Limelight Networks, Inc.
Form 10-K
March 02, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2011

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, 8th Floor

Tempe, AZ 85281

(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	**Name of each exchange on which registered**
Common Stock, $0.001 par value	**NASDAQ Global Select Market**

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 þ

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 þ

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

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

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant was approximately $322.3 million based on the last reported sale price of the common stock on the Nasdaq Global Select Market on June 30, 2011.

The number of shares outstanding of the registrant s Common Stock, par value $0.001 per share, as of February 27, 2012: 104,224,502 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Registrant s 2012 Annual Meeting of Stockholders are incorporated by reference in Part III of this Form 10-K.

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LIMELIGHT NETWORKS, INC.

ANNUAL REPORT ON FORM 10-K

For the Fiscal Year Ended December 31, 2011

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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 statements as to industry trends and our future expectations 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. We undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

PART I

Item 1. *Business*

Overview

Limelight Networks, Inc., or Limelight, operates a globally distributed, high-performance computing platform (our global computing platform) upon which we provide an integrated suite of services, including content delivery services, web content management services, video content management services, web acceleration services, mobility and monetization services, cloud storage services and related consulting services. Our web content management and video content management services are provided as Software as a Service (SaaS) solutions, our cloud storage services and content delivery services are provided as a Platform as a Service (PaaS) solutions, and we sometimes refer to all of these integrated services and solutions (other than content delivery services) collectively as our value-added services (VAS). These integrated services are provided in the cloud as they are supported by our global computing platform, which provides highly-available, highly-redundant storage, bandwidth and computing resources as well as connectivity to last-mile broadband network providers. Our scalable cloud solutions improve the quality of online media and content, accelerate the performance of web applications, enable secure online transactions and manage and monetize digital assets. We also offer other platform and infrastructure services, such as transit and rack space and co-location services. We operate in one industry segment. Our services enable global businesses to build and manage their digital presence across Internet, mobile and social channels by reaching and delivering a brilliant experience to their audiences on mobile and connected devices, enabling them to enhance their brand presence, build stronger customer relationships, manage web content and video assets, analyze viewer preferences, optimize their advertising, and monetize their digital assets. We provide our services to entities that view Internet, mobile and social initiatives as critical to their success including traditional and emerging media companies, or content publishers, including businesses operating in the television, music, radio, newspaper, magazine, movie, videogame, software and social media industries, as well as enterprises, technology companies, and government entities doing business online.

Our principal executive offices are located at 222 South Mill Avenue, 8th Floor, Tempe, Arizona 85281 and 201 Lomas Santa Fe Drive, Suite 200, Solana Beach, California 92075, and our main telephone number is (602) 850-5000. Our website address is *www.limelightnetworks.com*. We began development of our infrastructure in 2001 and began generating meaningful revenue in 2002. As of December 31, 2011, we had approximately 1,565 active customers and had a presence in approximately 55 countries throughout the world.

Recent Developments of the Business

On September 12, 2011, our board of directors approved a repurchase plan in compliance with Rules 10b-18 and 10b5-1 of the Securities Exchange Act of 1934 that authorized us to repurchase up to $25 million of our shares of common stock, exclusive of any commissions, markups or expenses, from time to time through March 12, 2012. Any repurchased shares will be cancelled and return to authorized but unissued status. During the three month period ended December 31, 2011, we repurchased and cancelled 5,640,649 shares at an average price per share of approximately $2.76 per share. The price range of the shares repurchased was between $2.15 and $3.17 per share. The total amount expended before commissions, markups and expenses was approximately $15,052,134. During the twelve month period ended December 31, 2011, we repurchased and cancelled 9,450,449 shares at an average price per share of approximately $2.56 per share. The price range of the shares repurchased was between $2.15 and $3.17 per share. The total amount expended before commissions, markups and expenses was approximately $24,185,976. From inception of the repurchase through February 27, 2012 we have repurchased and cancelled 9,707,749 shares at an average price per share of approximately $2.57 per share.

On September 1, 2011, we completed the sale of EyeWonder LLC and chors GmbH advertising services (EyeWonder and chors) to DG FastChannel, Inc. (DG) (now Digital Generation, Inc.) for net proceeds of $61.0 million ($66.0 million gross cash proceeds less $5.0 million held in escrow) plus an estimated $10.9 million net receivable. Accordingly, the results related to the sale of EyeWonder and chors for 2011 and prior periods have been reclassified to discontinued operations. We purchased EyeWonder and chors during 2010. At the time of purchase, we were pursuing a strategy in which participation in the Rich Media advertising market would be complementary to our other services and solutions. Rich Media advertising refers to online advertising that uses a range of interactive digital media, including streaming video and audio. We subsequently determined to concentrate on growing, enhancing and integrating our mobility and monetization, web and video content management, web acceleration, cloud storage, and consulting services and our underlying global computing platform and content delivery services. 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 the sale of EyeWonder and chors.

On March 2, 2011, we completed an underwritten public offering of our common stock in which we sold and issued 11,500,000 shares of our common stock, including 1,500,000 shares subject to the underwriters over-allotment option, at a price to the public of $7.10 per share. The newly issued common shares began trading on the Nasdaq Global Select Market on March 2, 2011. We raised a total of approximately $81.7 million in gross proceeds from the offering, or approximately $77.1 million in net proceeds after deducting underwriting discounts and commissions of approximately $3.8 million and other offering costs of approximately $0.8 million. The offering was made pursuant to an effective registration statement on Form S-3 (Registration Statement No. 333-170609) previously filed with and declared effective by the Securities and Exchange Commission (SEC) on November 26, 2010 and the related prospectus supplement filed with the SEC on February 28, 2011.

On May 2, 2011, we acquired all of the issued and outstanding shares of Clickability Inc. (Clickability), a privately-held SaaS provider of web content management located in San Francisco, California. This transaction created the foundation for our web content management services. See Note 4 of Notes to Consolidated Financial Statements included in Part II, Item 8 of this annual report on Form 10-K for additional information about the acquisition of Clickability.

On May 9, 2011, we acquired all of the issued and outstanding shares of AcceloWeb, (IL) Ltd. (AcceloWeb), a Tel Aviv, Israel based privately-held provider of advanced technology that helps speed the presentation of websites and applications. This transaction created the foundation for our web acceleration services. See Note 4 of Notes to Consolidated Financial Statements included in Part II, Item 8 of this annual report on Form 10-K for additional information about the acquisition of AcceloWeb.

These two acquisitions expanded our suite of VAS solutions.

We are registered as a reporting company under the Securities Exchange Act of 1934, as amended, which we refer to as the 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 information statements and other information regarding issuers, such as Limelight Networks, Inc., that file electronically with the Commission. The address of this website is *http://www.sec.gov*.

Our Internet website address is *www.limelightnetworks.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.

Four Trends Driving Internet Traffic Growth

Four important trends continue to drive a substantial need for business enterprises to manage their digital presence across Internet, mobile and social channels and to rapidly and efficiently build, manage and deliver web applications, eCommerce transactions, and broadcast-quality rich media content over the Internet to a wide variety of online mobile and connected devices. These trends are:

Online - The shift of content and advertising to the Internet. Consumers are increasingly demanding and consuming, and publishers are increasingly making available for those consumers, video, music, software, and other forms of media over the Internet. In particular, online video traffic from Internet Protocol Television (IPTV), over the top (OTT) streaming, video conferencing, and video gaming continues to grow rapidly. Fueling this shift is the rapid adoption of Internet-connected devices including smartphones, tablets, Smart TVs and other Internet-connected devices. In response, advertisers are increasingly shifting their budgets online to target these audiences. To support this continuing shift, we offer Limelight Deliver and Limelight Stream for high-performance, high-quality delivery of rich content and Limelight Accelerate for speeding and optimizing the loading of web page and SaaS-based solutions around web content and online video management.

Mobile -The rapid consumer adoption of connected devices, particularly smartphones and other media-capable mobile devices. Mobile phones began a worldwide revolution when they provided consumers with the first experience of connecting online away from their PCs and LAN-based Internet connections. The development of smartphones took the power of mobile technology a step further and shifted consumers expectations for accessing digital content. Today, consumers are increasingly consuming content, using web applications, and making purchases from smartphones, or mobile devices with large displays, fast processors, and Internet connectivity. Even more recently, devices such as tablets, gaming consoles, and e-readers have skyrocketed in popularity and are increasingly integrated into daily digital life. To help customers optimize their content and monetize on this shift, we offer a suite of cross-platform publishing solutions, including Limelight Reach for video content, Limelight ADS for delivery of advertising, Limelight Video Platform for preparing and managing the publishing of video content, Limelight Dynamic Site Platform for simplifying the complex cross-platform publishing of websites, and a range of delivery services (Limelight Deliver, Limelight Stream, and Limelight Accelerate) to optimize the delivery of content to connected devices.

Cloud - The migration of IT services into the cloud. Enterprises 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. The core cloud computing market continues 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 PaaS and infrastructure-as-a-service (IaaS) offerings, as well as the cloud-delivered software used to build and

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manage a cloud environment. We offer PaaS and IaaS cloud services, such as Limelight Agile Storage, that augment customers existing and new cloud network infrastructure from storage, transit, and computing capacity to custom network design and implementation.

Social - The rapid growth of use of social media. Consumers are increasingly using social media sites and solutions to communicate and share information. In the past, broadcasting was limited to those with the financial resources to access mass media. The emergence of low-cost and highly-accessible social communication tools, however, has changed this system. Now, anyone with an Internet connection has the ability to share their message with a wide audience. To engage consumers across social media channels, content needs to change constantly and be editable instantaneously by the author and, in some cases, a broader community. Likewise, the audience can interact with and republish social media content. The management of this type of content needs to be scalable, flexible and fast enough to enable the content to be archived, indexed by search engines, and shared by users in many ways. Our SaaS-based web content management solutions, Limelight Dynamic Site Platform and Limelight Video Platform, let customers use built-in search engine optimization tools and promotional features to fine-tune marketing programs using blogs and social networking features to engage directly with consumers. The Limelight Reach and Limelight Accelerate services ensure that this dynamic content inherent in social media environments is delivered with a high degree of quality.

Requirements for Delivering Applications, Media, and Advertising over the Internet

We believe that the challenges of managing and delivering content, particularly 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 do business online. Our global computing platform, SaaS solutions and other VAS solutions help content publishers, enterprises and government entities achieve the following:

Consistent high quality experience in any geography. Consumers expect a high quality online experience, will not tolerate interruptions or inconsistency in the delivery of content, and may never return to a particular media provider if that provider is unable to meet their expectations. A media stream, for example, should begin immediately and play continuously without interruption every time a customer accesses that stream.

High availability of expansive libraries of content. 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 to be viewed online. Users expect a consistent media experience across every title in these large libraries, regardless of a title s popularity, each time it is viewed.

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. When a large number of users simultaneously access a particular website, 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.

Reliability. 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.

Security. Maintaining effective security is a challenge for any enterprise that operates an Internet presence. Threats, such as 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.

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Flexibility and manageability. Web site operators are making significant investments in preparing their applications, content or advertising for delivery over the Internet. Once content is ready for Internet distribution operators must be able to support a wide range of formats and devices, begin distributing their object quickly, and monitor their delivery activities.

Managing delivery costs. Managing the cost of delivery is important for website operators. The combination of major capital outlays and operating expenditures required to build and maintain large server clusters, peak period capacity, extensive Internet backbone networks and multiple connections to global broadband access networks may not be practical for many companies. As consumers increasingly demand access to large files and media streams, the infrastructure needed to provide this content increases substantially.

Our Services

Our integrated, feature-rich, suite of services and solutions are purpose-built to enable enterprises to build and manage their digital presence across Internet, mobile and social channels. Our primary services include the following:

Content Delivery services, including Limelight Deliver and Limelight Stream, improve the reliability and performance of digital media and enterprise websites by using our global computing platform 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 including Adobe Flash, QuickTime, Windows Media, RealNetworks RealPlayer, WebM, and MP3 audio).

Video Content Management services, including our SaaS-based Limelight Video Platform and content delivery services, help organizations publish, manage, syndicate, analyze, and monetize video content through a cloud-based service.

Web Content Management services, including our SaaS-based Limelight Dynamic Site Platform, enable content publishers to create, manage, and publish web content through a cloud-based service. This service combines web content management, site marketing and personalization tools, and mobile publishing to help any organization be a sophisticated web publisher and marketer.

Mobility and Monetization services, including Limelight Reach Video, Limelight Reach Ads, and Limelight Reach Interactive, help publishers deliver properly-formatted, device-optimized content to almost any media-enabled mobile handset or tablet, 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.

Web Acceleration services, including our Limelight Accelerate suite of services, improve web experiences by providing consistent performance from any geography for dynamic and personalized content, online commerce transactions, and web applications.

Cloud Storage services, including our Limelight Agile Storage service, provide customers with a scalable, redundant, geographically diverse service for the storage of media and enterprise content. Limelight Agile Storage is a global, policy-based cloud storage solution that offers unprecedented geographic placement, content workflow, and business logic controls. The service can be used for making digital assets available at anytime from anywhere on the Internet. Policies enable business rules that govern the upload, transformation, placement, availability, and delivery of digital assets.

