Limelight Networks, Inc.
Form 10-Q
November 06, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2009

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.)***

2220 W. 14th Street

Tempe, AZ 85281

(Address of principal executive offices, including Zip Code)

(602) 850-5000

(Registrant s telephone number, including area code)

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

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

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 Exchange Act). Yes ¨ No þ

The number of shares outstanding of the registrant s common stock as of November 3, 2009: 84,674,389 shares.

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LIMELIGHT NETWORKS, INC.

FORM 10-Q

Quarterly Period Ended September 30, 2009

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

LIMELIGHT NETWORKS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

	September 30, 2009 (Unaudited)	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 102,447	$ 138,180
Marketable securities	50,367	36,463
Accounts receivable, net of reserves of $9,149 at September 30, 2009 and $7,565 at December 31, 2008, respectively	27,692	33,482
Income taxes receivable	184	7
Prepaid expenses and other current assets	9,206	7,834
Total current assets	189,896	215,966
Property and equipment, net	39,653	40,185
Marketable securities, less current portion	16	13
Goodwill	619	
Other intangible assets, net	404	
Other assets	9,048	628
Total assets	$ 239,636	$ 256,792
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 7,180	$ 8,920
Deferred revenue, current portion	12,077	9,865
Provision for litigation		65,645
Other current liabilities	8,905	14,928
Total current liabilities	28,162	99,358
Deferred revenue, less current portion	3,006	7,303
Total liabilities	31,168	106,661
Commitments and contingencies		
Stockholders equity:		
Convertible preferred stock, $0.001 par value; 7,500 shares authorized; 0 shares issued and outstanding		
Common stock, $0.001 par value; 150,000 shares authorized at September 30, 2009; 84,667 and 83,405 shares issued and outstanding at September 30, 2009 and December 31, 2008, respectively	85	83
Additional paid-in capital	304,466	290,593
Accumulated other comprehensive income	105	260
Accumulated deficit	(96,188)	(140,805)

Total stockholders equity		208,468		150,131
Total liabilities and stockholders equity	$	239,636	$	256,792

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

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LIMELIGHT NETWORKS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	For the Three Months Ended September 30, 2009	For the Three Months Ended September 30, 2008	For the Nine Months Ended September 30, 2009	For the Nine Months Ended September 30, 2008
Revenues	$ 32,530	$ 33,116	$ 98,038	$ 93,632
Cost of revenue:				
Cost of services	14,889	14,950	44,757	43,168
Depreciation network	6,018	6,607	18,699	18,812
Total cost of revenue	20,907	21,557	63,456	61,980
Gross margin	11,623	11,559	34,582	31,652
Operating expenses:				
General and administrative	6,405	15,112	24,714	37,346
Sales and marketing	8,060	8,577	23,915	25,684
Research and development	2,024	2,008	5,878	5,293
Depreciation and amortization	627	343	1,699	901
Provision for litigation judgment		2,343	(65,645)	16,220
Total operating expenses	17,116	28,383	(9,439)	85,444
Operating (loss) income	(5,493)	(16,824)	44,021	(53,792)
Other income (expense):				
Interest expense	(11)	(11)	(33)	(43)
Interest income	330	1,203	1,050	4,428
Other (expense) income	15	410	131	203
Total other income	334	1,602	1,148	4,588
(Loss) income before income taxes	(5,159)	(15,222)	45,169	(49,204)
Income tax expense (benefit)	61	130	552	(78)
Net (loss) income	$ (5,220)	$ (15,352)	$ 44,617	$ (49,126)
Net (loss) income per weighted average share:				
Basic	$ (0.06)	$ (0.18)	$ 0.53	$ (0.59)
Diluted	$ (0.06)	$ (0.18)	$ 0.51	$ (0.59)

Shares used in per weighted average share calculations:

Basic	84,489	83,022	84,012	82,845
Diluted	84,489	83,022	87,708	82,845

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

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LIMELIGHT NETWORKS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	For the Nine months Ended September 30, 2009 (Unaudited)	For the Nine months Ended September 30, 2008 (Unaudited)
Cash flows from operating activities:		
Net income (loss)	$ 44,617	$ (49,126)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	20,398	19,713
Share-based compensation	13,137	12,549
Deferred income tax benefit		(82)
Provision for litigation	(65,645)	16,220
Accounts receivable charges	4,239	5,289
Loss (gain) on foreign exchange	181	(18)
Accretion of marketable securities	(455)	(421)
Loss on marketable securities		71
Changes in operating assets and liabilities:		
Accounts receivable	1,793	(15,157)
Prepaid expenses and other current assets	(1,347)	(3,948)
Income taxes receivable	(176)	473
Other assets	(8,314)	784
Accounts payable	(5,198)	(2,359)
Accounts payable, related parties		(230)
Deferred revenue	(2,085)	4,326
Other current liabilities	(6,704)	4,733
Net cash used in operating activities	(5,559)	(7,183)
Cash flows from investing activities:		
Purchase of marketable securities	(45,735)	(65,125)
Sale of marketable securities	32,400	95,025
Purchases of property and equipment	(16,648)	(14,536)
Cash acquired in business acquisition	22	
Net cash (used in) provided by investing activities	(29,961)	15,364
Cash flows from financing activities:		
Escrow funds returned from share repurchase		1,070
Proceeds from exercise of stock options and warrants	240	191
Net cash provided by financing activities	240	1,261
Effect of exchange rate changes on cash	(453)	(120)
Net (decrease) increase in cash and cash equivalents	(35,733)	9,322
Cash and cash equivalents at beginning of period	138,180	113,824
Cash and cash equivalents at end of period	$ 102,447	$ 123,146

Supplemental disclosure of cash flow information:				
Cash paid for income taxes	$	751	$	114
Property and equipment purchases remaining in accounts payable	$	3,373	$	1,395
Equity issued in connection with acquisition of business	$	962	$	

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

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LIMELIGHT NETWORKS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Business

Limelight Networks, Inc. (the Company) is a provider of high-performance content delivery network (CDN) services. The Company delivers content for traditional and emerging media companies, or content providers, including businesses operating in the television, music, radio, newspaper, magazine, movie, videogame, software and social media industries as well as enterprises and government entities doing business online.

2. Summary of Significant Accounting Policies and Use of Estimates

Basis of Presentation

The condensed consolidated financial statements include accounts of the Company and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated. The accompanying condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) and pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). These principles require management to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, together with amounts disclosed in the related notes to the condensed consolidated financial statements. Actual results and outcomes may differ from management s estimates, judgments and assumptions. Significant estimates used in these financial statements include, but are not limited to, revenues, accounts receivable and related reserves, useful lives and realizability of long-term asset, capitalized software, provision for litigation, income and other taxes and the fair value of stock-based compensation. Estimates are periodically reviewed in light of changes in circumstances, facts and experience. The effects of material revisions in estimates are reflected in the condensed consolidated financial statements prospectively from the date of the change in estimate. The accompanying condensed consolidated balance sheet as of September 30, 2009, the condensed consolidated statements of operations for the three and nine months ended September 30, 2009 and 2008, and the condensed consolidated statements of cash flows for the nine months ended September 30, 2009 and 2008, are unaudited. The condensed consolidated balance sheet information as of December 31, 2008 is derived from the audited consolidated financial statements which were included in the Company s Annual Report on Form 10-K filed with the SEC on March 13, 2009. The consolidated financial information contained in this Quarterly Report on Form 10-Q should be read in conjunction with the audited consolidated financial statements and related notes contained in the Annual Report on Form 10-K filed on March 13, 2009.

The results of operations presented in this Quarterly Report on Form 10-Q are not necessarily indicative of the results that may be expected for the year ending December 31, 2009 or for any future periods. In the opinion of management, these unaudited condensed consolidated financial statements include all adjustments of a normal recurring nature that are necessary, in the opinion of management, to present fairly the results of all interim periods reported herein.

