

Limelight Networks, Inc.
Form 10-Q
November 04, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2015

OR

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

For the transition period from _____ to _____

Commission file number 001-33508

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

Delaware	20-1677033
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
222 South Mill Avenue, 8 th Floor	
Tempe, AZ 85281	
(Address of principal executive offices, including Zip Code)	
(602) 850-5000	
(Registrant's telephone number, including area code)	

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

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

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

The number of shares outstanding of the registrant's Common Stock, par value \$0.001 per share, as of October 28, 2015: 101,005,854 shares.

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Note Regarding Forward-Looking Statement

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements contained in this Quarterly Report on Form 10-Q, other than statements of historical fact, are forward-looking statements. These statements include, among other things:

- our expectations regarding revenue, costs and expenses;
- our plans regarding investing in our content delivery network, as well as other products and technologies;
- our beliefs regarding the growth of, and competition within, the content delivery industry;
- our beliefs regarding the growth of our business and how that impacts our liquidity and capital resources requirements;
- our expectations regarding headcount;
- the impact of certain new accounting standards and guidance;
- our plans with respect to investments in marketable securities;
- our expectations and strategies regarding acquisitions;
- our expectations regarding the Akamai litigation and other pending or potential disputes;
- our estimations regarding taxes and belief regarding our tax reserves;
- our beliefs regarding the use of Non-GAAP financial measures;
- our approach to identifying, attracting and keeping new and existing customers, as well as our expectations regarding customer turnover;
- the sufficiency of our sources of funding;
- our belief regarding our interest rate risk; and
- our beliefs regarding the significance of our large customers;

as well as other statements regarding our financial condition and prospects, future operations, and business strategies.

Forward-looking statements generally can be identified by the words “may,” “will,” “expect,” “believe,” “anticipate,” “intend,” “could,” “estimate,” or “continue,” and similar expressions. We have based these forward-looking statements largely on our current expectations and projections about future events, as well as trends that we believe may affect our financial condition, results of operations, business strategy, short-term and long-term business operations and objectives, and financial needs. These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including those described under the caption “Risk Factors” in Part II, Item 1A in this Quarterly Report on Form 10-Q and those discussed in other documents we file with the Securities and Exchange Commission (SEC).

In addition, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the future events and trends discussed in this Quarterly Report on Form 10-Q may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

We undertake no obligation to revise or publicly release the results of any revision to these forward-looking statements, except as required by law. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

Unless expressly indicated or the context requires otherwise, the terms "Limelight," "we," "us," and "our" in this document refer to Limelight Networks, Inc., a Delaware corporation, and, where appropriate, its wholly owned subsidiaries.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Limelight Networks, Inc.

Consolidated Balance Sheets

(In thousands, except per share data)

	September 30, 2015 (Unaudited)	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$35,452	\$57,767
Marketable securities	34,123	35,317
Accounts receivable, net	27,151	22,622
Income taxes receivable	185	237
Deferred income taxes	72	78
Prepaid expenses and other current assets	9,156	9,625
Total current assets	106,139	125,646
Property and equipment, net	40,077	32,636
Marketable securities, less current portion	40	40
Deferred income taxes, less current portion	1,260	1,364
Goodwill	76,096	76,133
Other intangible assets, net	470	1,071
Other assets	3,857	4,451
Total assets	\$227,939	\$241,341
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$10,358	\$7,065
Deferred revenue	3,636	3,509
Capital lease obligations	—	223
Income taxes payable	121	248
Other current liabilities	12,972	14,383
Total current liabilities	27,087	25,428
Capital lease obligations, less current portion	—	135
Deferred income taxes	133	170
Deferred revenue, less current portion	27	405
Other long-term liabilities	2,354	3,040
Total liabilities	29,601	29,178
Commitments and contingencies		
Stockholders' equity:		
Convertible preferred stock, \$0.001 par value; 7,500 shares authorized; no shares issued and outstanding	—	—
Common stock, \$0.001 par value; 300,000 shares authorized at September 30, 2015, and December 31, 2014; 100,892 and 98,409 shares issued and outstanding at September 30, 2015, and December 31, 2014, respectively	101	98
Additional paid-in capital	473,399	464,294
Accumulated other comprehensive loss	(10,912)	(7,786)
Accumulated deficit	(264,250)	(244,443)
Total stockholders' equity	198,338	212,163