Global Consulting and Technical services, including Limelight Global services, help customers optimize their publishing, e-Commerce, mobility, or content distribution workflows, and provide best practice support for network architecture design, storage infrastructure, web application development, creative design, live event execution, and the design, deployment and management of infrastructure.

Reporting and Analytics services, including Limelight Control, help customers manage and configure how content is delivered and presented to online users. Together, our complete set of reporting and analytics services help online businesses increase efficiency, reduce expenses, improve end-user

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experience, and provide insight into performance of content delivery or web property. These services include features such as customer provisioning, custom control over delivery and storage options, custom reports, and Internet health monitor which provides insight into potential sources of end user experience issues.

Collectively, our value-added services, or VAS, (web content management, video content management, web acceleration, mobility and monetization, cloud and global consulting and technical services; but exclusive of content delivery services) represented approximately 26%, 16%, and 11%, respectively, of our revenue in 2011, 2010 and 2009.

Limelight Networks Global Computing Platform

Our global computing platform provides highly-available, highly-redundant storage, bandwidth, and computing resources in support of our services and solutions. This architecture, managed by our proprietary software, seamlessly and 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 networks. Additionally, each location has redundant network equipment connectivity and server capacity, enabling us to continue serving content even if a network connection or server fails. Automatic failover and recovery not only provide uninterrupted customer service but also simplify network maintenance and upgrades. The main features of this platform include:

Densely Configured, High-Capacity Architecture. Our global computing platform infrastructure 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 an early content delivery network architecture 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 Internet service providers 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 and applications.

Intelligent Software to Manage the Network. We have developed proprietary software that manages our global computing platform. This software manages the delivery of content objects, the retrieval of dynamic content, storage and retrieval of objects, activity logging and information reporting.

Segment and Geographic Information

We operate in one industry segment, providing content delivery and related services and solutions for global businesses to build and manage digital presence across Internet, mobile and social channels. We operate in three geographic areas North America, Europe, Middle East and Africa (EMEA) and Asia Pacific, including Japan. For the years ended December 31, 2011, 2010 and 2009, approximately 30%, 27% and 22%, respectively, of our total revenue was derived from our operations outside North America. For the years ended December 31, 2011, 2010 and 2009, we derived approximately 50%, 57% and 69%, respectively of our international revenue from EMEA and approximately 50%, 43% and 31%, respectively, of our international revenue from Asia Pacific. We anticipate that our Asia Pacific revenue may continue to grow as a percentage of our total international revenue. No single country outside of the United States accounted for 10% or more of our revenues in any of such years. 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 23 thereto.

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Sales, Service and Marketing

Our sales and service professionals are located in six offices in the United States with an additional 11 office locations in EMEA and Asia Pacific. We sell our services directly through our telesales and field sales forces. We also have customers who incorporate our services into their offerings and function as resellers, as well as other distribution partners. We target media, high tech, software, gaming, enterprise and government agencies and other providers of online media content through our:

- ***Telesales force.*** Our telesales force is responsible for managing direct sales opportunities within the small and mid-market within North America.

- ***Field sales force.*** Our field sales force is responsible for managing direct sales opportunities in major accounts and channels in North America, EMEA and the Asia Pacific regions.

- ***Distribution partners.*** We maintain relationships with a selection of partners who embed our services or solutions into their offerings.

- ***Resellers.*** Through our reseller relationships, we sell our services to reseller companies who have relationships with target customers in specific regions or markets.

Our sales and service organization includes employees in telesales and field sales, professional services, account management and solutions engineering. As of December 31, 2011, we had approximately 159 employees in our sales and service 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, print advertisements, online advertisements, participation at trade shows, strategic alliances and on-going customer communication programs. As of December 31, 2011, we had nine employees in our global marketing organization, which is a component of our sales and service organization.

Customers

Our customers operate in the media, entertainment, gaming, software, enterprise, and public sectors. As of December 31, 2011, we had approximately 1,565 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 2011, some of our most notable customers included Amazon, Bell Canada, QVC, Swiss Re, Electronic Arts, Ciena, NetApp, StarTribune, Middle East Broadcasting Company, HBO, Microsoft, Netflix, Nintendo Wii, Nissan, Sony Playstation, Toyota of Japan, ABC, BBC, NBC, and Channel 4.

During 2011, we had one customer, Netflix, that accounted for more than 10% of our revenue. For the year ended December 31, 2011, Netflix represented approximately 11% of our total revenue. During 2010, we had no customer that accounted for more than 10% of our revenue. One customer, Microsoft, accounted for more than 10% of our revenue for the year ended December 31, 2009. For the year ended December 31, 2009, Microsoft represented approximately 14% of our total revenue.

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 (DSO) 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.

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Competition

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

Performance for digital content delivery is measured 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; and cost efficiency continue to be key criteria for this market.

Consumer engagement relating to digital content is measured by the ease of management and delivery of digital content across multiple channels and to multiple devices, ability to conduct visitor tracking, lead capture and lead scoring, enablement of business users to manage and publish digital content to reduce cost and strain on IT departments, increased website conversion rates, and ability to quickly monetize digital assets.

The market for digital content management and 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. We believe customers will increasingly look for a single vendor for their digital content management and delivery needs to lower costs in relationship and administration management, offer less 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 computing platform compete effectively in both digital content delivery and consumer engagement metrics, and provide a competitive advantage in that our integrated suite coupled with our global computing platform help obviate the need for customers to seek and manage multiple vendors to provide multiple point solutions. 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 computing platform and to add additional services and functionality to meet the market s increasing expectations regarding both digital content management and delivery and consumer engagement.

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 computing platform and support of our content delivery and VAS solutions. As of December 31, 2011, we had 107 employees in our research and development group. Our research and development personnel are primarily located in Mountain View and San Francisco, California, 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 computing platform 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 platform in the major Internet consumer markets around the world where we provide services for our customers. Our research and development expenses were approximately $17.1 million in 2011, $10.8 million in 2010 and $7.9 million in 2009, including stock-based compensation expense of approximately $3.6 million in 2011, $3.0 million in 2010 and $2.5 million in 2009. We believe that the investments that we have made in research and development have been effectively utilized. In 2012, we anticipate that our research and development expenditures will increase in absolute dollars and increase as a percentage of our revenue.

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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, 2011, we had received 15 patents in the United States, expiring between 2023 and 2031, the Patent and Trademark Office has allowed three more U.S. applications, and we have 55 U.S. patent applications pending. We have two issued patents in Australia. 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, 2011, we had received nine 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 intend to expand 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.

As described under Legal Proceedings in Part 1, Item 3 of this annual report on Form 10-K, during 2011 we were party to a lawsuit alleging aspects of our content delivery network infringed upon third party patent rights.

In one matter, Akamai Technologies, Inc. v. Limelight Networks, Inc., the trial court entered judgment in our favor, the Federal Circuit Court of Appeals affirmed the decision of the trial court, and we are now awaiting a further decision from the Federal Circuit Court of Appeals following a re-hearing *en banc.* Initially at the trial court, a jury returned a verdict in February 2008 against us finding we infringed four claims of one patent at issue in that lawsuit, and awarded damages of approximately $45.5 million plus pre-judgment interest estimated to be $2.6 million. An additional provision of approximately $17.5 million for potential additional infringement damages and interest was recorded during the year ended December 31, 2008. In November 2008, a bench trial was conducted regarding our equitable defenses. We filed a renewed motion for judgment as a matter of law, and on May 27, 2009, the court entered judgment as a matter of law that we did not infringe Akamai s patent. Akamai appealed that judgment and on December 20, 2010 the Court of Appeals for the Federal Circuit affirmed the District Court s grant of our motion for judgment as a matter of law. 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 District Court s entry of judgment in our favor, and reinstated the appeal. On November 18, 2011, the Federal Circuit heard oral argument regarding the case. We believe that we presented our case and positions well both in our briefs and in oral argument. The issues in this case are complex, and it is likely that it will be several months before the Federal Circuit publishes its opinion in the case. We believe that we do not infringe Akamai s patents and will continue to vigorously defend our position; 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 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 our business. Any adverse ruling, in turn, would harm our revenue, market share, reputation, liquidity and overall financial position. We are not able at this time to estimate the range of potential loss nor, in light of the favorable United States district court order, do we believe that a loss is probable. Therefore, we have made no provision for this lawsuit in our financial statements.

As we gain greater visibility and market exposure as a public company, we are likely to face an increased risk of being the subject of intellectual property infringement claims from other third parties.

Employees

As of December 31, 2011, we had 482 employees. Of these employees, 404 are based in North America, 61 are based in Europe, Middle East and Africa and 17 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. Competition for technical personnel in the industry in which we compete is intense. We believe that our future success depends in part on our continued ability to hire, assimilate, and retain qualified personnel. To date, we believe that we have been successful in recruiting and retaining qualified employees, but there is no assurance that we will continue to be successful in the future.

Executive Officers

Our executive officers and their ages and positions as of February 27, 2012 are as follows:

Name	Age	Position
Jeffrey W. Lunsford	46	President, Chief Executive Officer and Chairman
Nathan F. Raciborski	45	Co-Founder, Chief Technology Officer and Director
Douglas S. Lindroth	45	Senior Vice President, Chief Financial Officer and Treasurer
David M. Hatfield	43	Senior Vice President of Worldwide Sales, Marketing, Products and Services
Philip C. Maynard	57	Senior Vice President, Chief Legal Officer and Secretary

Jeffrey W. Lunsford has served as our President, Chief Executive Officer and Chairman since November 2006. Prior to joining us, Mr. Lunsford served as Chairman and Chief Executive Officer of WebSideStory, Inc., a provider of real-time data analytics and visualization applications, from April 2003 to November 2006. WebSideStory acquired and assumed the name of Visual Sciences, Inc. in 2006 and was acquired by Omniture, Inc. in 2007. Prior to that, he served as the Chief Executive Officer of TogetherSoft Corporation, a software development company, from September 2002 to February 2003, and as the Senior Vice President of Corporate Development of S1 Corporation, a provider of customer interaction software for financial and payment services, from March 1996 to August 2002. He also currently serves on the board of directors of Digital Domain Media Group, Inc. and Engine Yard, Inc. Mr. Lunsford received a B.S. in Information and Computer Sciences from the Georgia Institute of Technology.

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Nathan F. Raciborski co-founded Limelight Networks in 2001. He has been a Director since July 2006 and currently serves as Chief Technology Officer (CTO). Mr. Raciborski is the inventor of over twenty patents related to the acceleration of Internet content, the scalability of Internet platforms, and the enhancement of content delivery to mobile devices. He leads all global engineering and operations at Limelight. Prior to co-founding Limelight, starting in 1993, Mr. Raciborski founded numerous companies including Aerocast (acquired by Motorola), where he served as Co-Founder and Chief Technical Officer from 1999 to 2000, Entera (acquired by Cacheflow), where he served on its board of directors from 1997 to 2000, and Primenet Services for the Internet, where he served as President, Chief Executive Officer and Director beginning in 1993 until it merged with GlobalCenter, where Mr. Raciborski served as President and Director, and later as President of Network Services of Frontier Communications Inc./Global Crossing from 1997 to 1998 after Frontier acquired GlobalCenter.

Douglas S. Lindroth has served as our Senior Vice President and Chief Financial Officer since October 2008 and Treasurer since January 2009. Prior to joining us, Mr. Lindroth served as a member of our board of directors since February 2008. Mr. Lindroth has also served as a General Partner of Bayview Investment Company, a real estate investment company, since November 2005. From April 2006 to May 2007, Mr. Lindroth served as Senior Vice-President and Chief Financial Officer of BakBone Software Incorporated, a developer and distributor of data backup, restoration, disaster recovery, replication and storage reporting software. From 1997 through February 2006, Mr. Lindroth served in various capacities for Memec Group Holdings Limited, a privately held company and a specialty semiconductor distributor, including as its Chief Financial Officer beginning in 2003. Mr. Lindroth formerly served on the board of directors of Visual Sciences, Inc. (formerly WebSideStory, Inc.) from May 2006 to January 2008 and BakBone Software Incorporated from May 2007 to January 2011. He is a Certified Public Accountant and received a B.A. in Business Administration from San Diego State University.

David M. Hatfield has served as our Senior Vice President of Worldwide Sales, Marketing, Products and Services since March 2007. Prior to joining us, Mr. Hatfield served as Vice President-General Manager of Professional Services for the Americas at Symantec Corporation from September 2006 to March 2007 and as the Vice President of Sales, Western Area, at Symantec from April 2005 to September 2006. Prior to that, from December 2003 to April 2005, Mr. Hatfield served as Vice President of Sales of VERITAS Software. From October 2001 to October 2003, he served as the Vice President of Worldwide Field Operations at Rearden Commerce, Inc. (formerly Talaris Corporation). Mr. Hatfield also served in a number of senior sales leadership positions at Akamai Technologies, Inc. from September 1999 to October 2001, most recently as the Director of North America Sales. Mr. Hatfield received a B.S. in Political Science from Santa Clara University.

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.

