 2014 was \$98 and \$181, 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 three and nine month periods.

The Company files income tax returns in jurisdictions with varying statutes of limitations. Tax years 2010 through 2013 generally remain subject to examination by federal and most state tax authorities. As of September 30, 2014, the Company is not under any federal or state examination.

On September 13, 2013, the Internal Revenue Service released final tangible property regulations under Sections 162(a) and 263(a) of the Internal Revenue Code of 1986 (Code), regarding the deduction and capitalization of expenditures related to tangible property. The final regulations replace temporary regulations that were issued in December 2011. Also released were proposed regulations under Section 168 of the Code regarding dispositions of tangible property. Early adoption was available; however, the Company did not elect to early adopt the regulations. The Company adopted the regulations on January 1, 2014, and does not believe there has been or will be a material impact on its consolidated financial statements.

### 21. Segment Reporting

The Company operates in one industry segment — content delivery and related services. The Company operates in three geographic areas — Americas, Europe, Middle East and Africa (EMEA) and Asia Pacific.

Revenue by geography is based on the location of the customer from which the revenue is earned. The following table sets forth revenue by geographic area:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2014		2013		2014		2013	
Americas	\$ 23,553	60.4%	\$ 28,587	67.0%	\$ 76,757	63.2%	\$ 89,463	68.2%
EMEA	8,368	21.4%	7,960	18.7%	25,732	21.2%	24,569	18.7%
Asia Pacific	7,099	18.2%	6,109	14.3%	19,044	15.7%	17,200	13.1%
Total revenue	\$ 39,020	100.0%	\$ 42,656	100.0%	\$ 121,533	100.0%	\$ 131,232	100.0%

The following table sets forth long-lived assets by geographic area:

	September 30,		December 31,	
	2014		2013	
Americas	\$ 22,055	\$ 26,502		
International	11,443	8,757		
Total long-lived assets	\$ 33,498	\$ 35,259		

### 22. Fair Value Measurements

As of September 30, 2014 and December 31, 2013, 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'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





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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 September 30, 2014:

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>				
Money market funds (2)	\$ 174	\$ 174	\$ —	\$ —
Corporate notes and bonds (1)	23,199	—	23,199	—
Commercial paper (1)	3,399	—	3,399	—
Certificate of deposit (1)	7,670	—	7,670	—
Total assets measured at fair value	\$ 34,442	\$ 174	\$ 34,268	\$ —

(1) Classified in marketable securities

(2) Classified in cash and cash equivalents

The following is a summary of fair value measurements at December 31, 2013:

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)	\$ 261	\$ —	\$ 261	\$ —
Money market funds (2)	9,740	9,740	—	—
Corporate notes and bonds (1)	26,009	—	26,009	—
Commercial paper (1)	2,200	—	2,200	—
Certificate of deposit (1)	4,076	—	4,076	—
Publicly traded common stock (1)	6	6	—	—
Total assets measured at fair value	\$ 42,292	\$ 9,746	\$ 32,546	\$ —

(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 approximates fair value as the securities are marked to market as of each balance sheet date with any unrealized gains and losses reported in stockholders' equity. The carrying amount of accounts receivable, accounts payable and accrued liabilities approximates fair value due to the short-term maturity of the amounts.

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### **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 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, 2013 included in our annual report on Form 10-K filed with the Securities and Exchange Commission (SEC), on February 20, 2014. 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 this quarterly report on Form 10-Q and in our SEC filings, including the Risk Factors set forth in our annual report. 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. All information is presented in thousands, except per share amounts, customer count and where specifically noted.*

#### **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 network) and provide a suite of integrated services including content delivery services, video content management services, performance services for website and web application acceleration, and cloud storage services. These four primary service groups work collectively to enable organizations to deliver digital content to any device, anywhere in the world. The suite of services that we offer collectively comprises our Limelight Orchestrate Platform (the Orchestrate Platform)

On February 12, 2014, our board of directors authorized a \$15,000 share repurchase program. During the three and nine months ended September 30, 2014, we purchased and canceled 447 and 947 shares, respectively, for \$1,267 and \$2,500, respectively, including commissions and expenses. All repurchased shares were canceled and returned to authorized but unissued status. As of September 30, 2014, we have \$12,509 remaining under this share repurchase authorization.

The following table summarizes our revenue, costs and expenses for the three and nine months ended September 30, 2014 and 2013 (in thousands of dollars and as a percentage of total revenue). The information presented below has been revised to reflect the adjustments discussed in Note 2, Revision of Previously Issued Financial Statements, in Part I, Item 1 of this quarterly report on Form 10-Q.

