

LIMELIGHT NETWORKS, INC.

FORM 10-Q/A (Amended Quarterly Report)

Filed 10/29/07 for the Period Ending 06/30/07

Address	2220 W. 14TH STREET TEMPE, AZ 85281
Telephone	602-850-5000
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Industry	Broadcasting & Cable TV
Sector	Services
Fiscal Year	12/31

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q/A
Amendment No. 1

(Mark One)

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

For the quarterly period ended June 30, 2007

or

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

For the transition period from _____ to _____

Commission file number: 001-33508

LIMELIGHT NETWORKS, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

20-1677033

(I.R.S. Employer Identification No.)

**2220 W. 14th Street
Tempe, AZ 85281**

(Address of principal executive offices, including Zip Code)

(602) 850-5000

(Address of principal executive offices, including Zip Code)

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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

LIMELIGHT NETWORKS, INC.
FORM 10-Q/A
Quarterly Period Ended June 30, 2007

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Explanatory Note

On October 9, 2007, 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 consolidated financial statements for the year ended December 31, 2006 and the three months ended March 31, 2007 contained in the Company’s Registration Statement on Form S-1 and the prospectus contained therein dated June 7, 2007, as well as the Company’s consolidated financial statements for the three and six months ended June 30, 2006 and 2007 contained in the Quarterly Report on Form 10-Q filed on August 14, 2007, which financial statements should no longer be relied upon, to correct errors in such financial statements based on guidance provided by Financial Accounting Standards Board Statement No. 154.

See Note 1, “Restatement of Previously Issued Financial Statement,” included in Part I of this Amendment to its Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (this “Form 10-Q/A”) for a detailed discussion of the errors and effects of the restatement.

The Company is filing this Form 10-Q/A to reflect the restatement of the Company’s condensed consolidated financial statements for the three and six months ended June 30, 2006 and 2007, and related financial information originally filed with the Securities and Exchange Commission in the Company’s Quarterly Report on Form 10-Q on August 14, 2007 (the “Original Filing”). This Form 10-Q/A amends and restates Items 1, 2 and 4 of Part I of the Original Filing. These Items have been amended to reflect the effects of the restatement and unless otherwise indicated have not been updated to reflect other events occurring after the date of the Original Filing.

The Company has concurrently herewith filed a Current Report on Form 8-K to reflect the restatement of the Company’s consolidated financial statements for the years ended December 31, 2006, 2005 and 2004 and the three month periods ended March 31, 2007 and 2006, and related financial information, contained in the Company’s Registration Statement on Form S-1 and the prospectus contained therein dated June 7, 2007.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	June 30, 2007 (Unaudited) (Restated)	December 31, 2006 (Restated)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 159,103	\$ 7,611
Marketable securities	28,576	—
Accounts receivable, net of reserves of \$1,743 at June 30, 2007 and \$1,204 at December 31, 2006, respectively	21,322	17,526
Income taxes receivable	4,548	2,980
Deferred income taxes	—	362
Prepaid expenses and other current assets	5,365	3,011
Total current assets:	218,914	31,490
Property and equipment, net	46,124	41,784
Marketable securities, less current portion	103	285
Deferred income taxes	—	106
Other assets	1,304	759
Total assets	<u>\$ 266,445</u>	<u>\$ 74,424</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 8,510	\$ 6,419
Accounts payable, related parties	19	781
Deferred revenue, current portion	3,232	197
Credit facilities, current portion	—	2,938
Capital lease obligations, current portion	—	245
Other current liabilities	12,015	6,314
Total current liabilities:	23,776	16,894
Deferred revenue, less current portion	598	—
Credit facilities, less current portion (net of discount of \$-0- and \$424 at June 30, 2007 and December 31, 2006, respectively)	—	20,456
Capital lease obligations, less current portion	—	5
Deferred income taxes	30	—
Other long-term liabilities	30	30
Total liabilities:	<u>24,434</u>	<u>37,385</u>
Commitments and contingencies	—	—
Stockholders' equity:		
Series A convertible preferred stock, \$0.001 par value; 6,921 shares authorized; 0 and 5,070 shares issued and outstanding at June 30, 2007 and December 31, 2006, respectively, (liquidation preference: \$733 at December 31, 2006)	—	5
Series B convertible preferred stock, \$0.001 par value; 43,050 shares authorized; 0 and 39,870 shares issued and outstanding at June 30, 2007 and December 31, 2006, respectively, (liquidation preference: \$260,000 at December 31, 2006)	—	40
Convertible preferred stock, \$0.001 par value; 7,500 shares authorized; 0 shares issued and outstanding at June 30, 2007 and December 31, 2006, respectively	—	—
Common stock, \$0.001 par value; 150,000 and 120,150 shares authorized at June 30, 2007 and December 31, 2006, respectively; 82,043 and 21,832 shares issued and outstanding at June 30, 2007 and December 31, 2006, respectively	82	22
Additional paid-in capital	261,425	41,803
Accumulated other comprehensive loss	(229)	(113)
Accumulated deficit	(19,267)	(4,718)
Total stockholders' equity	<u>242,011</u>	<u>37,039</u>
Total liabilities and stockholders' equity	<u>\$ 266,445</u>	<u>\$ 74,424</u>

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

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2007 (Restated)	2006 (Restated)	2007 (Restated)	2006 (Restated)
Revenues	\$ 21,436	\$ 14,841	\$ 44,789	\$ 25,679
Cost of revenue:				
Cost of services	9,815	5,231	19,624	9,038
Depreciation — network	5,020	2,035	9,708	3,508
Total cost of revenue	14,835	7,266	29,332	12,546
Gross Margin	6,601	7,575	15,457	13,133
Operating expenses:				
General and administrative	8,657	2,231	16,294	3,802
Sales and marketing	6,404	1,497	9,422	2,531
Research and development	1,541	437	2,826	758
Depreciation and amortization	174	44	311	72
Total operating expenses	16,776	4,209	28,853	7,163
Operating (loss) income	(10,175)	3,366	(13,396)	5,970
Other income (expense):				
Interest expense	(821)	(519)	(1,394)	(1,024)
Interest income	573	—	662	—
Total other (expense) income	(248)	(519)	(732)	(1,024)
(Loss) income before income taxes	(10,423)	2,847	(14,128)	4,946
Income tax (benefit) expense	221	1,125	421	1,954
Net (loss) income	<u>\$ (10,644)</u>	<u>\$ 1,722</u>	<u>\$ (14,549)</u>	<u>\$ 2,992</u>
Net (loss) income allocable to common stockholders	<u>\$ (10,644)</u>	<u>\$ 1,417</u>	<u>\$ (14,549)</u>	<u>\$ 2,455</u>
Net (loss) income per weighted average share:				
Basic	<u>\$ (0.23)</u>	<u>\$ 0.04</u>	<u>\$ (0.43)</u>	<u>\$ 0.07</u>
Diluted	<u>\$ (0.23)</u>	<u>\$ 0.04</u>	<u>\$ (0.43)</u>	<u>\$ 0.06</u>
Shares used in per weighted average share calculations:				
Basic	45,791	31,648	33,871	33,418
Diluted	45,791	39,606	33,871	41,279

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

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

	For the Six Months Ended June 30,	
	2007	2006
	(Unaudited)	
	(Restated)	
Cash flows from operating activities:		
Net (loss) income	\$ (14,549)	\$ 2,992
Adjustments to reconcile net (loss) income to net cash provided (used in) by operating activities:		
Depreciation and amortization	10,019	3,580
Share-based compensation	11,330	341
Deferred income tax expense	580	—
Accounts receivable charges	1,847	177
Accretion of debt discount	424	36
Changes in operating assets and liabilities:		
Accounts receivable	(5,643)	(5,124)
Prepaid expenses and other current assets	(2,354)	(664)
Income taxes receivable	(538)	—
Other assets	(545)	(236)
Accounts payable	(3,712)	1,014
Accounts payable, related parties	(762)	596
Deferred revenue and other current liabilities	9,667	1,945
Net cash provided by operating activities	<u>5,764</u>	<u>4,657</u>
Cash flows from investing activities:		
Purchase of marketable securities	(28,589)	—
Purchases of property and equipment	(8,556)	(10,432)
Net cash used in investing activities	<u>(37,145)</u>	<u>(10,432)</u>
Cash flows from financing activities:		
Borrowings on credit facilities	—	6,555
Payments on credit facilities	(23,818)	(498)
Borrowings on line of credit	1,500	—
Payments on line of credit	(1,500)	—
Payments on capital lease obligations	(250)	(99)
Payments on notes payable — related parties	—	(195)
Escrow funds returned from share repurchase	2,389	—
Tax benefit from share-based compensation	23	—
Proceeds from exercise of stock options	31	46
Proceeds from initial public offering, net of issuance costs	204,498	—
Net cash provided by financing activities	<u>182,873</u>	<u>5,809</u>
Net increase in cash and cash equivalents	151,492	34
Cash and cash equivalents at beginning of period	7,611	1,536
Cash and cash equivalents at end of period	<u>\$ 159,103</u>	<u>\$ 1,570</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ 1,013</u>	<u>\$ 822</u>
Cash paid for income taxes	<u>\$ 357</u>	<u>\$ 1,780</u>
Property and equipment purchases remaining in accounts payable	<u>\$ 5,803</u>	<u>\$ —</u>