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

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

Our primary competitors for our SaaS services include Brightcove, Ooyala, Unicorn Media, Sitecore, Adobe, Crown Peak and Interwoven, as well as open source products such a Drupal. However, the competitive landscape is different from content delivery in this area in that changing vendors can be costly and complicated for the customer.

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. For example, in 2009, 2010 and 2011 we invested $20.4 million, $33.5 million and $30.4 million, respectively, in capital expenditures primarily for computer equipment associated with the build-out and expansion 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.

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During 2012, as we further expand our global computing network and the suite of content delivery and other value-added services we provide and begin to refresh our network equipment, we expect our capital expenditures to be approximately 9%-11% of total revenue. As a consequence, we are dependent on significant future growth in demand for our services to justify these additional 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 for content delivery and our other value-added services;
- increasing settlement fees for certain peering relationships;
- failure to increase sales of our core content delivery services or to grow our value-added 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 services and products;
- inability to maintain our prices relative to our costs;
- failure of our current and planned services and software to operate as expected;
- loss of any significant customers or loss of existing customers at a rate greater than our increase in new customers or our sales to existing customers;
- failure to increase sales of our services to current customers as a result of their ability to reduce their monthly usage of our services to their minimum monthly contractual commitment;
- failure of a significant number of customers to pay our fees on a timely basis or at all or failure to continue to purchase our services in accordance with their contractual commitments; and
- inability to attract high quality customers to purchase and implement our current and planned services.

We expect a significant and increasing portion of our revenue to be derived from our value-added service offerings. These value-added services tend to have higher gross margins than our CDN services. Our revenue from such offerings comprised approximately 26% of our revenue for the year ended December 31, 2011. We do not have a long history of offering these value-added services, and we may not be able to achieve the growth rates in such services revenue that we or our investors expect. There are numerous companies that compete in providing value-added 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 value-added services. If we are unable to achieve the growth rates in our value-added services revenue that we expect, our revenue and operating results could be significantly and negatively affected.

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

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

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

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

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

The number of people who access the Internet through devices other than personal computers (PCs), including mobile devices, game consoles and television set-top devices, has increased dramatically in the past few years. The lower resolution, functionality and memory associated with alternative devices make the use of our service offerings through these devices more difficult and potentially less effective. If we are unable to deliver our service offerings to a substantial number of alternative device users or if we are slow to develop services and technologies that are more compatible with mobile devices, we will fail to capture a significant share of an increasingly important portion of the market. Such a failure could limit our ability to compete effectively in an industry that is rapidly growing and changing.

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

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

While we have not experienced any significant, unplanned disruption of our services to date, our network may fail in the future. Despite our significant infrastructure investments, we may have insufficient communications and server capacity to address these or other disruptions, which could result in interruptions in our services. Any widespread interruption of the functioning of our content delivery and value-added 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 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 and formerly a defendant in two other significant lawsuits (see discussion in Legal Proceedings in Part I, Item 3 of this annual report on Form 10-K). In the Akamai case, we currently have a favorable ruling, but we cannot provide any assurance that this favorable ruling will not be overturned or reversed on appeal, or that the ultimate outcome of that lawsuit will not be materially adverse to us. The expenses of defending these lawsuits 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 the lawsuits. Also, this litigation has been a distraction to our management in operating our business.

In Akamai Technologies, Inc. v. Limelight Networks, Inc., the trial court entered judgment in our favor, the Federal Circuit Court of Appeals affirmed the decision of the trial court, and we are now awaiting a further decision from the Federal Circuit Court of Appeals following a re-hearing *en banc.* Initially at the trial court, a jury returned a verdict in February 2008 against us, finding that we infringed four claims of one patent at issue in that lawsuit, and awarded damages of approximately $45.5 million plus pre-judgment interest estimated to be $2.6 million. An additional provision of approximately $17.5 million for potential additional infringement damages and interest was recorded during the year ended December 31, 2008. In November 2008, a bench trial was conducted regarding our equitable defenses. We filed a renewed motion for judgment as a matter of law, and, on May 27, 2009, the court entered judgment as a matter of law that we did not infringe Akamai s patent. Akamai appealed that judgment and, on December 20, 2010, the Court of Appeals for the Federal Circuit affirmed the District Court s grant of our motion for judgment as a matter of law. 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 District Court s entry of judgment in our favor, and reinstated the appeal. On November 18, 2011, the Federal Circuit heard oral argument regarding the case. The issues in this case are complex, and it is likely that it will be several months after the hearing before the Federal Circuit publishes its opinion in the case. We believe that we do not infringe Akamai s patents and will continue to vigorously defend our position; 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 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 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.

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

Companies, organizations or individuals, including our competitors, may hold or obtain patents or other proprietary rights that would prevent, limit or interfere with our ability to make, use or sell our services or develop new services, which could make it more difficult for us to operate our business. From time to time, we may receive inquiries from holders of patents inquiring whether we infringe their proprietary rights. Companies holding Internet-related patents or other intellectual property rights are increasingly bringing suits alleging infringement of such rights or otherwise asserting their rights and seeking licenses. In addition, many of our agreements with customers require us to indemnify such customers for third-party intellectual property infringement claims against them. Pursuant to such agreements, we may be required to defend such customers against certain claims which could cause us to incur additional significant costs. Any litigation or claims, whether or not valid, could result in substantial costs and diversion of resources. See Legal Proceedings in Part I, Item 3 of this annual report on Form 10-K. In addition, if we are determined to have infringed upon a third party s intellectual property rights, we may be required to do one or more of the following:

- cease selling, incorporating or using products or services that incorporate the challenged intellectual property;
- pay substantial damages;
- obtain a license from the holder of the infringed intellectual property right, which license may or may not be available on reasonable terms or at all; or
- redesign products or services.

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

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

We rely on a combination of patent, copyright, trademark and trade secret laws and restrictions on disclosure to protect our intellectual property rights. These legal protections afford only limited protection, and, as of December 31, 2011, we have 15 currently issued U.S. patents and two currently issued Australian patents. 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. We have applied for patent protection in a number of foreign countries, but the laws in these jurisdictions may not protect our proprietary rights as fully as in the United States. Furthermore, we cannot be certain that any pending or future patent applications will be granted, that any future patent will not be challenged, invalidated or circumvented, or that rights granted under any patent that may be issued will provide competitive advantages to us.

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

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

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

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

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

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

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

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

Section 404 of the Sarbanes-Oxley Act of 2002 requires that we include in our annual report our assessment of the effectiveness of our internal control over financial reporting and our audited financial statements as of the end of each fiscal year. Furthermore, our independent registered public accounting firm, Ernst & Young LLP (E&Y), is required to report on whether it believes we maintained, in all material respects, effective internal control over financial reporting as of the end of the year. We successfully completed our assessment and obtained E&Y s attestation as to the effectiveness of our internal control over financial reporting as of December 31, 2011, 2010 and 2009, respectively. Our continued compliance with Section 404 will require that we incur substantial expense and expend significant management time on compliance related issues, including our efforts in implementing controls and procedures related to acquired or merged operations. We currently do not have an internal audit group and use an international accounting firm to assist us with our assessment of the effectiveness of our internal controls over financial reporting. In future years, if we fail to timely complete this assessment, or if E&Y cannot timely attest, there may be a loss of public confidence in our internal controls, the market price of our stock could decline, and we could be subject to regulatory sanctions or investigations by the Nasdaq Global Select Market, the SEC or other regulatory authorities, which would require additional financial and management resources. In addition, any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to timely meet our regulatory reporting obligations.

We may lose customers if they elect to develop content delivery and other competitive value-added service solutions internally.

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

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

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

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

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

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

During any given fiscal period, a relatively small number of customers typically account for a significant percentage of our revenue. For example, in 2011, sales to our top 10 customers, in terms of revenue, accounted for approximately 34% of our total revenue. During 2010 and 2009, sales to our top 10 customers, in terms of revenue, accounted for approximately 34% and 36%, respectively, of our total revenue. During 2011, we had one customer, Netflix, who represented more than 10% of our total revenue. For the year ended December 31, 2011, Netflix represented approximately 11% of our total revenue. During 2010, we had no customer that accounted for

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more than 10% of our total revenue. During 2009 we had one customer, Microsoft, who represented more than 10% of our total revenue. For the year ended December 31, 2009, Microsoft represented approximately 14% of our total revenue. Microsoft, and other large customers, may not continue to be as significant going forward as they have been in the past. For example, during 2012, we anticipate that our revenue from Microsoft will decline from that earned in 2011 and 2010 and as a percent of our total revenue.

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

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

In addition to adding new customers, to increase our revenue, we must sell additional services to existing customers and encourage existing customers to increase their usage levels. If our existing and prospective customers do not perceive our services to be of sufficiently high value and quality, we may not be able to retain our current customers or attract new customers. We sell our services pursuant to service agreements 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. This fact, in addition to the changing competitive landscape in our market, means that we cannot accurately predict future customer renewal rates or usage rates. Our customers renewal rates may decline or fluctuate as a result of a number of factors, including:

- their satisfaction or dissatisfaction with our services;
- the prices of our services;
- the prices of services offered by our competitors;
- discontinuation by our customers of their Internet or web-based content distribution business;
- mergers and acquisitions affecting our customer base; and
- reductions in our customers spending levels.

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

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

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

Our results of operations may fluctuate as a result of a variety of factors, many of which are outside of our control. If our results of operations fall below the expectations of securities analysts or investors, the price of our

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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 value-added services;
- the addition or loss of large customers, or significant variation in their use of our content delivery and value-added 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 value-added services, such as a major media event or a customer s online release of a new or updated video game;
- changes in our pricing policies or those of our competitors;
- the timing of recognizing revenue;
- limitations of the capacity of our global computing platform and related systems;
- the timing of costs related to the development or acquisition of technologies, services or businesses;
- the potential write-down or write-off of goodwill associated with business operations that have been disposed of, such as goodwill currently on our balance sheet associated with the initial acquisitions of EyeWonder, Inc. and chors;
- 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.

After being profitable in 2004 and 2005, we were unprofitable in 2006, 2007, 2008, 2010 and 2011 primarily due to increased stock-based compensation expense and litigation costs, which could affect our ability to achieve and maintain profitability in the future. We would have been unprofitable in 2009, had we not reversed a significant reserve for litigation.

Our adoption of ASC 718 (formerly FAS 123R) in 2006 substantially increased the amount of share-based compensation expense we record and has had a significant impact on our results of operations. After being profitable in 2004 and 2005, we were unprofitable in 2006, 2007, 2008, 2010 and 2011 partially due to our share-based compensation expense which was $0.1 million in 2005, $9.2 million in 2006, $18.9 million in 2007, $18.1 million in 2008, $16.2 million in 2010, and $15.9 million in 2011. We were profitable in 2009 due to the reversal of a significant reserve for litigation; however, our share-based compensation was still significant at $17.5 million for the year. This significant amount of share-based compensation expense reflects an increase in the

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level of stock options, restricted stock and restricted stock unit (RSU) grants. Our unrecognized share-based compensation expense totaled $27.2 million at December 31, 2011 based on current outstanding stock options and restricted stock units, of which we expect to amortize $14.2 million in 2012, $8.0 million in 2013 and the remainder thereafter based upon the scheduled vesting of the options, restricted stock and RSUs outstanding at that time. Our share-based compensation expense could adversely affect our ability to achieve and maintain profitability in the future. Litigation expense continues to be significant for us. In 2006, we were sued by Akamai and MIT alleging infringement of certain patents, and, in December 2007, we were sued by Level 3 Communications alleging infringement of certain patents. We have incurred, and will potentially continue to incur, significant costs associated with litigation. These costs were $3.1 million, $7.3 million, $20.8 million, $5.4 million and $2.1 million, respectively, in 2006, 2007, 2008, 2009 and 2010, respectively. For the year ended December 31, 2011, we incurred $1.4 million in litigation costs. These costs may continue to be significant during 2012.

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

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

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

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

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

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

We lease private line capacity for our backbone from a third party provider, Global Crossing Ltd. (Global Crossing). Our contracts for private line capacity with Global Crossing generally have terms of three to four years. In March 2011 and January and September 2009, we amended our agreement with Global Crossing to enhance the private line capacity for our backbone. The communications capacity we have leased may become unavailable for a variety of reasons, such as physical interruption, technical difficulties, contractual disputes, or the financial health of our third party provider. Further, Level 3 Communications LLC, one of our direct competitors recently acquired Global Crossing Ltd. Although alternative providers are available, it would be time consuming and expensive to identify and obtain alternative third party connectivity, and accordingly we are dependent on Global Crossing in the near term. Failure of Global Crossing could jeopardize utilization of the service fees pre-paid by us under our agreement with Global Crossing. Additionally, as we grow, we anticipate requiring greater private line capacity than we currently have in place. If we are unable to obtain such capacity on terms commercially acceptable to us or at all, our business and financial results would suffer. We may not be able to deploy on a timely basis enough network capacity to meet the needs of our customer base or effectively manage demand for our services.

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

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

In addition, the performance of our infrastructure depends in part on the direct connection of our global computing platform to a large number of end-user access networks, known as peering, which we achieve through

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mutually beneficial cooperation with these networks. In some instances, network operators charge us for the peering connections. If, in the future, a significant percentage of these network operators elected to no longer peer with our network or peer with our network on less favorable economic terms, then the performance of our infrastructure could be diminished, our costs could increase and our business could suffer.