As of January 1, 2009, the Company adopted ASC Topic 805 (ASC 805), (formerly SFAS No. 141(R), Business Combinations). Under ASC 805, an entity is required to recognize the assets acquired, the liabilities assumed, contractual contingencies, and contingent consideration at their fair value on the acquisition date. It further requires that acquisition-related costs be recognized separately from the acquisition and expensed as incurred, restructuring costs generally be expensed in periods subsequent to the acquisition date and changes in accounting for deferred tax asset valuation allowances and acquired income tax uncertainties after measurement period impact income tax expense. In addition, acquired in-process research and development is capitalized as an intangible asset and amortized over its estimated useful life. ASC 805 also provides guidance in accounting for step acquisitions, contingent liabilities, goodwill, contingent consideration, and other aspects of business combinations. The Company has recorded its acquisition in 2009 in accordance with ASC 805.

As of January 1, 2009, the Company adopted ASC Topic 810 (ASC 810), (formerly SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements). ASC 810 requires that ownership interests in subsidiaries held by parties other than the parent be presented separately within equity in the consolidated balance sheet. ASC 810 also requires that the consolidated net income attributable to the parent and to the noncontrolling interests be identified and displayed on the face of the consolidated income statement. Changes in ownership interests, deconsolidation and additional disclosures regarding noncontrolling interests are also addressed in the new guidance. As of September 30, 2009, the Company had no noncontrolling interests recorded in its balance sheet.

In February 2008, the FASB issued an amendment (formerly FASB Staff Position (FSP) No. 157-2) to ASC Topic 820 (ASC 820). The amendment to the standard delayed the effective date of ASC 820 for non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis, to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. In February 2008, the FASB also issued another amendment (formerly FSP No. 157-1) to ASC 820, that would exclude leasing transactions accounted for under ASC Topic 840 (formerly SFAS No. 13, Accounting for Leases), and its related interpretive accounting pronouncements. The adoption of the standard did not have a material impact on its consolidated financial statements.

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As of January 1, 2009, the Company adopted ASC Topic 815 (ASC 815), (formerly Statement No. 161, Disclosures about Derivative Instruments and Hedging Activities). ASC 815 requires entities that utilize derivative instruments to provide qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments, and disclosure about credit-risk-related contingent features in derivative agreements. ASC 815 also requires entities to disclose additional information about the amounts and location of derivatives located within the financial statements, how the provisions of ASC Topic 815 have been applied, and the impact that hedges have on an entity s financial position, financial performance, and cash flows. As of September, 2009, the Company does not have any derivative instruments and/or hedging activities. The adoption of this standard did not have a material effect on its financial position or results of operations.

As of January 1, 2009, the Company adopted ASC Topic 260 (ASC 260), (formerly FSP No. EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities). ASC 260 clarifies that unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents, whether paid or unpaid, are participating securities and requires such awards be included in the computation of earnings per share (EPS) pursuant to the two-class method. ASC 260 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. ASC 260 requires all prior-period EPS data presented to be adjusted retrospectively. The Company has awarded restricted stock which included non-forfeitable dividend rights. The Company has applied this guidance in the earnings per share calculation as of September 30, 2009 and 2008. The impact of adoption changed previously reported net loss per share for the three and nine month periods ended September 30, 2008 from ($0.19) to ($0.18) per share and ($0.60) to ($0.59), per share, respectively.

In April 2009, the Financial Accounting Standards Board, or FASB, issued two FASB Staff Positions, or FSPs, to address concerns about (1) measuring the fair value of financial instruments when the markets become inactive and quoted prices may reflect distressed transactions and (2) recording impairment charges on investments in debt securities. The FASB also issued a third FSP to require disclosures of fair values of certain financial instruments in interim financial statements. Below is a summary of the three FSPs:

ASC Topic 820-10-35 (ASC 820-10-35), (formerly FSP No. FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly), provides additional guidance to highlight and expand on the factors that should be considered in estimating fair value when there has been a significant decrease in market activity for a financial asset. ASC 820-10-35 also requires new disclosures relating to fair value measurement inputs and valuation techniques (including changes in inputs and valuation techniques).