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

LIMELIGHT NETWORKS, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Restatement of Previously Issued Financial Statement

Subsequent to the issuance of the Company's unaudited condensed consolidated financial statements as of and for the period ended June 30, 2007, the Company's management identified certain errors in those financial statements. The Company conducted an internal review and discovered that one customer had been under-billed for CDN services for a 15-month period extending back to July 2006. The amended billings to this customer, which have since been billed and collected, resulted in increased revenue of approximately \$0.2 million and \$0.7 million for the three and six month periods ended June 30, 2007, respectively.

During the course of implementing a stock option administration system, the Company determined it had incorrectly valued and accounted for certain stock option and restricted stock grants. The result of this error was to increase aggregate stock compensation expense by approximately \$0.4 million and to change the periods in which the related expense will be recognized. Correcting these errors resulted in reducing previously reported stock based compensation expense by \$0.4 million and \$0.9 million for the three and six month periods ended June 30, 2007, respectively.

The Company also became aware that it had previously reported net income allocable to common stockholders incorrectly. The Company had not computed the net income allocable to common stockholders in accordance with EITF Issue No. 03-6, *Participating Securities and the Two-Class Method under FASB Statement 128*. The Company made an error related to the computation of the preference dividend, which error favorably impacted the net income allocable to common stockholders. Further, an error in the computation of the hypothetical dividend adversely impacted the net income allocable to common stockholders. The result of these errors was a decrease of net income allocable to stockholders of \$305,000 and \$512,000 for the three and six month periods ended March 31, 2006 and June 30, 2006, respectively. There was no impact on the three and six month periods ended June 30, 2007 given that this treatment is antidilutive in overall loss periods.

The Company has also made an adjustment to interest expense as it relates to the amortization of a debt discount relating to warrants issued to a bank under the Company's Equipment Facility. The adjustment resulted in decreasing previously reported interest expense by \$34,000 and \$46,000 respectively, for the three and six month periods ended June 30, 2007.

The tax effect of these adjustments, to the extent they had an income tax impact, was based upon the effective tax rate calculation performed using the estimated operating results at that time for the entire year adjusted for the impact of the restatement on the projection for the year. The Company also determined that its deferred tax assets related to stock compensation that existed at the beginning of the year no longer met the "more likely than not" recoverability criteria during the three months ended June 30, 2007 which resulted in an additional charge to income tax expense of approximately \$0.5 million.

The Company has herein restated its previously issued unaudited condensed consolidated financial statements as of and for the periods ended June 30, 2007, to reflect these adjustments. The effect of the above restatement impacted the Company's consolidated financial statements for the year ended December 31, 2006, and the three month period ended March 31, 2007, which were restated in the Current Report on Form 8-K filed with the Securities and Exchange Commission on October 29, 2007.

The following table presents the impact of the adjustments on the previously-reported unaudited condensed consolidated balance sheet for the three and six-month period ended June 30, 2007 (in thousands):

Condensed Consolidated Balance Sheet

	For the period ended June 30, 2007	
	As Previously Reported	As Restated
Assets		
Accounts receivable, net	\$ 19,722	\$ 21,322
Income taxes receivable	3,833	4,548
Deferred income taxes	1,294	—
Total current assets	217,893	218,914
Deferred income taxes	50	—
Total assets	265,474	266,445
Liabilities		
Deferred tax liabilities	—	30
Total liabilities	24,404	24,434
Stockholders' equity		
Additional paid-in capital	261,169	261,425
Accumulated deficit	(19,952)	(19,267)
Total stockholders' equity	241,070	242,011
Total liabilities and stockholders' equity	265,474	266,445



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The following table presents the impact of the adjustments on the previously-reported unaudited condensed consolidated statements of operations for the three and six-month period ended June 30, 2007 (in thousands, except per share data):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2007	2007	2007	2007
	As Previously Reported	As Restated	As Previously Reported	As Restated
Revenues	\$ 21,213	\$ 21,436	\$ 44,089	\$ 44,789
Gross Margin	6,378	6,601	14,757	15,457
Operating expenses:				
General and administrative	9,046	8,657	17,182	16,294
Total operating expenses	17,165	16,776	29,741	28,853
Operating loss	(10,787)	(10,175)	(14,984)	(13,396)
Other income (expense):				
Interest expense	(855)	(821)	(1,440)	(1,394)
Total other expense	(282)	(248)	(778)	(732)
Loss before income taxes	(11,069)	(10,423)	(15,762)	(14,128)
Income tax expense (benefit)	(606)	221	(864)	421
Net loss	(10,463)	(10,644)	(14,898)	(14,549)
Net loss allocable to common stockholders	(10,463)	(10,644)	(14,898)	(14,549)
Net loss per weighted average share:				
Basic	(0.23)	(0.23)	(0.44)	(0.43)
Diluted	(0.23)	(0.23)	(0.44)	(0.43)
Weighted average common shares — basic	45,702	45,791	33,794	33,871
Weighted average common shares — diluted	45,702	45,791	33,794	33,871

For the three and six month periods ended June 30, 2006, respectively, the effects of the Company restating net income allocable to common shareholders in accordance with EITF Issue No. 03-6, *Participating Securities and the Two-Class Method under FASB Statement 128*, is presented below (in thousands, except per share data).

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	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2006	2006	2006	2006
	As Previously Reported	As Restated	As Previously Reported	As Restated
Net loss allocable to common stockholders	\$1,722	\$1,417	\$2,967	\$2,455
Net loss per weighted average share:				
Basic	0.05	0.04	0.09	0.07
Diluted	0.04	0.04	0.07	0.06

The following table presents the impact of the adjustments on the previously-reported unaudited condensed consolidated statements of cash flows for the six months ended June 30, 2007 (in thousands):

	For the Six Months Ended June 30,	
	2007	2007
	(Unaudited)	
	As Previously Reported	As Restated
Net loss	\$(14,898)	\$(14,549)
Adjustments to reconcile net (loss) income to net cash provided (used in) by operating activities:		
Share-based compensation	12,218	11,330
Deferred income tax benefit	(727)	580
Accretion of debt discount	470	424
Changes in operating assets and liabilities:		
Accounts receivable	(4,943)	(5,643)
Income taxes receivable	(516)	(538)

The following table presents the impact of the adjustments on the previously-reported consolidated balance sheet for the year ended December 31, 2006 (in thousands):

Consolidated Balance Sheet

	Year Ended December 31, 2006	
	As Previously Reported	As Restated
Assets		
Accounts receivable, net	\$16,626	\$17,526
Income taxes receivable	3,317	2,980
Total current assets	30,927	31,490
Deferred income taxes	173	106
Total assets	73,928	74,424
Liabilities		
Credit facilities, long-term portion, net	20,410	20,456
Deferred income taxes, long-term	—	—
Total liabilities	37,339	37,385
Stockholders' equity		
Additional paid-in capital	41,689	41,803
Accumulated deficit	(5,054)	(4,718)
Total stockholders' equity	36,589	37,039
Total liabilities and stockholders' equity	73,928	74,424

2. Organization and Summary of Significant Accounting Policies and Use of Estimates

Organization

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

Basis of Presentation

The condensed restated 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 restated consolidated

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financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) and pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). The accompanying interim condensed restated consolidated balance sheet as of June 30, 2007, the condensed consolidated statements of operations for the three months and six months ended June 30, 2007 (as restated) and 2006, and the condensed consolidated statements of cash flows for the six months ended June 30, 2007 (as restated) and 2006, are unaudited. The condensed consolidated balance sheet information as of December 31, 2006, is derived from the restated audited consolidated financial statements included in the Company's Current Report on Form 8-K filed on October 29, 2007. The consolidated financial information contained on this Quarterly Report on Form 10-Q/A should be read in conjunction with the restated audited consolidated financial statements and related notes contained in the Current Report on Form 8-K dated October 29, 2007.

