

Limelight Networks, Inc.
Form 10-Q/A
November 05, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q/A

Amendment No. 1 to Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2012

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)

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Delaware
(State or other jurisdiction of
incorporation or organization)

20-1677033
(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)

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

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

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

Large accelerated filer ☐ Accelerated filer ☒

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 ☒

The number of shares outstanding of the registrant's common stock as of August 1, 2012: 100,145,552 shares.

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LIMELIGHT NETWORKS, INC.

FORM 10-Q/A

Quarterly Period Ended June 30, 2012

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Explanatory Note

As previously disclosed in the Current Report on Form 8-K, filed with the Securities and Exchange Commission (SEC) on November 5, 2012, management and the Audit Committee of the Board of Directors of Limelight Networks, Inc. (the Company) concluded that it was necessary to restate the Company's previously issued unaudited Condensed Consolidated Statement of Cash Flows for the six months ended June 30, 2012 contained in the Quarterly Report on Form 10-Q filed on August 7, 2012 (the Original Filing) to correct a classification error in the unaudited Condensed Consolidated Statement of Cash Flows and determined that such unaudited Condensed Consolidated Statement of Cash Flows should no longer be relied upon.

See Note 1, Restatement of Previously Issued Financial Statements, included in Part I of this Amendment to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 (this Form 10-Q/A) for a detailed discussion of the classification error and effects of the restatement.

The Company is filing this Form 10-Q/A to correct a classification error in the Company's unaudited Condensed Consolidated Statement of Cash Flows for the six months ended June 30, 2012 and related financial information originally filed in the Original Filing. This Form 10-Q/A amends and restates solely Items 1, 2 and 4 of Part I of the Original Filing. These Items have been amended to reflect the effects of the classification error and unless otherwise indicated have not been updated to reflect other events occurring after the date of the Original Filing.

The classification error has no impact on the net decrease in cash and cash equivalents for the six months ended June 30, 2012 or the cash and cash equivalents balance as of June 30, 2012. In addition, the classification error has no impact on the unaudited Condensed Consolidated Balance Sheet as of June 30, 2012, or the unaudited Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2012, or the unaudited Condensed Consolidated Statements of Comprehensive Loss for the three and six months ended June 30, 2012. The change in classification also had no effect on the Company's compliance with regulatory requirements or other contractual obligations.

The error was corrected in the preparation of the unaudited Condensed Consolidated Statement of Cash Flows for the nine months ended September 30, 2012 and therefore, there is no impact on the unaudited Condensed Consolidated Financial Statements filed with the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012 filed with the SEC on November 5, 2012.

With the exception of Part I Item 4. Controls and Procedures, this Form 10-Q/A does not reflect events occurring after the filing of the original Form 10-Q, nor modify or update those disclosures in any way other than as required to reflect the effects of the change described above.

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****LIMELIGHT NETWORKS, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(In thousands, except per share data)****(Unaudited)**

	June 30, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 95,029	\$ 120,349
Marketable securities	29,604	19,850
Accounts receivable, net	28,183	28,045
Income taxes receivable	289	31
Deferred income taxes	50	62
Prepaid expenses and other current assets	12,787	20,646
Total current assets	165,942	188,983
Property and equipment, net	49,617	56,368
Marketable securities, less current portion	12	51
Deferred income taxes, less current portion	1,287	1,177
Goodwill	79,862	80,105
Other intangible assets, net	7,688	9,207
Other assets	11,558	10,454
Total assets	\$ 315,966	\$ 346,345
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 5,734	\$ 6,797
Deferred revenue	7,462	7,287
Capital lease obligations	1,714	1,750
Income taxes payable	596	774
Other current liabilities	12,660	13,195
Total current liabilities	28,166	29,803
Capital lease obligations, less current portion	1,279	2,124
Deferred income taxes	504	580
Deferred revenue, less current portion	630	539
Other long-term liabilities	3,737	4,194
Total liabilities	34,316	37,240
Commitments and contingencies		
Stockholders' equity:		
Convertible preferred stock, \$0.001 par value; 7,500 shares authorized; 0 shares issued and outstanding	100	104

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Common stock, \$0.001 par value; 300,000 shares authorized at June 30, 2012 and December 31, 2011; 100,093 and 104,349 shares issued and outstanding at June 30, 2012 and December 31, 2011, respectively		
Additional paid-in capital	454,387	460,845
Contingent consideration	110	219
Accumulated other comprehensive loss	(1,559)	(509)
Accumulated deficit	(171,388)	(151,554)
 Total stockholders' equity	 281,650	 309,105
 Total liabilities and stockholders' equity	 \$ 315,966	 \$ 346,345