Total liabilities and stockholders' equity	\$227,939	\$241,341
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The accompanying notes are an integral part of the consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenues	\$42,049	\$39,020	\$128,173	\$121,533
Cost of revenue:				
Cost of services (1)	21,502	18,672	64,430	61,563
Depreciation — network	4,636	4,207	13,164	12,688
Total cost of revenue	26,138	22,879	77,594	74,251
Gross profit	15,911	16,141	50,579	47,282
Operating expenses:				
General and administrative	6,586	7,295	19,518	21,966
Sales and marketing	9,489	8,731	29,767	28,356
Research and development	7,429	5,514	21,338	14,951
Depreciation and amortization	648	825	1,924	2,868
Total operating expenses	24,152	22,365	72,547	68,141
Operating loss	(8,241)	(6,224)	(21,968)	(20,859)
Other income (expense):				
Interest expense	—	(7)	(4)	(26)
Interest income	82	66	231	203
Other, net	473	1,192	2,155	1,014
Total other income	555	1,251	2,382	1,191
Loss from continuing operations before income taxes	(7,686)	(4,973)	(19,586)	(19,668)
Income tax expense	76	98	221	181
Loss from continuing operations	(7,762)	(5,071)	(19,807)	(19,849)
Discontinued operations:				
(Loss) income from discontinued operations, net of income taxes	—	(4)	—	265
Net loss	\$(7,762)	\$(5,075)	\$(19,807)	\$(19,584)
Net loss per share:				
Basic and diluted				
Continuing operations	\$(0.08)	\$(0.05)	\$(0.20)	\$(0.20)
Discontinued operations	—	—	—	—
Total	\$(0.08)	\$(0.05)	\$(0.20)	\$(0.20)
Weighted average shares used in per share calculation:				
Basic and diluted	100,552	98,458	99,676	98,274

(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.

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LIMELIGHT NETWORKS, INC.

Unaudited Consolidated Statements of Comprehensive Loss

(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net loss	\$ (7,762	) \$ (5,075	) \$ (19,807	) \$ (19,584)
Other comprehensive income (loss), net of tax:				
Unrealized (loss) gain on investments	15	(37	) 58	(30)
Foreign exchange translation loss	(1,132	) (3,671	) (3,184	) (2,903)
Other comprehensive loss, net of tax	(1,117	) (3,708	) (3,126	) (2,933)
Comprehensive loss	\$ (8,879	) \$ (8,783	) \$ (22,933	) \$ (22,517)

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

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Limelight Networks, Inc.

Unaudited Consolidated Statements of Cash Flows

(In thousands)

	Nine Months Ended September 30,	
	2015	2014
Operating activities		
Net loss	\$(19,807	) \$(19,584
Income from discontinued operations	—	265
Net loss from continuing operations	(19,807	) (19,849
Adjustments to reconcile net loss to net cash (used in) provided by operating activities of continuing operations:		
Depreciation and amortization	15,088	15,556
Share-based compensation	9,473	7,800
Foreign currency remeasurement gain	(2,083	) (1,067
Deferred income taxes	(21	) (185
Accounts receivable charges	738	483
Amortization of premium on marketable securities	152	374
Non cash tax benefit associated with income from discontinued operations	—	(59
Changes in operating assets and liabilities:		
Accounts receivable	(5,267	) (1,496
Prepaid expenses and other current assets	296	(1,045
Income taxes receivable	35	55
Other assets	1,587	991
Accounts payable and other current liabilities	510	1,099
Deferred revenue	(251	) (893
Income taxes payable	(78	) (214
Other long term liabilities	(669	) (545
Net cash (used in) provided by operating activities of continuing operations	(297	) 1,005
Investing activities		
Purchases of marketable securities	(16,820	) (17,669
Maturities of marketable securities	16,920	15,550
Purchases of property and equipment	(20,754	) (13,984
Proceeds from the sale of discontinued operations	—	414
Net cash used in investing activities of continuing operations	(20,654	) (15,689
Financing activities		
Payments on capital lease obligations	(358	) (412
Payments of employee tax withholdings related to restricted stock vesting	(2,279	) (1,455
Cash paid for purchase of common stock	(957	) (2,500
Proceeds from employee stock plans	2,731	967
Net cash used in financing activities of continuing operations	(863	) (3,400
Effect of exchange rate changes on cash and cash equivalents	(501	) (840
Discontinued operations		
Cash used in operating activities of discontinued operations	—	(4
Net decrease in cash and cash equivalents	(22,315	) (18,928
Cash and cash equivalents, beginning of period	57,767	85,956
Cash and cash equivalents, end of period	\$35,452	\$67,028
Supplemental disclosure of cash flow information		
Cash paid during the period for interest	\$4	\$26

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Cash paid during the period for income taxes, net of refunds	\$390	\$581
Property and equipment expenditures remaining in accounts payable and other current liabilities	\$3,081	\$2,119

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

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Limelight Networks, Inc.

Notes to Unaudited Consolidated Financial Statements

September 30, 2015

1. Nature of Business

Limelight operates a globally distributed, high-performance 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 security, and cloud storage services.

