

Limelight Networks, Inc.
Form 10-Q
August 14, 2007

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q**

(Mark One)

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

For the quarterly period ended June 30, 2007

OR

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

For the transition period from to

**Commission file number 001-33508
Limelight Networks, Inc.**

(Exact name of registrant as specified in its charter)

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

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

**2220 W. 14th Street
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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer Accelerated filer Non-accelerated filer

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

The number of shares outstanding of the registrant's common stock as of August 6, 2007: 82,043,189 shares.

LIMELIGHT NETWORKS, INC.
FORM 10-Q
Quarterly Period Ended June 30, 2007
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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements**

LIMELIGHT NETWORKS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	June 30, 2007 (Unaudited)	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 159,103	\$ 7,611
Marketable securities	28,576	
Accounts receivable, net of reserves of \$1,743 at June 30, 2007 and \$1,204 at December 31, 2006, respectively	19,722	16,626
Income taxes receivable	3,833	3,317
Deferred income taxes	1,294	362
Prepaid expenses and other current assets	5,365	3,011
Total current assets:	217,893	30,927
Property and equipment, net	46,124	41,784
Marketable securities, less current portion	103	285
Deferred income taxes	50	173
Other assets	1,304	759
Total assets	\$ 265,474	\$ 73,928
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 8,510	\$ 6,419
Accounts payable, related parties	19	781
Deferred revenue, current portion	3,232	197
Credit facilities, current portion		2,938
Capital lease obligations, current portion		245
Other current liabilities	12,015	6,314
Total current liabilities:	23,776	16,894
Deferred revenue, less current portion	598	
Credit facilities, less current portion (net of discount of \$-0- and \$470 at June 30, 2007 and December 31, 2006, respectively)		20,410
Capital lease obligations, less current portion		5
Other long-term liabilities	30	30
Total liabilities:	24,404	37,339
Commitments and contingencies		
Stockholders' equity:		

Series A convertible preferred stock, \$0.001 par value; 6,921 shares authorized; 0 and 5,070 shares issued and outstanding at June 30, 2007 and December 31, 2006, respectively, (liquidation preference: \$733 at December 31, 2006)			5
Series B convertible preferred stock, \$0.001 par value; 43,050 shares authorized; 0 and 39,870 shares issued and outstanding at June 30, 2007 and December 31, 2006, respectively, (liquidation preference: \$260,000 at December 31, 2006)			40
Convertible preferred stock, \$0.001 par value; 7,500 shares authorized; 0 shares issued and outstanding at June 30, 2007 and December 31, 2006, respectively			
Common stock, \$0.001 par value; 150,000 and 120,150 shares authorized at June 30, 2007 and December 31, 2006, respectively; 82,043 and 21,832 shares issued and outstanding at June 30, 2007 and December 31, 2006, respectively	82		22
Additional paid-in capital	261,169		41,689
Accumulated other comprehensive loss	(229)		(113)
Accumulated deficit	(19,952)		(5,054)
Total stockholders' equity	241,070		36,589
Total liabilities and stockholders' equity	\$ 265,474	\$	73,928

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

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2007	2006	2007	2006
Revenues	\$ 21,213	\$ 14,841	\$ 44,089	\$ 25,679
Cost of revenue:				
Cost of services	9,815	5,231	19,624	9,038
Depreciation network	5,020	2,035	9,708	3,508
Total cost of revenue	14,835	7,266	29,332	12,546
Gross Margin	6,378	7,575	14,757	13,133
Operating expenses:				
General and administrative	9,046	2,231	17,182	3,802
Sales and marketing	6,404	1,497	9,422	2,531
Research and development	1,541	437	2,826	758
Depreciation and amortization	174	44	311	72
Total operating expenses	17,165	4,209	29,741	7,163
Operating (loss) income	(10,787)	3,366	(14,984)	5,970
Other income (expense):				
Interest expense	(855)	(519)	(1,440)	(1,024)
Interest income	573		662	
Total other (expense) income	(282)	(519)	(778)	(1,024)
(Loss) income before income taxes	(11,069)	2,847	(15,762)	4,946
Income tax (benefit) expense	(606)	1,125	(864)	1,954
Net (loss) income	\$ (10,463)	\$ 1,722	\$ (14,898)	\$ 2,992
Net (loss) income allocable to common stockholders	\$ (10,463)	\$ 1,722	\$ (14,898)	\$ 2,967
Net (loss) income per weighted average share:				
Basic	\$ (0.23)	\$ 0.05	\$ (0.44)	\$ 0.09
Diluted	\$ (0.23)	\$ 0.04	\$ (0.44)	\$ 0.07

Shares used in per weighted average share calculations:

Basic	45,702	31,648	33,794	33,418
Diluted	45,702	39,606	33,794	41,279

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

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LIMELIGHT NETWORKS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	For the	
	Six Months Ended	
	June 30,	
	2007	2006
	(Unaudited)	
Cash flows from operating activities:		
Net (loss) income	\$ (14,898)	\$ 2,992
Adjustments to reconcile net (loss) income to net cash provided (used in) by operating activities:		
Depreciation and amortization	10,019	3,580
Share-based compensation	12,218	341
Deferred income tax benefit	(727)	
Accounts receivable charges	1,847	177
Accretion of debt discount	470	36
Changes in operating assets and liabilities:		
Accounts receivable	(4,943)	(5,124)
Prepaid expenses and other current assets	(2,354)	(664)
Income taxes receivable	(516)	
Other assets	(545)	(236)
Accounts payable	(3,712)	1,014
Accounts payable, related parties	(762)	596
Deferred revenue and other current liabilities	9,667	1,945
Net cash provided by operating activities	5,764	4,657
Cash flows from investing activities:		
Purchase of marketable securities	(28,589)	
Purchases of property and equipment	(8,556)	(10,432)
Net cash used in investing activities	(37,145)	(10,432)
Cash flows from financing activities:		
Borrowings on credit facilities		6,555
Payments on credit facilities	(23,818)	(498)
Borrowings on line of credit	1,500	
Payments on line of credit	(1,500)	
Payments on capital lease obligations	(250)	(99)
Payments on notes payable related parties		(195)
Escrow funds returned from share repurchase	2,389	
Tax benefit from share-based compensation	23	
Proceeds from exercise of stock options	31	46
Proceeds from initial public offering, net of issuance costs	204,498	
Net cash provided by financing activities	182,873	5,809

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Net increase in cash and cash equivalents	151,492	34
Cash and cash equivalents at beginning of period	7,611	1,536
Cash and cash equivalents at end of period	\$ 159,103	\$ 1,570
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 1,013	\$ 822
Cash paid for income taxes	\$ 357	\$ 1,780
Property and equipment purchases remaining in accounts payable	\$ 5,803	\$

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

Table of Contents**LIMELIGHT NETWORKS, INC.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****1. Nature of Business**

Limelight Networks, Inc (the Company) is a provider of high-performance content delivery network services. The Company delivers content for traditional and emerging media companies, or content providers, including businesses operating in the television, music, radio, newspaper, magazine, movie, videogame and software industries. The Company was formed in June 2001 as an Arizona limited liability company, Limelight Networks, LLC, and converted into a Delaware corporation, Limelight Networks, Inc. in August 2003. The Company has operated in the Phoenix metropolitan area since 2001 and elsewhere throughout the United States since 2003. The Company began international operations in 2004.

2. Summary of Significant Accounting Policies and Use of Estimates***Basis of Presentation***

The condensed consolidated financial statements include accounts of the Company and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated. The accompanying condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) and pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). The accompanying interim condensed consolidated balance sheet as of June 30, 2007, the condensed consolidated statements of operations for the three months and six months ended June 30, 2007 and 2006, and the condensed consolidated statements of cash flows for the six months ended June 30, 2007 and 2006, are unaudited. The condensed consolidated balance sheet information as of December 31, 2006, is derived from the audited consolidated financial statements included in the Company's final Prospectus, related to the Company's initial public offering (IPO) of common stock. The consolidated financial information contained on this Form 10-Q should be read in conjunction with the audited consolidated financial statements and related notes contained in the final Prospectus dated June 7, 2007.

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 future periods. In the opinion of management, these unaudited condensed consolidated financial statements include all adjustments of a normal recurring nature that, are necessary in the opinion of management, to present fairly the results of all interim periods reported herein.

Revenue Recognition

The Company recognizes service revenues in accordance with the Securities and Exchange Commission's Staff Accounting Bulletin No. 104, *Revenue Recognition*, and the Financial Accounting Standards Board's (FASB) Emerging Issues Task Force Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables*. Revenue is recognized when the price is fixed or determinable, persuasive evidence of an arrangement exists, the service is performed and collectibility of the resulting receivable is reasonably assured.

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 for all of that customer's unpaid invoices and ceases recognizing revenue for continued services provided until cash is received.

The Company primarily derives revenue from the sale of content delivery services to customers executing contracts having terms of one year or longer. These contracts generally commit the customer to a minimum monthly level of usage on a calendar month basis and provide the rate at which the customer must pay for actual usage above the monthly minimum. For these services, 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, the Company recognizes revenue for such excess in the period of the usage. The Company typically charges the customer an installation fee when the services are first activated. The installation fees are recorded as deferred revenue and recognized as revenue ratably over the estimated life of the customer arrangement. The Company also derives revenue from services 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.

