

Limelight Networks, Inc.  
Form 10-K  
February 17, 2015  
Table of Contents

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

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 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

Limelight Networks, Inc.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of incorporation or organization)  
222 South Mill Avenue, 8<sup>th</sup> Floor  
Tempe, AZ 85281

20-1677033  
(I.R.S. Employer Identification No.)  
Name of each exchange on which registered  
NASDAQ Global Select Market

(Address of principal executive offices, including Zip Code)  
(602) 850-5000

(Registrant's telephone number, including area code)

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

Title of each class  
Common Stock, \$0.001 par value

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

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

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

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

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

(§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

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

Large accelerated filer  Accelerated filer  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 Act). Yes  No

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant was approximately \$177.2 million based on the last reported sale price of the common stock on the Nasdaq Global Select Market on June 30, 2014.

The number of shares outstanding of the registrant's Common Stock, par value \$0.001 per share, as of February 10, 2015: 98,309,471 shares.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Proxy Statement for the Registrant's 2015 Annual Meeting of Stockholders are incorporated by reference in Part III of this Form 10-K.

---

Table of Contents

LIMELIGHT NETWORKS, INC.

ANNUAL REPORT ON FORM 10-K

For the Fiscal Year Ended December 31, 2014

## TABLE OF CONTENTS

	Page
PART I	
Item 1. <u>Business</u>	<u>1</u>
Item 1A. <u>Risk Factors</u>	<u>10</u>
Item 1B. <u>Unresolved Staff Comments</u>	<u>24</u>
Item 2. <u>Properties</u>	<u>24</u>
Item 3. <u>Legal Proceedings</u>	<u>24</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>25</u>
PART II	
Item 5. <u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>26</u>
Item 6. <u>Selected Financial Data</u>	<u>28</u>
Item 7. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>30</u>
Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>45</u>
Item 8. <u>Financial Statements and Supplementary Data</u>	<u>47</u>
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>77</u>
Item 9A. <u>Controls and Procedures</u>	<u>77</u>
Item 9B. <u>Other Information</u>	<u>80</u>
PART III	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	<u>81</u>
Item 11. <u>Executive Compensation</u>	<u>81</u>
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>81</u>
Item 13. <u>Certain Relationships, Related Transactions, and Director Independence</u>	<u>82</u>
Item 14. <u>Principal Accountant Fees and Services</u>	<u>82</u>
PART IV	
Item 15. <u>Exhibits and Financial Statement Schedules</u>	<u>83</u>
<u>Signatures</u>	<u>84</u>
<u>Schedule II — Valuation and Qualifying Account</u>	<u>85</u>
<u>Exhibits Index and Exhibits</u>	<u>86</u>

Table of Contents

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This annual report on Form 10-K contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include, among other things, statements as to industry trends, our future expectations, operations, financial condition and prospects, business strategies and other matters that do not relate strictly to historical facts. These statements are often identified by the use of words such as “may,” “will,” “expect,” “believe,” “anticipate,” “intend,” “could,” “estimate,” or “continue,” and similar expressions or variations. These statements are based on the beliefs and assumptions of our management relying on information currently available to management. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled “Risk Factors” set forth in Part I, Item 1A of this annual report on Form 10-K. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements. We undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements. All information is presented in thousands, except per share amounts, customer count and where specifically noted.

PART I

Item 1. Business

Overview

Limelight operates a globally distributed, high-performance, computing platform (our 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 organizations to deliver digital content to any device, anywhere in the world and are collectively referred to as the Limelight Orchestrate Platform (the Orchestrate Platform).

The services we provide through the Orchestrate Platform help our customers optimize and deliver digital content to web, mobile, social, gaming, large screen, and other digital channels. These services provide advanced features including video publishing, mobile enablement, content delivery, website and web application acceleration, transcoding, and cloud storage. These services leverage our global network, which provides highly available, highly redundant storage, bandwidth, and computing resources, as well as connectivity to last-mile broadband network providers.

We derive revenue primarily from the sale of services that comprise 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. We also maintain relationships with resellers that purchase our services for resale to their end customers.

We provide our services to customers that we believe view Internet, mobile, social, and other digital initiatives as critical to their success, including traditional and emerging media companies operating in the television, music, radio, newspaper, magazine, movie, game, software, and social media industries, as well as to enterprises, technology companies, and government entities conducting business online. Our offerings enable our customers to deliver a high quality online experience across all customer interaction channels, and thereby improve brand awareness, drive revenue, and enhance their customer relationships.

We are a Delaware corporation formed in 2001. Our principal executive offices are located at 222 South Mill Avenue, 8<sup>th</sup> Floor, Tempe, Arizona 85281, and our main telephone number is (602) 850-5000. We began development of our infrastructure in 2001 and began generating meaningful revenue in 2002. We began international operations in 2004. As of December 31, 2014, we had approximately 1,095 active customers and had a presence in approximately 53 countries throughout the world. As used herein, “Limelight,” “we,” “us,” “our” and “the Company” refer to Limelight Networks, Inc. and its subsidiaries, unless the context indicates otherwise.

We are registered as a reporting company under the Securities Exchange Act of 1934, as amended (Exchange Act). Accordingly, we file or furnish with the Securities and Exchange Commission, or the Commission, annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to such reports as required by the Exchange Act and the rules and regulations of the Commission. We refer to these reports as “Periodic

Reports". The public may read and copy any Periodic Reports or other materials we file with the Commission at the Commission's Public Reference Room at 100 F. Street, NE, Washington, DC 20549. Information on the operation of the Public Reference Room is available by calling 1-800-SEC-0330. In addition, the Commission maintains an Internet website that contains reports, proxy and

## Table of Contents

information statements and other information regarding issuers, such as Limelight Networks, Inc., that file electronically with the Commission. The address of this website is [www.sec.gov](http://www.sec.gov).

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

### Five Trends Driving Internet Congestion

We have identified five trends that point to an Internet of the future in which congestion may cause outages and prevent organizations from delivering the highest quality digital experiences. In this situation, the need and demand for private, global networks to deliver digital content become important. These trends are:

**Improved Video Quality.** Consumers are continuing to consume online streaming video in record numbers. As the 2014 world cup demonstrated and online providers, such as YouTube, demonstrate, online video is rapidly growing towards becoming a primary method by which users consume video content, whether it's via their personal computers (PCs), smartphones, tablets, or connected televisions. Yet, consumers continue to expect the same quality experience online as they would have in viewing a television. To keep up with the consumer expectations, organizations have been forced to increase quality to provide a "broadcast-like" experience. For example, with the recent advent of 4K resolution devices, several large-scale online video providers are already streaming in this new format that requires, in most cases, four times the bandwidth of a traditional high definition stream. We believe that as more content is made available in 4K resolution (coupled with increasing sales of 4K-ready devices like televisions), more consumers will want to consume the higher-quality content, resulting in increased strain on Internet architecture and infrastructure.

**Growth of digital downloads.** With the growing availability of higher bandwidth connections to connected devices, consumers are becoming more accustomed to making purchases of movies, music, games, and applications digitally from a variety of retailers. As a result, consumers accept larger download sizes. For example, recent releases of popular games have topped 50 gigabytes (GBs) in size. As digital purchases of massive files increases, we believe that this will cause more strain on the Internet's infrastructure resulting in additional pressure on organizations and service providers to take steps to avoid congestion, latency, lengthening download times, and increasingly interrupted downloads, all of which we believe would undermine an organization's ability to deliver the best possible digital experience.

**Shift to over the top technology (OTT) and television everywhere (TVE).** Recent service provider announcements of services for cord-cutters coupled with broadcasters and other content providers announcing plans to provide content directly to consumers illustrates the shift towards internet protocol television (IPTV) OTT, and consumer demand for online streaming services. As day-to-day consumption of video content shifts to Internet-based delivery (either via OTT or TVE), we believe this will put an increasing strain on the Internet putting additional pressure on organizations and service providers to take steps to protect the quality of the end-user experience as this increasing segment of traffic competes with other Internet activities, such as browsing websites and downloading digital content.

**The Internet of Things.** Connected devices communicate with each other and with server-based resources via the Internet. Although it is unclear as to how much bandwidth this "background communication" will consume, as more devices become connected and begin communicating with each other and other resources, this traffic will compete with other Internet traffic such as streaming video and digital downloads. We believe that the Internet of Things may complicate an organization's ability to utilize the Internet to deliver high quality digital experiences.

**Webpage size.** In our recent annual study, The State of the User Experience, over 1000 surveyed respondents indicated that performance of a website was the most important aspect in satisfaction with a digital experience. According to the HTTPArchive, as of July 2014, the top 1000 websites had surpassed 1600K (1.6mb) in average size. This increasing webpage size demonstrates that organizations are building more complex, interactive, and engaging digital experiences. We believe that larger websites will become the norm as consumer bandwidth increases. We believe, through a highly congested Internet, these websites will become increasingly harder to deliver at the level of performance that users expect.



## Table of Contents

### Six Trends Illustrating Consumer Demand for Digital Content

The Internet is key for today's digital business. Hyper text transfer protocol (HTTP) and other Internet protocols are critical to enabling organizations to digitize their business processes and operations as well as provide the kinds of experiences that consumers around the globe have come to expect across web, mobile, social, and large screen channels. We believe there are six trends that illustrate a demand for digital content, contribute to the overall usage of the Internet, increase potential congestion, and punctuate the need for a private, global network to meet the level of performance that users expect. We believe these trends are:

The continued growth of online video. Consumers are increasingly demanding and consuming, and publishers are increasingly making available for these consumers, video, music, and other forms of rich media over the Internet. In particular, we anticipate that consumer demand for online video will continue to grow rapidly. This anticipation is supported by Cisco's annual report of Internet traffic and consumer behavior that predicts by 2017, over 70% of Internet traffic will be online video. Based on this trend, we expect that businesses will continue to incorporate video into their digital marketing efforts as a way to further differentiate their message from competitors and generate new opportunities for engagement. This anticipation is further supported by a report from BI Research finding that video ad revenue will increase at a three-year compound annual growth rate (CAGR) of 19.5% through 2016. KPCB analyst Mary Meeker's 2014 Internet Trends report shows video consumption on mobile devices is also growing rapidly. Mobile First. We believe that mobile is becoming increasingly important as a primary method users use to interact with online content, a position supported by Google's 2012 "The Multi-Screen World" study that among other things, concluded that consumers typically utilize four devices every day to consume content-smartphones, tablets, PCs, and TVs. The study further indicated that consumers start many activities on their mobile devices and finish them on larger screens. KPCB analyst Mary Meeker's 2014 Internet Trends report also shows that between 2013 and 2014 mobile usage for accessing the web in some countries doubled as a percentage of overall web access with clear growth in all regions around the globe. Ultimately, mobile devices enable consumers to remain connected and engaged with an organization's story when they are away from their primary computers or TVs and it's clear that consumers are employing these devices more often to do so. But in order for those consumers to remain engaged, the experience must be consistent across devices. An organization's dynamic content and video has to be accessible regardless of device and provide the same engagement and interaction with those users. These findings were further supported by Nielsen Research's 2014 digital-consumer-report.

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

Increasing user expectations for digital experience performance. Websites are becoming increasingly complex and large while user expectations for website performance are becoming more demanding, a situation that we explored in our annual State of the User Experience report that explores consumer feelings and expectations around digital experiences. We anticipate that these demanding consumer expectations will drive a continued need for website and web application acceleration services. The combination of performance expectation coupled with multi-device delivery creates a considerable challenge for most organizations.

Increasing need for scalable storage. According to International Data Corporation, the amount of data created each year has grown rapidly and from 2013 to 2020, the digital universe will grow by a factor of 10, more than doubling every two years. We believe this rapid growth in data production will create demand for flexible and scalable storage mechanisms to support growing libraries of digital content. We anticipate the need for digital content storage to increase because of the growing demand for video and other types of digital content as well as other trends like the continued migration of IT services into the cloud.

The evolution of digital marketing. As the global online economy has continued to expand and grow, it has become increasingly difficult for businesses to capture consumer attention. Because of this difficulty, we anticipate that



marketing will continue to evolve from broadcast advertising and other marketing messages to engaging with users through conversations associated with content in a variety of places including websites and social networks. We believe this kind of engagement requires that content be increasingly comprised of video and rich media, and be

3

---

## Table of Contents

delivered in a manner that meets the high user expectations for the delivery and responsiveness of digital experiences.