We were incorporated in Delaware in 2003, and have operated in the Phoenix metropolitan area since 2001 and elsewhere throughout the United States since 2003. We began international operations in 2004.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited interim consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. They do not include all of the information and footnotes required by U.S. generally accepted accounting principles (U.S. GAAP) for complete financial statements. Such interim financial information is unaudited but reflects all adjustments that are, in the opinion of management, necessary for the fair presentation of the interim periods presented and of a normal recurring nature. The results of operations presented in this quarterly report on Form 10-Q are not necessarily indicative of the results that may be expected for the year ending December 31, 2015, or for any future periods. This quarterly report on Form 10-Q should be read in conjunction with our audited financial statements and footnotes included in our annual report on Form 10-K for the fiscal year ended December 31, 2014. All information is presented in thousands, except per share amounts and where specifically noted.

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

Use of Estimates

The preparation of the consolidated financial statements and related disclosures in conformity with U.S. GAAP requires management to make judgments, assumptions, and estimates that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results and outcomes may differ from those estimates. The results of operations presented in this quarterly report on Form 10-Q are not necessarily indicative of the results that may be expected for the year ending December 31, 2015, or for any other future periods.

Recent Accounting Standards

Recently Adopted Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-08, which includes amendments that change the requirements for reporting discontinued operations and require additional disclosures about discontinued operations. Under the new guidance, only disposals representing a strategic shift in operations - that is, a major effect on the organization's operations and financial results - should be presented as discontinued operations. Examples include a disposal of a major geographic area, a major line of business, or a major equity method investment. Additionally, this ASU requires expanded disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income, and expenses of discontinued operations. We adopted this guidance on January 1, 2015. The new guidance would only impact us upon the disposal of a business.

Recently Issued Accounting Pronouncements

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. In August 2015, the FASB issued ASU 2015-14, which defers the effective date of ASU 2014-09 for all

entities by one year. Accordingly, public business entities should apply the guidance in ASU 2014-09 to annual reporting periods (including interim periods within those periods)

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beginning after December 15, 2017. Early adoption is permitted but not before annual periods beginning after December 15, 2016. The standard permits the use of the retrospective or the modified approach method. We have not yet selected a transition method, and are currently in the process of evaluating the impact of adoption of this ASU on our 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 us in the first annual period ending after December 15, 2016, and interim periods within such year; however, early adoption is permitted. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, which provides a revised consolidation model for all reporting entities to use in evaluating whether they should consolidate certain legal entities. All legal entities will be subject to reevaluation under this revised consolidation model. The revised consolidation model, among other things, (i) modifies the evaluation of whether limited partnerships and similar legal entities are variable interest entities (VIEs) or voting interest entities, (ii) eliminates the presumption that a general partner should consolidate a limited partnership, and (iii) modifies the consolidation analysis of reporting entities that are involved with VIEs through fee arrangements and related party relationships. ASU 2015-2 is effective for fiscal years, and interim reporting periods within those fiscal years, beginning after September 1, 2016. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, which requires that all costs incurred to issue debt be presented in the balance sheet as a direct deduction from the carrying value of the debt, similar to the presentation of debt discounts. ASU 2015-03 is effective for public business entities for fiscal years beginning after December 15, 2015 and interim periods within those fiscal years, with early adoption permitted. We do not expect that the adoption of this standards update will have a material impact on our consolidated financial statements.

In August 2015, the FASB issued ASU No. 2015-15, which clarifies the treatment of debt issuance costs from line-of-credit arrangements after the adoption of ASU 2015-03. In particular, ASU 2015-15 clarifies that the SEC staff would not object to an entity deferring and presenting debt issuance costs related to a line-of-credit arrangement as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of such arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. We believe the adoption of ASU 2015-15 will not have a material impact on our consolidated financial statements.

In April 2015, the FASB issued ASU 2015-05, which provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The guidance will not change U.S. GAAP for a customer's accounting for service contracts. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

In June 2015, the FASB issued ASU 2015-10, which covers a wide range of topics in the codification. The amendments in this update represent changes to clarify the codification, correct unintended application of guidance, or make minor improvements to the codification that are not expected to have a significant effect on current accounting practice or create a significant administrative cost on most entities. We do not anticipate that the adoption of this standard will have a material impact on our consolidated financial statements and footnote disclosures.

In September 2015, the FASB issued ASU No. 2015-16 which requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. Prior to the issuance of the standard, entities were required to retrospectively apply adjustments made to provisional amounts recognized in a business combination. ASU 2015-16 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015, and early adoption is permitted. We do not expect that the adoption of this standards update will have a material impact on our consolidated financial

statements.