ASC Topic 320-10-65 (ASC 320-10-65), (formerly FSP No. FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments), amends the other-than-temporary impairment guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments in the financial statements. The most significant change is a revision to the amount of other-than-temporary loss of a debt security recorded in the earnings.

ASC Topic 825-10-65, (formerly FSP No. FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments) requires disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies, as well as in annual financial statements.

These FSPs apply to both interim and annual periods and became effective beginning April 1, 2009. The Company adopted these standards for the quarter ended June 30, 2009. The adoption of these standards did not have a material impact on the Company s financial condition or results of operations.

In May 2009, the FASB issued ASC Topic 855 (ASC 855), (formerly SFAS No. 165, Subsequent Events). ASC 855 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued, and specifically requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, that is, whether that date represents the date the financial statements were issued or were available to be issued. The Company adopted ASC 855 for the quarter ended June 30, 2009 and has made the required disclosures herein.

In June 2009, the FASB issued ASC Topic 105 (ASC 105), (formerly SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles).* ASC 105 establishes the FASB ASC as the single source of authoritative non-governmental US GAAP. The standard is effective for interim and annual periods ending after September 15, 2009. The Company adopted the provisions of the standard on September 30, 2009. The adoption of the standard did not have a material impact on the financial statements.

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Revenue Recognition

The Company recognizes service revenues in accordance with ASC Topic 605 (ASC 605), (formerly the SEC s Staff Accounting Bulletin No. 104, Revenue Recognition , and the FASB s Emerging Issues Task Force Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables).* Revenue is recognized when the price is fixed or determinable, persuasive evidence of an arrangement exists, the service is performed and collectability of the resulting receivable is reasonably assured.

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

The Company primarily derives revenue from the sale of content delivery network services to customers executing contracts having terms of one year or longer. These contracts generally commit the customer to a minimum monthly level of usage on a calendar month basis and provide the rate at which the customer must pay for actual usage above the monthly minimum. For these services, the Company recognizes the monthly minimum as revenue each month provided that an enforceable contract has been signed by both parties, the service has been delivered to the customer, the fee for the service is fixed or determinable and collection is reasonably assured. Should a customer s usage of the Company s services exceed the monthly minimum, the Company recognizes revenue for such excess in the period of the usage. The Company typically charges the customer an installation fee when the services are first activated. The installation fees are recorded as deferred revenue and recognized as revenue ratably over the estimated life of the customer arrangement. The Company also derives revenue from services sold as discrete, non-recurring events or based solely on usage. For these services, the Company recognizes revenue after an enforceable contract has been signed by both parties, the fee is fixed or determinable, the event or usage has occurred and collection is reasonably assured.

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

If the multi-element arrangement includes a significant software component, the Company applies the provisions of ASC Topic 985-605 (formerly Statement of Position, 97-2, (SOP 97-2) Software Revenue Recognition , as amended by SOP 98-9, Modifications of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions). The Company recognizes software license revenue when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collection of the receivable is reasonably assured. If a software license contains an undelivered element, the vendor-specific objective evidence (VSOE) of fair value of the undelivered element is deferred and the revenue recognized once the element is delivered. The undelivered elements are primarily software support and professional services. VSOE of fair value of software support and professional services is based upon hourly rates or fixed fees charged when those services are sold separately. If VSOE cannot be established for all elements to be delivered, the Company defers all amounts received under the arrangement and does not begin to recognize revenue until the delivery of the last element of the contract has started. Subsequent to commencement of delivery of the last element, the Company commences revenue recognition. Amounts to be received under the contract are then included in the amortizable base and then recognized as revenue ratably over the remaining term of the arrangement until the Company has delivered all elements and has no additional performance obligations.