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

Our business depends on our ability to deliver media content in all major formats. If our legal right or technical ability to store and deliver content in one or more popular proprietary content formats, such as Adobe Flash or Windows Media, was limited, our ability to serve our customers in these formats would be impaired and the demand for our content delivery and value-added 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 may seek to acquire businesses or technologies that are complementary to our business. For example, in May 2009, we acquired substantially all of the assets of Kiptronic, Inc., a developer of mobility and monetization solutions for content publishers; in January 2010, we acquired chors GmbH (chors), an on-line and direct marketing solutions provider located in Germany; in April 2010, we acquired EyeWonder, Inc., a provider of interactive digital advertising products and services to advertisers; in July 2010, we acquired Delve Networks, Inc., a provider of online video solutions to manage, publish, measure and monetize high quality video content on the Internet; and in May 2011, we acquired Clickability, a SaaS provider of web content management located in San Francisco, California, and AcceloWeb, a provider of advanced technology that helps speed the presentation of websites and applications located in Tel Aviv, Israel. We subsequently sold the EyeWonder and chors business operations in September 2011. Acquisitions involve a number of risks to our business, including the difficulty of integrating the operations, services, solutions and personnel of the acquired companies, the potential disruption of our ongoing business, the potential distraction of management, the possibility that our business culture and the business culture of the acquired companies will not be compatible, the difficulty of incorporating or integrating acquired technology and rights with or into our other services and solutions, expenses related to the acquisition and to the integration of the acquired companies, the impairment of relationships with employees and customers as a result of any integration of new personnel, risks related to the businesses of acquired companies that may continue to impact the businesses following the merger and potential unknown liabilities associated with acquired companies. Any inability to integrate services, solutions, operations or personnel in an efficient and timely manner could harm our results of operations.

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

- integrating the management teams, strategies, cultures, technologies and operations of the businesses;
- retaining and assimilating the key personnel of each company;
- retaining existing customers; and
- implementing and retaining uniform standards, controls, procedures, policies and information systems.

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

We have limited prior experience as a company in this complex process of acquiring and integrating businesses. 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. In particular, we are dependent on the services of our Chief Executive Officer, Jeffrey W. Lunsford and also our Chief Technology Officer, Nathan F. Raciborski. Neither of these officers nor any of our other key employees is bound by an employment agreement for any specific term. There is increasing competition for talented individuals with the specialized knowledge to deliver content delivery and value-added services and this competition affects both our ability to retain key employees and hire new ones. 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.

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. We have limited experience in providing our services internationally and such expansion could require us to make significant expenditures, including the hiring of local employees, in advance of generating any revenue. As a consequence, we may fail to achieve profitable operations that will compensate our investment in international locations. We are subject to a number of risks associated with international business activities that may increase our costs, lengthen our sales cycle and require significant management attention.

These risks include:

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

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

- challenges caused by distance, language and cultural differences;

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

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- 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;
- potentially adverse tax consequences;
- credit risk and higher levels of payment fraud; and
- foreign exchange controls that might prevent us from repatriating cash earned in countries outside the United States.

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

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

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

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

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

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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 (P3P) Project may limit collection of cookies. Plaintiffs attorneys also have organized class action suits against companies related to the use of cookies and several companies, including companies in the Internet advertising industry, have had claims brought against them before the Federal Trade Commission regarding the collection and use of Internet user information. We may be subject to such suits in the future, which could limit or eliminate our ability to collect such information. If our ability to use cookies were substantially restricted due to the foregoing, or for any other reason, we would have to generate and use other technology or methods that allow the gathering of user data in order to provide services to customers. This change in technology or methods could require significant reengineering time and resources, and may not be complete in time to avoid negative consequences to our business. In addition, alternative technology or methods might not be available on commercially reasonable terms, if at all. If the use of cookies is prohibited and we are not able to efficiently and cost effectively create new technology, our business, financial condition and results of operations would be materially adversely affected. In addition, any compromise of security that results in the release of Internet users and/or our customers data could seriously limit the adoption of our service offerings as well as harm our reputation and brand, expose us to liability and subject us to reporting obligations under various state laws, which could have an adverse effect on our business. The risk that these types of events could seriously harm our business is likely to increase as the amount of data stored for customers on our servers and the number of countries where we operate has been increasing, and we may need to expend significant resources to protect against security breaches, which could have an adverse effect on our business, financial condition or results of operations.

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

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

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. For example, our adoption of ASC 718 (formerly FAS 123R) in 2006 increased the amount of stock-based compensation expense we recorded. This, in turn, has impacted our results of operations for the periods since this adoption and has made it more difficult to evaluate our recent financial results relative to prior periods.

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

As a public company, we have incurred, and will continue to incur, significant accounting and other expenses that we did not incur as a private company. These expenses include increased accounting, legal and

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other professional fees, insurance premiums, investor relations costs, and costs associated with compensating our independent directors. In addition, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and the Sarbanes-Oxley Act of 2002, as well as rules subsequently implemented by the SEC and the Nasdaq Global Select Market, impose additional requirements on public companies, including requiring changes in corporate governance practices. For example, the listing requirements of the Nasdaq Global Select Market require that we satisfy certain corporate governance requirements relating to independent directors, audit committees, distribution of annual and interim reports, stockholder meetings, stockholder approvals, solicitation of proxies, conflicts of interest, stockholder voting rights and codes of conduct. Our management and other personnel need to devote a substantial amount of time to these compliance initiatives. Moreover, these rules and regulations have increased our legal and financial compliance costs and make some activities more time-consuming and costly. For example, these rules and regulations make it more difficult and more expensive for us to obtain director and officer liability insurance. These rules and regulations could also make it more difficult for us to identify and retain qualified persons to serve on our board of directors, our board committees or as executive officers.

Divestiture of our EyeWonder and chors rich media advertising services, or future divestitures of other businesses or product lines 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.

We continue to evaluate the performance of all of our businesses and may sell businesses or product lines in the future. For example, on August 30, 2011, we announced that we entered into an agreement to sell our EyeWonder and chors rich media advertising unit to DG. The transaction closed on September 1, 2011. 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 affect to our financial condition, results of operations or cash flows. In addition, we have acquired goodwill and intangible assets in business combinations, including the acquisitions of EyeWonder, Inc. and chors in 2010. A substantial portion of this goodwill remains on our balance sheet. We follow the provisions of ASC 805, *Business Combinations* (ASC 805) and ASC 350, *Goodwill and Other Intangible Assets* (ASC 350). We also follow the provisions of ASC 360, Accounting for the Impairment or Disposal of Long-lived Assets (ASC 360). In accordance with these standards, goodwill is not amortized. Under ASC 350, goodwill is subject to impairment testing annually or whenever events or changes in circumstances indicate that the carrying amount may not be fully recoverable. As of December 31, 2011, we had $80.1 million in goodwill which will be subject to potential future impairments which could have a material adverse effect on our financial condition and results of operations. Our intangible assets are carried at cost and are subject to amortization. In accordance with ASC 360, our intangible assets are subject to impairment testing whenever changes in circumstances indicate that the carrying value may not be fully recoverable. Divestitures of previously acquired businesses, such as the divestiture of the EyeWonder and chors rich media advertising services, may result in significant asset impairment charges, including those related to goodwill and other intangible assets, which could have a material adverse effect on our financial condition and results of operations. Future impairment may result from, among other things, deterioration in the performance of the acquired business or product line, adverse market conditions and changes in the competitive landscape, adverse changes in applicable laws or regulations, including changes that restrict the activities of the acquired business or product line, changes in accounting rules and regulations, and a variety of other circumstances. The amount of any impairment is recorded as a charge to the statement of operations. We may never realize the full value of our goodwill and intangible assets, and any determination requiring the write-off of a significant portion of these assets may have an adverse effect on our financial condition and results of operations. We cannot assure you that we will be successful in managing these or any other significant risks that we encounter in divesting a business or product line.

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

Increasing our customer base and achieving broader market acceptance of our services will depend to a significant extent on our ability to expand our sales and marketing operations. Historically, we have concentrated our sales force at our headquarters in Tempe, Arizona. However, we are also building a field sales force to augment our sales efforts and to bring our sales personnel closer to our current and potential customers. Developing such a field sales force has been and will continue to be expensive and we have limited knowledge in developing and operating a widely dispersed sales force. As a result, we may not be successful in developing an effective 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. We have expanded our sales and marketing personnel from a total of 13 at December 31, 2004 to 168 at December 31, 2011. 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 these expansion efforts do not generate a corresponding significant increase in revenue.

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

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

Risks Related to Ownership of Our Common Stock

Our limited operating history makes evaluating our business and future prospects difficult, and may increase the risk of your investment.

We were founded in 2001. A significant amount of our growth, in terms of employees, operations and revenue, has occurred. For example, our revenue has grown from $5.0 million in 2003 to $65.2 million in 2006 to $171.3 million in 2011. As a consequence, we have a limited operating history which makes it difficult to evaluate our business and our future prospects. We have encountered, and will continue to encounter, risks and difficulties frequently experienced by growing companies in rapidly changing industries, such as the risks described in this report on Form 10-K and our quarterly reports on Form 10-Q. If we do not address these risks successfully, our business will be harmed.

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 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, 2011, our directors and executive officers and their affiliates beneficially owned, in the aggregate, approximately 42% of our outstanding common stock, including approximately 29% beneficially owned by investment entities affiliated with Goldman, Sachs & Co. These stockholders are able to exercise significant influence over all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions, such as a merger or other sale of our company or its assets. This concentration of ownership could limit other stockholders ability to influence corporate matters and may have the effect of delaying or preventing a third party from acquiring control over us.

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

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

Management has broad discretion as to the use of the proceeds from our recently completed underwritten public offering of our common stock, and we may not use the proceeds effectively.

Our management has broad discretion in the application of the net proceeds from the recently completed underwritten public offering of our common stock and could spend the proceeds in ways that do not improve our results of operations or enhance the value of our common stock. Our failure to apply these funds effectively could have a material adverse effect on our business, delay the development of our product candidates and cause the price of our common stock to decline.

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 are located in approximately 64,000 square feet of leased office space in Tempe, Arizona. We also lease approximately 8,224 square feet of space for a data center in Phoenix, Arizona. We lease offices in several other locations in the United States, including in or near San Diego, San Francisco and San Jose, California, New York, New York, Seattle, Washington and Washington DC. We also lease offices in Europe and Asia in or near the following cities: Woelfersheim and Munich, Germany, London, England, Paris, France, Tel Aviv, Israel, Lviv, Ukraine, Tokyo, Japan, Seoul, Korea and Singapore. 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 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 in United States Patent No. 6,108,703 (the 703 patent). In February 2008, a jury returned a verdict in this lawsuit, finding that we infringed four claims of the 703 patent at

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issue and rejecting our invalidity defenses. The jury awarded an aggregate of approximately $45.5 million which includes lost profits, reasonable royalties and price erosion damages for the period April 2005 through December 31, 2007. In addition, the jury awarded pre-judgment interest which we estimated to be $2.6 million at December 31, 2007. We recorded the aggregate $48.1 million as a provision for litigation as of December 31, 2007. During 2008, we recorded an additional provision of approximately $17.5 million for potential additional infringement damages and interest. On July 1, 2008, the court denied our motions for JMOL, Obviousness, and a New Trial. The court also denied Akamai s Motion for Permanent Injunction as premature and denied its Motions for Summary Judgment regarding our equitable defenses. The court conducted a bench trial in November 2008 regarding our equitable defenses. We also filed a motion for reconsideration of the court s earlier denial of our motion for JMOL. Our motion for reconsideration of JMOL was based largely upon a clarification in the standard for a finding of joint infringement articulated by the Federal Circuit in the *Muniauction* Case, released after the court denied our initial motion for JMOL. On April 24, 2009 the court issued its order and memorandum setting aside the adverse jury verdict and ruling that we did not infringe Akamai s 703 patent and that we are entitled to judgment as a matter of law. Based upon the court s April 24, 2009 order we have reversed the $65.6 million provision for litigation previously recorded for this lawsuit as we no longer believe that payment of any amounts represented by the litigation provision is probable. The court entered final judgment in favor of us. Akamai filed a notice of appeal of the court s decision on May 26, 2009. The Court of Appeals for the Federal Circuit heard arguments by both parties on June 7, 2010. On December 20, 2010 the 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 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 District Court s entry of judgment in our favor, and reinstated the appeal. On November 18, 2011, the Federal Circuit heard oral argument regarding the case. We believe that we presented our case and positions well both in our briefs and in oral argument. The issues in this case are complex, and it is likely that it will be several months before the Federal Circuit publishes its opinion in the case. We believe that we do not infringe Akamai s patents and will continue to vigorously defend our position; 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 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 our business. Any adverse ruling, in turn, would harm our revenue, market share, reputation, liquidity and overall financial position. We are not able at this time to estimate the range of potential loss nor, in light of the favorable United States district court order, do we believe that a loss is probable. Therefore, we have made no provision for this lawsuit in our financial statements.

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

Item 4. ***Mine Safety Disclosures.***

Not applicable.