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3. Investments in Marketable Securities

The following is a summary of marketable securities, designated as available-for-sale, at September 30, 2015:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Certificate of deposits	\$14,880	\$11	\$9	\$14,882
Corporate notes and bonds	19,283	19	21	19,281
Total marketable securities	\$34,163	\$30	\$30	\$34,163

At September 30, 2015, we evaluated our marketable securities and determined unrealized losses were due to fluctuations in interest rates. We do not believe any of the unrealized losses represented an other-than-temporary impairment based on our evaluation of available evidence as of September 30, 2015. Our intent is to hold these investments to such time as these assets are no longer impaired. We view our available-for-sale securities as available to fund current operations.

The amortized cost and estimated fair value of the marketable debt securities at September 30, 2015, by maturity, are shown below:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale securities				
Due in one year or less	\$20,119	\$17	\$2	\$20,134
Due after one year and through five years	14,044	13	28	14,029
	\$34,163	\$30	\$30	\$34,163

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	—	1	1,497
Corporate notes and bonds	21,876	7	33	21,850
Convertible debt securities	1,000	—	—	1,000
Total marketable securities	\$35,414	\$9	\$66	\$35,357

The amortized cost and estimated fair value of the marketable debt securities at December 31, 2014, by maturity, are shown below:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale securities				
Due in one year or less	\$19,798	\$5	\$9	\$19,794
Due after one year and through five years	15,616	4	57	15,563
	\$35,414	\$9	\$66	\$35,357

4. Accounts Receivable, net

Accounts receivable, net include:

	September 30, 2015	December 31, 2014
Accounts receivable	\$28,865	\$24,456
Less: credit allowance	(460)	(380)
Less: allowance for doubtful accounts	(1,254)	(1,454)
Total accounts receivable, net	\$27,151	\$22,622

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5. Goodwill

We have recorded goodwill as a result of past 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 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 our market capitalization as of our annual impairment assessment date or each reporting date if circumstances indicate the goodwill might be impaired. Items that could reasonably be expected to negatively affect key assumptions used in estimating fair value include but are not limited to:

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

No interim indicators of impairment were identified as of September 30, 2015. Foreign currency translation adjustments decreased the carrying amount of goodwill for the three and nine months ended September 30, 2015, by \$285 and \$37, respectively.

6. Property and Equipment, net

Property and equipment, net include:

	September 30, 2015	December 31, 2014
Network equipment	\$ 139,047	\$ 127,962
Computer equipment and software	11,208	9,079
Furniture and fixtures	2,491	2,498
Leasehold improvements	5,440	5,262
Other equipment	173	186
Total property and equipment	158,359	144,987
Less: accumulated depreciation and amortization	(118,282)	(112,351)
Total property and equipment, net	\$ 40,077	\$ 32,636

Depreciation and amortization expense related to property and equipment classified in operating expense was \$445 and \$566 for the three months ended September 30, 2015 and 2014, respectively, and was \$1,322 and \$1,934 for the nine months ended September 30, 2015 and 2014, respectively.

7. Other Current Liabilities

Other current liabilities include:

	September 30, 2015	December 31, 2014
Accrued compensation and benefits	\$ 5,980	\$ 5,266
Accrued cost of revenue	2,983	2,031
Deferred rent	923	1,277
Accrued legal fees	62	1,292
Other accrued expenses	3,024	4,517
Total other current liabilities	\$ 12,972	\$ 14,383

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8. Other Long Term Liabilities

Other long term liabilities include:

	September 30, 2015	December 31, 2014
Deferred rent	\$1,934	\$2,511
Income taxes payable	420	529
Total other long term liabilities	\$2,354	\$3,040

9. Contingencies

Legal Matters

Akamai Litigation

In June 2006, Akamai Technologies, Inc. (Akamai) and the Massachusetts Institute of Technology (MIT) filed a lawsuit against us in the United States District Court for the District of Massachusetts alleging that we were infringing two patents assigned to MIT and exclusively licensed by MIT to Akamai, United States Patent No. 6,553,413 (the '413 patent) and United States Patent No. 6,108,703 (the '703 patent). In September 2006, Akamai and MIT expanded their claims to assert infringement of a third patent United States Patent No. 7,103,645 (the '645 patent). Before trial, Akamai waived by stipulation its claims of indirect or induced infringement and proceeded to trial only on the theory of direct infringement. In February 2008, a jury returned a verdict in this lawsuit, finding that 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 prejudgment interest, which we estimated to be \$2,600 at December 31, 2007. We recorded an aggregate \$48,100 as a provision for litigation as of December 31, 2007. During 2008, we recorded a potential additional provision of approximately \$17,500 for potential additional infringement damages and interest. The total provision for litigation at December 31, 2008 was \$65,600.