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

For this arrangement the Company does not have VSOE of fair value to allocate the fee to the separate elements of the Multi-Element Arrangement as it had not licensed the intellectual property and software components, nor PCS separately. Accordingly the Company will recognize the revenues related to the professional services, license and PCS ratably over the four-year period over which the PCS has been contracted as allowed for by ASC 985-605. Because delivery of the license and PCS elements of this arrangement had not occurred at June 30, 2007, revenue on all services provided to this customer during the three months ended June 30, 2007, including the ongoing content delivery services, and the direct incremental costs incurred associated with these revenues, were deferred until such time as delivery occurs and PCS has commenced. Concurrently with the signing of the Multi-Element Arrangement, the Company also extended and amended a content delivery contract entered into originally in 2005. The arrangement for transmitting content is not a required element of the new software and node development project commencing under the Multi-Element Arrangement. The Company will continue to receive payments on a usage basis under the content delivery contract. Given that the services are priced at market rates and subject to regular adjustments and are cancelable with thirty days notice, the amount of revenue and pricing is considered variable and contingent until services are delivered. As such, the Company has attributed revenue for the service as one that is contingent and becomes measurable as the services are delivered under the terms of the content delivery contract. Accordingly, the Company will record revenue on a monthly basis in an amount based upon usage. Because the content delivery agreement was amended concurrently with the Multi-Element Arrangement, the Company deferred revenue recognition until commencement of delivery of the last element of the Multi-Element Arrangement, which was determined to be July 27, 2007. For the three and nine month periods ended September 30, 2009, the Company recognized approximately $1.8 million and $5.1 million, respectively, in revenue and approximately $21,000 and $63,000, respectively, in costs of revenue. During the three and nine month periods ended September 30, 2008, the Company recognized approximately $1.5 million and $3.5 million, respectively, in revenue and approximately $21,000 and $63,000, respectively, in costs of revenue. As of September 30, 2009, the Company had remaining deferred revenue related to the multi-element arrangement of $10.3 million, which is expected to be recognized ratably over the remaining 17 month contract period and had remaining related deferred costs of $0.1 million.

The Company also sells services through a reseller channel. Assuming all other revenue recognition criteria are met, revenue from reseller arrangements is recognized over the term of the contract, based on the reseller s contracted non-refundable minimum purchase commitments plus amounts sold by the reseller to its customers in excess of the minimum commitments. These excess commitments are recognized as revenue in the period in which the service is provided. The Company records revenue under these agreements on a net or gross basis depending upon the terms of the arrangement in accordance with ASC Topic 605-45 (formerly EITF 99-19, *Recording Revenue Gross as a Principal Versus Net as an Agent*). The Company typically records revenue gross when it has risk of loss, latitude in establishing price, credit risk and is the primary obligor in the arrangement.

From time to time, the Company enters into contracts to sell services to unrelated companies at or about the same time the Company enters into contracts to purchase products or services from the same companies. If the Company concludes that these contracts were negotiated concurrently, the Company records as revenue only the net cash received from the vendor. For certain non-cash arrangements whereby the Company provides rack space and bandwidth services to several companies in exchange for advertising the Company records barter revenue and expense if the services are objectively measurable. The various types of advertising include radio, website, print and signage. The Company recorded barter revenue and expense of approximately $-0- and $138,000, respectively, for the three month period ended September 30, 2009 and 2008, and approximately $172,000 and $435,000, for the nine month period ended September 30, 2009 and 2008, respectively.

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

Cash and Cash Equivalents

The Company holds its cash and cash equivalents in checking, money market, and investment accounts with a minimum credit rating of A1/P1. The Company considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

Investments in Marketable Securities

The Company accounts for its investments in debt and equity securities under ASC Topic 320 (formerly FASB s Statement of Financial Accounting Standards (SFAS) No. 115, *Accounting for Certain Investments in Debt and Equity Securities* and FASB Staff Position, or FSP, SFAS No. 115-1, *The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments*). Management determines the appropriate classification of such securities at the time of purchase and reevaluates such classification as of each balance sheet date. Realized gains and losses and declines in value judged to be other than temporary are determined based on the specific identification method and is reported in the statements of operations.