The Company periodically enters into multi-element arrangements. When the Company enters into such arrangements, each element is accounted for separately over its respective service period or at the time of delivery, provided that there is objective evidence of fair value for the separate elements. Objective evidence of fair value includes the price charged for the element when sold separately. If the fair value of each element cannot be objectively determined, the total value of the arrangement is recognized ratably over the entire service period to the extent that all services have begun to be provided, and other revenue recognition criteria has been satisfied.

The Company has entered a multi-element arrangement which includes a significant software component. In accounting for such an arrangement

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the Company applies the provisions of Statement of Position, 97-2, (SOP 97-2) *Software Revenue Recognition*, as amended by SOP 98-9, Modifications of SOP 97-2, *Software Revenue Recognition, With Respect to Certain Transactions*. The Company recognizes software license revenue when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collection of the receivable is probable. If a software license contains an undelivered element, the vendor-specific objective evidence (VSOE) of fair value of the undelivered element is deferred and the revenue recognized once the element is delivered. The undelivered elements are primarily software support and professional services. VSOE of fair value of software support and professional services is based upon hourly rates or fixed fees charged when those services are sold separately. If VSOE cannot be established for all elements to be delivered, the Company defers all amounts received under the arrangement and does not begin to recognize revenue until the delivery of the last element of the contract has started. Subsequent to commencement of delivery of the last element, the Company commences revenue recognition. Amounts to be received under the contract are then included in the amortizable base and then recognized as revenue ratably over the remaining term of the arrangement until the Company has delivered all elements and has no additional performance obligations.

The Company recently entered into a multi-element arrangement to provide consulting services related to the development of a Custom CDN solution, the cross-license of certain technologies, including certain components of the Company's CDN software and technology, and post-contract customer support (PCS) for both the custom CDN-solution and the software component (the Multi-Element Arrangement). The agreement also contains a commitment by the customer to transmit a certain amount of traffic over the Company's network during a 5 year period from commencement of the agreement or be subject to penalty payments.

The Company does not have VSOE of fair value to allocate the fee to the separate elements of the Multi-Element Arrangement as it has not sold the intellectual property and software components, nor PCS separately. Accordingly the Company will recognize the revenues related to the professional services, license and PCS ratably over the four-year period over which the PCS has been contracted as allowed for by paragraph 12 of SOP 97-2. Because delivery of the license and PCS elements of this arrangement had not occurred at June 30, 2007, revenue on all services provided to this customer during the three months ended June 30, 2007, including the on-going content delivery services, and the direct incremental costs incurred associated with these revenues, have been deferred until such time as delivery occurs and PCS has commenced. For the quarter ended June 30, 2007, the Company deferred \$0.8 million in custom CDN consulting services revenue and related direct costs of \$0.3 million. The \$0.8 million of deferred consulting services revenue and related costs will be amortized over the remaining 44 months of the contractual term.

Concurrently, with the signing of the Multi-Element Arrangement, the Company also extended and amended a content delivery contract entered into originally in 2005. The arrangement for transmitting content is not a required element of the new software and node development project commencing under the Multi-Element Arrangement. The Company will continue to receive payments on a usage basis under the content delivery contract. Given that the services are priced at market rates and subject to regular adjustments and are cancelable with 30 days notice, the amount of revenue and pricing is considered variable and contingent until services are delivered. As such, the Company has attributed revenue for the service as one that is contingent and becomes measurable as the services are delivered under the terms of the content delivery contract. Accordingly, the Company will record revenue on a monthly basis in an amount based upon usage. Since the content delivery agreement was amended concurrently with the Multi-Element Arrangement the Company has deferred revenue recognition until commencement of delivery of the last element of the Multi-Element Arrangement which has been determined to be July 27, 2007. For the quarter ended June 30, 2007, \$2.6 million in revenue and \$0.9 million in related costs have been deferred and will be recognized entirely in the third quarter of 2007 as customer acceptance occurred on July 27, 2007 related to the content delivered to the this customer under this agreement.

The Company also sells services through a reseller channel. Assuming all other revenue recognition criteria are met, revenue from reseller arrangements is recognized over the term of the contract, based on the reseller's contracted non-refundable minimum purchase commitments plus amounts sold by the reseller to its customers in excess of the minimum commitments. These excess commitments are recognized as revenue in the period in which the service is

provided. The Company records revenue under these agreements on a net or gross basis depending upon the terms of the arrangement in accordance with EITF 99-19 *Recording Revenue Gross as a Principal Versus Net as an Agent*. The Company typically records revenue gross when it has risk of loss, latitude in establishing price, credit risk and is the primary obligor in the arrangement.