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	Three Months Ended September 30,				Nine Months Ended September 30,			
	2014		2013		2014		2013	
Revenues	\$ 39,020	100.0 %	\$ 42,656	100.0 %	\$ 121,533	100.0 %	\$ 131,232	100.0 %
Cost of revenue	22,879	58.6 %	27,416	64.3 %	74,251	61.1 %	84,799	64.6 %
Gross profit	16,141	41.4 %	15,240	35.7 %	47,282	38.9 %	46,433	35.4 %
Total operating expenses	22,365	57.3 %	25,463	59.7 %	68,141	56.1 %	76,706	58.5 %
Operating loss	(6,224)	(16.0)%	(10,223)	(24.0)%	(20,859)	(17.2)%	(30,273)	(23.1)%
Total other income (expense)	1,251	3.2 %	(483)	(1.1)%	1,191	1.0 %	328	0.2 %
Loss from continuing operations before income taxes	(4,973)	(12.7)%	(10,706)	(25.1)%	(19,668)	(16.2)%	(29,945)	(22.8)%
Income tax provision	98	0.3 %	197	0.5 %	181	0.1 %	328	0.2 %
Loss from continuing operations	(5,071)	(13.0)%	(10,903)	(25.6)%	(19,849)	(16.3)%	(30,273)	(23.1)%
Discontinued operations:								
(Loss) income from discontinued operations, net of income taxes	(4)	— %	(15)	— %	265	0.2 %	(15)	— %
Net loss	\$ (5,075)	(13.0)%	\$ (10,918)	(25.6)%	\$ (19,584)	(16.1)%	\$ (30,288)	(23.1)%

### Use of Non-GAAP Financial Measures

To evaluate our business, we consider and use non-generally accepted accounting principles (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 evaluate results without the effects of share-based compensation, litigation expenses, amortization of intangibles, acquisition related expenses, discontinued operations and the gain (loss) on sale of our WCM business. We define EBITDA from continuing operations as U.S. GAAP net income (loss) before interest income, interest expense, other income and expense, provision for income taxes, depreciation and amortization, discontinued operations and gain (loss) on sale of WCM. We believe that EBITDA from continuing operations provides a useful metric to investors to compare us with other companies within our industry and across industries. We define Adjusted EBITDA as EBITDA from continuing operations adjusted for share-based compensation, litigation expenses, and acquisition related expenses. 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, as well as across companies.

In our November 10, 2014 earnings press release, as furnished on Form 8-K, we included Non-GAAP net loss, EBITDA from continuing operations and Adjusted EBITDA. The terms Non-GAAP net loss, EBITDA from continuing operations and Adjusted EBITDA are not defined under U.S. GAAP, and are not measures of operating income, operating performance or liquidity presented in accordance with U.S. GAAP. Our Non-GAAP net loss, EBITDA from continuing operations and Adjusted EBITDA have limitations as analytical tools, and when assessing our operating performance, Non-GAAP net loss, EBITDA from continuing operations and Adjusted EBITDA should not be considered in isolation, or as a substitute for net loss or other consolidated income statement data prepared in accordance with U.S. GAAP. Some of these limitations include, but are not limited to:

- EBITDA from continuing operations 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 from continuing operations and Adjusted EBITDA do not reflect any cash requirements for such replacements;

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- 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 from continuing operations and Adjusted EBITDA differently than we do, limiting their usefulness as comparative measures.

We compensate for these limitations by relying primarily on our U.S. GAAP results and using Non-GAAP net income (loss), EBITDA from continuing operations, and Adjusted EBITDA only as supplemental support for management's analysis of business performance. Non-GAAP net income (loss), EBITDA from continuing operations 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 U.S. GAAP financial measures and reconciling the unaudited Non-GAAP financial metrics to the comparable U.S. GAAP measures.

#### Reconciliation of U.S. GAAP Net Loss to Non-GAAP Net Loss (Unaudited)

	Three Months Ended			Nine Months Ended	
	Sept. 30, 2014	June 30, 2014	Sept. 30, 2013	Sept. 30, 2014	Sept. 30, 2013
U.S. GAAP net loss	\$ (5,075)	\$ (6,869)	\$ (10,918)	\$ (19,584)	\$ (30,288)
Share-based compensation	2,587	2,634	3,223	7,800	9,800
Litigation defense expenses	10	536	149	819	299
Amortization of intangible assets	259	338	711	934	2,161
Loss on sale of the WCM business	—	—	—	62	—
Acquisition related expenses	—	—	146	—	113
Loss (income) from discontinued operations	4	(269)	15	(265)	15
Non-GAAP net loss	<u>\$ (2,215)</u>	<u>\$ (3,630)</u>	<u>\$ (6,674)</u>	<u>\$ (10,234)</u>	<u>\$ (17,900)</u>

#### Reconciliation of U.S. GAAP Net Loss to EBITDA to Adjusted EBITDA (Unaudited)

	Three Months Ended			Nine Months Ended	
	Sept. 30, 2014	June 30, 2014	Sept. 30, 2013	Sept. 30, 2014	Sept. 30, 2013
U.S. GAAP net loss	\$ (5,075)	\$ (6,869)	\$ (10,918)	\$ (19,584)	\$ (30,288)
Depreciation and amortization	5,032	5,121	6,711	15,556	22,403
Interest expense	7	7	15	26	64
Loss on sale of the WCM business	—	—	—	62	—
Interest and other (income) expense	(1,258)	128	468	(1,279)	(392)
Income tax provision	98	27	197	181	328
Loss (income) from discontinued operations	4	(269)	15	(265)	15
EBITDA from continuing operations	\$ (1,192)	\$ (1,855)	\$ (3,512)	\$ (5,303)	\$ (7,870)
Share-based compensation	2,587	2,634	3,223	7,800	9,800
Litigation defense expenses	10	536	149	819	299
Acquisition related expenses	—	—	146	—	113
Adjusted EBITDA	<u>\$ 1,405</u>	<u>\$ 1,315</u>	<u>\$ 6</u>	<u>\$ 3,316</u>	<u>\$ 2,342</u>

Non-GAAP metrics for the three and nine months ended September 30, 2014, include the impact of recording an immaterial error correction of approximately \$1,100 relating to previous over billings by a co-location provider. This correction was recorded as a reduction of costs of revenues.