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

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The following is a summary of available-for-sale securities at September 30, 2009 (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Government agency bonds	$ 36,653	$ 20	$ (3)	$ 36,670
Commercial paper	5,994		(1)	5,993
Corporate notes and bonds	7,622	87	(5)	7,704
Total available-for-sale debt securities	50,269	107	(9)	50,367
Publicly traded common stock	13	3		16
Total available-for-sale securities	$ 50,282	$ 110	$ (9)	$ 50,383

At September 30, 2009, the Company evaluated its investment portfolio, and noted unrealized losses of $9,000 were due to fluctuations in interest rates. Management does not believe any of the unrealized losses represented an other-than-temporary impairment based on its evaluation of available evidence as of September 30, 2009. The Company s intent is to hold these investments to such time as these assets are no longer impaired.

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

At September 30, 2009, the Company evaluated its investment portfolio in publicly traded common stock to determine if there had been a decrease in market value that was considered to be other-than-temporary. At September 30, 2009, the Company concluded that there had been no decrease in market value of the publicly traded common stock.

The amortized cost and estimated fair value of the available-for-sale debt securities at September 30, 2009, by maturity, are shown below (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale debt securities				
Due in one year or less	$ 43,718	$ 20	$ (9)	$ 43,729
Due after one year and through five years	6,551	87		6,638
	$ 50,269	$ 107	$ (9)	$ 50,367

The following is a summary of available-for-sale securities at December 31, 2008 (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Government agency bonds	$ 15,002	$ 36	$	$ 15,038
Commercial paper	4,282	8		4,290
Corporate notes and bonds	17,195	62	(122)	17,135
Total available-for-sale debt securities	36,479	106	(122)	36,463
Publicly traded common stock	16		(3)	13

Total available-for-sale securities	$ 36,495	$ 106	$ (125)	$ 36,476

The amortized cost and estimated fair value of the available-for-sale debt securities at December 31, 2008, by maturity, are shown below (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale debt securities				
Due in one year or less	$ 19,384	$ 44	$	$ 19,428
Due after one year and through two years	17,095	62	(122)	17,035
	$ 36,479	$ 106	$ (122)	$ 36,463

Recently Issued Accounting Pronouncements

In August 2009, the FASB issued Accounting Standards Update (ASU) No. 2009-05, Fair Value Measurements and Disclosures (Topic 820) Measuring Liabilities at Fair Value. This ASU clarifies the application of certain valuation techniques in circumstances in which a quoted price in an active market for the identical liability is not available and clarifies that when estimating the fair value of a liability, the fair value is not adjusted to reflect the impact of contractual restrictions that prevent its transfer. The

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guidance provided in this ASU becomes effective for the Company on October 1, 2009. The Company has evaluated this ASU and has determined that there are no significant impacts to its financial position or results of operations.

In September 2009, the FASB issued ASU No. 2009-12 (Topic 820: Fair Value Measurements and Disclosures), Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent). This ASU provides amendments for the fair value measurement of investments to create a practical expedient to measure the fair value of an investment in certain entities on the basis of the net asset value per share of the investment (or its equivalent) determined as of the reporting entity s measurement date. Therefore, certain attributes of the investment (such as restrictions on redemption) and transaction prices from principal-to-principal or brokered transactions will not be considered in measuring the fair value of the investment if the practical expedient is used. The amendment in this ASU also requires disclosures by major category of investment about the attributes of those investments, such as the nature of any restrictions on the investor s ability to redeem its investments at measurement date, any unfunded commitments, and the investment strategies of the investees. The amendments in this ASU are effective for interim and annual periods ending after December 15, 2009. Early application is permitted. The Company is currently evaluating this new ASU.