Requirements for delivering effective digital experiences

We believe that the challenges of delivering digital content, particularly related to rich media, dynamic content, and applications over the Internet to a wide variety of mobile and connected devices, have created a new set of technical, management, and economic requirements for organizations seeking to succeed in the online economy. We believe those requirements include the following:

**Reduction of IT involvement.** As businesses rely increasingly on cloud-based services they will require more intuitive web-based interfaces that enable adoption and usage of the cloud-based services by the entire company or organization, regardless of location, with less direct IT support required.

**Business rules-based content delivery.** Consumers increasingly expect the ability to consume any form of media content online. To meet this expectation, traditional media companies are making their enormous libraries of content, such as television shows and movies, available for viewing online. Content providers often have regulations with respect to where they can display their content. Accordingly, companies require powerful features that enable them to control where content is stored, for how long, and in what regions it can be delivered.

**Ability to scale capacity to handle rapidly accelerating demand.** Online businesses must scale delivery of their web presence smoothly as the quantity of their site visitors or audience increases to avoid delays for users. When a large number of users simultaneously access a particular digital content asset like a website or video, the operator must be able to meet that surge in demand without making users wait. Rapidly accelerating demand can be related to a single event, such as a breaking news story or seasonal shopping, or can be spread across an entire library of content, such as when a social media website surges in popularity. The continued increase in video and other rich media consumption, and the growing size of digital content objects, contributes to concerns that Internet bandwidth may be supply constrained in the future.

**Ability to easily publish and deliver online video.** As the consumer demand for online video grows, businesses and organizations may be required to adopt video into their marketing messages. However, there are a host of complexities involved in developing and implementing a “video publishing workflow.” Businesses will require intuitive tools that will enable them to manage their video portfolio, and quickly and efficiently publish and deliver their video content at scale with quality performance. Additionally, businesses will require that video content can be converted automatically for quality playing on any mobile device with the opportunity to integrate advertisements into on-demand assets.

**Addressing mobile users.** With the increasing popularity of smartphones and tablets, businesses and organizations must ensure that their content, whether dynamic web pages or video, display properly in their mobile format. However, adding this requirement to existing content publishing workflows may greatly complicate internal processes that may result in delays for making content available to end users. Additionally, because many mobile devices have separate requirements, businesses will require features for automatically delivering correctly formatted content.

**Reliability and Consistency.** Throughout the path data must traverse to reach a user, problems with the underlying infrastructure supporting the Internet can occur. For example, servers can crash or network connections can fail.

Network, datacenter, or service provider outages can mean frustrated users, lost audiences, and missed revenue opportunities. Businesses require a massively redundant network that they can rely on to ensure a reliable and consistent delivery of their digital experiences.

**Security.** Maintaining effective security is a challenge for any enterprise that operates an Internet presence. Threats, denial of service attacks, viruses, and piracy can impact online web presence in many ways, including compromising personal and sensitive information, loss of customer trust and loyalty, loss of revenue, and negative publicity and brand reputation. Businesses require services that employ a number of software and network features to mitigate the risk of unauthorized access to content and network-related attacks against web properties, digital content, and applications. In 2014, there were a number of high profile security incidents that continue to raise the awareness, and strategic importance of security in our industry.

## Table of Contents

### Our Services

We believe our integrated suite of services coupled with our global network are responsive to the trends that are driving Internet growth and address the requirements for delivering effective digital experiences. Our primary services include the following:

Content delivery services improve the reliability and performance of digital content by using our global network to deliver rich media files such as video, music, games, and software, or live streaming of corporate or entertainment events. We support all major formats as well as dynamic and static webpages.

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

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

Performance services improve web experiences by speeding up the loading of web pages for faster action and providing consistent performance from any geography for dynamic and personalized content, online commerce transactions, and web applications.

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

### Our Solutions

In addition to marketing our core suite of services, we continue to develop and launch prepackaged solutions that help organizations tackle workflow-related challenges in delivering digital content to their customers. These solutions integrate multiple Orchestrate services with documented “reference architectures” that align to specific use cases and industries. Our solutions include the following:

Enterprise Web addresses the complexities of delivering high performing website content globally to any device.

Media and Broadcasters addresses the complexities of publishing and delivering digital video content to global audiences on any devices.

Gaming addresses the complexities of distributing, promoting, and updating video games across PC, consoles, and mobile devices.

### Limelight Networks Global Network

Our global network provides highly available, highly redundant storage, bandwidth, and computing resources in support of our services and solutions. This architecture, managed by our proprietary software, automatically responds to network and datacenter outages and disruptions. All of our delivery locations are interconnected via our global network and also connected to multiple Internet backbone and broadband Internet service provider (ISP) networks.

This global network has three main features:

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

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

## Table of Contents

Intelligent software to manage the network. We have developed proprietary software that manages our global network. This software manages, among other things, the delivery of digital content, the retrieval of dynamic content, storage and retrieval of objects, activity logging, and information reporting.

We have begun to expand our architecture through the use of “smart pops.” These smaller pops are less dense than our traditional densely-configured metro pops and are designed to be quickly and more cost-effectively deployed within existing networks. In addition, we continue to explore and implement ways to improve throughput and efficiency of our infrastructure through the use of advanced technologies that help us deliver more content, more quickly, for less cost.

### Segment and Geographic Information

We operate in one industry segment, providing content delivery and related services and solutions for global businesses to help them deliver their digital content across Internet, mobile, and social channels. We operate in three geographic areas - Americas; Europe, Middle East and Africa (EMEA); and Asia Pacific. For the years ended December 31, 2014, 2013, and 2012, approximately 38%, 31%, and 30%, respectively, of our total revenue was derived from our operations outside the Americas. For the years ended December 31, 2014, 2013, and 2012, we derived approximately 55%, 57%, and 57%, respectively of our international revenue from EMEA and approximately 45%, 43%, and 43%, respectively, of our international revenue from Asia Pacific. During 2014 and 2012, we had two countries, Japan and the United States that represented more than 10% of our total revenues. During 2013, no single country outside of the United States accounted for 10% or more of our total revenues. For a description of risks attendant to our foreign operations, see the section titled “Risk Factors” set forth in Part 1, Item 1A of this annual report on Form 10-K. For more segment and geographic information, including revenue from customers, a measure of profit or loss, and total assets for each of the last three fiscal years, see our Consolidated Financial Statements included in this annual report on Form 10-K, including Note 21 thereto.

### Sales, Service and Marketing

Our sales and service professionals are located in six offices in the United States with an additional eleven office locations in EMEA and Asia Pacific. We target media, high tech, software, gaming, enterprise, and other organizations for which the delivery of digital content is critical to the success of their business.

Our sales and service organization includes employees in telesales and field sales, professional services, account management, and solutions engineering. As of December 31, 2014, we had approximately 119 employees in our sales organization. Our ability to achieve revenue growth in the future will depend in large part on whether we successfully recruit, train, and retain sufficient sales, technical, and global services personnel, and how well we establish and maintain our distribution and reseller relationships. We believe that the complexity of our services will continue to require highly trained global sales and services personnel.

To support our sales efforts and promote the Limelight brand, we conduct marketing programs. Our marketing strategies include an active public relations campaign, advertisements, events and trade shows, strategic alliances, and on-going customer communication programs. As of December 31, 2014, we had 23 employees in our global marketing organization.

### Customers

Our customers operate in the media, entertainment, gaming, software, enterprise, and other sectors. As of December 31, 2014, we had approximately 1,095 active customers worldwide, including many widely recognized names in the fields of video, digital music, news media, games, rich media applications, and software delivery. During 2014, some of our most notable customers included ABC, Amazon, Apple, BBC, Bell Canada, Ciena, Fasig Tipton, NetApp, MLB, Middle East Broadcasting Company, NBC, NFL, Microsoft, Netflix, Nintendo Wii, Nissan, QVC, Sony, Swiss Re and Yahoo!

For the year ended December 31, 2014, we had no customer who accounted for 10% or more of our total revenue. During 2013 and 2012, we had one customer, Netflix who accounted for approximately 11% of our total revenue. In the past, the customers that comprise our top 20 customers have continually changed, and our large customers may not continue to be as significant going forward as they have been in the past.

From time to time we have discontinued service to customers for non-payment. Although we did not receive continuing revenue from these former customers, these changes provided for a stronger mix of customers across our

base, decreased our days sales outstanding, and allowed us to recoup network capacity to help meet future growth needs. We continue to focus on acquiring and retaining high quality customers across all market segments.

6

---

## Table of Contents

### Competition

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

Management for digital content is measured by the features available for managing, publishing, and delivering digital content across multiple channels and to multiple devices.

Delivery for digital content is measured by scale and performance. We measure scale by the number of physical locations in the network and the capabilities of the network to deliver large amounts of content to locations around the world and to absorb unplanned spikes in requests for content. We measure performance by file delivery time, end-user media consumption rates, quality of the end-user experience, and scalability, both in terms of average capacity and special event capacity.

In addition, metrics around the ability to efficiently locate and deliver web content, the ease of implementation, the ability to customize systems for unique content types and mixes, reliability, security, consumer engagement, and cost efficiency continue to be key criteria for this market.

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

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

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

The global digital content delivery market is fragmented, but we face primary competition from Akamai, and to a lesser extent, Level 3 Communication. Other competitors in the market include Amazon, CDN Networks, ChinaCache, and Edgecast, who was acquired by Verizon in 2014.

The principal methods of competition in this market include scale, performance, service, ease of use, product features, and price. We believe we are competitive in scale, performance, and price, while focusing on rapid improvements in service and ease of use. Product feature competition is heated, requiring continuous investment in innovation.

### Research and Development

Our research and development organization is responsible for the design, development, testing, and certification of the software, hardware, and network architecture of our global network and support of our content delivery and other Orchestrate Platform solutions. As of December 31, 2014, we had 151 employees in our research and development group. Our research and development personnel are primarily located in San Francisco, California; Boston, Massachusetts; Grand Rapids, Michigan; New York, New York; Seattle, Washington; Tel Aviv, Israel; Lviv, Ukraine and at our headquarters in Tempe, Arizona. Our engineering efforts support product development across all of our service areas, as well as innovation related to the global network itself. We test our services to ensure scalability in times of peak demand. We use internally developed and third-party software to monitor and to improve the performance of our network in the major Internet consumer markets around the world where we provide services for our customers. Our research and development expenses were \$20,965, \$22,003 and \$20,182 in 2014, 2013 and 2012, respectively, including stock-based compensation expense of \$1,477, \$2,256, and \$2,743 in 2014, 2013, and 2012, respectively.



Table of Contents

## Intellectual Property

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

As of December 31, 2014, we had received 113 patents in the United States, expiring between 2023 and 2034, the Patent and Trademark Office had allowed four more U.S. applications, and we had 57 U.S. patent applications pending. We have 18 issued patents in foreign countries. We do not know whether any of our patent applications will result in the issuance of a patent or whether the examination process will require us to narrow our claims. Any patents that may be issued to us may be contested, circumvented, found unenforceable or invalidated, and we may not be able to prevent third parties from infringing them. Therefore, we cannot predict the exact effect of having a patent with certainty.

As of December 31, 2014, we had received five trademarks in the United States. Our name, Limelight Networks, has been filed for multiple classes in the United States, Australia, Canada, the European Union, India, Japan, South Korea and Singapore. We have seven pending trademark applications in foreign countries, and 22 non United States trademarks registered. There is a risk that pending trademark applications may not issue, and that those trademarks that have issued may be challenged by others who believe they have superior rights to the marks.

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

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

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

During 2014 we were party to a lawsuit alleging aspects of our content delivery network infringed upon third party patent rights. More information about this case, Akamai Technologies, Inc. vs. Limelight Networks, Inc., is described in further detail under “Legal Proceedings” in Part 1, Item 3 of this annual report on Form 10-K. We have been the target of intellectual property infringement claims in the past and may be the target of such claims by third parties in the future.

## Employees

As of December 31, 2014, we had 520 employees. Of these employees, 387 are based in the Americas, 96 are based in EMEA and 37 are based in Asia Pacific. None of our employees are represented by a labor union, and we have not experienced any work stoppages to date. We consider the relationships with our employees to be positive.