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

Revenue Recognition

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

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

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

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

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

The Company recently entered into a multi-element arrangement to provide consulting services related to the development of a Custom CDN solution, the cross-license of certain technologies, including certain components of the Company's CDN software and technology, and post-contract customer support (PCS) for both the custom CDN-solution and the software component (the "Multi-

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Element Arrangement”). The agreement also contains a commitment by the customer to transmit a certain amount of traffic over the Company’s network during a 5 year period from commencement of the agreement or be subject to penalty payments.

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

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

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

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

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

Cash and Cash Equivalents

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

Investments in Marketable Securities

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

The Company has classified its investments in equity and debt securities as available-for-sale. Available-for-sale investments are

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

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

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

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

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

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

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

3. Other Current Liabilities

Other current liabilities consist of the following (in thousands)

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

4. Initial Public Offering (IPO)

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

5. Net Income (Loss) Per Share

The Company follows EITF Issue No. 03-6, *Participating Securities and the Two-Class Method under FASB Statement 128*, which established standards regarding the computation of earnings per share ("EPS") by companies that have issued securities other than common stock that contractually entitle the holder to participate in dividends and earnings of the company. EITF Issue No. 03-6 requires earnings available to common stockholders for the period, after deduction of preferred stock dividends, to be allocated between the common and preferred shareholders based on their respective rights to receive dividends. Loss years are not impacted by this accounting requirement. Basic net income per share is then calculated by dividing income allocable to common stockholders (including the reduction for any undeclared, preferred stock dividends assuming current income for the period had been distributed) by the weighted-average number of common shares outstanding, net of shares subject to repurchase by the Company, during the period. EITF Issue No. 03-6 does not require the presentation of basic and diluted net income per share for securities other than common stock; therefore, the following net income (loss) per share amounts only pertain to the Company's common stock. The Company calculates diluted net income per share under the if-converted method unless the conversion of the preferred stock is anti-dilutive to basic net income per share. To the extent preferred stock is anti-dilutive, the Company calculates diluted net income per share under the two-class method. Potential common shares include restricted common stock and incremental shares of common stock issuable upon the exercise of stock options and warrants using the treasury stock method.

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):

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	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2007	2006	2007	2006
	(Restated)	(Restated)	(Restated)	(Restated)
Numerator:				
Net (loss) income	\$ (10,644)	\$ 1,722	\$ (14,549)	\$ 2,992
Less: Income allocable to preferred stockholders	—	(305)	—	(537)
Net income (loss) allocable to common stockholders	<u>\$ (10,644)</u>	<u>\$ 1,417</u>	<u>\$ (14,549)</u>	<u>\$ 2,455</u>
Denominator:				
Weighted average common shares	45,791	31,648	33,871	33,418
Less: Weighted-average unvested common shares subject to repurchase	—	—	—	—
Denominator for basic net (loss) income per share	45,791	31,648	33,871	33,418
Dilutive effect of stock options and shares subject to repurchase	—	2,848	—	2,848
Dilutive effect of outstanding stock warrants	—	5,110	—	5,013
Denominator for diluted net (loss) income per share	<u>45,791</u>	<u>39,606</u>	<u>33,871</u>	<u>41,279</u>
Basic net (loss) income per share	\$ (0.23)	\$ 0.04	\$ (0.43)	\$ 0.07
Diluted net (loss) income per share	<u>\$ (0.23)</u>	<u>\$ 0.04</u>	<u>\$ (0.43)</u>	<u>\$ 0.06</u>

At June 30, 2007 and 2006, approximately 8.9 million (restated) and 1.3 million, respectively, options to purchase common stock were excluded from the computation of diluted net income (loss) per common share for the periods presented because including them would have had an antidilutive effect.

6. Comprehensive Income (Loss)

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2007	2006	2007	2006
	(Restated)	(Restated)	(Restated)	(Restated)
Net (loss) income	\$ (10,644)	\$ 1,722	\$ (14,549)	\$ 2,992
Other comprehensive (loss) income, net of tax:				
Unrealized (loss) gain on investments	(31)	118	(116)	71
Other comprehensive (loss) income	(31)	118	(116)	71
Comprehensive (loss) income	<u>\$ (10,675)</u>	<u>\$ 1,840</u>	<u>\$ (14,656)</u>	<u>\$ 3,063</u>

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

	As of June 30, 2007	As of December 31, 2006
Net unrealized loss on investments	\$ (229)	\$ (113)
Total accumulated other comprehensive income	<u>\$ (229)</u>	<u>\$ (113)</u>

7. Stockholders' Equity

Stock Split

On May 14, 2007, the Company affected a 3-for-2 forward stock split of its outstanding capital stock. All share and per-share data have been restated to reflect this stock split.

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Conversion of Preferred Stock

On June 7, 2007, and upon the closing of the Company's IPO, all outstanding shares of the Company's Series A and Series B Convertible Preferred Stock automatically converted into 44,940,261 shares of common stock on a 1-for-1 share basis.

Common Stock

The Board of Directors has authorized 150,000,000 and 120,150,000 shares, respectively, of \$0.001 par value Common Stock at June 30, 2007 and December 31, 2006.

Preferred Stock

On June 13, 2007, the Company amended the articles of incorporation authorizing the issuance of up to 7,500,000 shares of preferred stock. The preferred stock may be issued in one or more series pursuant to a resolution or resolutions providing for such issuance duly adopted by the Board of Directors. As of August 13, 2007, the Board of Directors had not adopted any resolutions for the issuance of preferred stock.

8. 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, 2007 and 2006 in accordance with SFAS No. 123R (in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2007 (Restated)	2006	2007 (Restated)	2006
Share-based compensation expense by type of award:				
Stock options	\$ 5,503	\$ 229	\$ 9,663	\$ 341
Restricted stock	756	—	1,667	—
Total share-based compensation expense	<u>\$ 6,259</u>	<u>\$ 229</u>	<u>\$ 11,330</u>	<u>\$ 341</u>
Effect of share-based compensation expense on income by line:				
Cost of services	\$ 346	\$ 93	\$ 588	\$ 122
General and administrative expense	3,754	21	7,497	42
Sales and marketing expense	1,152	69	1,387	107
Research and development expense	1,007	46	1,858	70
Total cost related to share-based compensation expense	<u>\$ 6,259</u>	<u>\$ 229</u>	<u>\$ 11,330</u>	<u>\$ 341</u>

9. Related Party Transactions

During the six months ended June 30, 2006 the company purchased \$6.9 million of equipment from a supplier owned by one of its founders. As of December 31, 2006, the Company was informed by its founders that there was no longer an ownership interest in this entity. Revenue derived from related parties was less than 1% for the three and six month periods ended June 30, 2006 and June 30, 2007. Management believes that all of the Company's related party transactions reflected arm's length terms.

10. Concentrations

For the three and six month periods ended June 30, 2007, the Company had no major customers for which revenue exceeded 10% of total revenue. For the three and six month periods ended June 30, 2006, the Company had one major customer for which revenue exceeded 10% of total revenue.

Revenue from non-U.S. sources aggregated approximately \$3.1 million and \$1.2 million respectively, for the three month period ended June 30, 2007 and 2006, respectively. Revenue from non-U.S. sources aggregated approximately \$6.2 million and \$1.8 million, respectively, for the six month period ended June 30, 2007 and 2006, respectively.

11. Income taxes

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a two-step process to determine the amount of tax benefit to be recognized. First, the tax position must be evaluated to determine the likelihood that it will be sustained upon external examination. If the tax position is deemed more-likely-than-not to be sustained, the tax position is then assessed to determine the amount of benefit to recognize in the financial statements. The amount of the benefit that may be recognized is the largest amount that has a greater than 50 percent likelihood of being realized upon ultimate settlement.

The Company adopted the provisions of FIN 48 on January 1, 2007. The adoption of FIN 48 did not result in the recognition of an adjustment for the cumulative effect of adoption of a new accounting principle. As of January 1, 2007, the Company had approximately \$428,000 of total unrecognized tax benefits. Of this total, approximately \$131,000 represents the amount of unrecognized tax benefits that, if recognized, would favorably affect the effective income tax rate. The unrecognized tax benefit increased by \$179,000 from December 31, 2006 to \$607,000 as of June 30, 2007. The Company anticipates its unrecognized tax benefits will decrease within 12 months of the reporting date, as a result of settling potential tax liabilities in certain foreign jurisdictions.