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### 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, 2013. During the nine months ended September 30, 2014, there have been no significant changes in our critical accounting policies and estimates.

### Results of Continuing Operations

#### Revenue

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

The following table reflects our revenue for the three and nine months ended September 30, 2014 compared to September 30, 2013:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2014	2013	Decrease	Percent Change	2014	2013	Decrease	Percent Change
Revenue	\$ 39,020	\$ 42,656	\$ (3,636)	(8.5)%	\$ 121,533	\$ 131,232	\$ (9,699)	(7.4)%

Our revenue decreased during the three and nine months ended September 30, 2014 versus the comparable 2013 period primarily due to the sale of the Web Content Management (WCM) business in December 2013 and the expiration of our content delivery contract with Netflix, Inc. (Netflix) in July 2014. Our active customers worldwide decreased to 1,134 as of September 30, 2014 compared to 1,341 as of September 30, 2013. Approximately 25% of the decrease in customers is attributable to the sale of the WCM business. We are continuing our selective approach to accepting profitable business by establishing a clear process for identifying customers that value quality, performance, availability, and service.

During the three months ended September 30, 2014 and 2013, sales to our top 10 customers accounted for approximately 37% and 36%, respectively, of our total revenue. For the nine months ended September 30, 2014 and 2013, sales to our top 10 customers accounted for approximately 38% and 35%, respectively, of our total revenue.

During the three months ended September 30, 2014 and 2013, and the nine months ended September 30, 2014, we had no customer who accounted for 10% or more of our total revenue. For the nine months ended September 30, 2013, Netflix represented approximately 12% of our total revenue. 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.

Revenue by geography is based on the location of the customer from which the revenue is earned. The following table sets forth revenue by geographic area:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2014		2013		2014		2013	
Americas	\$ 23,553	60.4%	\$ 28,587	67.0%	\$ 76,757	63.2%	\$ 89,463	68.2%
EMEA	8,368	21.4%	7,960	18.7%	25,732	21.2%	24,569	18.7%
Asia Pacific	7,099	18.2%	6,109	14.3%	19,044	15.7%	17,200	13.1%
Total revenue	\$ 39,020	100.0%	\$ 42,656	100.0%	\$ 121,533	100.0%	\$ 131,232	100.0%

We anticipate revenues will decrease in the remaining portion of 2014 compared to 2013 as a result of our sale of our WCM business in December 2013 and the expiration of the content delivery contract with Netflix in July 2014. We expect revenues for the year ended December 31, 2014 to total between \$159,000 and \$161,000.

#### Cost of Revenue

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 leased warehouse space and utilities, 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. Other costs include professional fees and outside services, travel and travel-related expenses and royalty expenses.



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Cost of revenue was composed of the following (in thousands and as a percentage of total revenue):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2014		2013		2014		2013	
Bandwidth and co-location fees	\$ 12,027	30.8%	\$ 14,631	34.3%	\$ 41,449	34.1%	\$ 44,791	34.1%
Depreciation - network	4,207	10.8%	5,278	12.4%	12,688	10.4%	18,078	13.8%
Payroll and related employee costs	4,396	11.3%	4,703	11.0%	13,230	10.9%	13,993	10.7%
Share-based compensation	464	1.2%	499	1.2%	1,466	1.2%	1,518	1.2%
Other costs	1,785	4.6%	2,305	5.4%	5,418	4.5%	6,419	4.9%
Total cost of revenue	<u>\$ 22,879</u>	58.6%	<u>\$ 27,416</u>	64.3%	<u>\$ 74,251</u>	61.1%	<u>\$ 84,799</u>	64.6%

Our cost of revenue decreased in aggregate dollars and as a percentage of total revenue for the three and nine months ended September 30, 2014 versus the comparable 2013 periods primarily as a result of the following:

- decreased bandwidth and co-location fees as a result of our focus on renegotiating our fixed rate infrastructure contracts to variable rate based on traffic levels. Additionally, during the third quarter of 2014, we recorded a nonrecurring \$1,100 credit related to an over billing from one of our co-location providers;
- decreased network depreciation as a result of a decrease in capital expenditures since 2012; and
- decreased payroll and related employee costs as a result of lower average salaries.

We anticipate depreciation expense related to our network equipment will continue to decrease compared to 2013 in both absolute dollars and as a percentage of revenue as our capital expenditures have decreased in recent years.

### ***General and Administrative***

General and administrative expense was composed of the following (in thousands and as a percentage of total revenue)

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2014		2013		2014		2013	
Payroll and related employee costs	\$ 2,553	6.5%	\$ 2,190	5.1%	\$ 7,714	6.3%	\$ 7,512	5.7%
Professional fees and outside services	2,177	5.6%	2,137	5.0%	4,928	4.1%	5,873	4.5%
Share-based compensation	1,174	3.0%	1,591	3.7%	3,539	2.9%	4,817	3.7%
Other costs	1,391	3.6%	2,326	5.5%	5,785	4.8%	5,820	4.4%
Total general and administrative	<u>\$ 7,295</u>	18.7%	<u>\$ 8,244</u>	19.3%	<u>\$ 21,966</u>	18.1%	<u>\$ 24,022</u>	18.3%

Our general and administrative expense decreased in aggregate dollars and as a percentage of total revenue for the three and nine months ended September 30, 2014 versus the comparable 2013 periods.