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

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2012	2011	2012	2011
Revenues	\$ 44,447	\$ 41,558	\$ 88,763	\$ 82,961
Cost of revenue:				
Cost of services (1)	20,379	21,061	40,880	40,669
Depreciation network	7,184	7,316	14,013	13,973
Total cost of revenue	27,563	28,377	54,893	54,642
Gross profit	16,884	13,181	33,870	28,319
Operating expenses:				
General and administrative	8,053	8,471	16,373	15,082
Sales and marketing	11,762	9,929	23,394	20,727
Research and development	4,986	4,503	10,152	8,194
Depreciation and amortization	1,450	1,204	2,848	1,755
Total operating expenses	26,251	24,107	52,767	45,758
Operating loss	(9,367)	(10,926)	(18,897)	(17,439)
Other income (expense):				
Interest expense	(46)	(100)	(96)	(136)
Interest income	83	254	189	438
Other, net	56	32	(30)	35
Total other income	93	186	63	337
Loss from continuing operations before income taxes	(9,274)	(10,740)	(18,834)	(17,102)
Income tax provision	163	429	300	567
Loss from continuing operations	(9,437)	(11,169)	(19,134)	(17,669)
Discontinued operations:				
Loss from discontinued operations, net of income taxes	(391)	(2,766)	(700)	(6,084)
Net loss	\$ (9,828)	\$ (13,935)	\$ (19,834)	\$ (23,753)
Basic net loss per weighted average share:				
Continuing operations	\$ (0.10)	\$ (0.10)	\$ (0.18)	\$ (0.16)
Discontinued operations	(0.00)	(0.02)	(0.01)	(0.06)
Total	\$ (0.10)	\$ (0.12)	\$ (0.19)	\$ (0.22)
Diluted net loss per weighted average share:				

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Continuing operations	\$	(0.10)	\$	(0.10)	\$	(0.18)	\$	(0.16)
Discontinued operations		(0.00)		(0.02)		(0.01)		(0.06)
Total	\$	(0.10)	\$	(0.12)	\$	(0.19)	\$	(0.22)
Shares used in per weighted average share calculations:								
Basic		102,783		113,113		103,505		108,515
Diluted		102,783		113,113		103,505		108,515

- (1) Cost of services excludes amortization related to intangibles, including existing technologies, customer relationships, and trademarks, which are included in depreciation and amortization

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 COMPREHENSIVE LOSS

(In thousands)

(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2012	2011	2012	2011
Net loss	\$ (9,828)	\$ (13,935)	\$ (19,834)	\$ (23,753)
Other comprehensive (loss) income, net of tax:				
Unrealized loss on investments	(29)	(135)	(44)	(1)
Cumulative translation adjustment				494
Foreign exchange translation	(1,463)	221	(1,006)	932
Discontinued operations		230		311
Other comprehensive (loss) income, net of tax	(1,492)	316	(1,050)	1,736
Comprehensive loss	\$ (11,320)	\$ (13,619)	\$ (20,884)	\$ (22,017)

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

Table of Contents**LIMELIGHT NETWORKS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)****(Unaudited)**

	For the Six Months Ended June 30,	
	2012 Restated	2011
Operating activities		
Net loss	\$ (19,834)	\$ (23,753)
Loss from discontinued operations	(700)	(6,084)
Loss from continuing operations	(19,134)	(17,669)
Adjustments to reconcile loss from continuing operations to net cash provided by (used in) operating activities of continuing operations:		
Depreciation and amortization	16,861	15,728
Share-based compensation	7,172	8,705
Deferred income taxes	(174)	(74)
Accounts receivable charges	884	621
Accretion of marketable securities	242	(9)
Non cash increase in cost basis investment	(528)	(282)
Loss on sale of property and equipment	13	
Changes in operating assets and liabilities:		
Accounts receivable	(1,022)	2,007
Prepaid expenses and other current assets	1,452	(656)
Income taxes receivable	(258)	(162)
Other assets	(2,134)	(3,933)
Accounts payable	(22)	(342)
Deferred revenue	265	(2,606)
Other current liabilities	(291)	(2,524)
Income taxes payable	(178)	261
Other long term liabilities	(458)	454
Net cash provided by (used in) operating activities of continuing operations	2,690	(481)
Investing activities		
Purchase of marketable securities	(24,182)	(5,628)
Maturities of marketable securities	14,182	11,170
Purchases of property and equipment	(10,112)	(19,343)
Acquisition of businesses, net of cash acquired		(7,493)
Cash collected on DG receivable	6,850	
Net cash used in investing activities of continuing operations	(13,262)	(21,294)
Financing activities		
Payments on capital lease obligations	(881)	(630)
Payment of employee tax withholdings related to restricted stock	(518)	(947)
Cash paid for purchase of common stock	(13,102)	
Proceeds from exercise of stock options	125	486
Proceeds from secondary public offering, net		77,097
Net cash (used in) provided by financing activities of continuing operations	(14,376)	76,006

