Limelight Networks, Inc.
Form 10-Q
August 06, 2010
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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 June 30, 2010

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 August 3, 2010: 98,358,964 shares.

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LIMELIGHT NETWORKS, INC.

FORM 10-Q

Quarterly Period Ended June 30, 2010

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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)

	June 30, 2010 (Unaudited)	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 60,771	$ 89,509
Marketable securities	22,073	64,870
Accounts receivable, net of reserves of $8,699 at June 30, 2010 and $9,226 at December 31, 2009	34,479	26,363
Income taxes receivable	787	617
Prepaid expenses and other current assets	9,721	9,654
Total current assets	127,831	191,013
Property and equipment, net	44,651	35,524
Marketable securities, less current portion	996	12
Goodwill	94,835	619
Other intangible assets, net	19,331	370
Other assets	7,646	8,132
Total assets	$ 295,290	$ 235,670
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 11,380	$ 5,144
Deferred revenue, current portion	11,462	12,199
Capital lease obligation, current portion	115	
Other current liabilities	18,258	14,140
Total current liabilities	41,215	31,483
Deferred revenue, less current portion		1,377
Capital lease obligation, less current portion	168	
Deferred income tax, less current portion	668	10
Total liabilities	42,051	32,870
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 June 30, 2010; 98,315 and 85,011 shares issued and outstanding at June 30, 2010 and December 31, 2009, respectively	98	85
Additional paid-in capital	368,293	308,537
Accumulated other comprehensive (loss) income	(1,188)	93
Accumulated deficit	(113,964)	(105,915)

Total stockholders equity	253,239	202,800
Total liabilities and stockholders equity	$ 295,290	$ 235,670

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

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LIMELIGHT NETWORKS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	2009	2010	2009
Revenues	$ 42,195	$ 32,333	$ 78,281	$ 65,508
Cost of revenue:				
Cost of services	18,501	14,945	34,705	29,868
Depreciation network	5,324	6,133	10,102	12,681
Total cost of revenue	23,825	21,078	44,807	42,549
Gross margin	18,370	11,255	33,474	22,959
Operating expenses:				
General and administrative	9,609	6,405	17,735	18,309
Sales and marketing	11,319	7,716	20,706	15,855
Research and development	3,478	1,944	6,122	3,854
Depreciation and amortization	1,603	532	2,370	1,072
Provision for litigation judgment				(65,645)
Total operating expenses	26,009	16,597	46,933	(26,555)
Operating (loss) income	(7,639)	(5,342)	(13,459)	49,514
Other income (expense):				
Interest expense	(7)	(11)	(8)	(22)
Interest income	255	337	557	720
Other income (expense)	28	(111)	3	116
Total other income	276	215	552	814
(Loss) income before income taxes	(7,363)	(5,127)	(12,907)	50,328
Income tax (benefit) expense	(5,098)	171	(4,857)	492
Net (loss) income	$ (2,265)	$ (5,298)	$ (8,050)	$ 49,836
Net (loss) income per weighted average share:				
Basic	$ (0.02)	$ (0.06)	$ (0.09)	$ 0.60
Diluted	$ (0.02)	$ (0.06)	$ (0.09)	$ 0.57
Shares used in per weighted average share calculations:				
Basic	93,889	84,033	89,504	83,774
Diluted	93,889	84,033	89,504	87,249

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

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LIMELIGHT NETWORKS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	For the Six months Ended June 30,	
	2010	2009
	(Unaudited)	
Cash flows from operating activities:		
Net (loss) income	$ (8,050)	$ 49,836
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	12,472	13,753
Share-based compensation	8,503	8,768
Deferred income taxes	(119)	
Income tax benefit related to business acquisition	(5,768)	
Provision for litigation		(65,645)
Accounts receivable charges	1,757	3,910
(Gain) loss on foreign currency transactions	(164)	174
Loss on sale of property and equipment	94	
Accretion of marketable securities	324	(157)
Changes in operating assets and liabilities:		
Accounts receivable	(417)	3,441
Prepaid expenses and other current assets	599	128
Income taxes receivable	227	(17)
Other assets	944	(4,162)
Accounts payable	(959)	(5,442)
Deferred revenue	(2,377)	(1,794)
Other current liabilities	(889)	(7,061)
Other long term liabilities	(19)	
Net cash provided by (used in) operating activities	6,158	(4,268)
Cash flows from investing activities:		
Purchase of marketable securities	(18,755)	(12,830)
Sale of marketable securities	61,180	30,400
Purchases of property and equipment	(13,730)	(6,062)
Acquisition of businesses, net of cash acquired	(63,907)	22
Net cash (used in) provided by investing activities	(35,212)	11,530
Cash flows from financing activities:		
Proceeds from exercise of stock options	127	168
Net cash provided by financing activities	127	168
Effect of exchange rate changes on cash	189	(448)
Net (decrease) increase in cash and cash equivalents	(28,738)	6,982
Cash and cash equivalents at beginning of period	89,509	138,180
Cash and cash equivalents at end of period	$ 60,771	$ 145,162