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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
2010:		
First Quarter	$ 4.09	$ 3.25
Second Quarter	$ 4.51	$ 3.61
Third Quarter	$ 6.35	$ 3.57
Fourth Quarter	$ 8.97	$ 5.58
2011:		
First Quarter	$ 8.58	$ 5.72
Second Quarter	$ 7.39	$ 4.17
Third Quarter	$ 5.16	$ 1.95
Fourth Quarter	$ 3.28	$ 2.03

Holders

As of February 27, 2012, there were 313 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.

Issuer Purchases of Equity Securities

The following is a summary of our repurchases of our common stock in 2011:

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)
September 1, September 30, 2011	3,809,800	$ 2.42	3,809,800	$ 15,866,159
October 1, October 31, 2011	3,375,300	$ 2.57	3,375,300	$ 7,275,477
November 1, November 30, 2011	1,333,049	$ 2.83	1,333,049	$ 3,532,462
December 1, December 31, 2011	932,300	$ 2.94	932,300	$ 814,024
Total	9,450,449	$ 2.58	9,450,449	

(1) Includes commissions, markups and expenses.

(2) We announced a repurchase plan that authorizes us to use up to $25 million to repurchase shares of our common stock, exclusive of any commissions, markups or expenses, on August 30, 2011, under which we may purchase shares of our common stock through March 12, 2012. Any repurchased shares will be cancelled and return to authorized but unissued status.

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We did not repurchase any equity securities in 2010 or prior years.

Use of Proceeds from Public Offerings of Common Stock

On June 7, 2007, our registration statement on Form S-1 (No. 333-141516) was declared effective in connection with our initial public offering. The offering closed on June 13, 2007, and, as a result, we received net proceeds of approximately $203.9 million after underwriters discounts and commissions of approximately $15.6 million and additional offering-related costs of approximately $4.0 million.

In June 2007, we used $23.8 million of the net proceeds to repay the outstanding balance of our credit facility with Silicon Valley Bank. For the year ended December 31, 2011, we made capital expenditures of $30.4 million and expect aggregate capital expenditures of approximately 9%-11% of total revenue in 2012. We may also use a portion of our net proceeds to fund acquisitions of complementary businesses, products or technologies. In May 2011, we acquired AcceloWeb (IL) Ltd., for which we used $4.7 million and could use an additional $4.0 million if certain performance milestones are achieved. Also in May 2011, we acquired Clickability, Inc., for which we used $2.8 million. In July 2010, we acquired Delve Networks, Inc. for which we used approximately $2.6 million, net of cash acquired, and could use an additional $1.2 million if certain financial targets are achieved. On April 30, 2010, we acquired EyeWonder, Inc. for which we used approximately $62.0 million, net of cash acquired, and, in January 2010, we acquired chors GmbH, for which we used approximately $2.0 million, net of cash acquired at the closing, and used an additional $0.3 million in 2011 for the achievement of specific financial targets during 2010. During 2012, pending the uses described above, we intend to invest the net proceeds in a variety of short-term, interest-bearing, investment grade securities. Depending upon the final outcome of pending litigation, a portion of the net proceeds may be used to satisfy a final damages judgment, if any.

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STOCK PERFORMANCE GRAPH

The graph set forth below compares the cumulative total stockholder return on our common stock between June 8, 2007 (the date our common stock began trading on Nasdaq) and December 31, 2011, 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 June 8, 2007 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 graph assumes the initial value of our common stock on June 8, 2007 was the closing sales price of $22.18 per share.

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 June 8, 2007 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.

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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, Inc. (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) (now Digital Generation, Inc.). Accordingly, the results related to the sale of EyeWonder and chors for the year ended December 31, 2011and 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.

	Limelight Networks, Inc. Year Ended December 31,				
	2011	**2010**	**2009**	**2008**	**2007**
Revenues	$ 171,292	$ 154,223	$ 131,663	$ 129,530	$ 103,111
Cost of revenue:					
Cost of services (1)	81,556	72,358	61,572	58,186	44,802
Depreciation network	28,030	22,224	24,051	25,675	20,739
Total cost of revenue	109,586	94,582	85,623	83,861	65,541
Gross profit	61,706	59,641	46,040	45,669	37,570
Operating expenses:					
General and administrative (1)	32,138	29,827	34,128	52,440	31,827
Sales and marketing (1)	40,081	38,614	32,587	34,916	25,462
Research and development (1)	17,146	10,841	7,937	7,365	5,504
Depreciation and amortization	4,787	2,460	2,351	1,356	857
Provision for litigation (2)			(65,645)	17,515	48,130
Total operating expenses	94,152	81,742	11,358	113,592	111,780
Operating (loss) income	(32,446)	(22,101)	34,682	(67,923)	(74,210)
Other income (expense):					
Interest expense	(299)	(62)	(39)	(55)	(1,418)
Interest income	752	910	1,345	5,098	5,153
Other (expense) income	(311)	(250)	(14)	(171)	(144)
Total other income	142	598	1,292	4,872	3,591
(Loss) income from continuing operations before income taxes	(32,304)	(21,503)	35,974	(63,051)	(70,619)
Income tax (benefit) expense	(2,238)	727	1,084	16	2,401
(Loss) income from continuing operations	(30,066)	(22,230)	34,890	(63,067)	(73,020)
Discontinued operations:					
Income from discontinued operations, net of income taxes	4,778	1,879			
Net (loss) income	$ (25,288)	$ (20,351)	$ 34,890	$ (63,067)	$ (73,020)
Basic net (loss) income per weighted average share:					
Continuing operations	$ (0.28)	$ (0.24)	$ 0.41	$ (0.76)	$ (1.26)
Discontinued operations	0.05	0.02			
Total	$ (0.23)	$ (0.22)	$ 0.41	$ (0.76)	$ (1.26)

Diluted net (loss) income per weighted average share:					
Continuing operations	$ (0.28)	$ (0.24)	$ 0.40	$ (0.76)	$ (1.26)
Discontinued operations	0.05	0.02			
Total	$ (0.23)	$ (0.22)	$ 0.40	$ (0.76)	$ (1.26)
Shares used in per weighted average share calculations:					
Basic	109,236	94,300	84,202	82,932	57,982
Diluted	109,236	94,300	87,972	82,932	57,982

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(1) Includes share-based compensation as follows:

	Limelight Networks, Inc. Year Ended December 31,				
	2011	2010	2009	2008	2007
	(In thousands)				
Cost of revenue	$ 2,419	$ 2,359	$ 2,414	$ 2,243	$ 1,489
General and administrative	6,132	5,984	7,556	8,060	10,653
Sales and marketing	3,776	4,840	4,970	5,400	3,948
Research and development	3,554	2,999	2,523	2,355	2,820
Total	$ 15,881	$ 16,182	$ 17,463	$ 18,058	$ 18,910

(2) In February 2008, a jury returned a verdict in a patent infringement lawsuit filed by Akamai Technologies, Inc., or Akamai, and the Massachusetts Institute of Technology, or MIT, against us, finding that we infringed four claims of the patent at issue and rejecting our invalidity defenses. The jury awarded Akamai an aggregate of approximately $45.5 million in lost profits, reasonable royalties and price erosion damages, plus pre-judgment interest estimated to be $2.6 million. During 2008, we recorded an additional potential damage liability relating to this infringement of $15.5 million, plus additional interest of $2.0 million. The total provision for litigation at December 31, 2008 was $65.6 million. 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.* (the *Muniauction* Case), released after the court denied our initial motion for JMOL. On April 24, 2009, the court issued its order and memorandum setting aside the adverse jury verdict and ruling that we did not infringe Akamai s 703 patent and that we are entitled to judgment as a matter of law. Based upon the court s April 24, 2009 order, we have reversed the $65.6 million provision for litigation previously recorded for this lawsuit as we no longer believe that payment of any amounts represented by the litigation provision is probable. The court entered final judgment in favor of us. Akamai filed a notice of appeal of the court s decision on May 26, 2009; and the Court of Appeals for the Federal Circuit heard arguments by both parties on June 7, 2010. On December 20, 2010, the 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 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 District Court s entry of judgment in our favor, and reinstated the appeal. On November 18, 2011, the Federal Circuit heard oral argument regarding the case. We believe that we presented our case and positions well both in our briefs and in oral argument. The issues in this case are complex, and it is likely that it will be several months before the Federal Circuit publishes its opinion in the case. We believe that we do not infringe Akamai s patents and will continue to vigorously defend our position; 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 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 our business. Any adverse ruling, in turn, would harm our revenue, market share, reputation, liquidity and overall financial position. In light of the favorable ruling from the Court of Appeals, we do not believe that a loss is probable. Therefore, we have made no provision for this lawsuit in our financial statements.

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	Limelight Networks, Inc. Year Ended December 31,				
	2011	2010	2009	2008	2007
			(In thousands)		
Consolidated Balance Sheet Data:					
Cash and cash equivalents and marketable securities, current	$ 140,199	$ 66,870	$ 154,379	$ 174,643	$ 197,097
Non-current marketable securities	51	103	12	13	87
Working capital	159,180	127,280	159,530	116,608	154,501
Property and equipment, net	56,368	52,891	35,524	40,185	46,968
Total assets	346,345	298,640	235,670	256,792	273,428
Long-term debt, less current portion	2,124	1,641			
Total stockholders equity	309,105	256,109	202,800	150,131	194,037

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 the Private Securities Litigation Reform Act of 1995. Forward-looking statements include statements as to industry trends and future expectations of ours and other matters that do not relate strictly to historical facts. These statements are often identified by the use of words such as may, will, expect, believe, anticipate, intend, could, estimate, or continue, and similar expressions or variations. These statements are based on the beliefs and assumptions of our management based on information currently available to management. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled Risk Factors set forth in Part I, Item 1A of this annual report on Form 10-K. We undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements. Prior period information has been modified to conform to current year presentation.

Overview

We were founded in 2001 as a provider of content delivery network services to deliver digital content over the Internet. We began development of our infrastructure in 2001 and began generating meaningful revenue in 2002. Today, we operate a globally distributed, high-performance computing platform (our global computing platform) upon which we provide an integrated suite of services including content delivery services, web content management services, video content management services, web acceleration services, mobility and monetization services, cloud storage services and related consulting services. Our web content management and video content management services are provided as Software as a Service (SaaS) solutions, our cloud storage services and content delivery services are provided as a Platform as a Service (PaaS) solutions and we sometimes refer to all of these integrated services and solutions (other than content delivery services) collectively as our value-added services (VAS). We derive revenue from the sale of services to our customers. Our scalable cloud solutions improve the quality of online media and content, accelerate the performance of web applications, enable secure online transactions and manage and monetize digital assets. These services are provided in the cloud as they are supported by our global computing platform, which provides highly-available, highly-redundant storage, bandwidth and computing resources as well as connectivity to last-mile broadband network providers. We also offer other platform and infrastructure services, such as transit and rack space services. We operate in one industry segment. Our services enable global businesses to build and manage their digital presence across Internet, mobile and social channels by reaching and delivering a brilliant experience to their audiences on mobile and connected devices, enabling them to enhance their brand presence, build stronger customer relationships, manage web content and video assets, analyze viewer preferences, optimize their advertising, and monetize their digital assets. We provide services to customers in North America, EMEA, and the Asia Pacific region. As of December 31, 2011, we had approximately 1,565 active customers worldwide.

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

On September 12, 2011, our board of directors approved a repurchase plan in compliance with Rules 10b-18 and 10b5-1 of the Securities Exchange Act of 1934 that authorizes us to repurchase up to $25 million of our shares of common stock, exclusive of any commissions, markups or expenses, from time to time through March 12, 2012. Any repurchased shares will be cancelled and return to authorized but unissued status. During the year ended December 31, 2011, we repurchased and cancelled approximately 9.5 million shares at an average price per share of approximately $2.56 per share. The price range of the shares repurchased was between $2.15 and $3.17 per share. The total amount expended before commissions, markups and expenses was approximately $24.2 million.

On September 1, 2011, we completed the sale of EyeWonder LLC and chors GmbH video and rich media advertising services (EyeWonder and chors) to DG FastChannel, Inc. (DG) (now Digital Generation, Inc.) for net proceeds of $61.0 million ($66.0 million gross cash proceeds less $5.0 million held in escrow) plus an estimated $10.9 million receivable. 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 management s discussion and analysis of financial condition and results of operations. At the time of purchase, we were pursuing a strategy of business growth through our core content delivery services and our value-added services offerings which through the acquisition provided us access directly to the Rich Media advertising market. Rich Media refers to online advertising that uses a range of interactive digital media, including streaming video and audio. We subsequently determined to concentrate our value-added services in mobility, web and video content management, web application acceleration, cloud storage, and consulting which we collectively refer to as our software-as-a-service solutions (SaaS). This divestiture will enable us to focus on continuing to grow and invest in our globally distributed computing platform and our rapidly expanding SaaS solutions. 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 the sale of EyeWonder and chors rich media advertising services.