## Executive Officers of the Registrant

Our executive officers and their ages and positions as of February 1, 2015 are as follows:

Name	Age	Position
Robert A. Lento	53	President, Chief Executive Officer and Director
Peter J. Perrone	47	Senior Vice President, Chief Financial Officer and Treasurer
Philip C. Maynard	60	Senior Vice President, Chief Legal Officer and Secretary
Charles Kirby Wadsworth	58	Chief Marketing Officer
George E. Vonderhaar	54	Chief Sales Officer



Sajid Malhotra

51

Senior Vice President, Strategy, Facilities, Investors Relations and  
Procurement

8

---

Table of Contents

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

Peter J. Perrone has served as our Senior Vice President, Chief Financial Officer and Treasurer since November 2013. Prior to that Mr. Perrone served as our Senior Vice President since joining the Company in August 2013. Prior to joining us, Mr. Perrone was a Vice President in Goldman, Sachs & Co.'s Principal Investment Area since 2002 and became a Managing Director in 2007. Prior to transferring to the Principal Investment Area in 2001, Mr. Perrone worked in the High Technology Group at Goldman, Sachs & Co., where he started as an Associate in 1999. Mr. Perrone received a B.S. from Duke University, an M.S. from the Georgia Institute of Technology and an M.B.A. from the Massachusetts Institute of Technology, Sloan School of Management. Mr. Perrone previously served as a member of our board of directors since July 2006. Mr. Perrone resigned from his position as a member of our board of directors, as a member of the Nominating and Governance Committee, and as a member and the Chairman of the Compensation Committee in August 2013, prior to joining the Company. Mr. Perrone also currently serves on the board of directors of Endurance International Group, Inc.

Philip C. Maynard has served as our Senior Vice President, Chief Legal Officer and Secretary since October 2007. From August 2004 to October 2006, Mr. Maynard served as Senior Vice President, Chief Legal Officer and Secretary of FileNet Corporation, a provider of data and content management software for managing and sharing information across corporate networks and the Internet, and as Associate General Counsel for IBM Corporation from October 2006 to October 2007, following IBM's acquisition of FileNet. From March 2004 to August 2004, Mr. Maynard served as Executive Vice President and Chief Legal Officer of SRS Labs, Inc., a leading provider of audio enhancement and integrated circuit solutions. From 2003 to 2004, Mr. Maynard was of counsel with the law firm of Stradling Yocca Carlson & Rauth in Newport Beach, California. From 2000 to 2002, Mr. Maynard served as Vice President & Division General Counsel for Invensys Software Systems, a division of Invensys, PLC, a UK-based engineering firm. From 1997 to 2000, Mr. Maynard was General Counsel for Wonderware Corporation, a leading developer of industrial automation software solutions, which was acquired by Invensys. Mr. Maynard received his J.D. (magna cum laude) from Loyola Law School in Los Angeles, California.

Charles Kirby Wadsworth has served as our Chief Marketing Officer since June 2012. Prior to joining us, Mr. Wadsworth served as Vice President, Global Marketing for F5 Networks, Inc., a provider of cloud computing services, from September 2007 to May 2012. Prior to that, Mr. Wadsworth served as Senior Vice President, Marketing and Business Development for Acopia Networks, Inc., a provider of file virtualization services, from August 2006 to September 2007. Mr. Wadsworth received an M.B.A. from the Kellogg School of Management at Northwestern University and a B.S. in Information Systems from Northeastern University.

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

Sajid Malhotra has served as our Senior Vice President, Strategy, Facilities, Investor Relations and Procurement since March 2014. Prior to joining us, from September 2012 to March 2013, Mr. Malhotra was an independent consultant

focused on strategic and financial consulting, communication and value creation. Prior to that, from 2006 to 2012, Mr. Malhotra was the Senior Vice President of Strategy, Marketing and Mergers and Acquisitions for Convergys Corporation. Prior to joining Convergys, Mr. Malhotra held several senior executive positions with NCR Corporation and AT&T. Mr. Malhotra earned his bachelor's degree in computer science and a master's degree of business administration in finance from PACE University in New York.

## Table of Contents

### Item 1A. Risk Factors

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

#### Risks Related to Our Business

We currently face competition from established competitors and may face competition from others in the future. We compete in markets that are intensely competitive, rapidly changing and characterized by 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.

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.

10

---

## Table of Contents

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

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

As we further expand our global 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;
- 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.

A significant portion of our revenue is 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 understand user preferences or predict 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 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.

## Table of Contents

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.

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.

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.

Many of our significant current and potential customers are pursuing emerging or unproven business models, which, if unsuccessful, or ineffective at monetizing delivery of their content, 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. 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.

## Table of Contents

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 20 customers in 2014 accounted for approximately 50% of our total revenue. During 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 20 customers have continually changed, and we also have experienced significant fluctuations in our individual customers' usage of our services. As a consequence, we may not be able to adjust our expenses in the short term to address the unanticipated loss of a large customer during any particular period. As such, we may experience significant, unanticipated fluctuations in our operating results which may cause us to not meet our expectations or those of stock market analysts, which could cause our stock price to decline.

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

In addition to adding new customers, to increase our revenue, we must sell additional services to existing customers and encourage existing customers to increase their usage levels. If our existing and prospective customers do not perceive our services to be of sufficiently high value and quality, we may not be able to retain our current customers or attract new customers. We sell our services pursuant to service agreements that generally include some form of financial minimum commitment. Our customers have no obligation to renew 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.

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.

13

---

## Table of Contents

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.

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

We are currently a defendant in one significant lawsuit (see discussion in "Legal Proceedings" in Part I, Item 3 of this annual report on Form 10-K). The expenses of defending this lawsuit and other lawsuits to which we are or may become a party, particularly fees paid to our lawyers and expert consultants, have been significant and may continue to adversely affect our operating results during the pendency of such lawsuits. Also, this litigation has been a distraction to our management and technical personnel.

On August 31, 2012, the Court of Appeals for the Federal Circuit issued its opinion in Akamai Technologies, Inc. v. Limelight Networks, Inc. The court stated that the trial court correctly determined that we did not directly infringe Akamai's '703 patent, and as such it upheld the trial court's decision to vacate the original jury's damages award. The court also held that we did not infringe Akamai's '413 or '645 patents. However, a slim majority in this three-way divided opinion also announced a revised legal theory of induced infringement, remanded the case to the trial court, and gave Akamai an opportunity for a new trial to attempt to prove that we induced our customers to infringe Akamai's patent under the court's new legal standard. We 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.

## Table of Contents

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 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.

15

---

## Table of Contents

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.

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;
- 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.





## Table of Contents

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 December 31, 2014, we had a goodwill balance of \$76,133, 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 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

Table of Contents

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 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.

## Table of Contents

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 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 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 and vendor 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

19

---

Table of Contents

of exchange rates, we may be unable to manage our currency transaction risks effectively. Currency fluctuations could have a material adverse effect on our future international sales and, consequently, on our financial condition and results of operations.

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

Laws and regulations that apply to communications and commerce conducted over the Internet are becoming more prevalent, both in the United States and internationally, and may impose additional burdens on companies conducting business online or providing Internet-related services such as ours. Increased regulation could negatively affect our business directly, as well as the businesses of our customers, which could reduce their demand for our services. For example, tax authorities abroad may impose taxes on the Internet-related revenue we generate based on where our internationally deployed servers are located. In addition, domestic and international taxation laws are subject to change. Our services, or the businesses of our customers, may become subject to increased taxation, which could harm our financial results either directly or by forcing our customers to scale back their operations and use of our services in order to maintain their operations. Also, the Communications Act of 1934, as amended by the Telecommunications Act of 1996 (the “Act”), and the regulations promulgated by the Federal Communications Commission under Title II of the Act, may impose obligations on the Internet and those participants involved in Internet-related businesses. 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 the risks posed by laws and regulations that apply to communications and commerce conducted over the Internet, or are required to defend ourselves against related 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

## Table of Contents

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 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

Table of Contents

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.

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 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

## Table of Contents

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 December 31, 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 limit other stockholders' ability to influence corporate matters and may have the effect of delaying or preventing a third party from acquiring control over us.

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



## Table of Contents

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 1B. Unresolved Staff Comments

None.

### Item 2. Properties

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

### Item 3. Legal Proceedings

We are involved in litigation with Akamai and the Massachusetts Institute of Technology (MIT) relating to a claim of patent infringement. The action was filed in June 2006 in the United States District Court for the District of Massachusetts. The trial date was set for February 2008 with respect to four claims 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

Table of Contents

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.

Item 4. Mine Safety Disclosures.

Not applicable.

Table of Contents

## PART II

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

## Market Information

Our common stock, par value \$0.001 per share, trades on The Nasdaq Global Select Market under the symbol "LLNW". The following table sets forth, for the periods indicated, the high and low sale price per share of our common stock on The Nasdaq Global Select Market:

	High	Low
2013:		
First Quarter	\$2.52	\$2.03
Second Quarter	\$2.50	\$1.80
Third Quarter	\$2.56	\$1.89
Fourth Quarter	\$2.08	\$1.82
2014:		
First Quarter	\$2.39	\$1.88
Second Quarter	\$3.25	\$1.91
Third Quarter	\$3.15	\$2.16
Fourth Quarter	\$2.99	\$2.11

## Holders

As of February 10, 2015, there were 298 holders of record of our common stock.

## Dividends

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

## Issuers Purchases of Equity Securities

The following is a summary of our repurchases of common stock during the three months ended December 31, 2014 (in thousands, except share and per share data):

Period	Total Number of Shares Purchased	Average Price Paid Per Share (1)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (2)
October 1, - October 31, 2014	—	—	—	12,509
November 1, - November 30, 2014	247,000	2.81	247,000	11,818
December 1, - December 31, 2014	524,543	2.84	524,543	10,338
	771,543		771,543	

(1) Includes commissions, markups and expenses

On February 12, 2014, our board of directors authorized a \$15,000 share repurchase program. Under the current

(2) authorization, we may repurchase shares periodically in the open market or through privately negotiated transactions,

Table of Contents

in accordance with applicable securities rules regarding issuer repurchases. All repurchased shares were cancelled and returned to authorized but unissued status.

**STOCK PERFORMANCE GRAPH**

The graph set forth below compares the cumulative total stockholder return on our common stock between December 31, 2009 and December 31, 2014, with the cumulative total return of (i) the Nasdaq Composite Index and (ii) the S&P Information Technology Sector Index, over the same period. This graph assumes the investment of \$100 on December 31, 2009 in our common stock, the Nasdaq Composite Index and the S&P Information Technology Sector Index, and assumes the reinvestment of dividends, if any. The comparisons shown in the graph below are based upon historical data. We caution that the stock price performance shown in the graph below is not necessarily indicative of, nor is it intended to forecast, the potential future performance of our common stock.

This graph assumes an investment on December 31, 2009 of \$100 in our common stock (based on the closing sale price of our common stock), and in each of such indices (including the reinvestment of all dividends). Measurement points are to the last trading day for each respective period. The performance shown is not necessarily indicative of future performance.

Table of Contents

## Item 6. Selected Financial Data

The following selected consolidated financial data should be read in conjunction with our Consolidated Financial Statements and related notes and with “Management Discussion and Analysis of Financial Condition and Results of Operations” and other financial data included elsewhere in this annual report on Form 10-K. In January 2010 and April 2010, we acquired chors GmbH (chors) and EyeWonder, LLC (EyeWonder), respectively. On September 1, 2011, we completed the sale of EyeWonder and chors video and rich media advertising services to DG FastChannel, Inc. (DG). Accordingly, the results related to the sale of EyeWonder and chors for the year ended December 31, 2011 and prior periods have been reclassified to discontinued operations and have not been included in our selected financial data and management’s discussion and analysis of financial condition and results of operations. On December 23, 2013, we sold our Web Content Management business resulting in a gain on sale of \$3,836 which is included in Other, net, for the year ended December 31, 2013. This sale was not treated as a discontinued operation because the operations and cash flows of our Web Content Management business cannot be clearly distinguished, operationally or for financial reporting purposes, from the rest of the Company. All information is presented in thousands, except per share amounts, customer count and where specifically noted.