The Company recognizes interest and penalties related to unrecognized tax benefits in its tax provision. As of January 1, 2007, the Company had recorded a liability of \$131,000 for the payment of interest and penalties. The liability for the payment of interest and penalties did not materially change as of June 30, 2007.

During the three months ended June 30, 2007, the Company performed its assessment of the recoverability of deferred tax assets and determined that, in light of increased operating loss levels, its deferred tax assets relating to stock compensation no longer meet the “more likely than not” criteria. In accordance with SFAS No. 109, a charge to expense of approximately \$0.5 million was recorded to fully reserve those deferred tax assets existing at December 31, 2006. In preparing its effective income tax rate for 2007, no benefit is being provided for temporary differences that increase deferred tax assets relating to stock-based compensation. Other deferred tax assets remain unreserved, as management believes they are likely to be recovered, given the existence of loss carryback refund availability and the effect of existing deferred tax liabilities.

The Company conducts business in various jurisdictions in the United States and in foreign countries and is subject to examination by tax authorities. As of June 30, 2007 (unaudited) and December 31, 2006, the Company is not under examination. The tax years 2002 to 2006 remain open to examination by United States and certain state and foreign taxing jurisdictions, respectively.

12. Segment Reporting

The Company operates in one industry segment—content delivery network services. The Company operates in three geographic areas—the United States, Europe and Asia Pacific.

SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, establishes standards for reporting information about operating segments. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. The Company’s chief operating decision maker is its Chief Executive Officer. The Company’s Chief Executive Officer reviews financial information presented on a consolidated basis for purposes of allocating resources and evaluating financial performance. The Company has one business activity and there are no segment managers who are held accountable for operations, operating results and plans for products or components below the consolidated unit level. Accordingly, the Company reports as a single operating segment.

Revenue by geography is based on the location of the server which delivered the service. The following table sets forth revenue by geographic area (in thousands).

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2007 (Restated)	2006	2007 (Restated)	2006
Domestic Revenue	\$ 18,319	\$ 13,672	\$ 38,578	\$ 23,909
International Revenue	3,117	1,169	6,211	1,770
Total Revenue	\$ 21,436	\$ 14,841	\$ 44,789	\$ 25,679

The following table sets forth long-lived assets by geographic area (in thousands).

	As of June 30, 2007	As of December 31, 2006
Domestic long-lived assets	\$ 44,072	\$ 39,198
International long-lived assets	2,052	2,586
Total long-lived assets	\$ 46,124	\$ 41,784

13. Commitments and Contingencies

The Company is involved in litigation with Akamai Technologies, Inc. and the Massachusetts Institute of Technology relating to a claim of patent infringement. The action was filed in June 2006. The trial date for the case has recently been set for February 11, 2008. While the outcome of this claim cannot be predicted with certainty, management does not believe the outcome of this matter will have a material adverse effect on the Company's business. However an unfavorable outcome could seriously impact the Company's ability to conduct business which, in turn, would have a material adverse impact on the Company's results of operations and financial position

Beginning in August 2007, the Company, certain of its officers and directors, and the firms that served as the lead underwriters in its initial public offering have been named as defendants in several purported class action lawsuits filed in the U. S. District Courts for the District of Arizona and the Southern District of New York. The complaints assert causes of action under Sections 11, 12 and 15 of the Securities Act of 1933, as amended, and Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder, on behalf of a professed class consisting of all those who were allegedly damaged as a result of acquiring the Company's common stock between June 8, 2007 and August 8, 2007. The complaints allege, among other things, that the Company omitted and/or misstated certain facts concerning the seasonality of its business and the degree to which the Company offers discounted services to its customers. Although the Company believes the individual defendants have meritorious defenses to the claims made in these complaints and intends to contest the lawsuits vigorously, an adverse resolution of the lawsuits may have a material adverse effect on the Company's financial position and results of operations in the period in which the lawsuits are resolved. The Company is not able at this time to estimate the range of potential loss nor does it believe that a loss is probable. Therefore, there is no provision for these lawsuits in the Company's financial statements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the condensed consolidated financial statements and the related notes thereto included elsewhere in this Quarterly Report on Form 10-Q/A and the restated audited consolidated financial statements and notes thereto for the year ended December 31, 2006, which were restated in a Current Report on Form 8-K filed with the Securities and Exchange Commission, or SEC, on October 29, 2007. This Quarterly Report on Form 10-Q/A contains "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements include statements as to industry trends and future expectations of ours and other matters that do not relate strictly to historical facts. These statements are often identified by the use of words such as "may," "will," "expect," "believe," "anticipate," "intend," "could," "estimate," or "continue," and similar expressions or variations. These statements are based on the beliefs and assumptions of our management based on information currently available to management. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled "Risk Factors" set forth in Part II, Item 1A of the Quarterly Report on Form 10-Q filed on August 14, 2007 and in our other SEC filings. We undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

Overview

We were founded in 2001 as a provider of content delivery network, or CDN, services to deliver digital content over the Internet. We began development of our infrastructure in 2001 and began generating meaningful revenue in 2002. As of June 2007, we had approximately 876 customers worldwide. We primarily derive income from the sale of services to customers executing contracts with terms of one year or longer, which we refer to as recurring revenue contracts or long-term contracts. These contracts generally commit the customer to a minimum monthly level of usage with additional charges applicable for actual usage above the monthly minimum. Recently however, we have entered into an increasing number of customer contracts that have minimum usage commitments that are based on twelve-month or longer periods. We believe that having a consistent and predictable base level of revenue is important to our financial success. Accordingly, to be successful, we must maintain our base of recurring revenue contracts by eliminating or reducing any customer cancellations or terminations and build on that base by adding new customers and increasing the number of services, features and functionalities our existing customers purchase. At the same time, we must ensure that our expenses do not increase faster than, or at the same rate as, our revenues. Accomplishing these goals requires that we compete effectively in the marketplace on the basis of price, quality and the attractiveness of our services and technology.

We primarily derive revenue from the sale of CDN services to our customers. These services include delivery of digital media, including video, music, games, software and social media. We generate revenue by charging customers on a per-gigabyte basis or on a variable basis based on peak delivery rate for a fixed period of time, as our services are used. We also derive some business from the sale of custom CDN services. These are generally limited to modifying our network to accommodate non standard content player software or to establish dedicated customer network components that reside both within our network or that operate within our customers' networks.

Restatement of Previously Issued Financial Statements

On October 11, 2007, we announced that we had determined a need to restate our previously filed financial statements. The restatement is the result of certain errors discovered as follows. In connection with a customer inquiry, we conducted an internal review of monthly customer billings for delivered services and discovered that one customer had been under-billed for CDN services for a 15-month period extending back to July 2006. The amended billings to this customer, which have since been collected, resulted in increased revenue of approximately \$0.9 million related to the year ended December 31, 2006 and \$0.5 million and \$0.2 million related to the three months ended March 31, 2007 and June 30, 2007, respectively. When we report our third-quarter 2007 revenue, it will include approximately \$0.1 million associated with this billing correction.

During the course of implementing a stock option administration system, we determined we had incorrectly valued and accounted for stock-based compensation for certain stock option and restricted stock grants. The result of this error was to increase aggregate stock compensation expense by approximately \$0.4 million and to change the periods in which the related expense will be recognized. Correcting these errors resulted in reducing previously reported stock-based compensation expense by approximately \$0.4 million and \$0.9 million for the three and six month periods ended June 30, 2007, respectively.

We also became aware that we had previously reported net income allocable to common stockholders incorrectly. We had not computed net income allocable to common stockholders in accordance with EITF Issue No. 03-6, *Participating Securities and the Two-Class Method under FASB Statement 128*. We made an error related to the computation of the preference dividend, which error favorably impacted the net income allocable to common stockholders. Further, an error in the computation of the hypothetical dividend adversely impacted the net income allocable to common stockholders. The result of these errors was a decrease of net income allocable to stockholders of \$207,000 and \$305,000 for the three month periods ended March 31, 2006 and June 30, 2006, respectively. Prior periods have been recomputed to reflect the two-class method, and future periods are not affected because all outstanding shares of preferred stock were converted to common stock on June 7, 2007 and are no longer outstanding.

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As a result of the errors in our previously filed financial statements, we determined that we had two material weaknesses in our internal controls. Specifically, the control environment in place was not sufficient to ensure that customer contract terms associated with contract amendments were correctly maintained within our customer billing system. Subsequently, we have modified our control environment to include reconciliation of monthly customer bookings to monthly revenue results along with a detailed review of monthly revenue by customer by senior management. We have also implemented periodic internal reviews of the customer billing system inputs. We feel that the combination of these enhancements along with existing internal controls concerning revenue recognition have strengthened our internal controls.