On July 1, 2008, the District Court denied our Motions for Judgment as a Matter of Law (JMOL), Obviousness, and a New Trial. The District Court also denied Akamai's Motion for Permanent Injunction as premature and its Motions for Summary Judgment regarding our equitable defenses. The District Court conducted a bench trial in November 2008 regarding our equitable defenses. We also filed a motion for reconsideration of the District Court's earlier denial of our motion for JMOL. Our motion for JMOL was based largely upon a clarification in the standard for a finding of joint infringement articulated by the United States Court of Appeals for the Federal Circuit in the case of *Muniauction, Inc. v. Thomson Corp.*, released after the District Court denied our initial motion for JMOL. On April 24, 2009, the District 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 District 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 District Court entered final judgment in our favor on May 22, 2009, and Akamai filed its notice of appeal of the District Court's decision on May 26, 2009. On December 20, 2010, the United States Court of Appeals for the Federal Circuit issued its opinion affirming the District Court's entry of judgment in our favor. On February 18, 2011, Akamai filed a motion with the Federal Circuit seeking a rehearing and rehearing en banc. On April 21, 2011, the Federal Circuit issued an order denying the petition for rehearing, granting the petition for rehearing en banc, vacating the December 20, 2010 opinion affirming the District Court's entry of judgment in our favor, and reinstated the appeal.

On August 31, 2012, the Federal Circuit issued its opinion in the case. The Federal Circuit stated that the District Court correctly determined that we did not directly infringe Akamai's '703 patent and upheld the District Court's decision to vacate the original jury's damages award. The Federal Circuit 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 District 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 Federal Circuit's 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 Federal Circuit 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.

Following the Supreme Court decision, 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

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panel for further proceedings. The Federal Circuit heard arguments on September 11, 2014, and on May 13, 2015, the Federal Circuit issued its opinion in the case, holding that we did not infringe Akamai's '703 patent. On June 12, 2015, Akamai filed a motion with the Federal Circuit seeking a rehearing en banc. On August 13, 2015, the Federal Circuit reversed its earlier decisions in our favor and reinstated the 2008 jury verdict holding us liable for direct infringement of the '703 patent. As a result of this reversal and due to the complexity of the remaining matters outstanding and the procedural status of the case, we believe a loss is reasonably possible, but not probable. If the ultimate outcome were to be unfavorable, we have estimated the loss could be up to \$76,000. We intend to continue vigorously defending our position in this ongoing dispute. As of September 30, 2015, we have not recorded a provision for a loss contingency related to this allegation in our consolidated financial statements.

Legal and other expenses associated with this case have been significant. We include these litigation expenses in general and administrative expenses as incurred, as reported in the consolidated statement of operations.

Other Litigation

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

Other Matters

We are subject to indirect taxation in various states and foreign jurisdictions. Laws and regulations that apply to communications and commerce conducted over the Internet are becoming more prevalent, both in the United States and internationally, and may impose additional burdens on us conducting business online or providing Internet-related services. 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 in various states and abroad may impose taxes on the Internet-related revenue we generate based on regulations currently being applied to similar but not directly comparable industries.

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

10. Net Loss per Share

We calculate basic and diluted earnings per weighted average share based on net loss. We use the weighted-average number of shares of common stock outstanding during the period for the computation of basic earnings per share. Diluted earnings per share includes the dilutive effect of all potentially dilutive common stock, including awards granted under our equity incentive compensation plans in the weighted-average number of shares of common stock outstanding.

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Loss from continuing operations	\$(7,762	) \$(5,071	) \$(19,807	) \$(19,849
(Loss) income from discontinued operations	\$—	) \$(4	) \$—	) \$265
Net loss	\$(7,762	) \$(5,075	) \$(19,807	) \$(19,584
Basic and diluted weighted average outstanding shares of common stock	100,552	98,458	99,676	98,274
Basic and diluted net loss per share:				
Continuing operations	\$(0.08	) \$(0.05	) \$(0.20	) \$(0.20
Discontinued operations	—	—	—	—
Total	\$(0.08	) \$(0.05	) \$(0.20	) \$(0.20

For the three months ended September 30, 2015 and 2014, potentially dilutive common stock, including awards granted under our equity incentive compensation plans of 3,597 (stock options 1,333, restricted stock units 1,760, employee stock purchase plan 504) and 2,593 (stock options 748, restricted stock units 1,738, employee stock purchase plan 107), respectively, were excluded from the computation of diluted net loss per share because including them would have been anti-dilutive.