	Limelight Networks, Inc. Year Ended December 31,				
	2014	2013	2012	2011	2010
Revenues	\$ 162,259	\$ 173,433	\$ 180,236	\$ 171,292	\$ 154,223
Cost of revenue:					
Cost of services (1)	82,176	88,783	85,226	82,976	73,630
Depreciation — network	16,673	22,942	27,992	28,030	22,224
Total cost of revenue	98,849	111,725	113,218	111,006	95,854
Gross profit	63,410	61,708	67,018	60,286	58,369
Operating expenses:					
General and administrative (1)	28,176	31,904	34,500	30,672	28,358
Sales and marketing (1)	37,458	41,474	45,044	40,110	38,757
Research and development (1)	20,965	22,003	20,182	17,163	10,895
Depreciation and amortization	3,529	5,804	5,843	4,787	2,460
Total operating expenses	90,128	101,185	105,569	92,732	80,470
Operating loss	(26,718)	(39,477)	(38,551)	(32,446)	(22,101)
Other income (expense):					
Interest expense	(32)	(76)	(177)	(299)	(62)
Interest income	276	321	356	752	910
Gain on sale of cost basis investment	—	—	9,420	—	—
Other, net	1,821	4,643	(602)	(311)	(250)
Total other income (expense)	2,065	4,888	8,997	142	598
Loss from continuing operations before income taxes	(24,653)	(34,589)	(29,554)	(32,304)	(21,503)
Income tax provision (benefit)	203	387	481	(2,238)	727
Loss from continuing operations	(24,856)	(34,976)	(30,035)	(30,066)	(22,230)
Discontinued operations:					
Income (loss) from discontinued operations, net of income taxes	265	(426)	(2,861)	4,778	1,879
Net loss	\$(24,591)	\$(35,402)	\$(32,896)	\$(25,288)	\$(20,351)
Net (loss) income per share:					
Basic and diluted					
Continuing operations	\$(0.25)	\$(0.36)	\$(0.30)	\$(0.28)	\$(0.24)
Discontinued operations	—	(0.01)	(0.02)	0.05	0.02

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

Total	\$ (0.25	)	\$ (0.37	)	\$ (0.32	)	\$ (0.23	)	\$ (0.22	)
Weighted average shares used in per share calculation:										
Basic and diluted	98,365		96,851		101,283		109,236		94,300	

---

28

---

Table of Contents

(1)Includes share-based compensation as follows:

	Limelight Networks, Inc. Year Ended December 31,				
	2014	2013	2012	2011	2010
Cost of services	\$1,956	\$1,873	\$2,117	\$2,419	\$2,359
General and administrative	4,741	5,971	6,511	6,132	5,984
Sales and marketing	2,317	2,245	3,104	3,776	4,840
Research and development	1,477	2,256	2,743	3,554	2,999
Total	\$10,491	\$12,345	\$14,475	\$15,881	\$16,182
	Limelight Networks, Inc. Year Ended December 31,				
	2014	2013	2012	2011	2010
Consolidated Balance Sheet Data:					
Cash and cash equivalents and marketable securities, current	\$93,084	\$118,462	\$127,955	\$140,199	\$66,870
Non-current marketable securities	40	46	18	51	103
Working capital	100,218	123,265	137,066	159,180	127,280
Property and equipment, net	32,636	32,905	41,251	56,368	52,891
Total assets	241,341	268,298	304,881	346,345	298,640
Long-term debt, less current portion	135	358	824	2,124	1,641
Total stockholders' equity	212,163	237,331	267,230	309,105	256,109

Table of Contents

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

This annual report on Form 10-K contains “forward-looking statements” within the meaning of 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 thereof. Forward-looking statements are based on the beliefs and assumptions of our management based on information currently available to management. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled “Risk Factors” set forth in Part I, Item 1A of this annual report on Form 10-K. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements. We undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements. Prior period information has been modified to conform to current year presentation. 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). We derive revenue primarily from the sale of components of the Orchestrate Platform. Our delivery services represent approximately 75% of our total revenue. We also generate revenue through the sale of professional services and other infrastructure services, such as transit and rack space services. We believe continued increases in content delivery traffic growth rates is an important trend that will continue to out pace declining average selling prices in the industry. We compete in markets that are highly competitive. We have experienced and expect to continue to experience increased competition in price, features, functionality, integration and other factors leading to customer churn and customers operating their own network. During the third quarter of 2014, our content delivery contract with Netflix, Inc. (Netflix) expired. Netflix represented approximately 11% of our annual revenue prior to such expiration. Our international revenue continued to grow in 2014, and we expect this trend to continue as we focus on our strategy of expanding our network and customer base internationally. For the years ended December 31, 2014, 2013, and 2012, approximately 38%, 31%, and 30%, respectively, of our total revenue was derived from our operations outside the Americas.

In addition to these revenue-related trends, our profitability is impacted by trends in our costs of services and operating expenses. We are working with our vendors to renegotiate our fixed rate infrastructure contracts to variable rate in order to scale our operations based on traffic levels and lower bandwidth costs per unit. Our operating expenses are largely driven by payroll and related employee costs. We increased headcount from 482 to 520 as of December 31, 2013 and 2014, respectively, primarily in our operations and research and development organizations. We expect headcount will continue to increase as we expand our business and continue our investments in research and development and increase our sales force.

We make our capital investment decisions based on careful evaluation of a number of variables, including the amount of traffic we anticipate on our network, the cost of the physical infrastructure required to deliver such traffic, and the forecasted capacity utilization of our network. Our capital expenditures have decreased the past two years from the higher levels experienced during our network build-out. We expect an increase in capital expenditures in 2015 compared to 2014, to support growth opportunities and to further upgrade and improve our global network and systems.



The following table summarizes our revenue, costs and expenses for the years ended December 31, 2014, 2013, and 2012 (in thousands of dollars and as a percentage of total revenue).

30

---

Table of Contents

	Year Ended December 31,								
	2014			2013			2012		
Revenues	\$ 162,259	100.0	%	\$ 173,433	100.0	%	\$ 180,236	100.0	%
Cost of revenue	98,849	60.9	%	111,725	64.4	%	113,218	62.8	%
Gross profit	63,410	39.1	%	61,708	35.6	%	67,018	37.2	%
Total operating expenses	90,128	55.5	%	101,185	58.3	%	105,569	58.6	%
Operating loss	(26,718 )	(16.5 )	%	(39,477 )	(22.8 )	%	(38,551 )	(21.4 )	%
Total other income	2,065	1.3	%	4,888	2.8	%	8,997	5.0	%
Loss from continuing operations before income taxes	(24,653 )	(15.2 )	%	(34,589 )	(19.9 )	%	(29,554 )	(16.4 )	%
Income tax provision	203	0.1	%	387	0.2	%	481	0.3	%
Loss from continuing operations	(24,856 )	(15.3 )	%	(34,976 )	(20.2 )	%	(30,035 )	(16.7 )	%
Discontinued operations:									
Income (loss) from discontinued operations, net of income taxes	265	0.2	%	(426 )	(0.2 )	%	(2,861 )	(1.6 )	%
Net loss	\$(24,591 )	(15.2 )	%	\$(35,402 )	(20.4 )	%	\$(32,896 )	(18.3 )	%

## 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, gain on sale of cost basis investment, discontinued operations and the gain on sale of our Web Content Management (WCM) business. We define EBITDA from continuing operations as U.S. GAAP net income (loss) before interest income, interest expense, gain on sale of cost basis investment, other income and expense, provision for income taxes, depreciation and amortization, discontinued operations and gain 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 February 2, 2015 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;

31

---

Table of Contents

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)**

	Year Ended December 31,		
	2014	2013	2012
U.S. GAAP net loss	\$(24,591 )	\$(35,402 )	\$(32,896 )
Share-based compensation	10,491	12,345	14,475
Litigation defense expenses	817	450	527
Acquisition related expenses	—	176	(388 )
Amortization of intangible assets	1,138	2,843	2,871
Gain on sale of cost basis investment	—	—	(9,420 )
Loss (gain) on sale of the WCM business	62	(3,836 )	—
(Income) loss from discontinued operations	(265 )	426	2,861
Non-GAAP net loss	\$(12,348 )	\$(22,998 )	\$(21,970 )

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

	Year Ended December 31,		
	2014	2013	2012
U.S. GAAP net loss	\$(24,591 )	\$(35,402 )	\$(32,896 )
Depreciation and amortization	20,202	28,746	33,835
Interest expense	32	76	177
Gain on sale of cost basis investment	—	—	(9,420 )
Loss (gain) on sale of the WCM business	62	(3,836 )	—
Interest and other (income) expense	(2,159 )	(1,128 )	246
Income tax provision	203	387	481
(Income) loss from discontinued operations	(265 )	426	2,861
EBITDA from continuing operations	\$(6,516 )	\$(10,731 )	\$(4,716 )
Share-based compensation	10,491	12,345	14,475
Litigation defense expenses	817	450	527
Acquisition related expenses	—	176	(388 )
Adjusted EBITDA	\$4,792	\$2,240	\$9,898

## Table of Contents

### Critical Accounting Policies and Estimates

The preparation of 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. Note 2 to the consolidated financial statements describes the significant accounting policies and methods used in the preparation of the consolidated financial statements. The accounting policies described below are significantly affected by critical accounting estimates. Such accounting policies require significant judgments, assumptions, and estimates used in the preparation of the consolidated financial statements, and actual results could differ materially from the amounts reported based on these policies.

#### Revenue Recognition

We derive revenue primarily from the sale of services that comprise components of the Orchestrate Platform. Our customers generally execute contracts with terms of one year or longer, which we refer to as recurring revenue contracts or long-term contracts. These contracts generally commit the customer to a minimum monthly level of usage with additional charges applicable for actual usage above the monthly minimum commitment. We define usage as customer data sent or received using our content delivery service, or content that is hosted or cached by us at the request or direction of our customer. We recognize the monthly minimum as revenue each month provided that an enforceable contract has been signed by both parties, the service has been delivered to the customer, the fee for the service is fixed or determinable, and collection is reasonably assured. Should a customer's usage of our services exceed the monthly minimum commit, we recognize revenue for such excess in the period of the usage. For annual or other non-monthly period revenue commitments, we recognize revenue monthly based upon the customer's actual usage each month of the commitment period and only recognize any remaining committed amount for the applicable period in the last month thereof.

Certain of our revenue arrangements consist of multi-element arrangements. Revenue arrangements with multiple deliverables are divided into separate units of accounting if each deliverable has stand-alone value to the customer. Our multiple-element arrangements may include a combination of some or all of the following: content delivery services, video content management services, performance services for website and web application acceleration, and cloud storage. Each of these products has stand-alone value and is sold separately. In the absence of vendor specific objective evidence (VSOE) or third-party evidence of selling prices, consideration would be allocated based on management's best estimate of such prices. The deliverables within multiple-element arrangements are provided over the same contract period, and therefore, revenue is recognized over the same period.

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

We also derive revenue from services and events sold as discrete, non-recurring events or based solely on usage. For these services, we recognize revenue after an enforceable contract has been signed by both parties, the fee is fixed or determinable, the event or usage has occurred, and collection is reasonably assured.

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

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

#### Accounts Receivable and Related Reserves

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

Our allowance for doubtful accounts is based upon a calculation that uses our aging of accounts receivable and applies a reserve percentage to the specific age of the receivable to estimate the allowance for doubtful accounts. The reserve

percentages are determined based on our historical write-off experience. These estimates could change significantly if our customers' financial condition changes or if the economy in general deteriorates.

## Table of Contents

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

### Goodwill and Other Intangible Assets

We have recorded goodwill and other intangible assets as a result of our 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 our acquisitions, the objective of the acquisition was to expand our product offerings and customer base and to achieve synergies related to cross selling opportunities, all of which contributed to the recognition of goodwill.

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

- sustained decline in our stock price due to a decline in our financial performance due to the loss of key customers, loss of key personnel, emergence of new technologies or new competitors;
- decline in overall market or economic conditions leading to a decline in our stock price; and
- decline in observed control premiums paid in business combinations involving comparable companies.

The estimated fair value of the reporting unit is determined using a market approach. Our market capitalization is adjusted for a control premium based on the estimated average and median control premiums of transactions involving companies comparable to us. As of the annual impairment testing date of October 31, 2014 and in an interim impairment test performed at December 31, 2014, we determined that goodwill was not impaired. We noted that the estimated fair value of our reporting unit exceeded carrying value by approximately \$117,330 or 53%, and \$169,141 or 80%, using the market capitalization plus an estimated control premium of 40% on the annual impairment testing date and December 31, 2014, respectively. Adverse changes to certain key assumptions as described above could result in a future charge to earnings.