The decrease during the three months ended September 30, 2014 versus the comparable 2013 period was primarily the result of the following:

- decreased share-based compensation expense; and
- lower other costs which was primarily reduced bad debt expense, rent and litigation expenses.

These decreases were partially offset by increased payroll and related employee costs due to higher average salaries and an increase in general and administrative personnel.

The decrease during the nine months ended September 30, 2014 versus the comparable 2013 period was primarily the result of the following:



- decreased share-based compensation; and
- decreased professional fees and outside services primarily due to lower patent defense costs and reduced recruiting fees.

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These decreases were partially offset by increased payroll and related employee costs due to an increase in general and administrative personnel.

### *Sales and Marketing*

Sales and marketing expense was composed of the following (in thousands and as a percentage of total revenue):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2014		2013		2014		2013	
Payroll and related employee costs	\$ 5,566	14.3%	\$ 6,182	14.5%	\$ 18,256	15.0%	\$ 18,813	14.3%
Share-based compensation	567	1.5%	637	1.5%	1,693	1.4%	1,896	1.4%
Marketing programs	321	0.8%	486	1.1%	1,105	0.9%	2,010	1.5%
Other costs	2,277	5.8%	3,058	7.2%	7,302	6.0%	8,826	6.7%
Total sales and marketing	<u>\$ 8,731</u>	<u>22.4%</u>	<u>\$ 10,363</u>	<u>24.3%</u>	<u>\$ 28,356</u>	<u>23.3%</u>	<u>\$ 31,545</u>	<u>24.0%</u>

Our sales and marketing expense decreased in aggregate dollars and decreased as a percentage of total revenue for the three and nine months ended September 30, 2014 versus the comparable 2013 periods, primarily as a result of the following:

- decreased payroll and related employee costs primarily due to reduced sales personnel and lower variable compensation;
- decreased marketing and public relations spending; and
- decreased other costs primarily related to employee events, subscription based services, and travel related expenses.

### *Research and Development*

Research and development expense was composed of the following (in thousands and as a percentage of total revenue):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2014		2013		2014		2013	
Payroll and related employee costs	\$ 4,060	10.4%	\$ 4,007	9.4%	\$ 11,422	9.4%	\$ 12,538	9.6%
Share-based compensation	382	1.0%	495	1.2%	1,102	0.9%	1,569	1.2%
Other costs	1,072	2.7%	921	2.2%	2,427	2.0%	2,707	2.1%
Total research and development	<u>\$ 5,514</u>	<u>14.1%</u>	<u>\$ 5,423</u>	<u>12.7%</u>	<u>\$ 14,951</u>	<u>12.3%</u>	<u>\$ 16,814</u>	<u>12.8%</u>

Our research and development expense increased in aggregate dollars and as a percentage of total revenue for the three months ended September 30, 2014 versus the comparable 2013 period, primarily as a result of an increase in consulting services included in other costs.

For the nine months ended September 30, 2014, our research and development expense decreased in aggregate dollars and as a percentage of total revenue versus the comparable 2013 period primarily due to the following:

- decreased payroll and related employee costs due to lower average salaries and transitioning of our network and software engineering work to lower cost locations; and
- decreased other costs primarily due to lower travel costs, reduced fees and licenses and lower professional fees.

### *Depreciation and Amortization (Operating Expenses)*

Depreciation and amortization expense was \$825 and \$2,868, or 2.1% and 2.4% of revenue, for the three and nine months ended September 30, 2014, respectively, versus \$1,433 and \$4,325, or 3.4% and 3.3% of revenue, for the comparable 2013 periods, respectively. Depreciation expense consists of depreciation on equipment and furnishings used by general administrative, sales and marketing, and research and development personnel. Amortization expense consists of amortization of intangible assets acquired in business combinations and has decreased due to the sale of our WCM business in December 2013.



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### *Interest Expense*

Interest expense was \$7 and \$26 for the three and nine months ended September 30, 2014, respectively, versus \$15 and \$64 for the comparable 2013 periods. Interest expense is primarily comprised of interest paid on capital leases.

As of September 30, 2014, with the exception of our capital leases, we had no outstanding credit facilities.

### *Interest Income*

Interest income was \$66 and \$203 for the three and nine months ended September 30, 2014, respectively, versus \$89 and \$238 for the comparable 2013 periods. Interest income includes interest earned on invested cash balances and marketable securities.

### *Other Income (Expense)*

Other income was \$1,192 and \$1,014 for the three and nine months ended September 30, 2014, respectively, compared to other expense of \$557 for the three months ended September 30, 2013 and other income of \$154 for the nine months ended September 30, 2013. For the three and nine months ended September 30, 2014, other income consists primarily of foreign currency transaction gains and losses, the working capital adjustment associated with the sale of our WCM business, and the gain on sale of assets. For the three and nine months ended September 30, 2013, other expense consists primarily of foreign currency transaction gains and losses.

### *Income Tax Expense*

Based on an estimated annual effective tax rate and discrete items, the estimated income tax expense from continuing operations for the three and nine months ended September 30, 2014 was \$98 and \$181, respectively, versus \$197 and \$328 for the comparable 2013 periods. Income tax expense on loss from continuing operations before income 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 and year to date periods. 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.