Supplemental disclosure of cash flow information:				
Cash paid for interest	$	7	$	
Cash paid for income taxes	$	521	$	535
Property and equipment purchases remaining in accounts payable and other current liabilities	$	5,715	$	2,890
Common stock issued in connection with acquisition of businesses	$	51,527	$	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) provides on-demand software, platform, and infrastructure services that help global businesses reach and engage audiences on any mobile or connected device, enabling them to enhance their brand presence, build stronger customer relationships, optimize their advertising, and monetize their digital assets. The company services customers in the United States, Europe, and the Asia Pacific region.

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 United States 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 condensed consolidated financial statements include, but are not limited to, revenues, accounts receivable and related reserves, useful lives and realizability of long-term assets, capitalized software, provision for litigation, income and other taxes, the fair value of stock-based compensation and other contingent liabilities. 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 June 30, 2010, the condensed consolidated statements of operations for the three and six months ended June 30, 2010 and 2009, and the condensed consolidated statements of cash flows for the six months ended June 30, 2010 and 2009, are unaudited. The condensed consolidated balance sheet information as of December 31, 2009 is derived from the audited consolidated financial statements which were included in our Annual Report on Form 10-K filed with the SEC on March 12, 2010. 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 12, 2010.

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, 2010 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.

Revenue Recognition

The Company primarily derives revenue from the sale of services to customers executing contracts having terms of one year or longer. These contracts generally commit the customer to a minimum monthly or annual level of usage and provide the rate at which the customer must pay for actual usage above the monthly or annual 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 commit, the Company recognizes revenue for such excess in the period of the usage. For annual or other non-monthly period revenue commitments, the Company recognizes revenue monthly based upon the customer s actual usage each month of the commitment period and only recognizes any remaining committed amount for the applicable period in the last month thereof. 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 campaigns, services and events 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 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.

The Company has certain multi-element arrangements in place at June 30, 2010. Under these arrangements, the Company recognized approximately $2.4 million and $5.3 million, respectively, in revenue for the three and six month periods ended June 30, 2010. During the three and six month periods ended June 30, 2009, the Company recognized approximately $1.7 million and $3.3 million, respectively, in revenue related to its multi-element arrangement. As of June 30, 2010, the Company had deferred revenue related to its multi-element arrangements of approximately $6.5 million that will be recognized over the remaining terms of the respective arrangements based on the underlying elements of the arrangements in accordance with the Company s revenue recognition policies.

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. 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. Reseller revenue for the three and six month periods ended June 30, 2010 represented approximately 3% and 5%, respectively of the Company s total revenue. During the three and six month periods ended June 30, 2009, reseller revenue was approximately 1% of the Company s total revenue.

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 $24,000 and $52,000, respectively, for the three and six month periods ended June 30, 2010. During the three and six month periods ended June 30, 2009, the Company recorded barter revenue and expense of approximately $81,000 and $173,000, 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.

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.

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 at least A1/P1. The Company considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

Restricted Cash

The Company secures its capital lease obligation with a letter of credit that is collateralized by $263,000 of cash. When the capital lease is repaid, the letter of credit would no longer be required and the restricted cash would be available for general use. Restricted cash is excluded from cash and cash equivalents and is recorded in other long term assets (due to the term of the lease being greater than one year) in the

accompanying balance sheets.

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Investments in Marketable Securities

Management determines the appropriate classification of its debt and equity 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 are 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.

The following is a summary of available-for-sale securities at June 30, 2010 (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Government agency bonds	$ 9,961	$ 5	$	$ 9,966
Commercial paper	2,999			2,999
Corporate notes and bonds	9,072	43	(7)	9,108
Total available-for-sale debt securities	22,032	48	(7)	22,073
Publicly traded common stock	1,279	12	(295)	996
Total available-for-sale securities	$ 23,311	$ 60	$ (302)	$ 23,069

At June 30, 2010, the Company evaluated its investment portfolio in available-for-sale debt securities, and noted unrealized losses of approximately $7,000 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 June 30, 2010. There have been no unrealized losses greater than twelve months. The Company s intent is to hold these investments until 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 June 30, 2010, the Company evaluated its investment portfolio in publicly traded common stock to determine if there had been decline in market value that was considered to be other-than-temporary. At June 30, 2010, the Company concluded that the decline in publicly traded common stock was temporary and adjusted it to fair value through comprehensive income.