Our other intangible assets represent existing technologies and customer relationship intangibles. Other intangible assets are amortized over their respective estimated lives, ranging from less than one year to six years. In the event that facts and circumstances indicate intangibles or other long-lived assets may be impaired, we evaluate the recoverability and estimated useful lives of such assets. Amortization of other intangible assets is included in depreciation and amortization in the accompanying consolidated statements of operations.

### Impairment and Useful Lives of Long-Lived Assets

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

### Contingencies

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

courts. Therefore, actual losses in any future period are inherently uncertain.



## Table of Contents

### Deferred Taxes and Tax Reserves

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

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

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

Uncertainty in income taxes is recognized in our financial statements under guidance that prescribes a two-step process to determine the amount of tax benefit to be recognized. First, the tax position must be evaluated to determine the likelihood that it will be sustained upon external examination. If the tax position is deemed more-likely-than-not to be sustained, the tax position is then assessed to determine the amount of benefit to recognize in the financial statements. The amount of the benefit that may be recognized is the largest amount that has a greater than 50% likelihood of being realized upon ultimate settlement. Our unrecognized tax benefit from uncertain tax positions increased by \$286 from January 1, 2014 to December 31, 2014. We anticipate that our unrecognized tax benefits may increase or decrease within twelve months of the reporting date, as audits or reviews are initiated or settled and as a result of settling potential tax liabilities in certain foreign jurisdictions. It is not currently reasonably possible to estimate the range of change. We recognize interest and penalties related to unrecognized tax benefits in our tax provision.

Our effective tax rate is influenced by the recognition of tax positions pursuant to the more likely than not standard that such positions will be sustained upon examination by the taxing authority. In addition, other factors such as changes in tax laws, rulings by taxing authorities and court decisions, and significant changes in our operations through acquisitions or divestitures can have a material impact on the effective tax rate. Differences between our estimated and actual effective income tax rates and related liabilities are recorded in the period they become known. We conduct business in various foreign countries. As a multinational corporation, we are subject to taxation in multiple locations, and the calculation of our foreign tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations in various taxing jurisdictions. If we ultimately determine that the payment of these liabilities will be unnecessary, we reverse the liability and recognize a tax benefit during the period in which we determine the liability no longer applies. Conversely, we record additional tax charges in a period in which we determine that a recorded tax liability is less than we expect the ultimate assessment to be.

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

### Share-Based Compensation

We account for our share-based compensation awards using the fair-value method. The grant date fair value was determined using the Black-Scholes-Merton pricing model. The Black-Scholes-Merton valuation calculation requires us to make key assumptions such as future stock price volatility, expected terms, risk-free rates, and dividend yield. Our expected volatility is derived from our volatility rate as a publicly traded company. The expected term is based on our historical experience. The risk-free interest factor is based on the United States Treasury yield curve in effect at the time of the grant for zero coupon United States Treasury notes with maturities of approximately equal to each grant's expected term. We have never paid cash dividends and do not currently intend to pay cash dividends, and therefore, we have assumed a 0% dividend yield.

Table of Contents

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

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

## Results of Continuing Operations

## Comparison of the Years Ended December 31, 2014 and 2013

## 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 year ended December 31, 2014, compared to December 31, 2013:

	Year Ended December 31,		Increase (Decrease)	Percent Change
	2014	2013		
Revenue	\$162,259	\$173,433	\$(11,174 )	(6.4 )%

Our revenue decreased during the year ended December 31, 2014 versus the comparable 2013 period primarily due to: the sale of the Web Content Management (WCM) business in December 2013. Revenue from our WCM-related business was approximately \$12 million for the year ended December 31, 2013.

the expiration of our content delivery contract with Netflix in July 2014. Revenue from Netflix was approximately \$11 million and \$20 million for the years ended December 31, 2014 and 2013, respectively.

our active customers worldwide decreased to 1,095 as of December 31, 2014 compared to 1,295 as of December 31, 2013. Approximately 25% of the decrease in customers is attributable to the sale of the WCM business.

Partially offsetting these decreases were increases in volume to several large customers as well as an increase in average selling price for delivery of approximately 10% year over year.

During the year ended December 31, 2014 and 2013, sales to our top 20 customers accounted for approximately 50% and 44%, respectively, of our total revenue. The customers that comprised our top 20 customers have continually changed, and our large customers may not continue to be as significant going forward as they have been in the past.

During the year ended December 31, 2014, we had no customer who accounted for 10% or more of our total revenue. For the year ended December 31, 2013, we had one customer, Netflix, who represented approximately 11% of our total revenue.

Table of Contents

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:

	Year Ended December 31,					
	2014			2013		
Americas	\$101,302	62.5	%	\$119,020	68.6	%
EMEA	33,630	20.7	%	30,793	17.8	%
Asia Pacific	27,327	16.8	%	23,620	13.6	%
Total revenue	\$162,259	100.0	%	\$173,433	100.0	%

At this time, we anticipate revenues will range between \$156 and \$164 million in 2015.

**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 Internet service providers or 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.

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

	Year Ended December 31,					
	2014			2013		
Bandwidth and co-location fees	\$55,274	34.1	%	\$59,447	34.3	%
Depreciation - network	16,673	10.3	%	22,942	13.2	%
Payroll and related employee costs	17,691	10.9	%	18,951	10.9	%
Share-based compensation	1,957	1.2	%	1,873	1.1	%
Other costs	7,254	4.5	%	8,512	4.9	%
Total cost of revenue	\$98,849	60.9	%	\$111,725	64.4	%

Our cost of revenue decreased in aggregate dollars and as a percentage of total revenue for the year ended December 31, 2014 versus the comparable 2013 period, 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 beginning in 2012;
- decreased payroll and related employee costs as a result of lower average salaries due to employee mix; and
- decreased other costs primarily due to lower consulting fees.

Our network equipment is primarily depreciated over a three year useful life. Capital expenditures prior to 2012 were much higher due to our network build-out. Over the past three years, capital expenditures have remained consistent. We anticipate 2015 depreciation expense related to our network equipment to increase as we expect an increase in capital expenditures over 2014 levels.

Table of Contents

## General and Administrative

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

	Year Ended December 31,					
	2014		2013			
Payroll and related employee costs	\$10,347	6.4 %	\$10,206	5.9 %		
Professional fees and outside services	6,003	3.7 %	7,762	4.5 %		
Share-based compensation	4,741	2.9 %	5,971	3.4 %		
Other costs	7,085	4.4 %	7,965	4.6 %		
Total general and administrative	\$28,176	17.4 %	\$31,904	18.4 %		

Our general and administrative expense decreased in aggregate dollars and as a percentage of total revenue for the year ended December 31, 2014 versus the comparable 2013 period, primarily as a result of the following:

- decreased professional fees and outside services primarily due to lower general legal fees (patent defense costs and commercial and employment issues) and reduced consulting fees;
- decreased share-based compensation; and
- decreased other costs which was primarily lower facilities, bad debt expense and office supplies, partially offset by increased franchise taxes and software fees.

We expect our general and administrative expenses to remain consistent with 2014 in aggregate dollars.

## Sales and Marketing

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

	Year Ended December 31,					
	2014		2013			
Payroll and related employee costs	\$24,016	14.8 %	\$24,799	14.3 %		
Share-based compensation	2,317	1.4 %	2,245	1.3 %		
Marketing programs	1,467	0.9 %	2,822	1.6 %		
Other costs	9,658	6.0 %	11,608	6.7 %		
Total sales and marketing	\$37,458	23.1 %	\$41,474	23.9 %		

Our sales and marketing expense decreased in aggregate dollars and as a percentage of total revenue for the year ended December 31, 2014 versus the comparable 2013 period, 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 reduced subscription based services, lower facilities and facility related costs, reduced costs associated with employee events, and lower travel related expenses.

We expect our sales and marketing expenses to increase in both aggregate dollars and as a percentage of revenue compared to 2014 as we expand our sales workforce.

Table of Contents

## Research and Development

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

	Year Ended December 31,					
	2014		2013			
Payroll and related employee costs	\$15,887	9.8 %	\$16,568	9.6 %		
Share-based compensation	1,478	0.9 %	2,256	1.3 %		
Other costs	3,600	2.2 %	3,179	1.8 %		
Total research and development	\$20,965	12.9 %	\$22,003	12.7 %		

Our research and development expense decreased in aggregate dollars and slightly increased as a percentage of total revenue for the year ended December 31, 2014 versus the comparable 2013 period, primarily as a result of 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 share-based compensation.

These decreases were partially offset by increased other costs primarily due to increased consulting and facilities related expenses.

We expect our research and development expenses to increase in both aggregate dollars and as a percentage of revenue compared to 2014.

## Depreciation and Amortization (Operating Expenses)

Depreciation and amortization expense was \$3,529, or 2.2% of revenue, for the year ended December 31, 2014 versus \$5,804, or 3.3% of revenue, for the comparable 2013 period. This reduction was primarily due to lower amortization of intangible assets. 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.

## Interest Expense

Interest expense was \$32 for the year ended December 31, 2014 versus \$76 for the comparable 2013 period. Interest expense is primarily comprised of interest paid on capital leases.

As of December 31, 2014, with the exception of our capital leases, we had no outstanding credit facilities.

## Interest Income

Interest income was \$276 for the year ended December 31, 2014 versus \$321 for the comparable 2013 period. Interest income includes interest earned on invested cash balances and marketable securities.

## Other Income (Expense)

Other income (expense) was \$1,821 for the year ended December 31, 2014 versus \$4,643 for the comparable 2013 period. For the year ended December 31, 2014, other income (expense) consists primarily of foreign currency transaction gains and losses, and also includes a working capital adjustment associated with the sale of our WCM business, and gains on sale of assets.

For the year ended December 31, 2013, other income (expense) consists primarily of the gain on the sale of our WCM business of approximately \$3,836 as well as foreign currency transaction gains and losses.

## Income Tax Expense

Income tax expense from continuing operations for the year ended December 31, 2014 was \$203 versus \$387 for the comparable 2013 period. Income tax expense on the loss from continuing operations before taxes was different than the statutory income tax rate primarily due to our providing for a valuation allowance on deferred tax assets in certain jurisdictions, and recording of state and foreign tax expense for the year. The effective income tax rate is based primarily upon

Table of Contents

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 (Loss) 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. See Note 5 of Notes to Consolidated Financial Statements included in Part II, Item 8 of this annual report on Form 10-K for additional information about discontinued operations.

## Comparison of the Years Ended December 31, 2013 and 2012

## Revenue

The following table reflects our revenue for the year ended December 31, 2013 compared to December 31, 2012:

	Year Ended December 31,		Increase (Decrease)	Percent Change
	2013	2012		
Revenue	\$173,433	\$180,236	\$(6,803)	(3.8)%

Our revenue decreased during the year ended December 31, 2013 versus the comparable 2012 period primarily due to customer churn, a decline in our average unit selling price, a decline in our transit and co-location services revenue, professional services revenue, and content management revenue, the expiration of a reseller contract during the second quarter of 2012, and foreign currency headwinds. These decreases were partially offset by increased video and performance services revenue, increased traffic delivered and the addition of new customers.

As of December 31, 2013, we had 1,295 active customers worldwide compared to 1,451 as of December 31, 2012, due in part to our continued selective approach to accepting profitable business by establishing a clear process for identifying customers that value quality, performance, availability, and service. Despite adding many new customers during the year, we ended 2013 with a net customer loss.