In October 2009, the FASB issued ASU No. 2009-13 (Topic 605: Revenue Recognition), Multiple-Deliverable Revenue Arrangements. This ASU establishes the accounting and reporting guidance for arrangements including multiple revenue-generating activities. This ASU provides amendments to the criteria for separating deliverables, measuring and allocating arrangement consideration to one or more units of accounting. The amendments in this ASU also establish a selling price hierarchy for determining the selling price of a deliverable. Significantly enhanced disclosures are also required to provide information about a vendor s multiple-deliverable revenue arrangements, including information about the nature and terms, significant deliverables, and its performance within arrangements. The amendments also require providing information about the significant judgments made and changes to those judgments and about how the application of the relative selling-price method affects the timing or amount of revenue recognition. The amendments in this ASU are effective prospectively for revenue arrangements entered into or materially modified in the fiscal years beginning on or after June 15, 2010. Early application is permitted. The Company is currently evaluating this new ASU.

In October 2009, the FASB issued ASU No. 2009-14 (Topic 985: Software), Certain Revenue Arrangements That Include Software Elements. This ASU changes the accounting model for revenue arrangements that include both tangible products and software elements that are essential to the functionality, and scopes these products out of current software revenue guidance. The new guidance will include factors to help companies determine what software elements are considered essential to the functionality. The amendments will now subject software-enabled products to other revenue guidance and disclosure requirements, such as guidance surrounding revenue arrangements with multiple-deliverables. The amendments in this ASU are effective prospectively for revenue arrangements entered into or materially modified in the fiscal years beginning on or after June 15, 2010. Early application is permitted. The Company is currently evaluating this new ASU.

3. Business Acquisition

On May 20, 2009 the Company entered into an Asset Purchase Agreement to acquire substantially all of the assets of Kiptronic Inc. (Kiptronic) for approximately $1.0 million. The aggregate purchase price of approximately $1.0 million consisted of 213,334 shares of the Company s common stock. The fair value of the common shares issued as consideration for Kiptronic was determined on the basis of the closing market price of the Company s common shares on the acquisition date. In addition, the Company incurred $0.1 million of transaction costs, which primarily consisted of fees for legal and financial advisory services. These transaction costs are included in general and administrative expenses in the Company s statement of operations for the nine month period ended September 30, 2009. The Company s consolidated financial statements include the results of operations of Kiptronic from the date of acquisition. The historical results of operations of Kiptronic were not significant to the Company s consolidated results of operations for the periods presented. The total purchase consideration was allocated to the assets acquired and liabilities assumed at their estimated fair values as of the date of acquisition, as determined by management and, with respect to identifiable intangible assets, by management with the assistance of an appraisal provided by a third-party valuation firm. The purchase price allocation was finalized during the quarter ended September 30, 2009. The excess of the purchase price over the amounts allocated to assets acquired and liabilities assumed has been recorded as goodwill. In accordance with current accounting standards, goodwill associated with the Kiptronic acquisition will not be amortized and will be tested for impairment at least annually as required by ASC Topic 350 (formerly Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets) (see Note 12). The allocation of the aggregate purchase price includes: tangible assets of $0.2 million, identifiable intangible assets of $0.5 million, assumed liabilities of $0.3 million, and goodwill of $0.6 million. Kiptronic develops mobility and monetization solutions for content publishers. The combination of the Company s distributed computing and delivery platform with Kiptronic device-targeting and dynamic ad insertion technologies will allow the Company to provide media and entertainment companies a streamlined and scalable solution for the migration of media consumption from the PC to the wider variety of Internet-connected and mobile devices.