The amortized cost and estimated fair value of the available-for-sale debt securities at June 30, 2010, 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	$ 20,030	$ 45	$ (7)	$ 20,068
Due after one year and through five years	2,002	3		2,005
	$ 22,032	$ 48	$ (7)	$ 22,073

The following is a summary of available-for-sale securities at December 31, 2009 (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Government agency bonds	$ 46,153	$ 16	$ (33)	$ 46,136
Commercial paper	8,996			8,996
Corporate notes and bonds	9,631	108	(1)	9,738
Total available-for-sale debt securities	64,780	124	(34)	64,870
Publicly traded common stock	13		(1)	12
Total available-for-sale securities	$ 64,793	$ 124	$ (35)	$ 64,882

The amortized cost and estimated fair value of the available-for-sale debt securities at December 31, 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	$ 62,223	$ 124	$ (27)	$ 62,320
Due after one year and less than two years	2,557		(7)	2,550
	$ 64,780	$ 124	$ (34)	$ 64,870

Accounts Receivable

Trade accounts receivable are recorded at the invoiced amounts and do not bear interest. The Company records reserves against its accounts receivable balance for service credits and for doubtful accounts. Estimates are used in determining both of these reserves. The allowance for doubtful accounts charges are included as a component of general and administrative expenses.

The Company s reserve for service credits increases as a result of specific service credits that are expected to be issued to customers during the ordinary course of business, as well as for billing disputes. These credits typically relate to customer disputes and billing adjustments and are recorded as a reduction of revenues. Decreases to the reserve are the result of actual credits being issued to customers, causing a corresponding reduction in accounts receivable.

Goodwill and Other Intangible Assets

Goodwill represents costs in excess of fair values assigned to the underlying net assets of the acquired company. Goodwill is not amortized but instead is tested for impairment annually or more frequently if events or changes in circumstances indicate the asset might be impaired.

The Company s other intangible assets represent existing technologies, trademark, non-compete agreements, patent, usage contract, domain names and customer relationships intangibles. Other intangible assets are amortized over their respective estimated lives, ranging from one to five years. In the event that facts and circumstances indicate intangibles or other long-lived assets may be impaired, the Company evaluates the recoverability and estimated useful lives of such assets.

Use of Estimates

The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates, judgments and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Actual results and outcomes could differ from those estimates. Significant estimates used in these condensed consolidated financial statements include, but are not limited to, revenues, accounts receivable and related reserves, useful lives and realizability of long-term assets, provision for litigation, capitalized software, income and other taxes, the fair value of share-based compensation and other contingent liabilities.

Recently Issued Accounting Pronouncements

In October 2009, the FASB issued a new accounting standard which provides guidance for arrangements with multiple deliverables. Specifically, the new standard requires an entity to allocate consideration at the inception of an arrangement to all of its deliverables based on the relative selling prices. In absence of the vendor specific objective evidence or third party evidence of the selling price, consideration must be allocated to the deliverables based on management s best estimate of the selling prices. In addition, the new standard eliminates the use of the residual method of allocation. In October 2009, the FASB also issued a new accounting standard which changes revenue recognition for tangible products containing software and hardware elements. Specifically, tangible products containing software and hardware that function together to deliver the tangible products essential functionality are scoped out of the existing software revenue recognition guidance and will be accounted for under the multiple-element arrangements revenue recognition guidance discussed above. Both standards will be effective for the Company in the first quarter of 2011. Early adoption is permitted. The Company will adopt these new accounting standards in the first quarter of 2011 using the prospective method.

In February 2010, the Financial Accounting Standards Board (FASB) issued FASB Accounting Standards Update 2010-09, *Subsequent Events: Amendments to Certain Recognition and Disclosure Requirements* (ASU 2010-09), which amends FASB ASC Topic 855, *Subsequent Events*. The update provides that SEC filers, as defined in ASU 2010-09, are no longer required to disclose the date through which subsequent events have been evaluated in originally issued and revised financial statements. The update also requires SEC filers to evaluate subsequent events through the date the financial statements are issued rather than the date the financial statements are available to be issued. The Company adopted ASU 2010-09 upon issuance. This update had no impact on the Company s financial position, results of operations or cash flows.

As of January 1, 2010, the Company adopted Accounting Standards Update 2010-06 *Fair Value Measurements and Disclosures* (Topic 820) *Improving Disclosures about Fair Value Measurements*. This new accounting standard requires new disclosures and clarifies certain existing disclosure requirements about fair value measurements. The standard requires a reporting entity to disclose significant transfers in and out of Level 1 and Level 2 fair value measurements, to describe the reasons for the transfers and to present separately information about purchases, sales, issuances and settlements for fair value measurements using significant unobservable inputs. The standard is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements, which is effective for interim and annual reporting periods beginning after December 15, 2010; early adoption is permitted. The adoption of the standard did not have any material impact on the Company s financial position, results of operations or cash flows.