In addition, our controls associated with the calculation of stock-based compensation expense under SFAS 123R were not sufficient to ensure that the calculations were accurate with respect to service and vesting periods. Previously, we were using a manual process to calculate stock-based compensation expense. During the third quarter of 2007, we engaged a third-party firm to administer our employee stock option plan. Associated with this change, we implemented the vendor's automated stock administration system. We feel the implementation of this system coupled with the reconciliation of the input data to the original stock option and restricted stock agreements has improved the accuracy of the stock option and restricted stock data. Notwithstanding the initiation of these remediation actions, the identified material weaknesses in our internal control over financial reporting will not be considered remediated until the new controls are fully implemented and in operation for a sufficient period of time to be evaluated.

We have also made an adjustment to interest expense as it relates to the amortization of a debt discount relating to warrants issued to a bank under our equipment facility. The adjustment resulted in increasing previously reported interest expense by \$46,000 related to the year ended December 31, 2006 and decreasing interest expense by \$12,000 and \$34,000 respectively, related to the three month periods ended March 31, 2007 and June 30, 2007.

The tax effect of these adjustments, to the extent they had an income tax impact, was based upon the effective tax rate calculation performed using the estimated operating results at that time for the entire year adjusted for the impact of the restatement on the projection for the year. We also determined that our deferred tax assets related to stock-based compensation that existed at the beginning of the year no longer met the "more likely than not" recoverability criteria during the three months ended June 30, 2007, which resulted in an additional charge to income tax expense of approximately \$0.5 million.

Overview of Operations

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2007	2006	2007	2006
	(Unaudited)		(Unaudited)	
	(Restated)		(Restated)	
Revenues	100%	100%	100%	100%
Cost of revenue:				
Cost of services	46	35	44	35
Depreciation — network	23	14	22	14
Total cost of revenue	69	49	66	49
Gross Margin	31	51	34	51
Operating expenses:				
General and administrative	40	15	36	15
Sales and marketing	30	10	21	10
Research and development	7	3	6	3
Depreciation and amortization	1	—	1	—
Total operating expenses	78	28	64	28
Operating (loss) income	(47)	23	(30)	23
Other income (expense):				
Interest expense	(4)	(4)	(3)	(4)
Interest income	3	—	1	—
Other income (expense), net	—	—	—	—
Total other income (expense)	(1)	(3)	(2)	(4)
Income (loss) before income taxes	(48)	19	(32)	19
Income tax (benefit) expense	1	8	1	8
Net (loss) income	(50)%	11%	(32)%	12%

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We have observed a number of trends in our business that are likely to have an impact on our financial condition and results of operations in the foreseeable future. Traffic on our network has grown in the last three years. This traffic growth is the result of growth in the number of new contracts, as well as growth in the traffic delivered to existing customers. Our near-exclusive focus is on providing CDN services, which we consider to be our sole industry segment.

Historically, we have derived a small portion of our revenue from outside of the United States. Our international revenue has grown recently, and we expect this trend to continue as we focus on our strategy of expanding our network and customer base internationally. For the three and six month periods ended June 30, 2007, revenue derived from customers outside the United States accounted for 14.5% and 13.9% respectively, of our total revenue, of which nearly all was derived from operations in Europe. We expect foreign revenue as a percentage of our total revenues to increase as a percentage of revenue for the remainder of 2007. Our international business is managed as a single geographic segment, and we report our financial results on this basis.

During any given fiscal period, a relatively small number of customers typically account for a significant percentage of our revenue. For example, in 2006, revenue generated from sales to our top 10 customers, in terms of revenue, accounted for approximately 54% of our total revenue. One of these top 10 customers, CDN Consulting, which acted as a reseller of our services primarily to MySpace.com, represented approximately 21% of our total revenue for that period. At the end of 2006, MySpace became a direct customer of ours. During the six month period ended June 30, 2007, sales to the reseller CDN Consulting were less than 2% of revenue after this change. In the quarter ended June 30, 2007, sales to MySpace declined to approximately 2% of our revenue. For the three and six month periods ended June 30, 2007, our top 10 customers, in terms of revenue, accounted for approximately 39% and 45% respectively, of our total revenue. For the three and six month periods ended June 30, 2007, we did not have any major customer for which revenue on a GAAP basis exceeded 10% of total revenue. For the three and six month periods ended June 30, 2007, we had one major customer for which revenue alone did not exceed 10%, but when combined with billings that were deferred and recognized as revenue exceeded 10% of total revenue. For the quarter ended June 30, 2007, we had \$3.4 million of deferred revenue associated with a multi-element arrangement from this customer. We will recognize \$2.6 million of the deferred revenue during the quarter ending September 30, 2007. The remaining \$0.8 million will be amortized ratably over a 44 month period starting in July 2007. Recognized and deferred revenue for the three and six month periods ended June 30, 2007 from this customer accounted for approximately 14% and 12%, respectively, for this Non-GAAP measure. We anticipate customer concentration levels will decline compared to prior years as our customer base continues to grow and diversify. In addition to selling to our direct customers, we maintain relationships with a number of resellers that purchase our services and charge a mark-up to their end customers. Revenue generated from sales to direct and reseller customers accounted for approximately 79% and 21% of our revenue in 2006 and approximately 99% and 1% respectively, during the six month periods ended June 30, 2007. This significant reduction in the percentage of reseller revenue to total revenue is primarily the result of MySpace becoming a direct customer of ours in 2007.

In addition to these revenue-related business trends, our cost of revenue as a percentage of revenue has risen in 2007 when compared to 2006. This increase is primarily the result of increased cost of depreciation and co-location costs related to the increased investments to build out the capacity of our network and increased bandwidth costs to support increased traffic associate with our revenue growth. Operating expense has increased in absolute dollars each period as revenue has increased. Beginning in the second half of 2006 and in 2007, these increases accelerated due primarily to increased stock based compensation, cost of litigation and payroll and payroll-related costs associated with additional general administrative and sales and marketing resources to support our current and future growth.

We make our capital investment decisions based upon careful evaluation of a number of variables, such as the amount of traffic we anticipate on our network, the cost of the physical infrastructure required to deliver that traffic, and the forecasted capacity utilization of our network. Our capital expenditures have increased substantially over time, in particular as we purchased servers and other computer equipment associated with our network build-out. For example, in 2004, 2005 and 2006, we made capital expenditures of \$2.6 million, \$10.9 million and \$40.6 million, respectively. The substantial increase in capital expenditures in 2006, in particular, was related to a significant increase in our network capacity, needed to support current growth and to support our expectation for additional demand for our services in future period. For the six month period ended June 30, 2007, we made capital expenditures of \$8.6 million. In the future, we expect these investments to be generally consistent in absolute dollars with our expenditures in 2006 and to decrease as a percentage of total revenue due to expected revenue growth.

Capital expenditures prior to January 2007, involved related party transactions, in which we expended an aggregate of \$2.1 million, \$7.4 million and \$29.9 million on server hardware in 2004, 2005 and 2006, respectively, from a supplier owned by one of our founders. As of December 31, 2006, we were informed by this founder that there is no longer an ownership interest in this entity. In

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other transactions unrelated to this supplier relationship, we have also generated revenue from certain customers that are entities related to certain of our founders. The aggregate amounts of revenue derived from these related party transactions were \$0.2 million, \$0.2 million and \$0.3 million in 2004, 2005 and 2006, respectively. Revenue derived from related parties was less than 1% for each of the six-month periods ended June 30, 2006 and June 30, 2007. We believe that all of our related party transactions reflected arm's length terms.

We are currently engaged in litigation with one of our principal competitors, Akamai Technologies, Inc., or Akamai, and its licensor, the Massachusetts Institute of Technology, or MIT, in which these parties have alleged that we are infringing three of their patents. The trial for the case has recently been set to begin February 11, 2008. Our legal and other expenses associated with this case have been significant to date, including aggregate expenditures of \$3.1 million in 2006. For the six month period ended June 30, 2007, our legal and other expenses associated with this case have been \$2.5 million. We have reflected the full amount of these litigation expenses in 2006 and 2007 in general and administrative expenses, as reported in our consolidated statement of operations. We expect that these expenses will continue to remain significant and may increase as a trial date approaches. We expect to offset one-half of the cash impact of these litigation expenses through the availability of an escrow fund established in connection with our Series B preferred stock financing. This escrow account was established with an initial balance of approximately \$10.1 million to serve as security for the indemnification obligations of our stockholders tendering shares in that financing. In May 2007, we, the tendering stockholders and the Series B preferred stock investors agreed to distribute \$3.7 million of the escrow account to the tendering stockholders upon the closing of our initial public offering. As of the closing of our initial public offering, approximately \$3.7 million of the escrow was paid to the tendering stockholders and approximately \$3.3 million remained in the escrow account at June 30, 2007. The escrow account will be drawn down as we incur Akamai-related litigation expenses. Any cash reimbursed from this escrow account will be recorded as additional paid-in capital. The cash offset from the litigation expense funded through the escrow account is recorded on our balance sheet as additional paid-in capital.