The following table presents the allocation of the purchase price for Kiptronic:

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		(In thousands)
Consideration:		
Value of common stock issued	$	962
Fair value of total consideration transferred	$	962
Acquisition-related costs (included in general and administrative expenses)	$	135
Recognized amounts of identifiable assets acquired and liabilities assumed:		
Financial assets	$	87
Property and equipment		96
Identifiable intangible assets		463
Financial liabilities		(303)
Total identifiable net assets		343
Goodwill		619
	$	962

The following were the identified intangible assets acquired and the respective estimated periods over which such assets will be amortized:

		Amount (In thousands)	Weighted Average useful life (In years)
Existing technologies	$	440	4.0
Domain names		11	1.0
Customer relationships and contracts		12	0.7
Total	$	463	

In determining the purchase price allocation, the Company considered, among other factors, its intention to use the acquired assets and the historical and estimated future demand for Kiptronic services. The fair value of intangible assets was based upon the market approach and the cost approach. In applying the market approach, the values of the intangible assets acquired were determined based upon the economic principal of competition. Although there is no established public market for intangible assets, the market approach can be utilized through the analysis of market-derived empirical transaction data. The market approach involves empirical market data involving comparable intangible assets and a comparison of the subject intangible assets to such comparable intangible assets. This method is sometimes referred to as the Net Avoided Royalty Method. In the Net Avoided Royalty Method, transactions involving the licensing of comparable intangible assets are analyzed and the value of an asset is estimated by capitalizing the royalty expense saved because the company owns the asset.

The relief-from-royalty method was used to value the existing technologies acquired from Kiptronic. The relief-from-royalty method estimates the cost savings that accrue to the owner of an intangible asset that would otherwise be required to pay royalties or license fees on revenues earned through the use of the asset. The royalty rate used is based on an analysis of empirical, market-derived royalty rates for guideline intangible assets. Typically, revenue is projected over the expected remaining useful life of the completed technology. The market-derived royalty rate is then applied to estimate the royalty savings. The key assumptions used in valuing the existing technologies are as follows: royalty rate of 10%, discount rate of 22%, tax rate of 39% and estimated average economic life of four years.

In determining the value of domain names, an analysis of the market for domain names was performed. This analysis shows that prices range from $499 to $3,300, with a median of $1,588. Management determined that the acquired domain names have an estimated value of $1,500 each. Appling a tax rate of 39% and adding the present value of the tax savings to the estimated value of the domain names the Company arrived at the aggregate fair value of the domain names.

The customer relationships and customer contracts were valued using the cost approach. In utilizing the cost approach, the Company estimates the costs that are associated with establishing the customer relationship and contact. These estimates are used to value the customer relationship and contract net of the Company s effective tax rate of 39% and the present value of the tax savings

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amortization. The key assumptions used in valuing the customer relationships and contracts were as follows: estimated salaries of functional personnel, man-hours per relationship, estimated attrition rate of 10% (customer relationships only), tax rate of 39% and estimated remaining economic life of 7 months.

The total weighted average amortization period for the intangible assets acquired from Kiptronic is 3.8 years. The intangible assets are being amortized based upon the pattern in which the economic benefits of the intangible assets are being utilized, which in general reflects the cash flows generated from such assets. The goodwill resulting from the Kiptronic acquisition is deductible for income tax purposes and will be amortized over 15 years.

4. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets include (in thousands):

	As of September 30, 2009	As of December 31, 2008
Prepaid bandwidth and backbone services	$ 3,301	$ 2,538
Non-income taxes receivable (VAT)	3,755	3,030
Interest receivable	291	388
Employee advances and prepaid recoverable commissions	195	149
Other	1,664	1,729
Total prepaid expenses and other current assets	$ 9,206	$ 7,834

The Company is subject to and has paid Value Added Tax (VAT) in certain foreign jurisdictions in which it operates. Based on analysis and application of the VAT laws in particular locations, the Company believes it is entitled to a refund of VAT previously paid.

In January and September 2009, the Company entered into multi-year arrangements with a telecommunications provider for additional backbone capacity. The agreements required the Company to make advanced payments for future services to be received.

5. Property and Equipment

Property and equipment include (in thousands):

	As of September 30, 2009	As of December 31, 2008
Network equipment	$ 113,958	$ 96,698
Computer equipment	5,141	3,273
Furniture and fixtures	683	676
Leasehold improvements	2,754	2,221