As of January 1, 2010, the Company adopted Accounting Standards Update 2010-02, *Consolidation* (Topic 810) *Accounting and Reporting for Decreases in Ownership of a Subsidiary.* This new accounting standard clarifies the scope of the decrease in ownership provisions and expands the disclosure requirements about deconsolidation of a subsidiary or de-recognition of a group of assets. The standard is effective beginning in the first interim or annual reporting period ending on or after December 15, 2009 and thus is effective for the Company s first quarter reporting in 2010. The amendments in the standard must be applied retrospectively to the first period that an entity adopted SFAS 160. The adoption of the standard did not have any material impact on the Company s financial position, results of operations or cash flows.

3. Business Acquisitions

chors GmbH

On January 27, 2010 the Company acquired chors GmbH (chors), an on-line and direct marketing solutions provider located in Germany. The aggregate purchase price, including the earn-out provision consisted of approximately $2.8 million of cash, of which approximately $2.5 million was paid at closing, and up to 860,000 shares of the Company s common stock, of which 86,000 shares were issued at closing. The fair value of the common shares issued as consideration for chors 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 approximately $0.2 million of transaction costs, which primarily consisted of fees for legal and financial advisory services. These transaction costs were included in general and administrative expenses in the Company s statement of operations for the six month period ended June 30, 2010. The Company s consolidated financial statements include the results of operations of chors from the date of acquisition. The historical results of operations of chors 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 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 chors acquisition will not be amortized and will be tested for impairment at least annually (see Note 6).

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

		(In thousands)
Consideration:		
Cash	$	2,814
Value of common stock		3,122
Total consideration	$	5,936
Acquisition-related costs (included in general and administrative expenses)	$	194
Recognized amounts of identifiable assets acquired and liabilities assumed:		
Financial assets	$	845
Property and equipment		63
Identifiable intangible assets		2,498
Financial liabilities		(557)
Total identifiable net assets		2,849
Goodwill		3,087

	$	5,936

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	$ 1,180	3.0
Non-compete agreements	940	4.0
Usage contract	370	1.6
Trademarks	8	5.0
Total	$ 2,498	

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 chors services. The fair value of intangible assets was based upon the market approach and the income 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 and trademarks acquired from chors. 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 14%, discount rate of 21.5%, tax rate of 25% and estimated average economic life of three years. The key assumptions used in valuing the existing trademarks are as follows: royalty rate of 0.5%, discount rate of 21%, tax rate of 25% and estimated average economic life of five years.

The non-compete agreements and usage contract were valued using the income approach. In utilizing the income approach, the Company estimates the value of an intangible based on the present value of future economic income attributable to the ownership of the asset. This approach is typically determined through a Discounted Cash Flow Method. The Discounted Cash Flow Method provides an indication of value based on discounting projected debt-free net cash flows to their present value at a discount rate that reflects both market based return requirements and risks inherent in the specific intangible asset. In applying this approach, the values of the intangible assets acquired were determined using projections of revenues and expenses specifically attributed to the intangible assets. The income streams were then discounted to present value using estimated risk-adjusted discount rates. The rate used to discount the expected future net cash flows from the intangible assets to their present values was based upon a weighted average cost of capital of approximately 20%. The discount rate was determined after consideration of market rates of return on debt and equity capital, the weighted average return on invested capital and the risk associated with achieving forecasted sales related to the technology and assets acquired from chors. The key assumptions used in valuing the non-compete agreements and usage contract were as follows: 20.5% for non-compete agreements, and 18.5% for usage contract, tax rate of 25% and estimated remaining economic life of 4 years for non-compete agreements and 1.6 years for the usage contract.

The total weighted average amortization period for the intangible assets acquired from Chors is 3.2 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 chors acquisition is not deductible for income tax purposes.

EyeWonder Acquisition

On April 30, 2010 the Company completed its acquisition of EyeWonder, Inc. (EyeWonder), a provider of interactive digital advertising products and services to advertisers, advertising agencies and publishers headquartered in Atlanta, Georgia. The aggregate purchase price, excluding the earn-out provision consisted of approximately $62.8 million of cash and 12,740,000 shares of the Company s common stock with an estimated fair value of approximately $51.2 million. The fair value of the common shares issued as consideration for EyeWonder was determined on the basis of the closing market price of the Company s common shares on the acquisition date. Under the terms of the Merger