On March 2, 2011, we completed an underwritten public offering of our common stock in which we sold and issued 11,500,000 shares of our common stock, including 1,500,000 shares subject to the underwriters over-allotment option, at a price to the public of $7.10 per share. The newly issued common shares began trading on the Nasdaq Global Select Market on March 2, 2011. We raised a total of approximately $81.7 million in gross proceeds from the offering, or approximately $77.1 million in net proceeds after deducting underwriting discounts and commissions of approximately $3.8 million and other offering costs of approximately $0.8 million. The offering was made pursuant to the effective registration statement on Form S-3 (Registration Statement No. 333-170609) previously filed with and declared effective by the Securities and Exchange Commission (SEC) on November 26, 2010 and the related prospectus supplement thereunder filed with the SEC on February 28, 2011.

On May 2, 2011, we acquired all of the issued and outstanding shares of Clickability, Inc. (Clickability), a privately-held SaaS provider of web content management located in San Francisco, California. This transaction created the foundation for our web content management services. The aggregate purchase price consisted of approximately $4.9 million of cash paid at the closing (cash paid net of cash acquired was $2.7 million), $0.1 million held by us to cover future claims and 732,000 shares of our common stock with an estimated fair value of approximately $4.6 million on the date of acquisition. See Note 4 of Notes to Consolidated Financial Statements included in Part II, Item 8 of this annual report on Form 10-K for additional information about our Clickability acquisition.

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On May 9, 2011, we acquired all of the issued and outstanding shares of AcceloWeb, (IL) Ltd. (AcceloWeb), a Tel Aviv, Israel-based privately-held provider of advanced technology that helps speed the presentation of websites and applications. This transaction created the foundation for our web acceleration services. The aggregate purchase price consisted of approximately $5.0 million of cash paid at the closing (cash paid net of cash acquired was $4.7 million) and 1,100,629 shares of our common stock issued at closing with an estimated fair value of approximately $7.0 million on the acquisition date. In addition, the purchase price included contingent consideration with an aggregate potential value of $8.0 million ($4.0 million payable in cash and $4.0 million payable in the Company s common stock), which may be earned upon the achievement of certain performance milestones which will be measured quarterly during the eight full consecutive quarters ending June 30, 2013 (the Earn-Out). The fair value of the Earn-Out was determined to be approximately $0.8 million, which is comprised of $0.4 million payable in cash (the Cash Earn-Out) and $0.4 million payable in common stock (the Common Stock Earn-Out). The carrying value of the Earn-Out is accreted to its estimated redemption value with a charge to interest expense. See Note 4 of Notes to Consolidated Financial Statements included in Part II, Item 8 of this annual report on Form 10-K for additional information about our AcceloWeb acquisition.

The following table sets forth our historical operating results, as a percentage of revenue for the periods indicated.

	Year Ended December 31,		
	2011	**2010**	**2009**
Consolidated Statement of Operations Data:			
Revenue	100%	100%	100%
Cost of revenue:			
Cost of services	48	47	47
Depreciation network	16	14	18
Total cost of revenue	64	61	65
Gross profit	36	39	35
Operating expenses:			
General and administrative	19	19	26
Sales and marketing	23	25	25
Research and development	10	7	6
Depreciation and amortization	3	2	2
Provision for Litigation			(50)
Total operating expenses	55	53	9
Operating (loss) income	(19)	(14)	26
Other income (expense):			
Interest expense			
Interest income		1	1
Other income (expense)			
Total other income (expense)			1
(Loss) income before income taxes	(19)	(14)	27
Income tax (benefit) expense	(1)		1
(Loss) income from continuing operations	(18)	(14)	26
Discontinued operations:			
Income (loss) from discontinued operations, net of income taxes	3	1	
Net (loss) income	(15)%	(13)%	26%

Traffic on our network and our value-added services business has continued to grow. This traffic growth is primarily the result of growth in the traffic delivered to existing customers and to a lesser extent on behalf of new customers. Our content delivery revenue is generated by charging for traffic delivered. While our traffic continued to grow, our revenue generated from such traffic grew at a much slower rate as a result of unit price compression. Our value-added services revenue represented substantially all of our revenue growth during the year ended December 31, 2011. During 2011, we added new customers through new business and through our business acquisitions, and we also elected not to renew some customers. Our average number of products per customer during the three month period ended December 31, 2011 was 1.9.

Our international revenue has continued its growth, 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, 2011, 2010 and 2009, respectively, revenue derived from customers outside North America accounted for approximately 30%, 27% and 22% respectively, of our total revenue. For the years ended December 31, 2011, 2010 and 2009, respectively, we derived approximately 50%, 57% and 69%, respectively of our international revenue from EMEA and approximately 50%, 43% and 31%, respectively of our international revenue from Asia Pacific. We anticipate that our Asia Pacific revenue may continue to grow as a percentage of our total international revenue. No single country outside of the United States accounted for 10% or more of our revenues during the years ended December 31, 2011, 2010 and 2009, respectively. We expect foreign revenue to continue to increase in absolute dollars in 2012. Our business is managed as a single segment, and we report our financial results on this basis.

During any given fiscal period, a relatively small number of customers typically account for a significant percentage of our revenue. For example, in 2011, sales to our top 10 customers, in terms of revenue, accounted for approximately 34% of our total revenue. During 2010 and 2009, revenue generated from sales to our top 10 customers, in terms of revenue, accounted for approximately 34% and 36%, respectively, of our total revenue. During 2011, we had one customer, Netflix, who represented more than 10% of our total revenue. For the year ended December 31, 2011, Netflix represented approximately 11% of our total revenue. During 2010, we had no customer that accounted for more than 10% of our total revenue. During 2009 we had one customer, Microsoft, who represented more than 10% of our total revenue. For the year ended December 31, 2009, Microsoft represented approximately 14% of our total revenue. We anticipate our top 10 customer concentration levels will be consistent with 2011.

In addition to selling to our direct customers, we maintain relationships with a number of resellers that purchase our services for resale to their end customers. Revenue generated from sales to reseller customers was approximately 4%, 5% and 2%, respectively of our total revenue for the years ended December 31, 2011, 2010 and 2009, respectively.

In addition to these revenue-related business trends, our cost of revenue increased in absolute dollars and increased as a percentage of revenue in 2011 when compared to 2010. For the year ended December 31, 2011, cost of revenue included approximately eight months of cost of revenue for Clickability and AcceloWeb, respectively. We acquired each company in May 2011. The increase in absolute dollars was primarily due to increased bandwidth and co-location fees (which included increased peering costs), due to increased traffic and expansion of our global computing platform, increased depreciation expense on our network equipment, as we continue to build-out our expanding network and refresh our network equipment, and increased payroll and related employee costs for operations personnel, who are responsible for managing and monitoring our global computing platform and delivery of our value-added services. We enter into contracts with third party network and data center providers, with terms typically ranging from several months to several years. Our contracts related to transit bandwidth provided by network operators generally commit us to pay either a fixed monthly fee or monthly fees plus additional fees for bandwidth usage above a contracted level. In March 2011 and January and September 2009, we entered into multi-year arrangements with Global Crossing for additional bandwidth and backbone capacity. The agreements required us to make advanced payments for future services to be received. Our recently amended master contract with Global Crossing provides for the use of private lines of varying capacity for our backbone. The amended agreement provides for added capacity for a four year term, and includes a substantial prepayment of fees and charges. In addition to purchasing services from communications providers, we connect directly to over 900 broadband Internet service providers, or ISPs, generally without either party paying the other. This industry practice, known as settlement free peering, benefits us by allowing us to place content objects directly on user access networks, which helps us provide higher performance delivery for our customers and eliminate paying transit bandwidth fees to network operators. This practice also benefits the ISP and its customers by allowing them to receive improved content delivery through our local servers and eliminate cost of transit bandwidth associated with delivery receipt of the traffic. We do not consider these relationships to represent the culmination of an earnings process. Accordingly, we do not recognize as revenue the value to the ISPs associated with the use of our servers nor do we recognize as expense the value of the bandwidth received at discounted or no cost. These peering relationships are mutually beneficial and are not contractual commitments. In addition to settlement free peering, we incur costs for non settlement free peering as well as costs associated with connecting to the Internet service providers.

During 2011, we continued to reduce our network transit bandwidth delivery costs per gigabyte transferred by entering into new supplier contracts with lower pricing and amending existing contracts to take advantage of price reductions from our existing suppliers associated with higher purchase commitments. However, due to increased traffic delivered over our network, our total transit bandwidth delivery costs increased during 2011. We anticipate our overall transit bandwidth delivery costs will continue to increase in absolute dollars as a result of expected higher traffic levels, partially offset by continued reductions in bandwidth costs per unit. In addition, during 2011, we entered into relationships for fixed price paid peering ports that will assist in cost management as we continue to increase the volume of traffic moving through our global computing platform. We expect that our overall transit bandwidth delivery costs as a percentage of revenue will remain relatively constant in 2012 compared to 2011.

For the year ended December 31, 2011, operating expenses increased in absolute dollars and increased as a percentage of revenue compared to the year ended December 31, 2010. The year ended December 31, 2011 included approximately eight months of operating expenses from our acquisitions of Clickability and AcceloWeb. This increase was primarily due to increased general and administrative costs (primarily increased facility and facilities related costs, and increased payroll and related employee costs, due to increased staffing, and increased fees, licenses and non-income taxes, offset by lower litigations expenses and lower bad debt expense), increased sales and marketing expenses (primarily increased marketing expenses, increased employee events and increased fees and licenses, offset by a decrease in share-based compensation), increased research and development costs (primarily payroll and related employee costs due to increased staffing and increased share-based compensation) and increased non-network related depreciation and amortization (primarily due to increased amortization of intangible assets from our business acquisitions).

We make our capital investment decisions based upon careful evaluation of a number of variables, such as the amount of traffic we anticipate on our network, the cost of the physical infrastructure required to deliver that traffic, and the forecasted capacity utilization of our network. Our capital expenditures have varied over time, in particular, as we purchased servers and other network equipment associated with our network build-out. For example, in 2009, 2010 and 2011, we made capital purchases of $20.4 million, $33.5 million and $30.4 million, respectively, which represented 16%, 22% and 18%, respectively, of total revenue for each of those years. We expect to have ongoing capital expenditure requirements, as we continue to invest in, refresh and expand our global computing platform. For 2012, we currently anticipate making aggregate capital expenditures of approximately 9%-11% of total revenue for the year.

Occasionally we generate revenue from certain customers that are entities related to certain of our executives. The aggregate amounts of revenue derived from these related party transactions was less than 1% for the year ended December 31, 2011. For the years ended December 31, 2010 and 2009, respectively, we did not generate any revenue from related parties.

We are currently engaged in litigation with one of our principal competitors, Akamai Technologies, Inc. (Akamai) and its licensor, the Massachusetts Institute of Technology (MIT), in which these parties have alleged that we are infringing three of their patents. In February 2008, a jury returned a verdict in this lawsuit, finding that we infringed four claims of the patent at issue (United States Patent No. 6,108,703 (the 703 patent) and rejecting our invalidity defenses. The court conducted a bench trial in November 2008, regarding our equitable defenses; and we filed a motion for reconsideration of the court s earlier denial of our motion for Judgment as a Matter of Law (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.* (the *Muniauction* Case), released after the court denied our initial motion for JMOL. On April 24, 2009 the court issued its order and memorandum setting aside the adverse jury verdict and ruling that we did not infringe Akamai s 703 patent and that we are entitled to judgment as a matter of law. Based upon the court s April 24, 2009 order we reversed the $65.6 million provision for litigation previously recorded for this lawsuit as we no longer believe that payment of any amounts represented by the litigation provision is probable. The court entered final judgment in favor of us on May 22, 2009. Akamai filed a notice of appeal of the court s decision on May 26, 2009; and the Court of Appeals for the Federal Circuit heard arguments by both parties on June 7, 2010. On December 20, 2010 the 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 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 District Court s entry of judgment in our favor, and reinstated the appeal. On November 18, 2011, the Federal Circuit heard oral argument regarding the case. We believe that we presented our case and positions well both in our briefs and in oral argument. The issues in this case are complex, and it is likely that it will be several months before the Federal Circuit publishes its opinion in the case. We believe that we do not infringe Akamai s patents and will continue to vigorously defend our position; 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 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 our business. Any adverse ruling, in turn, would harm our revenue, market share, reputation, liquidity and overall financial position. We are not able at this time to estimate the range of potential loss nor, in light of the favorable United States district court order, do we believe that a loss is probable. Therefore, we have made no provision for this lawsuit in our financial statements.

Our future results will be affected by many factors identified in the section captioned Risk Factors, in this annual report on Form 10-K, including our ability to:

- increase our revenue by adding customers and limiting customer cancellations and terminations, as well as increasing the amount of monthly recurring revenue that we derive from our existing customers;
- manage the prices we charge for our services, as well as the costs associated with operating our network in light of increased competition;
- successfully manage our litigation with Akamai to a favorable conclusion;
- prevent disruptions to our services and network due to accidents or intentional attacks;
- continued ability to deliver a significant portion of our traffic through settlement free peering relationships which significantly reduce our cost of delivery;
- successfully integrate the businesses we have acquired; and
- successfully manage the disposition of businesses we have divested from.