We were profitable during the six month period ended June 30, 2006 and unprofitable for the six month period ended June 30, 2007; primarily due to an increase in our share-based compensation expense, which increased from \$0.3 million for the six month period ended June 30, 2006, to \$11.3 million (restated) for the six month period ended June 30, 2007. Also, litigation expenses increased to \$2.5 million for the six month period ended June 30, 2007 compared to expenses of \$0 for the six months ended June 30, 2006. Further the requirement to defer \$3.4 million of revenue from a large customer during the quarter ended June 30, 2007 offset by the deferral of \$0.9 million in related costs further impacted our profitability. The significant increase in share-based compensation expense and litigation expense reflects an increase in the level of option and restricted stock grants coupled with a significant increase in the fair market value per share at the date of grant and the cost of litigation which commenced in July 2006. The deferral of revenue and related costs from one large customer reflects the impact of the accounting for a multi-element arrangement.

Our future results will be affected by many factors identified in the section captioned "Risk Factors," in our Quarterly Report on Form 10-Q filed on August 14, 2007, including our ability to:

- rely on a few large customers for the majority of our revenue, the impact of quarter to quarter declines in revenue from any of these customers could be material;
- increase our revenue by adding customers and limiting customer cancellations and terminations, as well as increasing the amount of monthly recurring revenue that we derive from our existing customers;
- manage the prices we charge for our services, as well as the costs associated with operating our network in light of increased competition;
- successfully manage our litigation with Akamai and MIT to conclusion; and
- prevent disruptions to our services and network due to accidents or intentional attacks.

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

Critical Accounting Policies and Estimates

Our management's discussion and analysis of our financial condition and results of operations are based upon our unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q/A, which have been prepared by us in accordance with accounting principles generally accepted in the United States of America for interim periods. These principles require us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, cash flow and related disclosure of contingent assets and liabilities. Our estimates include those related to revenue recognition, accounts receivable reserves, income and other taxes, stock-based compensation and equipment and contingent obligations. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates. To the extent that there are material differences between these estimates and our actual results, our future financial statements will be affected.

Revenue Recognition

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

At the inception of a customer contract for service, we make an assessment as to that customer's ability to pay for the services provided. If we subsequently determine that collection from the customer is not reasonably assured, we record an allowance for doubtful accounts and bad debt expense for all of that customer's unpaid invoices and cease recognizing revenue for continued services provided until cash is received.

We primarily derive revenue from the sale of content delivery services to customers executing contracts having terms of one year or longer. These contracts generally commit the customer to a minimum monthly level of usage on a calendar month basis and provide the rate at which the customer must pay for actual usage above the monthly minimum. For these services, we recognize the monthly minimum as revenue each month provided that an enforceable contract has been signed by both parties, the service has been delivered to the customer, the fee for the service is fixed or determinable and collection is reasonably assured. Should a customer's usage of our services exceed the monthly minimum, we recognize revenue for such excess in the period of the usage. We typically charge 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. We also derive revenue from services sold as discrete, non-recurring events or based solely on usage. For these services, we recognize revenue after an enforceable contract has been signed by both parties, the fee is fixed or determinable, the event or usage has occurred and collection is reasonably assured.

We periodically enter into multi-element arrangements. When we enter 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.

We have entered a multi-element arrangement which includes a significant software component. In accounting for such arrangement, we apply the provisions of Statement of Position, 97-2, ("SOP 97-2") *Software Revenue Recognition*, as amended by SOP 98-9, *Modifications of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions*. We recognize software license revenue when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collection of the receivable is probable. If a software license contains an undelivered element, the vendor-specific objective evidence ("VSOE") of fair value of the undelivered element is deferred and the revenue recognized once the element is delivered. The undelivered elements are primarily software support and professional services. VSOE of fair value of software support and professional services is based upon hourly rates or fixed fees charged when those services are sold separately. If VSOE cannot be established for all elements to be delivered, we defer all amounts received under the arrangement and do 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, we commence 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 we have delivered all elements and has no additional performance obligations.

We recently entered into a multi-element arrangement to provide consulting services related to the development of a Custom CDN solution, the cross-license of certain technologies, including certain components of our 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 our network during a 5 year period from commencement of the agreement or be subject to penalty payments.

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

Concurrently, with the signing of the Multi-Element Arrangement, we 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

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development project commencing under the Multi-Element Arrangement. We will continue to receive payments on a usage basis under the content delivery contract. Given that the services are priced at market rates and subject to regular adjustments and are cancelable with 30 days notice, the amount of revenue and pricing is considered variable and contingent until services are delivered. As such, we have 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, we will record revenue on a monthly basis in an amount based upon usage. Since the content delivery agreement was amended concurrently with the Multi-Element Arrangement we have deferred revenue recognition until commencement of delivery of the last element of the Multi-Element Arrangement which has been determined to be July 27, 2007. For the quarter ended June 30, 2007, \$2.6 million in revenue and \$0.9 million in related costs have been deferred and will be recognized entirely in the third quarter of 2007 as customer acceptance occurred on July 27, 2007 related to the content delivered to the customer under this agreement.

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

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

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

Share-Based Compensation

We account for our share-based compensation pursuant to SFAS No. 123 (revised 2004) *Share-Based Payment*, or SFAS No. 123R. SFAS No. 123R requires measurement of all employee share-based payments awards using a fair-value method. The grant date fair value was determined using the Black-Scholes-Merton pricing model. The Black-Scholes-Merton valuation calculation requires us to make key assumptions such as future stock price volatility, expected terms, risk-free rates and dividend yield. The weighted-average expected term for stock options granted was calculated using the simplified method in accordance with the provisions of Staff Accounting Bulletin No. 107, *Share-Based Payment*. The simplified method defines the expected term as the average of the contractual term and the vesting period of the stock option. We have estimated the volatility rates used as inputs to the model based on an analysis of the most similar public companies for which we have data. We have used judgment in selecting these companies, as well as in evaluating the available historical volatility data for these companies.

SFAS No. 123R requires us to develop an estimate of the number of share-based awards which will be forfeited due to employee turnover. Quarterly changes in the estimated forfeiture rate may have a significant effect on share-based payments expense, as the effect of adjusting the rate for all expense amortization after January 1, 2006 is recognized in the period the forfeiture estimate is changed. If the actual forfeiture rate is higher than the estimated forfeiture rate, then an adjustment is made to increase the estimated forfeiture rate, which will result in a decrease to the expense recognized in the financial statements. If the actual forfeiture rate is lower than the estimated forfeiture rate, then an adjustment is made to decrease the estimated forfeiture rate, which will result in an increase to the expense recognized in the financial statements. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant. We have never paid cash dividends, and do not currently intend to pay cash dividends, and thus have assumed a 0% dividend yield.

We will continue to use judgment in evaluating the expected term, volatility and forfeiture rate related to our own stock-based awards on a prospective basis, and in incorporating these factors into the model. If our actual experience differs significantly from the assumptions used to compute our stock-based compensation cost, or if different assumptions had been used, we may have recorded too much or too little share-based compensation cost.

We recognize expense using the straight-line attribution method. We recorded share-based compensation expense related to stock options and restricted stock under the fair value requirements of SFAS No. 123R during the three month period ended June 30, 2007 and 2006 of approximately \$6.3 million (restated) and \$0.2 million, respectively. For the six month period ended June 30, 2007 and

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2006 we recorded share-based compensation expense related to stock options and restricted stock under the fair value requirements of SFAS No. 123R of approximately \$11.3 million (restated) and \$0.3 million, respectively. Unrecognized share-based compensation expense totaled \$55.9 million at June 30, 2007, of which we expect to recognize over a weighted average period of 3.6 years (restated). We expect to amortize \$8.4 million (restated) over the final two quarters of 2007, \$15.9 million (restated) in 2008 and the remainder thereafter based upon the scheduled vesting of the options outstanding at that time. Of these charges, approximately \$4.4 million in 2006 and \$5.0 million in 2007 relate to options granted to our four founders in connection with our Series B preferred stock financing in July 2006. We expect our share-based payments expense to decrease in the remainder of 2007 and potentially to increase thereafter as we grant additional stock options and restricted stock awards.