Agreement, the former holders of EyeWonder securities that were outstanding immediately prior to the completion of the merger received, in the aggregate, approximately $49.6 million in cash and 9,726,301 shares of the Company s common stock with a determined value of approximately $39.1 million based on the closing price of the Company s common stock on April 30, 2010. In addition, the former EyeWonder securityholders may receive up to 4,774,000 shares of the Company s common stock and approximately $0.3 million in cash in April 2011 if certain performance metrics are satisfied. At this time, the Company does not believe that the performance metrics will be achieved and accordingly has not recorded any

contingent consideration. Under the terms of the Merger Agreement, 3,013,699 shares of the Company s common stock have been set aside in an escrow account and will be held until June 28, 2011, subject to any unresolved indemnification claims. In addition, the Company incurred approximately $2.3 million of transaction costs, which primarily consisted of fees for legal and financial advisory services. Approximately $1.5 million of these costs were recorded in 2009 and approximately $0.4 million and $0.8 million, respectively, are included in general and administrative expenses in the Company s statement of operations for the three and six month periods ended June 30, 2010. The Company s consolidated financial statements include the results of operations of EyeWonder from the date of acquisition. 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 allocation is preliminary and will be finalized during the third quarter of 2010. The excess of the purchase price over the amounts allocated to assets acquired and liabilities assumed has been recorded as goodwill. The value of the goodwill from this acquisition can be attributed to a number of business factors including, but not limited to, potential sales opportunities of providing Limelight services to EyeWonder customers; trained technical workforce in place in the United States and Europe; existing sales pipeline and trained sales force and potential cost synergies to be realized. In accordance with current accounting standards, goodwill associated with the EyeWonder acquisition will not be amortized and will be tested for impairment at least annually (see Note 6).

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

		(In thousands)
Consideration:		
Cash	$	62,782
Common stock		51,215
Total consideration	$	113,997
Acquisition-related costs (included in general and administrative expenses)	$	2,301
Recognized amounts of identifiable assets acquired and liabilities assumed:		
Financial assets	$	12,798
Property and equipment		1,100
Identifiable intangible assets		17,849
Financial liabilities		(8,617)
Total identifiable net assets		23,130
Goodwill		90,867
	$	113,997

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	$	14,982	4.0
Patent		789	4.0
Trademarks		1,800	Indefinite
Non-compete agreements		278	1.5
Total	$	17,849	

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 EyeWonder services. The estimated fair value of intangible assets was based upon the market

approach and the income 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, patents and trademarks acquired from EyeWonder. 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 and patents acquired are as follows: royalty rate of 14%, discount rate of 17%, tax rate of 38% and estimated average economic life of four years. The key assumptions used in valuing the existing trademarks acquired are as follows: royalty rate of 0.5%, discount rate of 17%, tax rate of 38% and an indefinite economic life.

The non-compete agreements were valued using the income approach. In utilizing the income approach, the Company estimates the value of an intangible based on the present value of future economic income attributable to the ownership of the asset. This approach is typically determined through a Discounted Cash Flow Method. The Discounted Cash Flow Method provides an indication of value based on discounting projected debt-free net cash flows to their present value at a discount rate that reflects both market based return requirements and risks inherent in the specific intangible asset. In applying this approach, the values of the intangible assets acquired were determined using projections of revenues and expenses specifically attributed to the intangible assets. The income streams were then discounted to present value using estimated risk-adjusted discount rates. The rate used to discount the expected future net cash flows from the intangible assets to their present values was based upon a weighted average cost of capital of approximately 16%. The discount rate was determined after consideration of market rates of return on debt and equity capital, the weighted average return on invested capital and the risk associated with achieving forecasted sales related to the technology and assets acquired from EyeWonder. The key assumptions used in valuing the non-compete agreements were as follows: discount rate of 16%, tax rate of 38% and estimated remaining economic life of 1.5 years.

The total weighted average amortization period for the intangible assets acquired from EyeWonder is 3.6 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 EyeWonder acquisition is not deductible for income tax purposes.

The following table reflects unaudited pro forma results of operations of the Company for the three and six months ended June 30, 2010 and 2009 assuming that the EyeWonder acquisition had occurred on January 1, 2010 and January 1, 2009, respectively (in thousands, expect per share data):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	2009	2010	2009
Revenues	$ 44,311	$ 41,248	$ 86,626	$ 79,324
Net income	$ (1,778)	$ (5,415)	$ (9,880)	$ 46,745
Net income per share basic	$ (0.02)	$ (0.06)	$ (0.11)	$ 0.48
Net income per share diluted	$ (0.02)	$ (0.06)	$ (0.11)	$ 0.47

4. Accounts Receivable

Accounts receivable include (in thousands):

	As of June 30, 2010	As of December 31, 2009
Accounts receivable	$ 36,879	$ 29,457
Unbilled accounts receivable	6,299	6,132
	43,178	35,589
Less: credit allowance	(1,170)	(1,190)
Less: allowance for bad debt	(7,529)	(8,036)
Total accounts receivable, net	$ 34,479	$ 26,363

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5. Prepaid Expenses and Other Current Assets

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

	As of June 30, 2010	As of December 31, 2009
Prepaid bandwidth and backbone services	$ 3,910	$ 3,511
Non-income taxes receivable (VAT)	3,020	3,449
Employee advances and prepaid recoverable commissions	225	147
Interest receivable	167	413
Other	2,399	2,134
Total prepaid expenses and other current assets	$ 9,721	$ 9,654

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 bandwidth and backbone capacity. The agreements required the Company to make advanced payments for future services to be received.