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Effect of exchange rate changes on cash and cash equivalents	(372)	324
Discontinued operations		
Cash used in operating activities of discontinued operations		(1,904)
Cash used in investing activities of discontinued operations		(541)
Net cash used in discontinued operations		(2,445)
Net (decrease) increase in cash and cash equivalents	(25,320)	52,110
Cash and cash equivalents, beginning of period	120,349	54,861

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	For the Six Months Ended June 30,	
	2012	2011
Cash and cash equivalents, end of period	\$ 95,029	\$ 106,971
Supplement disclosure of cash flow information		
Cash paid during the period for interest	\$ 96	\$ 69
Cash paid during the period for income taxes	\$ 957	\$ 700
Property and equipment remaining in accounts payable and other current liabilities	\$ 2,159	\$ 4,875
Property and equipment acquired through leasehold incentives	\$	\$ 2,361
Property and equipment acquired through capital leases	\$	\$ 1,021
Contingent consideration common stock issued in connection with acquisition of businesses	\$ 109	\$ 1,404

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

Table of Contents**LIMELIGHT NETWORKS, INC.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****1. Restatement of Previously Issued Financial Statements**

In the previously filed financial statements included in the Company's Form 10-Q for the three and six months ended June 30, 2012, the Company improperly classified cash collected from DG FastChannel, Inc. (DG) (now Digital Generation, Inc.) related to the 2011 sale of EyeWonder LLC and subsidiaries and chors GmbH video and rich media advertising services (EyeWonder and chors) as cash provided by operating activities of continuing operations in the unaudited Condensed Consolidated Statements of Cash Flows. See further discussion of the sale of EyeWonder and chors at Note 6. The correction of the classification error resulted in a decrease to net cash provided by operating activities of continuing operations and a decrease to net cash used in investing activities of continuing operations of \$6.8 million for the six months ended June 30, 2012. The classification error had no impact on the net decrease in cash and cash equivalents for the six months ended June 30, 2012 or the cash and cash equivalents balance as of June 30, 2012. In addition, the classification error had no impact to the unaudited Condensed Consolidated Balance Sheet as of June 30, 2012, or the unaudited Condensed Consolidated Statement of Operations for the three and six months ended June 30, 2012, or the unaudited Condensed Consolidated Statements of Comprehensive Loss for the three and six months ended June 30, 2012. The change in classification also had no effect on the Company's compliance with regulatory requirements or other contractual obligations.

The Company has herein restated its previously issued unaudited Condensed Consolidated Statement of Cash Flows for the six months ended June 30, 2012, to reflect this correction.

The following table presents the impact of the correction on the previously reported unaudited Condensed Consolidated Statement of Cash Flows for the six months ended June 30, 2012 (in thousands):

Unaudited Condensed Consolidated Statement of Cash Flows

	For the six months ended June 30, 2012		
	As Previously Reported	Correction	As Restated
Operating activities			
Prepaid expenses and other current assets	\$ 8,302	\$ (6,850)	\$ 1,452
Net cash provided by operating activities of continuing operations	\$ 9,540	\$ (6,850)	\$ 2,690
Investing activities			
Cash collected on DG receivable	\$	\$ 6,850	\$ 6,850
Net cash used in investing activities of continuing operations	\$ (20,112)	\$ 6,850	\$ (13,262)

2. Nature of Business

Limelight Networks, Inc. (the Company) is a global leader in digital presence management and delivery, including mobility, web and video content management, web application acceleration, cloud storage and consulting, and content delivery services. The Company provides web and video content management services as Software-as-a-Service (SaaS) solutions and cloud storage and content delivery services as Platform-as-a-Service solutions, which other than content delivery services, are referred to collectively as value-added services. The Company derives revenue from the sale of content delivery services and value-added services to its customers. In May 2012, the Company introduced a new digital presence solution, Limelight Orchestrate (Orchestrate), an integrated suite of cloud-based applications which allows organizations to optimize all aspects of their online digital presence across web, mobile, social and large screen channels. Orchestrate provides advanced features for website content management, personalization and targeting, video publishing, mobile enablement, content delivery, transcoding and cloud storage, combined with social media integration and powerful analytics. These services are provided in the cloud and leverage the Company's global computing platform, which provides highly-available, highly-redundant storage, bandwidth and computing resources as well as connectivity to last-mile broadband network providers. The Company's global professional services organization help organizations analyze and identify their digital presence requirements. The Company also offers other platform and infrastructure services, such as transit and rack space

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services. The Company's solutions and services enable organizations to streamline processes and optimize business results across all customer interaction channels, helping them deliver a high quality online media experience, improve brand awareness, drive revenue and enhance their customer relationships while reducing costs.