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:

	Year Ended December 31,					
	2013		2012			
Americas	\$119,020	68.6%	\$125,600	69.7%		
EMEA	30,793	17.8%	30,898	17.1%		
Asia Pacific	23,620	13.6%	23,738	13.2%		
Total revenue	\$173,433	100.0%	\$180,236	100.0%		

## Cost of Revenue

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

	Year Ended December 31,					
	2013		2012			
Bandwidth and co-location fees	\$59,447	34.3%	\$56,716	31.5%		
Depreciation - network	22,942	13.2%	27,992	15.5%		
Payroll and related employee costs	18,951	10.9%	18,075	10.0%		
Share-based compensation	1,873	1.1%	2,117	1.2%		
Other costs	8,512	4.9%	8,318	4.6%		
Total cost of revenue	\$111,725	64.4%	\$113,218	62.8%		

Table of Contents

Our cost of revenue decreased in aggregate dollars and increased as a percentage of total revenue for the year ended December 31, 2013 versus the comparable 2012 period, primarily as a result of the following:

- bandwidth and co-location fees which increased primarily due to increased peering costs and rack fees as a result of an increase in traffic delivered;
- payroll and related employee costs increased due to increased operations personnel; and
- other costs increased due to higher consulting fees.

These increases were offset by a decrease in network depreciation as equipment becomes fully depreciated.

#### General and Administrative

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

	Year Ended December 31,					
	2013			2012		
Payroll and related employee costs	\$10,206	5.9	%	\$9,388	5.2	%
Professional fees and outside services	7,762	4.5	%	8,123	4.5	%
Share-based compensation	5,971	3.4	%	6,511	3.6	%
Bad debt expense	965	0.6	%	2,010	1.1	%
Other costs	7,000	4.0	%	8,468	4.7	%
Total general and administrative	\$31,904	18.4	%	\$34,500	19.1	%

Our general and administrative expense decreased in aggregate dollars and slightly decreased as a percentage of total revenue for the year ended December 31, 2013 versus the comparable 2012 period, primarily as a result of the following:

- a decrease in other costs which was primarily due to lower non-income taxes due to a recovery of use tax, decreased fees and licenses and decreased facilities and facilities related costs;
- decreased bad debt expense due to lower past due and unrecoverable amounts from certain customers; and
- decreased stock based compensation for administrative personnel.

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

#### Sales and Marketing

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

	Year Ended December 31,					
	2013			2012		
Payroll and related employee costs	\$24,799	14.3	%	\$27,293	15.1	%
Share-based compensation	2,245	1.3	%	3,104	1.7	%
Marketing programs	2,822	1.6	%	2,599	1.4	%
Other costs	11,608	6.7	%	12,048	6.7	%
Total sales and marketing	\$41,474	23.9	%	\$45,044	25.0	%

Our sales and marketing expense decreased in aggregate dollars and as a percentage of total revenue for the year ended December 31, 2013 versus the comparable 2012 period, primarily as a result of the following:

- payroll and related employee costs decreased due to lower salaries and lower variable compensation on reduced revenue and lower headcount; and
- stock-based compensation decreased due to lower headcount in our sales organization.



Table of Contents

These decreases in costs were partially offset by an increase in marketing programs as a result of trade shows, the announcement of Limelight Orchestrate V2.0 during the second quarter of 2013 and the announcement of Limelight Orchestrate V2.5 during the fourth quarter of 2013.

**Research and Development**

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

	Year Ended December 31,					
	2013			2012		
Payroll and related employee costs	\$16,568	9.6	%	\$15,006	8.3	%
Share-based compensation	2,256	1.3	%	2,743	1.5	%
Other costs	3,179	1.8	%	2,433	1.3	%
Total research and development	\$22,003	12.7	%	\$20,182	11.2	%

Our research and development expense increased in aggregate dollars and as a percentage of total revenue for the year ended December 31, 2013 versus the comparable 2012 period, primarily as a result of the following:

- increased payroll and related employee costs due to increased salaries for network and software engineering personnel; and

- increased other costs primarily due to higher consulting costs.

These increases in research and development expense were partially offset by a decrease in stock-based compensation.

**Depreciation and Amortization (Operating Expenses)**

Depreciation and amortization expense was \$5,804, or 3.3% of revenue, for the year ended December 31, 2013 versus \$5,843, or 3.2% of revenue, for the comparable 2012 period. 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.

**Interest Expense**

Interest expense was \$76 for the year ended December 31, 2013 versus \$177 for the comparable 2012 period. Interest expense is primarily comprised of interest paid on capital leases.

As of December 31, 2013, with the exception of our capital leases, we had no outstanding credit facilities.

**Interest Income**

Interest income was \$321 for the year ended December 31, 2013 versus \$356 for the comparable 2012 period. Interest income includes interest earned on invested cash balances and marketable securities.

**Gain on Sale of Cost Basis Investment**

In August 2012, we sold our strategic investment in Gaikai Inc. (Gaikai), a private cloud-based gaming company and we recorded a gain on sale of our cost basis investment of \$9,420.

**Other Income (Expense)**

Other income (expense) was \$4,643 for the year ended December 31, 2013 versus \$(602) for the comparable 2012 period. For the year ended December 31, 2013, other income (expense) consists primarily of the gain on the sale of our WCM business of approximately \$3,836 as well as foreign currency transaction gains and losses.

For the year ended December 31, 2012, other income (expense) consists primarily of foreign currency transaction gains and losses.

## Table of Contents

### Income Tax Expense

Based on an estimated annual effective tax rate and discrete items, income tax expense from continuing operations for the year ended December 31, 2013 was \$387 versus \$481 for the comparable 2012 period. Income tax expense on the loss from continuing operations before taxes was different than the statutory income tax rate primarily due to our providing for a valuation allowance on deferred tax assets in certain jurisdictions, and recording of state and foreign tax expense for the year. 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.

### Gain (Loss) 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. See Note 5 of Notes to Consolidated Financial Statements included in Part II, Item 8 of this annual report on Form 10-K for additional information about discontinued operations.

### Liquidity and Capital Resources

As of December 31, 2014, our cash, cash equivalents and marketable securities classified as current totaled \$93,084. Included in this amount is approximately \$14,697 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 years ended December 31, 2014, 2013, and 2012 are discussed in the following paragraphs.

### Operating Activities

Net cash provided by operating activities of continuing operations decreased by \$5,128 for the year ended December 31, 2014 versus the comparable 2013 period. Changes in operating assets and liabilities of \$3,651 during the year ended December 31, 2014 versus \$2,130 in the comparable 2013 period were primarily due to:

- accounts receivable increased \$1,600 during the year ended December 31, 2014 due to the timing of billings net of collections as compared to a \$2,581 decrease in the comparable 2013 period;
- prepaid expenses and other current assets increased \$1,792 during the year ended December 31, 2014 versus a decrease of \$1,222 for the comparable 2013 period due primarily to prepayment of software licenses in 2014 partially offset by amortization of prepaid bandwidth expenses;
- other assets decreased \$1,607 during the year ended December 31, 2014 versus a decrease of \$519 for the comparable 2013 period due to the amortization of bandwidth expenses paid in prior periods;
- accounts payable increased \$2,276 during the year ended December 31, 2014 versus a decrease of \$2,192 for the comparable 2013 period due to timing of vendor payments;
- deferred revenue decreased \$1,109 during the year ended December 31, 2014 versus an increase of \$4 for the comparable 2013 period due to changes in WCM deferred revenue balances in the prior period; and
- other current liabilities decreased \$2,154 during the year ended December 31, 2014 versus an increase of \$384 for the comparable 2013 period primarily due to the application of customer deposits to their receivable balances.

Net cash provided by operating activities of continuing operations decreased by \$6,833 for the year ended December 31, 2013 versus the comparable 2012 period. Changes in operating assets and liabilities of \$2,130 during the year ended December 31, 2013 versus \$1,672 in the comparable 2012 period were primarily due to:

- accounts receivable decreased \$2,581 during the year ended December 31, 2013 due to the timing of billings net of collections as compared to a \$567 increase in the comparable 2012 period;
- prepaid expenses and other current assets and other long-term assets decreased \$1,741 due to the amortization of certain prepaid vendor contracts and the collection of non-income tax related receivables during the year ended December 31, 2013 versus the comparable 2012 period; and
- accounts payable decreased \$2,192 during the year ended December 31, 2013 versus the comparable 2012 period due to timing of vendor payments.

Cash provided by operating activities may not be sufficient to cover new purchases of property and equipment during 2015 and potential litigation expenses associated with patent litigation. The timing and amount of future working capital



## Table of Contents

changes and our ability to manage our days sales outstanding will also affect the future amount of cash used in or provided by operating activities.

### Investing Activities

Net cash used in investing activities of continuing operations was \$21,499 for the year ended December 31, 2014 versus \$19,019 for the comparable 2013 period. Net cash used in investing activities was primarily related to the purchase of marketable securities, and capital expenditures primarily for computer equipment associated with the build-out and expansion of our global computing platform, offset by cash generated from maturities of marketable securities.

Net cash used in investing activities of continuing operations was \$19,019 for the year ended December 31, 2013 versus \$450 for the comparable 2012 period. Net cash used in investing activities was principally comprised of cash used for the purchase of short-term marketable securities and capital expenditures primarily for computer equipment associated with the build-out and expansion of our global computing platform, offset by cash generated from maturities of short-term marketable securities, the proceeds from the sale of our WCM business, the receipt of proceeds from the sale of our investment in Gaikai that had been held in an escrow account and the sale of discontinued operations.

We expect to have ongoing capital expenditure requirements as we continue to invest in and expand our content delivery network. During 2014, we made capital expenditures of \$18,581, which represented approximately 11% of our total revenue. We expect an increase in capital expenditures in 2015 compared to 2014, to support growth opportunities and to further upgrade and improve our global network and systems.

### Financing Activities

Net cash used in financing activities of continuing operations was \$5,422 for the year ended December 31, 2014 versus \$8,922 for the comparable 2013 period. Net cash used in financing activities in the year ended December 31, 2014 related to payments made for the purchase of our common stock under our stock repurchase plans of \$4,542, payments of employee tax withholdings related to restricted stock units of \$1,795 and payments made on our capital lease obligations of \$466, partially offset by cash received from the purchase of common stock through our employee stock purchase plan and cash received from the exercise of stock options of \$1,381.

Net cash used in financing activities of continuing operations was \$8,922 for the year ended December 31, 2013 versus \$23,093 for the comparable 2012 period. Net cash used in financing activities in the year ended December 31, 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 \$2,372 and payments made on our capital lease obligations of \$1,301, offset by cash received from the purchase of common stock through our employee stock purchase plan and cash received from the exercise of stock options of \$263.

On February 12, 2014, our board of directors authorized a \$15,000 share repurchase program. During the year ended December 31, 2014, we have purchased and canceled approximately 1,719 shares of our common stock. As of December 31, 2014, we had \$10,338 remaining under this share repurchase authorization. We have continued making purchases under this authorization into 2015. Between January 1, 2015 and January 31, 2015, we purchased and canceled approximately another 293 shares of our common stock, and now have \$9,525 remaining under this share repurchase authorization. All repurchased shares were canceled and returned to authorized but unissued status.

On October 29, 2012, our board of directors authorized and approved a common stock repurchase plan that authorized us to repurchase up to \$10,000 of our shares of common stock, exclusive of any commissions, markups or expenses, from time to time through May 9, 2013. During 2013, we purchased and canceled approximately 2,300 shares under this repurchase plan. Any repurchased shares were canceled and returned to authorized but unissued status.

As of December 31, 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 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.

Table of Contents

## 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 2015 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 2015 and beyond. As a result of our growth strategies, we believe that our liquidity and capital resources requirements will grow.

The following table presents our contractual obligations and commercial commitments, as of December 31, 2014 over the next five years and thereafter (in thousands):

	Payments Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Operating Leases					
Bandwidth leases	\$18,386	\$12,472	\$5,401	\$513	\$—
Rack space leases	24,245	19,193	4,355	697	—
Real estate leases	15,062	3,990	5,932	4,129	1,011
Total operating leases	57,693	35,655	15,688	5,339	1,011
Capital leases	376	238	138	—	—
Other purchase obligations	769	576	193	—	—
Total commitments	\$58,838	\$36,469	\$16,019	\$5,339	\$1,011

## Off Balance Sheet Arrangements

As of December 31, 2014, we are not involved in any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

## New Accounting Pronouncements

See Item 8 of Part II, "Financial Statements and Supplementary Data - Note 2 - Summary of Significant Accounting Policies - Recent Accounting Standards."

## Item 7A. 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



Table of Contents

relative to our foreign currency denominated revenues and expenses, our net loss for the year ended December 31, 2014 would have been higher by approximately \$3,019. 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.