Results of Operations

Revenue

	Three months ended June 30,				Six months ended June 30,			
	2007	2006	Increase (Decrease)	Percent Change	2007	2006	Increase (Decrease)	Percent Change
	(in thousands)				(in thousands)			
	(Restated)		(Restated)	(Restated)	(Restated)		(Restated)	(Restated)
Revenue	\$21,436	\$14,841	\$6,595	44%	\$44,789	\$25,679	\$19,110	74%

Revenue increased 44%, (restated) or \$6.6 million (restated), to \$21.4 million (restated) for the three months ended June 30, 2007 as compared to \$14.8 million for the three months ended June 30, 2006. For the six months ended June 30, 2007, total revenues increased 74%, (restated) or \$19.1 million, (restated) to \$44.8 million (restated) as compared to \$25.7 million for the six months ended June 30, 2006. The increase in revenue for the three months ended June 30, 2007 as compared to the same period in the prior year was primarily attributable to an increase in our recurring CDN service revenue of \$6.5 million (restated). The increase in CDN service revenue was primarily attributable to an increase in the number of customers under recurring revenue contracts, as well as an increase in traffic and additional services sold to new and existing customers. The increase in revenue for the six months ended June 30, 2007 as compared to the same period in the prior year was primarily attributable to an increase in our recurring CDN service revenue of \$19.0 million (restated). As of June 30, 2007, we had 876 customers under recurring CDN service revenue contracts as compared to 523 as of June 30, 2006. During the quarter ended June 30, 2007, we deferred ongoing CDN services to one customer totaling \$2.6 million and custom CDN service revenue totaling \$0.8 million, as the amounts were part of a multi-element arrangement for which customer acceptance of a software element of the arrangement did not occur until July 27, 2007. Entering into the multi-element arrangement with this customer changed the way we accounted for revenue earned from this customer during the quarter ended June 30, 2007. The entire \$2.6 million of ongoing CDN service revenue will be recognized during the quarter ending September 30, 2007. The custom CDN services revenue deferred will be amortized ratably over a 44 month period starting in July 2007.

For the three months ended June 30, 2007 and 2006, 14.5% (restated) and 8%, respectively, of our CDN services revenues were derived from our operations located outside of the United States, primarily from Europe. For the six months ended June 30, 2007 and 2006, 13.9% (restated) and 7%, respectively, of our total revenues were derived from our operations located outside of the United States, primarily from Europe. No single country outside of the United States accounted for 10% or more of revenues during these periods.

Cost of Revenue

	Three months ended June 30,				Six months ended June 30,			
	2007	2006	Increase (Decrease)	Percent Change	2007	2006	Increase (Decrease)	Percent Change
	(in thousands)				(in thousands)			
Cost of revenue	\$14,835	\$7,266	\$7,569	104%	\$29,332	\$12,546	\$16,786	134%

Cost of revenue includes fees paid to network providers for bandwidth and co-location of our network equipment. Cost of revenue also includes payroll and related costs, depreciation of network equipment used to deliver our CDN services and equity-related compensation for network operations personnel.

Cost of revenue increased 104%, or \$7.6 million, to \$14.8 million for the three months ended June 30, 2007 as compared to \$7.3 million for the three months ended June 30, 2006. For the six months ended June 30, 2007, cost of revenues increased 134%, or \$16.8 million, to \$29.3 million as compared to \$12.6 million for the six months ended June 30, 2006. These increases were primarily due to an increase in aggregate bandwidth and co-location fees of \$4.0 million and \$9.0 million, respectively, due to higher traffic levels, an increase in depreciation expense of network equipment of \$3.0 million and \$6.2 million, respectively, due to increased investment in our network, and an increase in payroll and related employee costs of \$0.3 million and \$0.9 million, respectively, associated with increased staff. During the quarter ended June 30, 2007, we deferred \$0.9 million of costs associated with deferred revenue for one customer discussed above. For the quarter ended September 30, 2007, \$0.6 million of these deferred costs will be

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recognized. The remaining \$0.3 million of deferred costs will be amortized ratably into cost of services over a 44 month period.

Additionally, during the three and six months ended June 30, 2007, cost of revenue includes share-based compensation expense of approximately \$0.4 million and \$0.6 million, respectively, resulting from our application of SFAS No. 123R.

Cost of revenue was composed of the following (in millions):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2007	2006	2007	2006
Bandwidth and co-location fees	\$ 8.4	\$ 4.5	\$ 16.7	\$ 7.8
Depreciation — network	5.0	2.0	9.7	3.5
Royalty expenses	0.2	0.3	0.6	0.5
Payroll and related employee costs	0.7	0.4	1.5	0.6
Share-based compensation	0.4	0.1	0.6	0.1
Other costs	0.1	—	0.2	0.1
Total cost of revenues	\$ 14.8	\$ 7.3	\$ 29.3	\$ 12.6

We have long-term purchase commitments for bandwidth usage and co-location with various network and Internet service providers. For the remainder of 2007 and for the years ending December 31, 2008, 2009, 2010 and 2011, the minimum commitments related to bandwidth usage and co-location services under agreements currently in effect are approximately \$8.6 million, \$10.4 million, \$7.3 million, \$2.7 million and \$0.5 million, respectively.

We expect that cost of revenues will increase during the remainder of 2007. We expect to deliver more traffic on our network, which would result in higher expenses associated with the increased traffic; additionally, we anticipate increases in depreciation expense related to our network equipment, along with payroll and related costs, as we expect to continue to make investments in our network to service our expanding customer base. The application of SFAS No. 123R will also result in additional expense associated with the amortization of share-based compensation.

General and Administrative

	Three months ended June 30,				Six months ended June 30,			
	2007	2006	Increase (Decrease)	Percent Change	2007	2006	Increase (Decrease)	Percent Change
	(Restated)	(in thousands)	(Restated)	(Restated)	(Restated)	(in thousands)	(Restated)	(Restated)
General and administrative	\$8,657	\$2,231	\$6,426	288%	\$16,294	\$3,802	\$12,492	329%

General and administrative expenses consist primarily of the following components:

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

General and administrative expenses increased 288%, (restated) or \$6.4 million, (restated) to \$8.7 million (restated) for the three months ended June 30, 2007 as compared to \$2.2 million for the three months ended June 30, 2006. For the six months ended June 30, 2007, general and administrative expenses increased 329%, (restated) or \$12.5 million, (restated) to \$16.3 million (restated) as compared to \$3.8 million for the six months ended June 30, 2006. The increase in general and administrative expenses for the three months and six months ended June 30, 2007 as compared to the three and six months ended June 30, 2006 was primarily due to an

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increase of \$3.8 million (restated) and \$7.5 million, (restated) respectively, in share-based compensation expense, an increase of \$1.8 million and \$2.8 million, respectively, in professional fees and legal expenses related to our litigation with Akamai and MIT, including \$1.6 million and \$2.5 million, respectively, which is reimbursable to us from an escrow fund established in connection with our 2006 stock repurchase, an increase of zero and \$0.3 million, respectively, in payroll and related employee costs as a result of increased staffing, an increase of \$0.4 million and \$0.5 million, respectively, in bad debt expense and an increase in other expenses of \$0.5 million and \$1.4 million, respectively. Other expenses include such items as rent, utilities, telephone, insurance, travel and travel-related expenses, fees and licenses and property taxes.

General and administrative expense was composed of the following (in millions):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2007 (Restated)	2006	2007 (Restated)	2006
	Share-based compensation	\$ 3.8	\$ —	\$ 7.5
Professional fees and legal expenses	1.9	0.1	2.9	0.1
Payroll and related employee costs	1.1	1.1	2.2	1.9
Bad debt expense	0.5	0.1	0.8	0.3
Other expenses	1.4	0.9	2.9	1.5
Total general and administrative	<u>\$ 8.7</u>	<u>\$ 2.2</u>	<u>\$ 16.3</u>	<u>\$ 3.8</u>

We expect general and administrative expenses to decrease in third and fourth quarters of 2007 when compared to first and second quarters of 2007 due to lower stock-based compensation expense on equity grants made in the later part of 2006. However, we expect increases in payroll and related costs attributable to increased hiring, increased legal costs associated with ongoing litigation, as well as increased accounting and legal and other costs associated with public reporting requirements and compliance with the requirements of the Sarbanes-Oxley Act of 2002.