The Company provides its services to customers that the Company believes view Internet, mobile and social initiatives as critical to their success, including traditional and emerging media companies, or content publishers, operating in the television, music, radio, newspaper, magazine, movie, videogame, software and social media industries, as well as enterprises, technology companies, and government entities conducting business online.

The Company has operated in the Phoenix metropolitan area since 2001 and elsewhere throughout the United States since 2003. The Company began international operations in 2004.

3. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles, consistent in all material respects with those applied in its financial statements included in its Annual Report on Form 10-K for the fiscal year ended December 31, 2011. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. Such interim financial information is unaudited but reflects all adjustments that in the opinion of management are necessary for the fair presentation of the interim periods presented. All such adjustments are, in the opinion of management, of a normal recurring nature. The results of operations presented in this Quarterly Report on Form 10-Q are not necessarily indicative of the results that may be expected for the year ending December 31, 2012 or for any future periods. This Quarterly Report on Form 10-Q should be read in conjunction with the Company's audited financial statements and footnotes included in its Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

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

On September 1, 2011, the Company completed the sale of EyeWonder and Chors to DG. The sale of EyeWonder and Chors met the criteria for discontinued operations during the year ended December 31, 2011. Accordingly, the results of operations related to EyeWonder and Chors have been classified as discontinued operations in all periods presented. See further discussion at Note 6.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual results and outcomes may differ from those estimates.

Recent Accounting Pronouncements

As of January 1, 2012, the Company adopted Accounting Standards Update (ASU) 2011-04 related to guidance associated with fair value measurements and disclosures. This ASU clarifies the Financial Accounting Standards Board's (FASB) intent on current guidance, modifies and changes certain guidance and principles, and expands disclosures concerning Level 3 fair value measurements in the fair value hierarchy (including quantitative information about significant unobservable inputs within Level 3 of the fair value hierarchy). In addition, this ASU requires disclosure of the fair value hierarchy for assets and liabilities not measured at fair value in the balance sheet, but whose fair value is required to be disclosed. Adoption of this new guidance did not have a material impact on the Company's financial statements.

As of January 1, 2012, the Company adopted ASU 2011-05 related to guidance on the presentation of comprehensive income. The objective of this ASU is to improve the comparability, consistency and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. This ASU requires an entity to present the components of net income and other comprehensive income and total comprehensive income (which includes net income) either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This ASU eliminates the option to present the components of other comprehensive income as part of the statement of equity, but does not change the items that must be reported in other comprehensive income. This ASU is effective January 1, 2012 and the Company is presenting total comprehensive income in a separate statement. Additionally, in December 2011, FASB deferred the effective date

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for the requirement in this ASU for presenting reclassification adjustments for each component of accumulated other comprehensive income in both net income and other comprehensive income on the face of the financial statements.

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As of January 1, 2012, the Company adopted ASU 2011-08 related to the testing of goodwill for impairment. The objective of this ASU is to simplify goodwill impairment testing by adding a qualitative review step to assess whether the required quantitative impairment analysis is necessary. The ASU permits an entity to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If it is concluded that this is the case, it is necessary to perform the prescribed two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. This ASU was effective for the Company beginning January 1, 2012. Adoption of this new guidance did not have a material impact on the Company's financial statements.

4. Investments in Marketable Securities

The following is a summary of marketable securities (designated as available-for-sale) at June 30, 2012 (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Government agency bonds	\$ 14,307	\$ 2	\$ 2	\$ 14,307
Certificate of deposit	2,738			2,738
Commercial paper	1,998			1,998
Corporate notes and bonds	10,566	1	6	10,561
	29,609	3	8	29,604
Publicly traded common stock	12			12
Total marketable securities	\$ 29,621	\$ 3	\$ 8	\$ 29,616

At June 30, 2012, the Company evaluated its marketable securities, and noted unrealized losses 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 June 30, 2012. The Company's intent is to hold these investments to such time as these assets are no longer impaired. There have been no marketable securities in a continuous unrealized loss position for twelve months or longer.

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

The amortized cost and estimated fair value of marketable securities (designated as available-for-sale) at June 30, 2012, 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	\$ 24,797	\$ 2	\$ 7	\$ 24,792
Due after one year and through five years	4,812	1	1	4,812
	\$ 29,609	\$ 3	\$ 8	\$ 29,604

The following is a summary of marketable securities (designated as available-for-sale) at December 31, 2011 (in thousands):

Amortized Cost	Gross Unrealized Gains
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