For the nine months ended September 30, 2015 and 2014, potentially dilutive common stock, including awards granted under our equity incentive compensation plans of 5,065 (stock options 1,843, restricted stock units 2,718, employee stock purchase plan 504) and 2,323 (stock options 653, restricted stock units 1,563, employee stock purchase plan 107), respectively, were excluded from the computation of diluted net loss per share because including them would have been anti-dilutive.

11. Stockholders' Equity

Common Stock

On February 12, 2014, our board of directors authorized a \$15,000 share repurchase program. Under this authorization, we may repurchase shares periodically in the open market or through privately negotiated transactions, in accordance with applicable securities rules regarding issuer repurchases. We did not purchase any shares during the three months ended September 30, 2015. During the nine months ended September 30, 2015, we purchased and canceled 293 shares for \$818, including commissions and expenses. During the three and nine months ended September 30, 2014, we purchased and canceled approximately 447 and 947 shares, respectively, for approximately \$1,267 and \$2,500, respectively, including commissions and expenses. All repurchased shares were canceled and returned to authorized but unissued status.

Employee Stock Purchase Plan

In June 2013, our stockholders approved our 2013 Employee Stock Purchase Plan (ESPP). The ESPP allows participants to purchase our common stock at a 15% discount of the lower of the beginning or end of the offering period using the closing price on that day. We did not issue any shares under the ESPP during the three months ended September 30, 2015. During the nine months ended September 30, 2015, we issued 202 shares under the ESPP. Total cash proceeds from the purchase of shares under the ESPP was approximately \$451. As of September 30, 2015, shares reserved for issuance to employees under this plan totaled 3,394, and we held employee contributions of \$817 (included in other current liabilities) for future purchases under the ESPP.

12. Accumulated Other Comprehensive Loss

Changes in the components of accumulated other comprehensive loss, net of tax, for the nine months ended September 30, 2015, was as follows:

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	Foreign Currency		Unrealized Gains (Losses) on Available for Sale Securities	Total		
Balance, December 31, 2014	\$(7,743	)	\$(43	)	\$(7,786)
Other comprehensive (loss) income before reclassifications	(3,184	)	58		(3,126)
Amounts reclassified from accumulated other comprehensive income (loss)	—		—		—	
Net current period other comprehensive (loss) income	(3,184	)	58		(3,126)
Balance, September 30, 2015	\$(10,927	)	\$15		\$(10,912)

13. Share-Based Compensation

The following table summarizes the components of share-based compensation expense included in our consolidated statement of operations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Share-based compensation expense by type:				
Stock options	\$952	\$1,120	\$3,165	\$3,545
Restricted stock units	1,860	1,426	5,830	4,127
ESPP	312	41	478	128
Total share-based compensation expense	\$3,124	\$2,587	\$9,473	\$7,800
Share-based compensation expense included in the consolidated statements of operations:				
Cost of services	\$400	\$464	\$1,484	\$1,466
General and administrative expense	1,513	1,174	4,395	3,539
Sales and marketing expense	643	567	1,940	1,693
Research and development expense	568	382	1,654	1,102
Total share-based compensation expense	\$3,124	\$2,587	\$9,473	\$7,800

Unrecognized share-based compensation expense totaled approximately \$21,055 at September 30, 2015, of which \$6,480 related to stock options and \$14,575 related to restricted stock awards. We currently expect to recognize share-based compensation expense of \$2,882 during the remainder of 2015, \$10,047 in 2016 and the remainder thereafter based on scheduled vesting of the stock options and restricted stock units outstanding at September 30, 2015.

14. Leases and Commitments

Operating Leases

We are committed to various non-cancellable operating leases for office space and office equipment that expire through 2022. Certain leases contain provisions for renewal options and rent escalations upon expiration of the initial lease terms. Approximate future minimum lease payments over the remaining lease periods as of September 30, 2015, are as follows:

Remainder of 2015	\$1,084
2016	3,817
2017	3,057
2018	2,841
2019	1,151
Thereafter	604
Total minimum payments	\$12,554

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Purchase Commitments

We have long-term commitments for bandwidth usage and co-location with various networks and Internet service providers (ISPs).

The following summarizes minimum commitments as of September 30, 2015:

Remainder of 2015	\$12,127
2016	22,187
2017	6,030
2018	2,204
2019	715
Thereafter	78
Total minimum payments	\$43,341

Capital Leases

We leased equipment under capital lease agreements that extended through 2017. The outstanding balance for capital leases was \$358 as of December 31, 2014. In March 2015, we paid \$323, which represented the outstanding balance of our capital lease obligations. As of September 30, 2015, we had no outstanding capital lease obligations. Interest expense for all periods presented was immaterial.

15. Concentrations

During the three and nine months ended September 30, 2015 and 2014, we had no customer who represented 10% or more of our total revenue.