6. Goodwill and Other Intangible Assets

The Company has recorded goodwill and other intangible assets as a result its business acquisitions of Kiptronic Inc. (Kiptronic), chors and EyeWonder that occurred in May 2009, January 2010 and April 2010, respectively.

The excess of the purchase price over the amounts allocated to assets acquired and liabilities assumed has been recorded as goodwill. As of June 30, 2010, the Company has recorded goodwill of approximately $94.8 million which includes management s allocation of the purchase price of Kiptronic, chors and EyeWonder.

The Company reviews goodwill for impairment annually or whenever events or changes in circumstances indicate that the carrying amount may exceed their fair value. The Company concluded that it had one reporting unit and assigned the entire balance of goodwill to this reporting unit as of June 30, 2010.

Other intangible assets that are subject to amortization consist of the following (in thousands):

	June 30, 2010		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Existing technologies	$ 16,461	$ (908)	$ 15,553
Trademark	1,807	(1)	1,806
Non-compete agreements	1,105	(123)	982
Patents	789	(33)	756
Usage contract	326	(92)	234
Customer relationships	12	(12)	
Domain names	11	(11)	
Total other intangible assets	$ 20,511	$ (1,180)	$ 19,331

	December 31, 2009		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Existing technologies	$ 440	$ (74)	$ 366
Domain names	11	(7)	4
Customer relationships and contracts	12	(12)	
Total other intangible assets	$ 463	$ (93)	$ 370

Aggregate expense related to amortization of other intangible assets for the three months ended June 30, 2010 and 2009 was $0.9 million and $0, respectively. For the six months ended June 30, 2010 and 2009, aggregate expense related to amortization of other intangible assets was $1.1 million and $0 million, respectively. Based on the Company s other intangible assets as of June 30, 2010, aggregate expense related to amortization of other intangible assets is expected to be $2.5 million for the remainder of 2010, and $4.9 million, $4.6 million, $4.2 million and $1.3 million for fiscal years 2011, 2012, 2013 and 2014, respectively.

7. Property and Equipment

Property and equipment include (in thousands):

	As of June 30, 2010	As of December 31, 2009
Network equipment	$ 130,204	$ 115,505
Computer equipment	6,848	5,493
Furniture and fixtures	835	691
Leasehold improvements	2,911	2,812
Other equipment	476	473
	141,274	124,974
Less: accumulated depreciation	(96,623)	(89,450)
	$ 44,651	$ 35,524

8. Other Assets

Other assets include (in thousands):

	As of June 30, 2010	As of December 31, 2009
Prepaid bandwidth and backbone services	$ 5,510	$ 7,413
Vendor deposits and other	1,807	719
Restricted cash	263	
Cost basis investments	66	
Total other assets	$ 7,646	$ 8,132

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

The Company secures its capital lease obligation with a letter of credit that is collateralized by $263,000 of cash as of June 30, 2010. Upon repayment of the capital lease obligation, the letter of credit would no longer be required and the restricted cash would be available for general use.

On May 18, 2010, the Company made a strategic investment in Gaikai, a private cloud-based gaming technology company that allows users to play major PC and console games through a web browser. The Company will provide services to Gaikai, which will be recorded as revenue when earned, with a corresponding increase in its cost basis of its investment.

9. Other Current Liabilities

Other current liabilities consist of the following (in thousands):

	As of December 31,

	As of June 30, 2010	2009
Accrued compensation and benefits	$ 3,469	$ 2,827
Contingent consideration liability	3,054	
Accrued legal fees	2,842	2,702
Accrued cost of revenue	2,531	2,822
Income taxes payable	2,263	1,905
Non income taxes payable (VAT)	803	747
Other accrued expenses	3,296	3,137
Total other current liabilities	$ 18,258	$ 14,140

The Company has determined that certain transactions are subject to sales tax in some of the states in which it operates. Accordingly, the Company has recorded a liability for those amounts which are probable and reasonably estimated.

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10. Litigation

In June 2006, Akamai Technologies, Inc., or Akamai, and the Massachusetts Institute of Technology, or MIT, filed a lawsuit against the Company in the United States District Court for the District of Massachusetts alleging that the Company was infringing two patents assigned to MIT and exclusively licensed by MIT to Akamai, United States Patent No. 6,553,413 (the 413 patent) and United States Patent No. 6,108,703 (the 703 patent). In September 2006, Akamai and MIT expanded their claims to assert infringement of a third, recently issued patent United States Patent No. 7,103,645 (the 645 patent). In February 2008, a jury returned a verdict in this lawsuit, finding that the Company infringed four claims of the 703 patent at issue and rejecting the Company s invalidity defenses for the period April 2005 through December 31, 2007. The jury awarded an aggregate of approximately $45.5 million which includes lost profits, reasonable royalties and price erosion damages. In addition, the jury awarded prejudgment interest which the Company estimated to be $2.6 million at December 31, 2007. The Company recorded an aggregate $48.1 million as a provision for litigation as of December 31, 2007. During the year ended December 31, 2008, the Company estimated its revenue from alleged infringing methods totaled approximately 25% of total revenue. The Company recorded a potential additional provision for litigation totaling $15.5 million, plus additional interest of $2.0 million, for the year ended December 31, 2008. The total provision for litigation at December 31, 2008 was $65.6 million.