### *Income from Discontinued Operations*

Discontinued operations relate to our EyeWonder and chors rich media advertising services. On September 1, 2011, we completed the sale of EyeWonder and chors to DG FastChannel, Inc. (currently Digital Generation, Inc. or (DG)). During the three months ended June 30, 2014, we received approximately \$414 from DG for the previously written-off receivable. We recorded \$269, (\$414 cash received, net of tax of \$145), as income from discontinued operations during the second quarter of 2014. During the three months ended September 30, 2014, we recorded \$4 (net of tax) of expense related to discontinued operations.

### **Liquidity and Capital Resources**

As of September 30, 2014, our cash, cash equivalents and marketable securities classified as current totaled \$101,256. Included in this amount is approximately \$17,580 of cash and cash equivalents held outside the United States that would be subject to withholding taxes upon repatriation.

The major components of changes in cash flows for the nine months ended September 30, 2014 and 2013 are discussed in the following paragraphs.

### *Operating Activities*

Net cash provided by operating activities was \$1,005 for the nine months ended September 30, 2014 versus \$6,538 for the comparable 2013 period, a decrease of \$5,533. Changes in operating assets and liabilities of (\$2,048) during the nine months ended September 30, 2014 versus \$4,076 in the comparable 2013 period were primarily due to:

- accounts receivable increased \$1,496 during the nine months ended September 30, 2014 due to the timing of billings net of collections as compared to a \$177 decrease in the comparable 2013 period;
- prepaid expenses and other current assets increased \$1,045 during the nine months ended September 30, 2014 versus a decrease of \$1,930 for the comparable 2013 period due to the timing of amortization of prepaid bandwidth expenses;

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- accounts payable increased \$4,762 during the nine months ended September 30, 2014 versus an increase of \$1,102 for the comparable 2013 period due to timing of vendor payments;
- deferred revenue decreased \$893 during the nine months ended September 30, 2014 versus an increase of \$256 for the comparable 2013 period due to changes in WCM deferred revenue balances in the prior period; and
- other current liabilities decreased \$3,663 during the nine months ended September 30, 2014 versus a decrease of \$436 for the comparable 2013 period primarily due to the application of customer deposits to their receivable balances.

### *Investing Activities*

Net cash used in investing activities was \$15,689 for the nine months ended September 30, 2014 versus \$27,051 for the comparable 2013 period. Net cash used in investing activities during the nine months ended September 30, 2014 and 2013 primarily relate to purchase of short-term marketable securities, and capital expenditures primarily for computer equipment associated with the continued 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 content delivery network. During the nine months ended September 30, 2014, we made capital expenditures of \$13,984, which represented approximately 12% of our total revenue.

### *Financing Activities*

Net cash used in financing activities was \$3,400 for the nine months ended September 30, 2014 versus \$8,916 for the comparable 2013 period. Net cash used in financing activities in the nine months ended September 30, 2014 related to cash paid for the repurchase of our common stock of \$2,500, payments of employee tax withholdings related to restricted stock units of \$1,455, and payments made on our capital lease obligations of \$412, offset by cash received from the exercise of stock options and our employee stock plan of \$967.

Net cash used in financing activities in the nine months ended September 30, 2013 related to payments made for the purchase of our common stock under our stock repurchase plans of \$5,512, payments of employee tax withholdings related to restricted stock units of \$2,309 and payments made on our capital lease obligations of approximately \$1,124.

On February 12, 2014, our board of directors authorized a \$15,000 share repurchase program. During the nine months ended September 30, 2014 and as of October 31, 2014, we have purchased and canceled approximately 947 shares. All repurchased shares were canceled and returned to authorized but unissued status. As of September 30, 2014, we have \$12,509 remaining under this share repurchase authorization.

As of September 30, 2014, we had no outstanding debt other than the aforementioned capital leases.

Changes in cash, cash equivalents and marketable securities are dependent upon changes in, among other things, working capital items such as deferred revenues, accounts payable, accounts receivable, accrued provision for litigation and various accrued expenses, as well as purchases of property and equipment and 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.

Cash provided by operating activities may not be sufficient to cover new purchases of property and equipment during 2014 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.

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

In the normal course of business, we make certain long-term commitments for operating leases, primarily office facilities, bandwidth, and computer rack space. These leases expire on various dates ranging from 2014 to 2023. We expect that the growth of our business will require us to continue to add to and increase our long-term commitments in 2014 and beyond. As a result of our growth strategies, we believe that our liquidity and capital resources requirements will grow.

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The following table presents our contractual obligations and commercial commitments, as of September 30, 2014 over the next five years and thereafter (in thousands):

Contractual obligations as of September 30, 2014	Payments Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Operating Leases					
Bandwidth leases	\$ 17,007	\$ 13,053	\$ 3,494	\$ 460	\$ —
Rack space leases	26,735	19,622	6,908	205	—
Real estate leases	13,624	3,641	5,293	3,680	1,010
Total operating leases	57,366	36,316	15,695	4,345	1,010
Capital leases	435	238	197	—	—
Other purchase obligations	954	603	351	—	—
Total commitments	\$ 58,755	\$ 37,157	\$ 16,243	\$ 4,345	\$ 1,010

### **Off Balance Sheet Arrangements**

As of September 30, 2014, we are not involved in any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

### **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 are not impacted by 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 the Americas, EMEA and Asia-Pacific. As a result of our international business activities, our financial results could be affected by factors such as changes in foreign currency exchange rates or economic conditions in foreign markets, and there is no assurance that exchange rate fluctuations will not harm our business in the future. 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. Assuming a 10% weakening of the U.S. dollar relative to our foreign currency denominated revenues and expenses, our net loss for the year ended December 31, 2013 and the nine months ended September 30, 2014 would have been higher by approximately \$3,059 and \$2,371, 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.