Revenue from customers located within the United States, our country of domicile, was \$22,997 for the three months ended September 30, 2015, compared to \$21,536 for the three months ended September 30, 2014. For the nine months ended September 30, 2015, revenue from customers located within the United States was \$74,269, compared to \$70,820 for the nine months ended September 30, 2014.

During the three and nine months ended September 30, 2015 and 2014, we had two countries, based on customer location, the United States and Japan, that accounted for 10% or more of our total revenues.

16. Income Taxes

Income taxes for the interim periods presented have been included in the accompanying consolidated financial statements on the basis of an estimated annual effective tax rate. Based on an estimated annual effective tax rate and discrete items, income tax expense for the three months ended September 30, 2015 and 2014, was \$76 and \$98, respectively. For the nine months ended September 30, 2015 and 2014, income tax expense was \$221 and \$181, respectively. Income tax expense was different than the statutory income tax rate primarily due to us providing for a valuation allowance on deferred tax assets in certain jurisdictions, and the recording of state and foreign tax expense for the three and nine month periods.

We file income tax returns in jurisdictions with varying statutes of limitations. Tax years 2012 through 2014 remain subject to examination by federal tax authorities. Tax years 2011 through 2014 generally remain subject to examination by state tax authorities. As of September 30, 2015, our 2012 federal income tax return is under audit. As of September 30, 2015 we are not under any state examination for income taxes.

17. Segment Reporting and Geographic Areas

Our chief operating decision maker (whom is our Chief Executive Officer) reviews the financial information presented on a consolidated basis for purposes of allocating resources and evaluating our financial performance. We operate in one industry segment — content delivery and related services. We operate in three geographic areas — Americas, Europe, Middle East and Africa (EMEA) and Asia Pacific.

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

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	Three Months Ended September 30,				Nine Months Ended September 30,							
	2015		2014		2015		2014					
Americas	\$24,541	58.4	%	\$23,553	60.4	%	\$78,768	61.5	%	\$76,757	63.2	%
EMEA	7,914	18.8	%	8,368	21.4	%	23,490	18.3	%	25,732	21.2	%
Asia Pacific	9,594	22.8	%	7,099	18.2	%	25,915	20.2	%	19,044	15.7	%
Total revenue	\$42,049	100.0	%	\$39,020	100.0	%	\$128,173	100.0	%	\$121,533	100.0	%

The following table sets forth long-lived assets by geographic area in which the assets are located:

	September 30, 2015	December 31, 2014
Americas	\$24,569	\$22,505
International	15,978	11,202
Total long-lived assets	\$40,547	\$33,707

18. Fair Value Measurements

As of September 30, 2015, and December 31, 2014, we held certain assets and liabilities that were required to be measured at fair value on a recurring basis.

The following is a summary of fair value measurements at September 30, 2015:

Description	Total	Fair Value Measurements at Reporting Date Using		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Money market funds (2)	\$514	\$514	\$—	\$—
Corporate notes and bonds (1)	19,281	—	19,281	—
Certificate of deposit (1)	14,882	—	14,882	—
Total assets measured at fair value	\$34,677	\$514	\$34,163	\$—

(1) Classified in marketable securities

(2) Classified in cash and cash equivalents

The following is a summary of fair value measurements at December 31, 2014:

Description	Total	Fair Value Measurements at Reporting Date Using		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Money market funds (2)	\$57	\$57	\$—	\$—
Corporate notes and bonds (1)	21,850	—	21,850	—
Commercial paper (1)	1,497	—	1,497	—
Certificate of deposit (1)	11,010	—	11,010	—
Convertible debt security (1)	1,000	—	—	1,000
Total assets measured at fair value	\$35,414	\$57	\$34,357	\$1,000

(1) Classified in marketable securities

(2) Classified in cash and cash equivalents

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During the nine months ended September 30, 2015, a \$1,000 convertible debt security, classified as Level 3 in the fair value hierarchy as of December 31, 2014, was converted into preferred shares of the issuing entity. As a result of the conversion, we recognized \$275 in gain, related to a beneficial conversion feature, which is included in other income (expense) in our statement of operations for the nine months ended September 30, 2015. After conversion, at September 30, 2015, the investment is carried at cost of \$1,275 and is evaluated for impairment quarterly or when events or changes in circumstances indicate the carrying value of the investment may exceed its fair value. We did not estimate the fair value of the investment because we did not identify any events or circumstances that would have a significant adverse effect on the fair value of the investment. Determining fair value is not practicable because the preferred shares are not publicly traded and information necessary to determine fair value is not available. The cost basis investment was reclassified to, and is included in, other assets in our consolidated balance sheet, and is no longer subject to fair value measurement disclosures and was accordingly transferred out of Level 3.