From time to time, the Company enters into contracts to sell services to unrelated companies at or about the same time the Company enters into contracts to purchase products or services from the same companies. If the Company concludes that these contracts were negotiated concurrently, the Company records as revenue only the net cash received from the vendor. For certain non-cash arrangements whereby the Company provides rack space and bandwidth services to several companies in exchange for advertising the Company records barter revenue and expense if the services are objectively measurable. The various types of advertising include radio, Website, print and signage. The Company recorded barter revenue and expense of approximately \$230,000 and \$180,000, for the three month period ended June 30, 2007 and 2006, and approximately \$452,000, and \$292,000 for the six month period ended June 30, 2007, and 2006, respectively.

The Company may from time to time resell licenses or services of third parties. Revenue for these transactions is recorded when the Company has risk of loss related to the amounts purchased from the third party and the Company adds value to the license or service, such as by providing maintenance or support for such license or service. If these conditions are present, the Company recognizes revenue when all other revenue recognition criteria are satisfied.

Cash and Cash Equivalents

The Company holds its cash and cash equivalents in checking, money market, and investment accounts with high credit quality financial instruments. The Company considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

Investments in Marketable Securities

The Company accounts for its investments in equity securities under FASB's Statement of Financial Accounting Standards (SFAS) No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. Management determines the appropriate classification of such securities at the time of purchase and reevaluates such classification as of each balance sheet date. Realized gains and losses and declines in value judged to be other than temporary are determined based on the specific identification method and would be reported in the statements of operations; there have been no such realized losses.

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

The following is a summary of available-for-sale securities at June 30, 2007 (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Government agency bonds	\$ 11,951	\$	\$ (2)	\$ 11,949
Commercial paper	6,715	1		6,716
Corporate notes and bonds	9,921	5	(15)	9,911
Total available-for-sale debt securities	28,587	6	(17)	28,576
Publicly traded common stock	472		(369)	103
Total available-for-sale securities	\$ 29,059	\$ 6	\$ (386)	\$ 28,679

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

The amortized cost and estimated fair value of the available-for-sale debt securities at June 30, 2007, by maturity, are shown below (in thousands).

	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale debt securities				
Due in one year or less	\$ 14,645	\$ 1	\$ (8)	\$ 14,638
Due after one year and through five years	13,942	5	(9)	13,938
Due after five years and through ten years				
Due after ten years				
	\$ 28,587	\$ 6	\$ (17)	\$ 28,576

During the three and six month periods ended June 30, 2007, the Company did not have any gross realized gains or losses on sales of available-for-sale securities.

3. Other Current Liabilities

Other current liabilities consist of the following (in thousands)

	As of June 30, 2007	As of December 31, 2006
Accrued cost of revenue	\$ 2,574	\$ 845
Accrued compensation and benefits	1,232	675
Non income taxes payable	3,923	3,549
Proceeds from early exercise of stock options		610
Other accrued expenses	4,286	635
Total other current liabilities	\$ 12,015	\$ 6,314

4. Initial Public Offering (IPO)

On June 8, 2007, the Company completed an initial public offering of its common stock in which the Company sold and issued 14,900,000 shares of its common stock and selling stockholders sold 3,500,000 shares of the Company's common stock, in each case at a price to the public of \$15.00 per share. The common shares began trading on the NASDAQ Global Market on June 8, 2007. The Company raised a total of \$223.5 million in gross proceeds from the IPO, or approximately \$204.5 million in net proceeds after deducting underwriting discounts and commissions of approximately \$15.6 million and other offering costs of approximately \$3.4 million. On June 14, 2007, approximately, \$23.8 million of the net proceeds were used to repay in full the outstanding balance of the Company's equipment financing facility.

5. Net Income (Loss) Per Share

Basic net income (loss) per share attributed to common stockholders is computed by dividing the net income (loss) allocable to common stockholders for the period by the weighted average number of common shares outstanding during the period as reduced by the weighted average unvested restricted shares subject to cancellation by the Company.

Diluted net income (loss) per share attributed to common stockholders is computed by dividing the net income (loss) allocable to common stockholders for the period by the weighted average number of common and potential common shares outstanding during the period, if the effect of each class of potential common shares is dilutive. Potential common shares include restricted common stock and incremental shares of common stock issuable upon the exercise of stock options and warrants using the treasury stock method.

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2007	2006	2007	2006
Numerator:				
Net (loss) income	\$ (10,463)	\$ 1,722	\$ (14,898)	\$ 2,992
Preferred dividend rights				25
Net (loss) income allocable to common stockholders	\$ (10,463)	\$ 1,722	\$ (14,898)	\$ 2,967
Denominator:				
Weighted average common shares	45,702	31,648	33,794	33,418
Less: Weighted-average unvested common shares subject to repurchase				
Denominator for basic net (loss) income per share	45,702	31,648	33,794	33,418
Dilutive effect of stock options and shares subject to repurchase		2,848		