On July 1, 2008, the court denied the Company s Motions for Judgment as a Matter of Law (JMOL), Obviousness, and a New Trial. The court also denied Akamai s Motion for Permanent Injunction as premature and its Motions for Summary Judgment regarding the Company s equitable defenses. The court conducted a bench trial in November 2008 regarding the Company s equitable defenses. The Company also filed a motion for reconsideration of the court s earlier denial of the Company s motion for JMOL. The Company s motion for 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 the Company s initial motion for JMOL. On April 24, 2009 the court issued its order and memorandum setting aside the adverse jury verdict and ruling that the Company did not infringe Akamai s 703 patent and that the Company is entitled to judgment as a matter of law. Based upon the court s April 24, 2009 order the Company has reversed the $65.6 million provision for litigation previously recorded for this lawsuit as the Company no longer believes that payment of any amounts represented by the litigation provision is probable. The court entered final judgment in favor of the Company on May 22, 2009, and Akamai filed its notice of appeal of the court s decision on May 26, 2009 and its appeal brief on September 15, 2009 with the United States Court of Appeals for the Federal Circuit. The Company filed its reply brief on December 9, 2009 and each party has filed further appeal briefs. The court heard arguments by both parties on June 7, 2010. The Company intends to vigorously defend the action should the court rule in Akamai s favor. The Company is not able at this time to estimate the range of potential loss nor, in light of the favorable court order, does it believe that a loss is probable. Therefore, there is no provision for this lawsuit in the Company s financial statements.

Legal and other expenses associated with this case have been significant. The Company includes these litigation expenses in general and administrative expenses, as reported in its consolidated statement of operations. The Company expects that the litigation will continue to be expensive, time consuming and a distraction to its management in operating its business.

In December 2007, Level 3 Communications, LLC, or Level 3, filed a lawsuit against the Company in the United States District Court for the Eastern District of Virginia alleging that the Company was infringing certain patents Level 3 acquired from Savvis Communications Corp. In addition to monetary relief, including treble damages, interest, fees and costs, the complaint sought an order permanently enjoining the Company from conducting its business in a manner that infringed the relevant patents. A jury trial was conducted in the United States District Court for the Eastern District of Virginia in January 2009, and on January 23, 2009 the jury returned a verdict favorable to the Company finding that the Company did not infringe the Level 3 patents. The Company believes the jury verdict finding that the Company did not infringe the Level 3 patents is correct, and that the claims of infringement asserted against the Company by Level 3 in the litigation were without merit. The court denied Level 3 s subsequent motion for JMOL or alternatively for a new trial, and entered judgment in favor of the Company. Level 3 filed its notice of appeal of the court s decision on July 21, 2009 and its appeal brief on October 5, 2009 with the United States court of Appeals for the Federal Circuit. The Company filed its reply brief on January 19, 2010. On May 3, 2010 the United States Court of Appeals for the Federal Circuit heard oral argument on this matter, and on May 5, 2010 the court affirmed the District Court judgment in favor of the Company. Level 3 subsequently filed a motion for re-hearing. In light of the favorable ruling the Company does not believe a loss is probable. Therefore, there is no provision for this lawsuit in the Company s financial statements.

In August 2007, the Company, certain of its officers and current and former directors, and the firms that served as the lead underwriters in the Company s initial public offering were named as defendants in several purported class action lawsuits filed in the United States District Courts for the District of Arizona and the Southern District of New York. All of the New York cases were transferred to Arizona and consolidated into a single action. The plaintiffs consolidated complaint asserted causes of action under Sections 11, 12, and 15 of the Securities Act of 1933, as amended, on behalf of a purported class of individuals who purchased the Company s common stock in its initial public offering and/or pursuant to its Prospectus. The complaint alleges, among other things, that the Company omitted and/or misstated certain facts concerning the seasonality of its business and the loss of revenue related to certain customers. On March 17, 2008, the Company and the individual defendants moved to dismiss all of the plaintiffs claims and a hearing was held on June 16, 2008. On August 8, 2008, the court granted the motion to dismiss,

dismissing plaintiffs claims under

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Section 12 with prejudice and granting leave to amend the claims under Sections 11 and 15. Plaintiffs chose not to amend the claims under Sections 11 and 15, and on August 29, 2008 the court entered judgment in favor of the Company. On September 5, 2008, plaintiffs filed a notice of appeal, and appellate briefs were filed by the parties in January and February 2009. The Company believes that it and the individual defendants have meritorious defenses to the plaintiffs claims and intends to contest the lawsuits vigorously. In November 2009 the parties entered into a Memorandum of Understanding to settle this lawsuit for an amount well within the coverage limits of the primary carrier of our directors and officers liability insurance. The Company is working to finalize the settlement which will require court approval. The Company is not able at this time to estimate the range of potential loss nor, in light of the pending settlement does it believe that a loss is probable. Therefore, there is no provision for these lawsuits in the Company s financial statements.