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

Critical Accounting Policies and Estimates

Our consolidated financial statements have been prepared in accordance with United States general accepted accounting principles and necessarily include certain estimates and judgments made by management. The following is a list of accounting policies that we believe are the most critical in understanding our consolidated

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financial position, results of operations or cash flows and that may require management to make subjective or complex judgments about matters that are inherently uncertain.

Revenue Recognition

We primarily derive revenue from the sale of content delivery and value-added services to our customers. 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.

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. 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.

We have on occasion entered into multi-element arrangements. In October 2009, the FASB issued ASU 2009-13 and this ASU addresses the accounting for multiple-deliverable arrangements to enable vendors to account for products or services (deliverables) separately rather than as a combined unit. Specifically, this guidance amends the criteria in ASC 605-25 for separating consideration in multiple-deliverable arrangements. This guidance establishes a selling price hierarchy for determining the selling price of a deliverable, which is based on: (a) vendor-specific objective evidence; (b) third-party evidence; or (c) management s best estimate. This guidance also eliminates the residual method of allocation and requires that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method. In the third quarter of 2010, we early adopted ASU 2009-13 with such adoption being effective for revenue arrangements entered into or materially modified after January 1, 2010. We recognized $1.1 million of revenue related to a multi-element arrangement accounted for in accordance with ASU 2009-13 during the year ended December 31, 2010.

Prior to the adoption of ASU 2009-13 effective January 1, 2010, we accounted for multiple element arrangements in accordance with ASC 605-25. When we entered into such arrangements, each element was accounted for separately over its respective service period or at the time of delivery, provided that there was objective evidence of fair value for the separate elements. Objective evidence of fair value was based on the price charged for the element when sold separately. If the fair value of each element could not be objectively determined, the total value of the arrangement was recognized ratably over the entire service period to the extent that all services have begun to be provided, and other revenue recognition criteria have been satisfied.

If the multi-element arrangement included a significant software component, we recognized software license revenue when persuasive evidence of an arrangement exists, delivery occurs, the fee is fixed or determinable and collection of the receivable is reasonably assured. If a software license contained 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 related to these arrangements 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 could not be established for all elements to be delivered, we deferred all amounts received under the arrangement and did not begin to recognize revenue until the delivery of the last element of the contract started. Subsequent to commencement of delivery of the last element, we commenced revenue recognition. Amounts to be received under the contract are then included in the amortizable base and recognized as revenue ratably over the remaining term of the arrangement until we have delivered all elements and have no additional performance obligations.

We had certain multi-element arrangements as of December 31, 2010 that were entered into prior to the adoption of ASU 2009-13 in 2010. Under these arrangements, we recognized approximately $4.3 million, $11.0 million and $6.9 million, respectively, in revenue for the years ended December 31, 2011, 2010 and 2009. As of December 31, 2011, we had deferred revenue related to these multi-element arrangements of approximately $0.5 million that will be recognized over the remaining terms of the respective arrangements based on the underlying elements of the arrangements in accordance with our revenue recognition policies.

We also sell 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. Reseller revenue was approximately 4%, 5% and 2%, respectively, of our total revenue for the years ended December 31, 2011, 2010 and 2009, respectively.

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.

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. Estimates are used in determining these reserves. We calculate the allowance for doubtful accounts using the aging of the accounts receivable method. Under this method, the 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. We perform on-going credit evaluations of our customers. If such an evaluation indicates that payment is no longer reasonably assured for current services provided, any future services provided to that customer will result in the deferral of revenue until payment is made or we determine payment is reasonably assured. In addition, we record a reserve for service credits. Reserves for service credits are measured based on an analysis of credits issued in previous periods. We do not have any off-balance sheet credit exposure related to our customers.

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 and historical volatilities of similar public companies within the Internet services and network industry. Each company s historical volatility is weighted based on certain qualitative factors and combined to produce a single volatility factor used by us. The expected term is calculated using the short-cut method provided in the Securities Exchange Commission s Staff Accounting Bulletin No. 107, which takes into consideration the grant s

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contractual life and the vesting periods. 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 develop an estimate of the number of share-based awards that will be forfeited due to employee turnover. Annual changes in the estimated forfeiture rate may have a significant effect on share-based payments expense, as the effect of adjusting the rate is recognized in the period the forfeiture estimate is changed. If the actual forfeiture rate is higher than the estimated forfeiture rate, then an adjustment is made to increase the estimated forfeiture rate, which will result in a decrease to the expense recognized in the financial statements. If the actual forfeiture rate is lower than the estimated forfeiture rate, then an adjustment is made to decrease the estimated forfeiture rate, which will result in an increase to the expense recognized in the financial statements. We have never paid cash dividends, and do not currently intend to pay cash dividends, and thus have assumed a 0% dividend yield.

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 recognize share-based compensation expense using the straight-line attribution method. 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 stock-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 stock-based compensation recognized will also change.

Contingencies

We record contingent liabilities resulting from asserted and unasserted claims against us, when it is probable that a liability 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.

Contingent Consideration

Contingent consideration is included in Other Current Liabilities, Other Long Term Liabilities or as a component of Equity on our consolidated Balance Sheet depending upon characteristics of the obligation. In connection with certain of our acquisitions, additional contingent considerations may be earned in the future by the selling entity upon completion of certain financial milestones. We record a liability or equity that is recognized on the acquisition date for an estimate of the acquisition date fair value of the contingent consideration based on the estimated probability of achieving the milestones and the probability weighted discount on cash flows. Any change in the fair value of contingent consideration subsequent to the acquisition date is recognized in the consolidated statements of operations. Contingent consideration classified as a liability is re-measured to fair value each reporting period until the contingency is resolved. The changes in fair value are recognized in earnings. Contingent consideration classified as equity is not re-measured.

Deferred Taxes and Uncertain Tax Positions

We utilize the liability method of accounting for income taxes in accordance with the provisions of ASC 740. We record net deferred tax assets to the extent we believe these assets will more likely than not be realized.

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In making such determination, we consider all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent financial performance. We also follow ASC 740 to account for uncertainty in income taxes recognized in the financial statements.

ASC 740 states that 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.

ASC 740 provides that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. Our unrecognized tax benefit from uncertain tax positions decreased from January 1, 2011 to December 31, 2011. We anticipate that our unrecognized tax benefits will continue to decrease within twelve months of the reporting date, as a result of settling potential tax liabilities in certain foreign jurisdictions. 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.

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.

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Goodwill and Other Intangible Assets

We test goodwill for impairment on an annual basis or more frequently if events or changes in circumstances indicate that goodwill might be impaired. As of December 31, 2011 and 2010, we concluded that we had one reporting unit and assigned the entire balance of goodwill to this reporting unit. The fair value of the reporting unit was determined using our market capitalization as of October 31, 2011 and 2010. We performed an impairment test of goodwill as of each of such dates and the tests did not indicate an impairment of goodwill. Other intangible assets consist of existing technologies, customer relationships, trade names and trademarks. Purchased intangible assets, other than goodwill, are amortized over their estimated useful lives based upon the estimated economic value derived from the related intangible assets. Goodwill is carried at its historical cost.

Fair Value of Financial Instruments

We measure certain financial assets and liabilities at fair value based on the price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. As of December 31, 2011, our financial instruments consist principally of cash and cash equivalents, marketable securities, accounts receivable, indemnity claim assets, accounts payable, accrued expenses, contingent consideration and income taxes payable. See Note 24 of Notes to Condensed Consolidated Financial Statements included in Part II, Item 8 of this annual report on Form 10-K for additional information on the fair value of our financial instruments.

Results of Continuing Operations

Comparison of the Years Ended December 31, 2011 and 2010

Revenue

	Year Ended December 31, 2011	2010	Increase (Decrease)	Percent Change
	(in thousands)			
Revenue	$ 171,292	$ 154,223	$ 17,069	11%

Revenue increased 11%, or $17.0 million, to $171.3 million for the year ended December 31, 2011 as compared to $154.2 million for the year ended December 31, 2010. The increase in revenue for the year ended December 31, 2011 as compared to the year ended December 31, 2010, was primarily attributable to an increase in our value-added services revenue of approximately $19.6 million. Our value-added services revenue, which collectively refers to our SaaS solutions for mobility, web and video content management, web application acceleration, cloud storage, and consulting, includes revenue from the date of acquisition of Delve, Clickability and AcceloWeb. The increase in value-added services revenue is primarily attributable to increases in our web content management, storage, video publishing and mobile product offerings. The increase in value-added services revenue was offset by a decrease in our content delivery services revenue of approximately $2.5 million. During 2011, we continued to increase the amount of traffic moving through our network; however, the revenue generated from the increase in traffic grew at a much lower rate and we continue to see a decline in our average unit sales price. Our core content delivery services revenue increased approximately $3.7 million; however, this increase was offset by a decrease of approximately $6.2 million in our network pop-build and license revenue from Microsoft. As of December 31, 2011, we had approximately 1,565 customers as compared to approximately 1,567 as of December 31, 2010.

For the years ended December 31, 2011 and 2010, approximately 30% and 27%, respectively, of our total revenues were derived from our operations located outside of North America. For the years ended December 31, 2011 and 2010, we derived approximately 50% and 57%, respectively, of our international revenue from EMEA and approximately 50% and 43%, respectively, of our international revenue from Asia Pacific. No single country outside of the United States accounted for 10% or more of revenues during these periods.

We anticipate revenues will increase in 2012, which will include a full year of revenue from our business acquisitions. We expect to deliver more traffic on our network and expect continued growth in our value added services. Additionally, we expect our international revenue to continue to increase in absolute dollars and that our Asia Pacific revenue may continue to grow as a percentage of our total international revenue compared to 2011. We anticipate that our customer concentrations levels will be consistent with 2011.

Cost of Revenue

	Year Ended December 31, 2011	2010	Increase (Decrease)	Percent Change
	(in thousands)			
Cost of revenue	$ 109,586	$ 94,582	$ 15,004	16%

Cost of revenue includes fees paid to network providers for bandwidth and backbone, costs incurred for non-settlement free peering and connection to Internet service provider networks or ISPs, and fees paid to data center operators for co-location of our network equipment. Cost of revenue also includes depreciation of network equipment used to deliver our content delivery services, payroll and related costs and equity-related compensation for our network operations, and professional services personnel.

Cost of revenue increased 16%, or $15.0 million, to $109.6 million for the year ended December 31, 2011 as compared to $94.6 million for the year ended December 31, 2010. These increases were primarily due to an increase in aggregate bandwidth and co-location fees of $6.1 million. This increase was primarily due to increased peering costs of approximately $7.6 million, increased costs associated with our transit backbone of approximately $0.7 million, and an increase in rack fees of approximately $0.5 million, associated with increased amounts of deployed network assets. These increases were offset by a decrease in our cost of bandwidth transit of approximately $2.3 million, and a decrease in other recurring cost of sales of approximately $0.4 million. In addition, depreciation increased approximately $5.8 million, due to increased amounts of deployed assets, as we continue to build-out our expanding network and to refresh our network equipment, and an increase in payroll and related employee costs of $2.9 million associated with increased staff to build and operate our global computing platform, as well as increased and professional services personnel. Additionally, we had increases in professional fees and outside services of $0.3 million, primarily due to an increase in outside consulting expense, an increase in royalty expense of $0.4 million and an increase in travel and travel-related expenses of $0.2 million. These increases were offset by a decrease in other costs of $0.7 million. The decrease in other costs is primarily related to $0.8 million of costs in 2010 associated with the sale of equipment to a customer and reduced fees and licenses of approximately $0.4 million in 2011. These decreases were offset by an increase of approximately $0.4 million in other costs associated with the delivery of our services and an increase in office and computer supplies of approximately $0.1 million.

Additionally, for both the years ended December 31, 2011 and 2010, cost of revenue includes share-based compensation expense of approximately $2.4 million.

Cost of revenue in 2011 and 2010 was composed of the following:

	Year Ended December 31, 2011	2010
	(in millions)	
Bandwidth and co-location fees	$ 57.4	$ 51.3
Depreciation network	28.0	22.2
Payroll and related employee costs	15.6	12.7
Share-based compensation expense	2.4	2.4
Travel and travel-related expenses	0.9	0.7
Professional fees and outside services	0.9	0.6
Royalty expenses	0.8	0.4
Other costs	3.6	4.3
Total cost of revenue	$ 109.6	$ 94.6

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We anticipate cost of revenue will increase in 2012, which will include a full year of expenses from our business acquisitions. We expect to deliver more traffic on our network, which would result in higher expenses associated with the increased bandwidth, peering, rack and co-location costs to support increased traffic; however, such costs are likely to be partially offset by lower bandwidth costs per unit. We anticipate depreciation expense related to our network equipment to remain constant compared to 2011 in absolute dollars, as we continue to expand our network and to re-fresh older servers. Additionally, we expect an increase in payroll and related costs, as we continue to make investments in our network to service our expanding customer base as well as our increase in value-added services personnel. We expect that share-based compensation expense will decrease compared to 2011.

General and Administrative

	Year Ended December 31, 2011	2010	Increase (Decrease)	Percent Change
		(in thousands)		
General and administrative	$ 32,138	$ 29,827	$ 2,311	8%

General and administrative expenses consist primarily of the following components:

- payroll, share-based compensation and other related costs, including related expenses for executive, finance, legal, business applications, internal network management, human resources and other administrative personnel;
- fees for professional services and litigation expenses;
- rent and other facility-related expenditures for leased properties;
- the provision for doubtful accounts; and
- non-income related taxes.