#### ***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.

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### *Credit Risk*

During any given fiscal period, a relatively small number of customers typically account for a significant percentage of our revenue. During the three months ended September 30, 2014 and 2013, sales to our top 10 customers accounted for approximately 37% and 36%, respectively, of our total revenue. During the three months ended September 30, 2014 and 2013, we had no customer who represented 10% or more of our total revenue.

For the nine months ended September 30, 2014 and 2013, sales to our top 10 customers accounted for approximately 38% and 35%, respectively, of our total revenue. During the nine months ended September 30, 2014, we had no customer who represented 10% or more of our total revenue. During the nine months ended September 30, 2013, Netflix represented approximately 12% of our total revenue. 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.

### **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 September 30, 2014. 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 SEC Rules 13a-15(f) and 15d-15(f)) during the fiscal quarter ended September 30, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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### 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 \$45,500 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 \$2,600 at December 31, 2007. We recorded the aggregate \$48,100 as a provision for litigation as of December 31, 2007. During 2008, we recorded an additional provision of approximately \$17,500 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 \$65,600 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. Akamai then filed a cross petition for consideration of the Court of Appeals standard for direct infringement followed by an opposition to our petition. On January 10, 2014, the Supreme Court granted our petition for writ of certiorari and did not act on Akamai's cross petition. On April 30, 2014, the Supreme Court heard oral argument in our case. On June 2, 2014, the Supreme Court issued its decision and reversed the Federal Circuit's decision, remanding the case back to that court. On July 24, 2014, the Federal Circuit issued an order vacating its prior judgment, reinstating the appeals, dissolving its *en banc* status, and referring the case back to the original Court of Appeals panel for further proceedings. The Federal Circuit heard arguments on September 11, 2014. We do not believe an ultimate loss is probable. 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. In light of the status of the litigation, we believe that there is a reasonable possibility that we have incurred a loss related to the Akamai litigation. While we believe that there is a reasonable possibility that a loss has been incurred, we are not able to estimate a range of the loss due to the complexity and procedural status of the case and do not believe a loss is probable therefore, no provision for this lawsuit is recorded in our consolidated financial statements.

In the ordinary course of our business, we are also involved in a 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.



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### **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, 2013 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 frequently declining prices and vendors offering a wide range of alternate solutions. We have experienced and expect to continue to experience increased competition on price, features, functionality, integration and other factors. 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, and an increased requirement for product advancement and innovation in order to remain competitive, which in turn adversely affect our revenue, gross margin and operating results.

Our primary competitors for the content delivery service offering of our Orchestrate Platform include Akamai, Level 3 Communications, Amazon, CDNetworks, and Verizon Digital Media Services. 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 the other service offerings of our Orchestrate Platform include Brightcove, Ooyala (recently acquired by Telstra), Fastly, Highwinds, Yotta, as well as open source product such as Kaltura. However, the competitive landscape is different from content delivery in this area in that the process of changing vendors can be more costly and complicated for the customer, which could make it difficult for us to attract new customers and increase our market share. If we are unable to increase our customer base and increase our market share, our business, financial condition and results of operations may suffer.

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

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

As we further expand our global network and the Orchestrate Platform, 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;

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- increasing settlement fees for certain peering relationships;
- failure to increase sales of our Orchestrate Platform services;
- increases in electricity, bandwidth and rack space costs or other operating expenses, and failure to achieve decreases in these costs and expenses relative to decreases in the prices we can charge for our Orchestrate Platform 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 Orchestrate Platform 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 Orchestrate Platform 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 collectively from our video content management services, performance services for website and web application acceleration, and cloud storage services. These services tend to have higher gross margins than our content delivery services. We do not have a long history of offering these services, 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 these services, 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 these services. If we are unable to achieve the growth rates in revenue that we expect for these service offerings, 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 and market share may suffer.**

The market for our Orchestrate Platform services is characterized by rapidly changing technology, evolving industry standards and new product and service introductions. Our operating results depend on our ability to predict user preferences or industry changes, and modify our solutions and services on a timely basis or develop and introduce new services into existing and emerging markets. The process of developing new technologies is complex and uncertain. We must commit significant resources to developing new services or enhancements to our existing services before knowing whether our investments will result in services the market will accept. Furthermore, we may not execute our technology initiatives successfully 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 Orchestrate Platform service offerings to maintain or increase our gross margins. Failures in execution, delays in bringing new or improved products or services to market, failure to effectively integrate service offerings or market acceptance of new services we introduce could result in competitors providing those solutions before we do, which could lead to loss of market share, revenue and earnings.

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

Customers, potential customers or third parties may develop technological or business model innovations that address digital delivery requirements in a manner that is, or is perceived to be, equivalent or superior to our Orchestrate Platform service offerings. 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, 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.

Also, 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. 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 our 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.

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### **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, subscriptions, 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, reductions in available capital and liquidity from banks and other providers of credit, 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.