**Credit Risk**

During any given fiscal period, a relatively small number of customers typically account for a significant percentage of our revenue. For example, in 2014, 2013, and 2012, sales to our top 20 customers accounted for approximately 50%, 44% and 43%, respectively, of our total revenue. During 2014, we had no customer who represented 10% or more of our total revenue. During 2013 and 2012, we had one customer, Netflix, who represented approximately 11% of our total revenue for each year. In 2015, we anticipate that our top 20 customer concentration levels will remain consistent with 2014. In the past, the customers that comprised our top 20 customers have continually changed, and our large customers may not continue to be as significant going forward as they have been in the past.



Table of Contents

Item 8. Financial Statements and Supplementary Data  
LIMELIGHT NETWORKS, INC.  
Index to Consolidated Financial Statements and Schedule

	Page
<u>Report of Independent Registered Public Accounting Firm</u>	<u>48</u>
<u>Consolidated Balance Sheets as of December 31, 2014 and 2013</u>	<u>49</u>
<u>Consolidated Statements of Operations for the years ended December 31, 2014, 2013, and 2012</u>	<u>50</u>
<u>Consolidated Statements of Comprehensive Loss for the years ended December 31, 2014, 2013, and 2012</u>	<u>51</u>
<u>Consolidated Statements of Stockholders' Equity for the years ended December 31, 2014, 2013, and 2012</u>	<u>52</u>
<u>Consolidated Statements of Cash Flows for the years ended December 31, 2014, 2013, and 2012</u>	<u>54</u>
<u>Notes to Consolidated Financial Statements</u>	<u>55</u>

47

---

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Limelight Networks, Inc.

We have audited the accompanying consolidated balance sheets of Limelight Networks, Inc. as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive loss, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2014. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Limelight Networks, Inc. at December 31, 2014 and 2013, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Limelight Networks, Inc.'s internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 17, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP  
Phoenix, Arizona  
February 17, 2015

Table of Contents

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

	December 31, 2014	December 31, 2013
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$57,767	\$85,956
Marketable securities	35,317	32,506
Accounts receivable, net	22,622	21,430
Income taxes receivable	237	371
Deferred income taxes	78	93
Prepaid expenses and other current assets	9,625	8,192
Total current assets	125,646	148,548
Property and equipment, net	32,636	32,905
Marketable securities, less current portion	40	46
Deferred income taxes, less current portion	1,364	1,307
Goodwill	76,133	77,035
Other intangible assets, net	1,071	2,354
Other assets	4,451	6,103
Total assets	\$241,341	\$268,298
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$7,065	\$5,473
Deferred revenue	3,509	3,523
Capital lease obligations	223	466
Income taxes payable	248	799
Other current liabilities	14,383	15,022
Total current liabilities	25,428	25,283
Capital lease obligations, less current portion	135	358
Deferred income taxes	170	321
Deferred revenue, less current portion	405	1,500
Other long-term liabilities	3,040	3,505
Total liabilities	29,178	30,967
Commitments and contingencies		
Stockholders' equity:		
Convertible preferred stock, \$0.001 par value; 7,500 shares authorized; 0 shares issued and outstanding	—	—
Common stock, \$0.001 par value; 300,000 shares authorized at December 31, 2014 and, 2013; 98,409 and 97,677 shares issued and outstanding at December 31, 2014 and 2013, respectively	98	98
Additional paid-in capital	464,294	458,748
Accumulated other comprehensive loss	(7,786	) (1,663
Accumulated deficit	(244,443	) (219,852
Total stockholders' equity	212,163	237,331
Total liabilities and stockholders' equity	\$241,341	\$268,298

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

Table of Contents

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

	Years Ended December 31,		
	2014	2013	2012
Revenues	\$162,259	\$173,433	\$180,236
Cost of revenue:			
Cost of services (1)	82,176	88,783	85,226
Depreciation — network	16,673	22,942	27,992
Total cost of revenue	98,849	111,725	113,218
Gross profit	63,410	61,708	67,018
Operating expenses:			
General and administrative	28,176	31,904	34,500
Sales and marketing	37,458	41,474	45,044
Research and development	20,965	22,003	20,182
Depreciation and amortization	3,529	5,804	5,843
Total operating expenses	90,128	101,185	105,569
Operating loss	(26,718	) (39,477	) (38,551
Other income (expense):			
Interest expense	(32	) (76	) (177
Interest income	276	321	356
Gain on sale of cost basis investment	—	—	9,420
Other, net	1,821	4,643	(602
Total other income (expense)	2,065	4,888	8,997
Loss from continuing operations before income taxes	(24,653	) (34,589	) (29,554
Income tax provision	203	387	481
Loss from continuing operations	(24,856	) (34,976	) (30,035
Discontinued operations:			
Income (loss) from discontinued operations, net of income taxes	265	(426	) (2,861
Net loss	\$(24,591	) \$(35,402	) \$(32,896
Net loss per share:			
Basic and diluted			
Continuing operations	\$(0.25	) \$(0.36	) \$(0.30
Discontinued operations	—	(0.01	) (0.02
Total	\$(0.25	) \$(0.37	) \$(0.32
Weighted average shares used in per share calculation:			
Basic and diluted	98,365	96,851	101,283

(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.

Table of Contents

LIMELIGHT NETWORKS, INC.

Consolidated Statements of Comprehensive Loss

(In thousands)

	Years Ended December 31,		
	2014	2013	2012
Net loss	\$(24,591	) \$(35,402	) \$(32,896
Other comprehensive loss, net of tax:			
Unrealized loss on marketable securities	(68	) (13	) (28
Foreign exchange translation	(6,055	) (941	) (172
Other comprehensive loss, net of tax	(6,123	) (954	) (200
Comprehensive loss	\$(30,714	) \$(36,356	) \$(33,096

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

51

---

Table of Contents

Limelight Networks, Inc.  
Consolidated Statements of Stockholders' Equity  
(In thousands)

	Common Stock		Additional Paid-In Capital	Contingent Consideration	Accumulated		Total
	Shares	Amount			Other Comprehensive Income (Loss)	Accumulated Deficit	
Balance at December 31, 2011	104,349	\$ 104	\$ 460,845	\$ 219	\$ (509 )	\$ (151,554 )	\$ 309,105
Net loss	—	—	—	—	—	(32,896 )	(32,896 )
Change in unrealized loss on available-for-sale investments, net of taxes	—	—	—	—	(28 )	—	(28 )
Foreign currency translation adjustment, net of taxes	—	—	—	—	(172 )	—	(172 )
Exercise of common stock options	175	—	190	—	—	—	190
Vesting of restricted stock units	2,451	3	(3 )	—	—	—	—
Restricted stock units surrendered in lieu of withholding taxes	(788 )	(1 )	(1,903 )	—	—	—	(1,904 )
Common stock received from escrow in settlement of EyeWonder indemnity claims	(110 )	—	(398 )	—	—	—	(398 )
Issuance of common stock for contingent consideration	61	—	186	(186 )	—	—	—
Issuance of common stock for business acquisitions	350	—	—	—	—	—	—
Purchase of common stock	(8,450 )	(8 )	(21,134 )	—	—	—	(21,142 )
Share-based compensation - continuing operations	—	—	14,475	—	—	—	14,475
Balance at December 31, 2012	98,038	\$ 98	\$ 452,258	\$ 33	\$ (709 )	\$ (184,450 )	\$ 267,230
Net loss	—	—	—	—	—	(35,402 )	(35,402 )
Change in unrealized loss on available-for-sale investments, net of taxes	—	—	—	—	(13 )	—	(13 )
Foreign currency translation adjustment, net of taxes	—	—	—	—	(941 )	—	(941 )
Exercise of common stock options	143	—	38	—	—	—	38
Vesting of restricted stock units	2,032	2	(2 )	—	—	—	—
Restricted stock units surrendered in lieu of withholding taxes	(593 )	—	(1,304 )	—	—	—	(1,304 )
Issuance of common stock for	11	—	33	(33 )	—	—	—

settlement of contingent consideration							
Issuance of common stock under employee stock purchase plan	135	—	225	—	—	—	225
Purchase of common stock	(2,089 )	(2 )	(4,845 )	—	—	—	(4,847 )
Share-based compensation continuing operations	—	—	12,345	—	—	—	12,345
Balance at December 31, 2013	97,677	\$98	\$458,748	\$—	\$ (1,663 )	\$ (219,852 )	\$237,331
Net loss	—	—	—	—	—	(24,591 )	(24,591 )

52

---



Table of Contents

	Common Stock		Additional	Contingent	Accumulated	Accumulated	Total
	Shares	Amount	Paid-In Capital	Consideration	Other Comprehensive Income (Loss)	Deficit	
Change in unrealized loss on available-for-sale investments, net of taxes	—	—	—	—	(68 )	—	(68 )
Foreign currency translation adjustment, net of taxes	—	—	—	—	(6,055 )	—	(6,055 )
Exercise of common stock options	522	1	893	—	—	—	894
Vesting of restricted stock units	2,385	2	(2 )	—	—	—	—
Restricted stock units surrendered in lieu of withholding taxes	(725 )	(1 )	(1,643 )	—	—	—	(1,644 )
Issuance of common stock under employee stock purchase plan	269	—	488	—	—	—	488
Purchases of common stock	(1,719 )	(2 )	(4,681 )	—	—	—	(4,683 )
Share-based compensation — continuing operations	—	—	10,491	—	—	—	10,491
Balance at December 31, 2014	98,409	\$98	\$464,294	\$—	\$ (7,786 )	\$ (244,443 )	\$212,163

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

Table of Contents

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

	Years Ended December 31,		
	2014	2013	2012
Operating activities			
Net loss	\$ (24,591	) \$ (35,402	) \$ (32,896
Income (loss) from discontinued operations	265	(426	) (2,861
Net loss from continuing operations	(24,856	) (34,976	) (30,035
Adjustments to reconcile net loss from continuing operations to net cash provided by operating activities of continuing operations:			
Depreciation and amortization	20,202	28,746	33,835
Share-based compensation	10,491	12,345	14,475
Foreign currency remeasurement gain	(2,167	) (531	) (103
Deferred income taxes	(359	) (328	) (38
Loss on disposal of property and equipment	—	442	89
Accounts receivable charges	408	965	2,010
Amortization (accretion) of premium (discount) on marketable securities	459	639	472
Non cash tax benefit associated with sale of discontinued operations	(59	) —	—
Non cash increase in cost basis investment	—	—	(528
Gain on sale of cost basis investment	—	—	(9,420
Gain on sale of the Web Content Management business	—	(3,836	) —
Changes in operating assets and liabilities:			
Accounts receivable	(1,600	) 2,581	(567
Prepaid expenses and other current assets	(1,792	) 1,222	2,910
Income taxes receivable	150	105	(440
Other assets	1,607	519	(1,626
Accounts payable	2,276	(2,192	) 2,419
Deferred revenue	(1,109	) 4	(137
Other current liabilities	(2,154	) 384	17
Income taxes payable	(233	) 305	(255
Other long term liabilities	(796	) (798	) (649
Net cash provided by operating activities of continuing operations	468	5,596	12,429
Investing activities			
Purchase of marketable securities	(25,482	) (59,047	) (27,280
Maturities of marketable securities	22,150	44,901	27,625
Purchases of property and equipment	(18,581	) (18,575	) (18,390
Proceeds from the sale of cost basis investment	—	1,237	10,154
Proceeds from sale of the Web Content Management business	—	12,341	—
Proceeds from the sale of discontinued operations	414	124	7,441
Net cash used in investing activities of continuing operations	(21,499	) (19,019	) (450
Financing activities			
Payments on capital lease obligations	(466	) (1,301	) (1,749
Payment of employee tax withholdings related to restricted stock	(1,795	) (2,372	) (683
Cash paid for purchase of common stock	(4,542	) (5,512	) (20,851
Proceeds from exercise of stock options and employee stock plan	1,381	263	190
Net cash used in financing activities of continuing operations	(5,422	) (8,922	) (23,093
Effect of exchange rate changes on cash and cash equivalents	(1,732	) (606	) (171

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

Discontinued operations

Cash used in operating activities of discontinued operations	(4	)	(8	)	(149	)
Net (decrease) increase in cash and cash equivalents	(28,189	)	(22,959	)	(11,434	)
Cash and cash equivalents, beginning of year	85,956		108,915		120,349	
Cash and cash equivalents, end of year	\$57,767		\$85,956		\$108,915	
Supplement disclosure of cash flow information						
Cash paid during the year for interest	\$32		\$76		\$178	
Cash paid during the year for income taxes, net of refunds	\$647		\$321		\$1,428	
Property and equipment remaining in accounts payable and other current liabilities	\$2,983		\$1,709		\$948	
Property and equipment acquired through leasehold incentives	\$—		\$386		\$—	
Contingent consideration common stock issued in connection with acquisition of businesses	\$—		\$33		\$186	
Property acquired due to vendor concession	\$—		\$250		\$—	

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

Table of Contents

Limelight Networks, Inc.