General and administrative expenses increased 8%, or $2.3 million, to $32.1 million for the year ended December 31, 2011 as compared to $29.8 million for the year ended December 31, 2010. These increases were primarily due to an increase in payroll and related employee costs of $0.6 million, which was primarily due to new hires and, to a lesser extent, to the addition of general and administrative personnel of our business acquisitions, an increase in travel and travel-related expenses of $0.2 million, and an increase in other costs of $2.4 million. The increase in other costs was primarily due to increased facilities and facilities-related costs of $1.3 million, primarily due to our relocation to our new worldwide headquarters in Tempe, Arizona in April 2011, increased fees, licenses and non-income taxes of $0.6 million, an increase in telephone and other employee costs of $0.3 million and an increase in general office expenses (office and computer supplies, postage and shipping) of approximately $0.2 million. These increases were offset by a decrease in litigation expenses of $0.7 million and a decrease in bad debt expense of $0.2 million.

Other expenses include such items as rent, utilities, telephone, insurance, fees and licenses and property taxes.

Additionally, general and administrative share-based compensation expense increased $0.1 million for the year ended December 31, 2011 compared to the year ended December 31, 2010.

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General and administrative expenses in 2011 and 2010 were composed of the following:

	Year Ended December 31, 2011	2010
	(in millions)	
Payroll and related employee costs	$ 9.1	$ 8.5
Share-based compensation	6.1	6.0
Professional fees	5.8	5.9
Litigation expenses	1.4	2.1
Bad debt expense	1.1	1.3
Travel and travel related expenses	0.8	0.6
Other expenses	7.8	5.4
Total general and administrative	$ 32.1	$ 29.8

In 2012, we expect our general and administrative expenses to increase in absolute dollars and decrease as a percentage of revenue compared to 2011. During 2012, which will include a full year of expenses from our business acquisitions, we expect to see increased salaries and related employee cost, increased costs and fees associated with intellectual property, as well as increased facility costs. These increases will be offset by lower litigation costs and reduced professional fees. In 2013 and in the longer term, we expect our general and administrative expense to decrease as a percentage of revenue as our costs are expected to grow slower than our top line revenue. We expect that share-based compensation expense will increase in absolute dollars and decrease as a percentage of revenue in 2012.

Sales and Marketing

	Year Ended December 31, 2011	2010	Increase (Decrease)	Percent Change
	(in thousands)			
Sales and marketing	$ 40,081	$ 38,614	$ 1,467	4%

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

Sales and marketing expenses increased 4%, or $1.5 million, to $40.1 million for the year ended December 31, 2011, as compared to $38.6 million for the year ended December 31, 2010. The increase in sales and marketing expenses was primarily due to an increase in marketing programs of approximately $0.8 million, an increase in travel and travel-related expenses of $0.2 million and an increase in other costs of $1.9 million. The increase in other costs was primarily due to increased employee events of $0.5 million, increased fees and licenses of $0.4 million, increased facility and facility-related costs of $0.3 million, increased training and seminars of $0.2 million and an increase in telephone costs of $0.2 million. These increases were offset by a decrease in share-based compensation of $1.0 million, a decrease in payroll and payroll-related expenses of $0.3 million, primarily due to increased salaries and related employee costs of $1.6 million, which included approximately $0.5 million of salaries and related employee costs from our business acquisitions, offset by lower variable compensation of $1.3 million and a lower annual bonus accrual of approximately $0.6 million. In addition, professional fees and outside services decreased $0.1 million.

As mentioned above, sales and marketing share-based compensation expense decreased $1.0 million for the year ended December 31, 2011 compared to the year ended December 31, 2010.

Sales and marketing expenses in 2011 and 2010 were composed of the following:

	Year Ended December 31, 2011	2010
	(in millions)	
Payroll and related employee costs	$ 24.3	$ 24.6
Share-based compensation expense	3.8	4.8
Travel and travel-related expense	3.2	3.0
Marketing programs	2.3	1.5
Professional fees and outside services	1.5	1.6
Other expenses	5.0	3.1
Total sales and marketing	$ 40.1	$ 38.6

We anticipate our sales and marketing expense will increase in 2012 in both absolute dollars and as a percentage of revenue compared to 2011. The increase in absolute dollars (which will include a full year of expenses from our business acquisitions) is due to an expected increase in salaries and related employee costs for our sales and marketing personnel, increased commissions on higher forecast sales, an increase in marketing costs such as advertising and other lead-generating activities and an increase in facility and facility-related expenses for our sales and marketing personnel. We expect that share-based compensation expense will decrease in absolute dollars in 2012, and will remain consistent with 2011 as a percent of revenue.

Research and Development

	Year Ended December 31, 2011	2010	Increase (Decrease)	Percent Change
	(in thousands)			
Research and development	$ 17,146	$ 10,841	$ 6,305	58%

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

Research and development expenses increased 58%, or $6.3 million, to $17.1 million for the year ended December 31, 2011, as compared to $10.8 million for the year ended December 31, 2010. The increase in research and development expenses was primarily due to an increase of $5.0 million in payroll and related employee costs, primarily due to the addition of research and development personnel from our acquisitions, an increase in share-based compensation of $0.6 million, an increase in professional fees and outside services of $0.3 million and an increase in other costs of $0.4 million. The increases in payroll and related employee costs is primarily associated with our hiring of additional network and software engineering personnel and the addition of research and development personnel resulting from our business acquisitions. Other expenses include such items as travel and travel-related expenses, consulting, contract labor, telephone, and office supplies.

Research and development expenses in 2011 and 2010 were composed of the following:

	Year Ended December 31, 2011	2010
	(in millions)	
Payroll and related employee costs	$ 11.8	$ 6.8
Share-based compensation expense	3.6	3.0
Professional fees and outside services	0.7	0.4
Other	1.0	0.6
Total research and development	$ 17.1	$ 10.8

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We anticipate our research and development expenses will increase in 2012 (which will include a full year of expenses from our business acquisitions) in absolute dollars and increase as a percentage of revenue as we continue to make investments in our core technology, refinements and additions to our other service offerings. We expect increased payroll and related employee costs associated with continued hiring of research and development personnel. We expect that share-based compensation expense will decrease in 2012.

Depreciation and Amortization (Operating Expenses)

	Year Ended December 31, 2011	2010	Increase (Decrease)	Percent Change
		(in thousands)		
Depreciation and amortization	$ 4,787	$ 2,460	$ 2,327	95%

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

Depreciation and amortization expenses increased 95%, or $2.3 million, to $4.8 million for the year December 31, 2011, as compared to $2.5 million for the year ended December 31, 2010. The increase in depreciation and amortization expense was primarily due to an increase of approximately $2.0 million in amortization of intangible assets acquired in business combinations, and to a lesser extent increased general and administrative depreciation and amortization of $0.3 million when compared to the year ended December 31, 2010. For the year ended December 31, 2011, amortization of intangibles was approximately $2.3 million. Based on our other intangible assets as of December 31, 2011, aggregate expense related to amortization of other intangible assets is expected to be $2.9 million for 2012, and $2.8 million, $2.1 million, $1.1 million and $0.3 million for fiscal years 2013, 2014, 2015 and 2016 and beyond, respectively.

Interest Expense

	Year Ended December 31, 2011	2010	Increase (Decrease)	Percent Change
		(in thousands)		
Interest expense	$ 299	$ 62	$ 237	382%

Interest expense consists of interest paid and the amortization of deferred financing costs.

Interest expense increased 382%, or $237,000, to $299,000 for the year ended December 30, 2011, as compared to $62,000 for the year ended December 31, 2010. The increase in interest expense was primarily related to increased interest expense on capital leases (approximately $127,000), the accretion of contingent consideration related to our business acquisitions (approximately $97,000), and other interest (approximately $13,000). Interest expense for the year ended December 31, 2010 included interest paid in association with a filing of non-income tax related payments and interest paid on capital leases. As of December 31, 2011, with the exception of our capital leases, we had no outstanding credit facilities.

Interest Income

	Year Ended December 31, 2011	2010	Increase (Decrease)	Percent Change
		(in thousands)		
Interest income	$ 752	$ 910	$ (158)	(17)%

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

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Interest income decreased 17%, or $158,000 to $752,000 for the year ended December 31, 2011, as compared to $910,000 for the year ended December 31, 2010. During 2012, we anticipate interest income to increase as a result of expected increased average cash balances.

Other (Expense) Income

	Year Ended December 31, 2011	2010	Increase (Decrease)	Percent Change
	(in thousands)			
Other (expense) income	$ (311)	$ (250)	$ 61	24%

Other expense increased $61,000 to $311,000 for year ended December 31, 2011, as compared to $250,000 for the year ended December 31, 2010. Other income (expense) consists primarily of foreign currency gains and losses.

Income Tax (Benefit) Expense

	Year Ended December 31, 2011	2010	Increase (Decrease)	Percent Change
	(in thousands)			
Income tax (benefit) expense	$ (2,238)	$ 727	$ (2,965)	(408)%

We had an income tax benefit during the year ended December 31, 2011 of $2.2 million or 7% of our pre-tax loss of $32.3 million which was different than our statutory income tax rate due primarily to the tax benefit on losses from continuing operations associated with the sale of EyeWonder and chors. For the year ended December 31, 2010, we had an income tax provision of $0.7 million or (3%) of our pre-tax loss of $21.5 million.

Income (loss) from Discontinued Operations

	Year Ended December 31, 2011	2010	Increase (Decrease)	Percent Change
	(in thousands)			
Income (loss) from discontinued operations	$ 4,778	$ 1,879	$ 2,899	154%

Discontinued operations relates 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, 2010 and 2009

Revenue

	Year Ended December 31, 2010	2009	Increase (Decrease)	Percent Change
	(in thousands)			
Revenue	$ 154,223	$ 131,663	$ 22,560	17%

Revenue increased 17%, or $22.6 million, to $154.2 million for the year ended December 31, 2010 as compared to $131.7 million for the year ended December 31, 2009. The increase in revenue for the year ended December 31, 2010 as compared to the year ended December 31, 2009, was attributable to an increase in both our core delivery revenue and our value-added services revenue, which includes revenue from the date of acquisition of Delve. We continued to increase the amount of traffic moving through our network; however, we continue to see a decline in our average unit sales price. Our core delivery revenue increased approximately $12.3 million, or 11% for the year ended December 31, 2010, compared to the year ended December 31, 2009. Our value-added services revenue increased approximately $10.2 million, or 69% for the year ended December 31, 2010, compared to the year ended December 31, 2009. We provide value-added services in the following areas: website and enterprise application acceleration, mobile content delivery, online and mobile ad serving, cloud storage, transcoding, computing functions and strategic consulting. As of December 31, 2010, we had approximately 1,567 customers as compared to approximately 1,370 as of December 31, 2009.

For the years ended December 31, 2010 and 2009, approximately 27% and 22%, respectively, of our total revenues were derived from our operations located outside of North America. For the years ended December 31, 2010 and 2009, we derived approximately 57% and 69%, respectively, of our international revenue from EMEA and approximately 43% and 31%, respectively, of our international revenue from Asia Pacific. No single country outside of the United States accounted for 10% or more of revenues during these periods.

Cost of Revenue

	Year Ended December 31, 2010	2009	Increase (Decrease)	Percent Change
	(in thousands)			
Cost of revenue	$ 94,582	$ 85,623	$ 8,959	10%

Cost of revenue includes fees paid to network providers for bandwidth and backbone, costs incurred for non-settlement free peering and connection to Internet service provider networks or ISPs, and fees paid to data center operators for co-location of our network equipment. Cost of revenue also includes depreciation of network equipment used to deliver our content delivery services, payroll and related costs and equity-related compensation for our network operations, operations and value-added services personnel.

Cost of revenue increased 10%, or $9.0 million, to $94.6 million for the year ended December 31, 2010 as compared to $85.6 million for the year ended December 31, 2009. These increases were primarily due to an increase in aggregate bandwidth and co-location fees of $5.4 million due to higher traffic levels and increased amounts of deployed network assets, an increase in payroll and related employee costs of $3.8 million associated with increased staff to build and operate our global computing platform, as well as increased operations personnel, whose primary focus is on our delivery of value-added services, an increase in travel and travel-related expenses of $0.4 million, and an increase in other costs of $1.5 million. The increase in other costs was primarily related to costs associated with value-added services and the sale of equipment to certain of our customers. These increases were offset by a reduction in depreciation expense of network equipment of $1.8 million and a reduction in royalty costs of $0.3 million.

Additionally, for both the years ended December 31, 2010 and 2009, cost of revenue includes share-based compensation expense of approximately $2.4 million.

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Cost of revenue in 2010 and 2009 was composed of the following:

	Year Ended December 31, 2010	2009
	(in millions)	
Bandwidth and co-location fees	$ 51.3	$ 45.9
Depreciation network	22.2	24.0
Payroll and related employee costs	12.7	8.9
Share-based compensation expense	2.4	2.4
Travel and travel-related expenses	0.7	0.3