11. Net Income (Loss) Per Share

The Company calculates basic and diluted earnings per share based on income available to common stockholders, which approximates net income for each period, and includes the restricted stock as participating securities. The Company uses the weighted-average number of common shares outstanding during the period, plus the restricted stock discussed above, for the computation of basic earnings per share using the two-class method. Diluted earnings per share include the dilutive effect of convertible stock options and restricted stock units in the weighted-average number of common shares outstanding.

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	2009	2010	2009
Net (loss) income available to common stockholders	$ (2,265)	$ (5,298)	$ (8,050)	$ 49,836
Basic weighted average common shares	93,889	84,033	89,504	83,774
Basic weighted average common shares	93,889	84,033	89,504	83,774
Dilutive effect of stock options and restricted stock units				3,475
Diluted weighted average common shares	93,889	84,033	89,504	87,249
Basic net (loss) income per share	$ (0.02)	$ (0.06)	$ (0.09)	$ 0.60
Diluted net (loss) income per share	$ (0.02)	$ (0.06)	$ (0.09)	$ 0.57

For the three and six month periods ended June 30, 2010 and the three month period ended June 30, 2009, an aggregate of approximately 2,646,000, 2,634,000 and 3,877,000, respectively, outstanding options and common stock subject to repurchase were excluded from the computation of diluted net loss per common share because including them would have had an antidilutive effect.

12. Comprehensive (Loss) Income

The following table presents the calculation of comprehensive income (loss) and its components (in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	2009	2010	2009
Net (loss) income	$ (2,265)	$ (5,298)	$ (8,050)	$ 49,836

Other comprehensive income (loss), net of tax:				
Unrealized gain (loss) on investments	(280)	73	(329)	102
Foreign exchange translation	(778)		(952)	(274)
Other comprehensive income (loss)	(1,058)	73	(1,281)	(172)
Comprehensive (loss) income	$ (3,323)	$ (5,225)	$ (9,331)	$ 49,664

For the periods presented, accumulated other comprehensive income consisted of (in thousands):

	As of June 30, 2010	As of December 31, 2009
Net unrealized gain on investments, net of tax	$ (236)	$ 93
Foreign currency translation	(952)	
Total accumulated other comprehensive (loss) gain	$ (1,188)	$ 93

13. Stockholders Equity

On January 27, 2010, the Company completed its acquisition of chors. The aggregate purchase price of chors including the estimated fair value of the earn-out provision, consisted of approximately $2.8 million of cash, of which approximately $2.5 million was paid at closing, and up to 860,000 shares of the Company s common stock, of which 86,000 shares were issued at closing with a determined fair value of approximately $0.3 million. The fair value of the common stock issued as consideration for chors was determined on the basis of the closing market price of the Company s common shares on the acquisition date.

On April 30, 2010, the Company completed its acquisition of EyeWonder, Inc. or EyeWonder. The former holders of EyeWonder securities that were outstanding immediately prior to the completion of the acquisition received, in the aggregate, approximately $49.6 million in cash and 9,726,301 shares of the Company s common stock with a determined value of approximately $39.1 million based on the closing price of the Company s common stock on April 30, 2010. In addition, the former EyeWonder securityholders may receive up to 4,774,000 shares of the Company s common stock and approximately $0.3 million in cash in April 2011 if certain performance metrics are satisfied. At this time, the Company does not believe that the performance metrics will be achieved and accordingly has not recorded any contingent consideration. In accordance with the terms of the acquisition, 3,013,699 shares of the Company s common stock have been set aside in an escrow account and will be held until June 28, 2011, subject to any unresolved indemnification claims.

14. Share-Based Compensation

The following table summarizes the components of share-based compensation expense included in the Company s condensed consolidated statement of operations for the three and six month periods ended June 30, 2010 and 2009 in accordance with current accounting standards (in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	2009	2010	2009
Share-based compensation expense by type of award:				
Stock options	$ 2,512	$ 2,149	$ 5,006	$ 4,070
Restricted stock awards and units	1,648	2,132	3,497	4,698
Total share-based compensation expense	$ 4,160	$ 4,281	$ 8,503	$ 8,768
Effect of share-based compensation expense on:				
Cost of services	$ 583	$ 582	$ 1,181	