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

19. Subsequent Events

In October 2015, our board of directors approved a restructuring and reduction in force plan of 44 employees, or approximately 8% of our global workforce. We estimate that we will incur restructuring charges in the quarter ended December 31, 2015 of approximately \$1,000, comprised of the write-off of intangible assets of \$500 and cash payments for severance costs of approximately \$500.

On November 2, 2015, we entered into a Credit Agreement with Silicon Valley Bank (SVB). The Credit Agreement provides for revolving credit borrowings up to a maximum principal amount of \$25,000. We are subject to a borrowing base calculation to determine the amount available to us. Our borrowing capacity is the lesser of the commitment amount or 80% of eligible accounts receivable. All outstanding borrowings owed under the Credit Agreement become due and payable no later than the final maturity date of November 2, 2017.

Borrowings under the Credit Agreement bear interest at our option of one, two, three or six-month LIBOR plus a margin of 2.75% or an Alternative Base Rate (ABR), which is defined as the higher of (a) Wall Street Journal prime rate or (b) Federal Funds Rate plus 0.50%, plus a margin of 0.50% or 1.50% depending on our minimum liquidity, as defined in the Credit Agreement. If we fall below a minimum liquidity of \$17,500, we are required to use the ABR interest rate. We incurred a commitment fee of 0.25% upon entering into the Credit Agreement and 0.20% to be paid on the one year anniversary of closing. In addition, there is an unused line fee of 0.375% if our minimum liquidity is greater than \$17,500. If our minimum liquidity falls below \$17,500, the unused line fee is 0.250%.

Any borrowings are secured by essentially all of our domestic personal property, with a negative pledge on intellectual property. SVB's security interest in our foreign subsidiaries is limited to 65% of voting stock of each such foreign subsidiary.

We are required to comply with various financial covenants under the Credit Agreement. Specifically, we are required to maintain a minimum tangible net worth, as defined in the Credit Agreement. In addition, we have a maximum unfinanced capital expenditures amount of \$30,000 for 2015 and \$25,000 per annum thereafter.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read together with our consolidated financial statements and related notes included in Part I, Item 1 of this Quarterly Report on Form 10-Q, as well as the audited consolidated financial statements and notes thereto and management's discussion and analysis of financial condition and results of operations for the year ended December 31, 2014, included in Part II of our annual report on Form 10-K filed with the SEC, on February 17, 2015.

Prior period information has been modified to conform to current year presentation. All information in this Item 2 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 security, and cloud storage services.

We derive revenue primarily from the sale of components of the Orchestrate Platform. Our delivery services represented approximately 77% of our total revenue during the three and nine months ended September 30, 2015. 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 outpace declining average selling prices in the industry.

On August 13, 2015, the Federal Circuit reversed its earlier decisions in our favor and reinstated the 2008 jury verdict holding us liable for direct infringement of the '703 patent. As a result of this reversal and due to the complexity of the remaining matters outstanding and the procedural status of the case, we believe a loss is reasonably possible, but not probable. If the ultimate outcome were to be unfavorable, we have estimated the loss could be up to \$76,000. Please refer to Note 9 "Contingencies" of the Notes to Consolidated Financial Statements included in Part I of this Quarterly Report on Form 10-Q.

In October 2015, our board of directors approved a restructuring and reduction in force plan of 44 employees, or approximately 8% of our global workforce. The restructuring is part of an overall plan to create a more efficient, competitive and profitable company. We intend to reinvest the savings from the restructuring in our strategic priorities to drive growth. We estimate that we will incur restructuring charges in the quarter ended December 31, 2015 of approximately \$1,000, comprised of the write-off of intangible assets of \$500 and cash payments for severance costs of approximately \$500.

On November 2, 2015, we entered into a Credit Agreement with Silicon Valley Bank (SVB). The Credit Agreement provides for revolving credit borrowings up to a maximum principal amount of \$25,000. This Credit Agreement will provide additional liquidity as we continue to execute our growth strategy through innovative product development and select global market expansion.

We operate 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. Although during the three and nine months ended September 30, 2015 and 2014, we had no customer who represented 10% or more of our total revenue, changes in revenue are driven by a small subset of large customers who have low contractually committed obligations.

In addition to these revenue-related trends, our profitability is impacted by trends in our costs of services and operating expenses. We continue to work 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 520 at December 31, 2014, to 556 as of September 30, 2015, primarily in our research and development and sales organizations. Following our reduction in force in October 2015, we have approximately 512 employees.

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The following table summarizes our revenue, costs and expenses in thousands of dollars and as a percentage of total revenue.

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2015		2014		2015		2014	
Revenues	\$42,049	100.0 %	\$39,020	100.0 %	\$128,173	100.0 %	\$121,533	