### **Rapid increase in the use of mobile and alternative devices to access the Internet present significant development and deployment challenges.**

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 these devices, we may 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 or substantial and extensive degradation 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, or substantial and extensive degradation 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 network 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 customers' business and reputation, as well as our own.

We could experience a significant, unplanned disruption, or substantial and extensive degradation of our services, or 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 or substantial and extensive degradation in the functioning of our Orchestrate Platform services for any reason would reduce our revenue and could harm our business and financial results. If such a widespread interruption occurred, or if we failed to deliver content to users as expected during a high-profile media event, game release or other well-publicized circumstance, our reputation could be damaged severely. Moreover, any disruptions, significant degradation, 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.

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**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.

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 filed a petition to appeal this sharply divided Court of Appeals decision to the Supreme Court. On January 10, 2014, the Supreme Court granted our petition for writ of certiorari and did not act on Akamai’s cross petition. On April 30, 2014, the Supreme Court heard oral argument in our case. On June 2, 2014, the Supreme Court issued its decision and reversed the Federal Circuit’s decision, remanding the case back to that court. On July 24, 2014, the Federal Circuit issued an order vacating its prior judgment, reinstating the appeals, dissolving its *en banc* status, and referring the case back to the original Court of Appeals panel for further proceedings. The Federal Circuit heard arguments on September 11, 2014. 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 and non-practicing entities (sometimes referred to as NPEs), 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 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.

**Our business may 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

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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 features or taking other actions that could divert resources away from our development efforts.

In addition, the terms relating to disclosure of derivative works in many open-source licenses are unclear. We periodically review our compliance with the open-source licenses we use and do not believe we will be required to make our proprietary software freely available. However, if a court interprets one or more such open-source licenses in a manner that is unfavorable to us, we could be required to make some components of 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 offerings to become productive and generate revenue, forecasting revenue, controlling expenses and investments in anticipation of expanded operations, implementing and enhancing our global network 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.

**Our business depends on a strong brand reputation, and if we are not able to maintain and enhance our brand, 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 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 2013 accounted for approximately 35% of our total revenue. During 2013, we had one customer, Netflix that represented approximately 11% of our total revenue. For the nine months ended September 30, 2014, sales to our top 10 customers accounted for approximately 38% of our total revenue. During the nine months ended September 30, 2014, we had no customer who represented 10% or more of our total revenue. Large customers may not continue to be as significant going forward as they have been in the past.

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

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

In addition to adding new customers, to increase our revenue, we must sell additional services to existing customers and encourage existing customers to increase their usage levels. If our existing and prospective customers do not perceive our services to be of sufficiently high value and quality, we may not be able to retain our current customers or attract new customers. We sell our services pursuant to service agreements that generally include some form of financial minimum commitment. Our customers have no obligation to renew their contracts for our services after the expiration of their initial commitment, and these service agreements may not be renewed at the same or higher level of service, if at all. Moreover, under some circumstances, some of our customers have the right to cancel their service agreements prior to the expiration of the terms of their agreements. Aside from minimum financial commitments, customers are not obligated to use our services for any particular type or amount of traffic. These facts, 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 particular industries or market segments. As an organization, we may not have significant experience in selling our services into certain of 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 and other Orchestrate Platform services;
- the addition or loss of large customers, or significant variation in their use of our content delivery and other Orchestrate Platform services;
- costs associated with current or future intellectual property lawsuits and other lawsuits;
- service outages or third party security breaches to our platform or to one or more of our customers' platforms;
- the amount and timing of operating costs and capital expenditures related to the maintenance and expansion of our business, operations and infrastructure;
- the timing and success of new product and service introductions by us or our competitors;
- the occurrence of significant events in a particular period that result in an increase in the use of our content delivery and other Orchestrate Platform services, such as a major media event or a customer's online release of a new or updated video game or operating system;
- changes in our pricing policies or those of our competitors;
- the timing of recognizing revenue;
- limitations of the capacity of our global network 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 intangible or other long-lived assets;

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- general economic, industry and market conditions (such as the fluctuations experienced in the stock and credit markets during the recent deterioration of global economic conditions) and those conditions specific to Internet usage;
- limitations on usage imposed by our customers in order to limit their online expenses; and
- war, threat of war or terrorist actions, including cyber terrorism targeted broadly, at us, or our customers, or both, and inadequate cyber security.

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

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

Since 2006, we have been profitable only one year, which was as a result of a reversal of a significant reserve for litigation. Our adoption of ASC 718 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 may 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.

We also may not achieve sufficient revenue to achieve or maintain profitability and may continue to incur significant losses in the future, which could cause the price of our common stock to decline. We may incur significant losses in the future for a number of reasons, including slowing demand for our services, increasing competition and competitive pricing pressures, any inability to generally provide our services in a cost-effective manner, as well as other risks described herein, and we may encounter unforeseen expenses, difficulties, complications and delays, and other unknown factors.

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

As of September 30, 2014, we had a goodwill balance of \$76,583, 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 Orchestrate Platform, we generate the majority of our revenue from charging our customers for the content delivered on their behalf through our global network. 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.

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**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 and other Orchestrate Platform services.**

Because the proliferation of broadband Internet connections and the subsequent monetization of content libraries for distribution to Internet users are relatively recent phenomena, many of our customers' business models that center on the delivery of rich media and other content to users remain unproven. Our customers will not continue to purchase our content delivery and other Orchestrate Platform services if their investment in providing access to the media stored on or deliverable through our global network does not generate a sufficient return on their investment. A reduction in spending on services by our current or potential customers would seriously harm our operating results and financial condition.