Notes to Consolidated Financial Statements

December 31, 2014

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 consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP). 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 period amounts to conform to the current period presentation. All information is presented in thousands, except per share amounts and where specifically noted.

During the year ended December 31, 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.

On September 1, 2011, the Company completed the sale of its EyeWonder LLC and subsidiaries and chors GmbH video and rich media advertising services (EyeWonder and chors) to DG FastChannel, Inc. (DG). The sale of EyeWonder and chors met the criteria for discontinued operations during the year ended December 31, 2011. Accordingly, the results of operations related to EyeWonder and chors have been classified as discontinued operations in all periods presented. See further discussion in Note 5.

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 annual report on Form 10-K are not necessarily indicative of the results that may be expected for the year ending December 31, 2015 or for any future periods.

Foreign Currency Translation

The Company analyzes the functional currency for each of its international subsidiaries periodically to determine if a significant change in facts and circumstances indicate that the primary economic currency has changed. The Company conducts business and generates revenue from an international customer base. The Company has sales, operations and finance resources internationally and various contracts with the foreign subsidiaries to match foreign currency costs with foreign currency revenues. Due to changes in exchange rates between reporting periods and changes in certain account balances, the foreign currency translation adjustment will change from period to period. During the years ended December 31, 2014, 2013 and 2012, the Company recorded foreign currency translation losses of \$6,055, \$941 and \$172, respectively, in its statements of comprehensive loss. During the years ended December 31, 2014 and 2013, the Company recorded a foreign exchange gain of approximately \$1,489 and \$92, respectively. During the year ended December 31, 2012, the Company recorded a foreign exchange loss of approximately \$513. The foreign exchange gains and losses are included in other income (expense) in the consolidated statements of operations.

## Table of Contents

### Recent Accounting Standards

#### Recently Adopted Accounting Standards

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. The Company will adopt this guidance effective January 1, 2015. The new guidance would only impact the Company upon the reporting of discontinued operations.

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 standard permits the use of the retrospective or cumulative effect transition method. The Company has not yet selected a transition method and is currently in the process of evaluating the impact of adoption of this ASU on its consolidated financial statements and disclosures.

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.

#### Revenue Recognition

The Company derives revenue primarily from the sale of services that comprise components of its Orchestrate Platform. The Company's customers generally execute contracts with terms of one year or longer, which are referred to as recurring revenue contracts or long-term contracts. These contracts generally commit the customer to a minimum monthly level of usage with additional charges applicable for actual usage above the monthly minimum commitment. The Company defines usage as customer data sent or received using its content delivery service, or content that is hosted or cached by the Company at the request or direction of its customer. The Company recognizes the monthly minimum as revenue each month provided that an enforceable contract has been signed by both parties, the service has been delivered to the customer, the fee for the service is fixed or determinable, and collection is reasonably assured. Should a customer's usage of the Company's services exceed the monthly minimum commitment, the Company recognizes revenue for such excess in the period of the usage. For annual or other non-monthly period revenue commitments, the Company recognizes revenue monthly based upon the customer's actual usage each month of the commitment period and only recognizes any remaining committed amount for the applicable period in the last month thereof.

Certain of the Company's revenue arrangements consist of multi-element arrangements. Revenue arrangements with multiple deliverables are divided into separate units of accounting if each deliverable has stand-alone value to the customer. The Company's multiple-element arrangements may include a combination of some or all of the following: content delivery services, video content management services, performance services for website and web application acceleration, and cloud storage. Each of these products has stand-alone value and is sold separately. In the absence of vendor specific objective evidence (VSOE) or third-party evidence of selling prices, consideration would be allocated based on management's best estimate of such prices. The deliverables within multiple-element arrangements are provided over the same contract period, and therefore, revenue is recognized over the same period.

The Company typically charges the customer an installation fee when the services are first activated. The Company does not charge installation fees for contract renewals. Installation fees are recorded as deferred revenue and recognized as revenue ratably over the estimated life of the customer arrangement. Installation fees do not have standalone value.

The Company also derives revenue from services and events sold as discrete, non-recurring events or based solely on usage. For these services, the Company recognizes revenue after an enforceable contract has been signed by both parties, the fee is fixed or determinable, the event or usage has occurred, and collection is reasonably assured.

Table of Contents

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

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

Cash and Cash Equivalents

The Company holds its cash and cash equivalents in checking, money market, and highly-liquid investments. The Company considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

Investments in Marketable Securities

Management determines the appropriate classification of its marketable securities at the time of purchase and reevaluates such classification as of each balance sheet date. The Company has classified its investments in marketable securities as available-for-sale. Available-for-sale investments are initially recorded at cost with temporary changes in fair value periodically recorded through comprehensive income. Realized gains and losses and declines in value judged to be other than temporary are determined based on the specific identification method and are reported in the statements of operations. The Company periodically reviews its investments for other-than-temporary declines in fair value based on the specific identification method and writes down investments to their fair value when an other-than-temporary decline has occurred.

Accounts Receivable

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

The allowance for doubtful accounts is based upon a calculation that uses the Company’s aging of accounts receivable and applies a reserve percentage to the specific age of the receivable to estimate the allowance for doubtful accounts. The reserve percentages are determined based on the Company’s historical write-off experience. These estimates could change significantly if the Company’s customers’ financial condition changes or if the economy in general deteriorates. The Company’s reserve for service credits relates to credits that are expected to be issued to customers during the ordinary course of business. These credits typically relate to customer disputes and billing adjustments and are estimated at the time the revenue is recognized and recorded as a reduction of revenues. Estimates for service credits are based on an analysis of credits issued in previous periods.

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation or amortization. Depreciation and amortization are computed using the straight-line method over the assets’ estimated useful lives of the applicable asset.

Network equipment	3 years
Computer equipment and software	3 years
Furniture and fixtures	3 years
Other equipment	3-5 years

Leasehold improvements are amortized over the shorter of the asset’s estimated useful life or the respective lease term. Repairs and maintenance are charged to expense as incurred.

Goodwill and Other Intangible Assets

Goodwill represents costs in excess of fair values assigned to the underlying net assets of the acquired company. Goodwill is not amortized but instead is tested for impairment annually or more frequently if events or changes in circumstances indicate goodwill might be impaired. The estimated fair value of the reporting unit is determined using a market approach. The Company’s market capitalization is adjusted for a control premium based on the estimated average and median





Table of Contents

control premiums of transactions involving companies comparable to the Company. The Company has concluded that it has one reporting unit and assigned the entire balance of goodwill to this reporting unit. As of the annual impairment testing date of October 31, 2014 and in an interim impairment test performed at December 31, 2014, the Company determined that goodwill was not impaired. The Company determined that the estimated fair value of its reporting unit exceeded carrying value by approximately \$117,330 or 53%, and \$169,141 or 80%, using the market capitalization of the Company plus an estimated control premium of 40% on October 31, 2014 and December 31, 2014, respectively. The Company's other intangible assets represent existing technologies and customer relationship intangibles. Other intangible assets are amortized over their respective estimated lives, ranging from less than one year to six years. In the event that facts and circumstances indicate intangibles or other long-lived assets may be impaired, the Company evaluates the recoverability and estimated useful lives of such assets. Amortization of other intangible assets is included in depreciation and amortization in the accompanying consolidated statements of operations.

Contingencies

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

Long-Lived Assets

The Company reviews its long-lived assets for impairment annually, or whenever events or circumstances indicate that the carrying amount of an asset may not be fully recoverable. The Company recognizes an impairment loss if the sum of the expected long-term undiscounted cash flows that the long-lived asset is expected to generate is less than the carrying amount of the long-lived asset being evaluated. The Company treats any write-downs as permanent reductions in the carrying amounts of the assets. The Company believes the carrying amounts of its long-lived assets at December 31, 2014 and 2013 are fully realizable and has not recorded any impairment losses.

Deferred Rent and Lease Accounting

The Company leases bandwidth, co-location and office space in various locations. At the inception of each lease, the Company evaluates the lease terms to determine whether the lease will be accounted for as an operating or a capital lease. The term of the lease used for this evaluation includes renewal option periods only in instances where the exercise of the renewal option can be reasonably assured and failure to exercise the option would result in an economic penalty. The Company records tenant improvement allowances granted under the lease agreements as leasehold improvements within property and equipment and within deferred rent.

For leases that contain rent escalation provisions, the Company records the total rent payable during the lease term on a straight-line basis over the term of the lease (including any "rent free" period beginning upon possession of the premises), and records any difference between the actual rent paid and the straight-line rent expense recorded as increases or decreases in deferred rent.

Cost of Revenue

Cost of revenues consists primarily of fees paid to network providers for bandwidth and backbone, costs incurred for non-settlement free peering and connection to Internet service provider networks and fees paid to data center operators for housing network equipment in third party network data centers, also known as co-location costs. Cost of revenues also includes leased warehouse space and utilities, depreciation of network equipment used to deliver the Company's content delivery services, payroll and related costs, and share-based compensation for its network operations, and professional services personnel.

The Company enters into contracts for bandwidth with third party network providers with terms typically ranging from several months to five years. These contracts generally commit the Company to pay minimum monthly fees plus additional fees for bandwidth usage above contracted minimums. A portion of the global computing platform traffic delivery is completed through direct connection to ISP networks, called peering.

## Table of Contents

### Research and Development

Research and development costs consist primarily of payroll and related personnel costs for the design, development, deployment, testing, operation, and enhancement of the Company's services, and network. Costs incurred in the development of the Company's services are expensed as incurred.

### Advertising Costs

Costs associated with advertising are expensed as incurred. Advertising expenses, which are comprised of Internet, trade show, and publications advertising, were approximately \$1,409, \$2,754, and \$2,474 for the years ended December 31, 2014, 2013, and 2012, respectively.

### Income Taxes

The Company accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

The Company records net deferred tax assets to the extent it believes these assets will more likely than not be realized. In making such determination, the Company considers all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies, and recent financial performance. In the event the Company was to determine that it would be able to realize its deferred income tax assets in the future in excess of their net recorded amount, the Company would make an adjustment to the valuation allowance, which would reduce the provision for income taxes.

The Company recognizes uncertain income tax positions in its financial statements when it is more-likely-than-not the position will be sustained upon examination.

### Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents approximate fair value due to the nature and short maturity of those instruments. The respective fair values of marketable securities are determined based on quoted market prices, which approximate fair values. The carrying amounts of accounts receivable, accounts payable, and accrued liabilities reported in the consolidated balance sheets approximate their respective fair values due to the immediate or short-term maturity of these financial instruments.

### Share-Based Compensation

The Company measures all employee share-based compensation awards using the fair-value method. The grant date fair value was determined using the Black-Scholes-Merton pricing model. The Black-Scholes-Merton valuation calculation requires the Company to make key assumptions such as future stock price volatility, expected terms, risk-free rates, and dividend yield. The Company's expected volatility is derived from its own volatility rate as a publicly traded company. The expected term is based on its historical experience. The risk-free interest factor is based on the United States Treasury yield curve in effect at the time of the grant for zero coupon United States Treasury notes with maturities of approximately equal to each grant's expected term. The Company has never paid cash dividends and does not currently intend to pay cash dividends, and therefore, has assumed a 0% dividend yield. The Company develops an estimate of the number of share-based awards that will be forfeited due to employee turnover. The Company will continue to use judgment in evaluating the expected term, volatility, and forfeiture rate related to its own share-based awards on a prospective basis, and in incorporating these factors into the model.

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



Table of Contents

3. Investments in Marketable Securities

The following is a summary of marketable securities (designated as available-for-sale) at December 31, 2014:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Certificate of deposit	11,040	2	32	11,010
Commercial paper	1,498			