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

Our content delivery and other Orchestrate Platform services are highly complex and are designed to be deployed in and across numerous large and complex networks. Our global network infrastructure has to perform well and be reliable for us to be successful. The greater the user traffic and the greater the complexity of our 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 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 third party providers, including Global Crossing, a company that was acquired by one of our direct competitors. Our contracts for private line capacity 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 providers. Alternative providers are available; however, it could be time consuming and expensive to promptly identify and obtain alternative third party connectivity. Failure of Global Crossing specifically could jeopardize utilization of the service fees prepaid 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 from third party providers 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 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. A United States Court of Appeals ruling struck down FCC regulations that prohibited phone and cable companies from discriminating among content producers in delivering data over their networks. As a result, our customers could experience increased cost or slower data on these third-party networks. If we or our customers experience increased cost in delivering content to end users as a result of this ruling, or otherwise, or if end users perceive a degradation of quality, our business and that of our customers may be significantly harmed. This or other types of interference



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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 network 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, was limited, our ability to serve our customers in these formats would be impaired and the demand for our content delivery and other Orchestrate Platform services would decline by customers using these formats. Owners of propriety content formats may be able to block, restrict or impose fees or other costs on our use of such formats, which could lead to additional expenses for us and for our customers, or which could prevent our delivery of this type of content altogether. Such interference could result in a loss of existing customers, increased costs and impairment of our ability to attract new customers, which would harm our revenue, operating results and growth.

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

We have completed a number of business acquisitions 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.

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 Orchestrate Platform services 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.**

Six members of our senior management team, our President and Chief Executive Officer, Chief Financial Officer and Treasurer, Chief Marketing Officer, Chief Sales Officer, our Senior Vice President of Development and Delivery, and our Senior Vice President of Strategy, Corporate Development & Investor Relations have been hired by us since June 2012. In addition, in late 2013, we eliminated the position of Chief Operating Officer and the responsibilities of this position were

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distributed among the current management team. As a result, our senior management team has limited experience working together as a group and is required to perform additional responsibilities. This lack of shared experience and experience with these additional responsibilities could harm our senior management team's ability to quickly and efficiently respond to problems and effectively manage our business.

### **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 network 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.

International operations are subject to significant additional risks not generally faced in our domestic operations, including, but not limited to, risks relating to legal systems that may not adequately protect contract and intellectual property rights, policies and taxation, the physical infrastructure of the country, as well as risks relating to potential political turmoil and currency exchange controls. There can be no assurance that these international risks will not materially adversely affect our business. For example, our operations include software development and quality assurance activities in the Ukraine, which is currently experiencing a period of social unrest. Should there be significant productivity losses, or if we become unable to conduct operations in Ukraine in the future, and our contingency plans are unsuccessful in addressing the related risks, our business could be adversely affected.

### **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

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

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

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

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

Our foreign operations may also be adversely affected by regulatory action outside the United States. For example, the European Union has adopted a directive addressing data privacy that limits the collection, disclosure and use of information regarding European Internet users. In addition, the European Union has enacted an electronic communications directive that imposes certain restrictions on the use of cookies and also places restrictions on the sending of unsolicited communications. Each European Union member country was required 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 re-engineering 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

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

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

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

- implementing customer orders for services;
- delivering these services; and
- timely and accurate billing for these services.

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 roll-out 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.

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

Increasing our customer base and achieving broader market acceptance of our services will depend to a significant extent on our ability to enhance 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 have realigned our sales resources to improve our sales productivity and efficiency and to bring our sales personnel closer to our current and potential customers. Realigning our 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 improving the productivity and efficiency of our sales force, which could cause our results of operations to suffer.

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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 productivity efforts do not generate a corresponding significant increase in revenue.

**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 expenses, including 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.

**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.

**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 (EY), 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



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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 EY 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.

### **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.

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

As of September 30, 2014, 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





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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**

### ***Issuers Purchases of Equity Securities***

The following is a summary of our repurchases of common stock during the three months ended September 30, 2014 (in thousands, except share and per share data):

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid Per Share (1)</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)</u>	<u>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (2)</u>
July 1, - July 31, 2014	447,269	\$ 2.83	447,269	\$ 12,509
August 1, - August 31, 2014	—	\$ —	—	\$ 12,509
September 1, - September 30, 2014	—	\$ —	—	\$ 12,509
	<u>447,269</u>	<u>\$ 2.83</u>	<u>447,269</u>	

(1) Includes commissions, markups and expenses

(2) On February 12, 2014, our board of directors authorized a \$15,000 share repurchase program. Under the current authorization, we may repurchase shares periodically in the open market or through privately negotiated transactions, in accordance with applicable securities rules regarding issuer repurchases. All repurchased shares were cancelled and returned to authorized but unissued status.



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**Item 3. Defaults upon Senior Securities**

Not applicable

**Item 4. Mine Safety Disclosures**

Not applicable

**Item 5. Other Information**

None.

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### 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	
31.1	Certification of Principal Executive Officer Pursuant to Securities Exchange Act Rule 13a-14(a).					X
31.2	Certification of Principal Financial Officer Pursuant to Securities Exchange Act Rule 13a-14(a).					X
32.1	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350 and Securities Exchange Act Rule 13a-14 (b).*					X
32.2	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.







after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.

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