Sales and Marketing

	Three months ended June 30,				Six months ended June 30,			
	2007	2006 (in thousands)	Increase (Decrease)	Percent Change	2007	2006 (in thousands)	Increase (Decrease)	Percent Change
Sales and marketing	\$6,404	\$1,497	\$4,907	328%	\$9,422	\$2,531	\$6,891	272%

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

Sales and marketing expenses increased 328%, or \$4.9 million, to \$6.4 million for the three months ended June 30, 2007, as compared to \$1.5 million for the three months ended June 30, 2006. For the six months ended June 30, 2007, sales and marketing expenses increased 272%, or \$6.9 million, to \$9.4 million, as compared to \$2.5 million for the six months ended June 30, 2006. The increase in sales and marketing expenses in the three and six month periods ended June 30, 2007 as compared to the three and six month periods ended June 30, 2006 was primarily due to an increase of \$2.3 million and \$3.7 million, respectively, in payroll and related employee costs, including \$1.3 million and \$2.1 million respectively, in additional salaries and \$1.0 million and \$1.6 million respectively, in additional commissions on increased revenue. Additional increases were due to an increase an increase of \$1.1 million and \$1.3 million, respectively, in share-based compensation expense, an increase of \$0.5 million and \$0.8 million, respectively, in marketing programs, an increase of \$0.6 million and \$0.6 million in travel and travel-related expenses, an increase of \$0.1 million and \$0.2 million in professional fees, an increase of \$0.1 million and \$0.2 million, respectively, in reseller commissions and an increase of \$0.1 million and \$0.1 million, respectively, in other expenses. Other expense included such items as rent and property taxes for our Europe and Asia Pacific sales offices, telephone and office supplies. These increases are consistent with the 61% and 82% increase in revenue for the three and six month periods ended June 30, 2007 as compared to the same periods in the prior year.

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Sales and marketing expense was composed of the following (in millions):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2007	2006	2007	2006
Payroll and related employee costs	\$ 3.2	\$ 0.9	\$ 5.4	\$ 1.7
Share-based compensation	1.2	0.1	1.4	0.1
Marketing programs	0.8	0.3	1.3	0.5
Travel and travel-related expenses	0.6	—	0.6	—
Professional fees	0.3	0.1	0.3	0.1
Reseller commissions	0.2	0.1	0.3	0.1
Other expenses	0.1	—	0.1	—
Total sales and marketing	<u>\$ 6.4</u>	<u>\$ 1.5</u>	<u>\$ 9.4</u>	<u>\$ 2.5</u>

We anticipate our sales and marketing expense will continue to increase in future periods in absolute dollars and as a percentage of revenue due to an expected increase in commissions on higher forecasted sales, the expected increase in hiring of sales and marketing personnel, increases in share-based compensation expense under SFAS No. 123R due to additional equity awards we expect to grant, and additional expected increases in marketing programs.

Research and Development

	Three months ended June 30,				Six months ended June 30,			
	2007	2006 (in thousands)	Increase (Decrease)	Percent Change	2007	2006 (in thousands)	Increase (Decrease)	Percent Change
Research and development	\$1,541	\$437	\$1,104	252%	\$2,826	\$758	\$2,068	273%

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

Research and development expenses increased 252%, or \$1.1 million, to \$1.5 million for the three months ended June 30, 2007, as compared to \$0.4 million for the three months ended June 30, 2006. For the six months ended June 30, 2007, research and development expenses increased 273%, or \$2.1 million, to \$2.8 million, as compared to \$0.8 million for the six months ended June 30, 2006. The increase in research and development expenses in the three and six month periods ended June 30, 2007 as compared to the three and six month periods ended June 30, 2006 was primarily due to an increase of \$1.0 million and \$1.8 million, respectively, in share-based compensation expense and \$0.1 million and \$0.3 million respectively, in payroll and related employee costs associated with our hiring of additional network and software engineering personnel.

Research and development expense was composed of the following (in millions):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2007	2006	2007	2006
Share-based compensation	\$ 1.0	\$ —	\$ 1.9	\$ 0.1
Payroll and related employee costs	0.5	0.4	0.9	0.7
Other expenses	—	—	—	—
Total research and development	<u>\$ 1.5</u>	<u>\$ 0.4</u>	<u>\$ 2.8</u>	<u>\$ 0.8</u>

We believe that non share-based compensation research and development expenses will continue to increase for the remainder of 2007, as we anticipate continued increases in hiring of development personnel and make investments in our core technology and refinements to our other service offerings. Additionally, research and development expenses are expected to decrease as a result of lower share-based compensation expense under SFAS No. 123R.

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Interest Expense

	Three months ended June 30,				Six months ended June 30,			
	2007	2006	Increase (Decrease)	Percent Change	2007	2006	Increase (Decrease)	Percent Change
	(Restated)	(in thousands)	(Restated)	(Restated)	(Restated)	(in thousands)	(Restated)	(Restated)
Interest expense	\$821	\$519	\$302	58%	\$1,394	\$1,024	\$370	36%

Interest expense includes interest paid on our debt obligations as well as amortization of deferred financing costs.

Interest expense increased 58%, (restated) or \$0.3 million to \$0.8 million (restated) for the three months ended June 30, 2007, as compared to \$0.5 million for the three months ended June 30, 2006. For the six months ended June 30, 2007, interest expense increased 36%, (restated) or \$0.4 million, to \$1.4 million, as compared to \$1.0 million for the six months ended June 30, 2006. The increase in interest expense in the three and six month periods ended June 30, 2007 as compared to the three and six month periods ended June 30, 2006 was primarily due to the recognition of expense of approximately \$0.4 million (restated) for the three and six month periods, respectively, of deferred financing fees resulting from the payment of our Equipment Facility, and an increase in borrowings, primarily to fund equipment purchases to build out our network. On June 14, 2007, proceeds from our initial public offering were used to pay in full the outstanding principal balance of our equipment financing facility. As of June 30, 2007, we had no outstanding balances due on any of our credit facilities. We do not expect to have any interest expense for the remainder of 2007.

Interest Income

	Three months ended June 30,				Six months ended June 30,			
	2007	2006	Increase (Decrease)	Percent Change	2007	2006	Increase (Decrease)	Percent Change
		(in thousands)				(in thousands)		
Interest income (expense)	\$573	\$—	\$573	100%	\$662	\$—	\$662	100%

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

Interest income increased 100%, to \$0.6 million for the three months ended June 30, 2007, as compared to zero for the three months ended June 30, 2006. For the six months ended June 30, 2007, interest income increased 100%, to \$0.7 million, as compared to zero for the six months ended June 30, 2006. The increase in interest income in the three and six month periods ended June 30, 2007 as compared to the three and six month periods ended June 30, 2006 was primarily due to an increase in our average cash balance and the investment of the net proceeds from our initial public offering after the repayment of our outstanding credit facilities. In the future, we anticipate interest income to increase, as a result of substantially increased cash, cash equivalent and marketable securities balances.

Income Tax Expense (Benefit)

	Three months ended June 30,				Six months ended June 30,			
	2007	2006	Increase (Decrease)	Percent Change	2007	2006	Increase (Decrease)	Percent Change
	(Restated)	(in thousands)	(Restated)	(Restated)	(Restated)	(in thousands)	(Restated)	(Restated)
Income tax expense (benefit)	\$221	\$1,125	\$(904)	(80)%	\$421	\$1,954	\$(1,533)	(78)%

We had income tax expense during the three and six month periods ended June 30, 2007 of 2.0% and 3.0%, respectively, of our loss before taxes of \$10.4 million (restated) and \$14.1 million (restated), respectively, which was lower than our statutory income tax rate due primarily to the effect of non-deductible stock compensation expenses, and during the three and six month periods ended June 30, 2007, also due to a \$0.5 million provision for certain stock compensation deferred tax assets that no longer met the recoverability criteria of SFAS No. 109. The three and six months ended June 30, 2006 had effective rates of 39.5% and 39.5%, respectively which approximated our expected federal and state tax rate of 40% since the non-deductible stock compensation expense was not significant in the periods. The effective income tax rate is based upon the estimated income for the year, the composition of the income in different countries, and adjustments, if any, for the potential tax consequences, benefits or resolutions for tax audits.

In 2006 (principally in the last six months of the year) and for the first six months of 2007, approximately \$7.6 million and \$7.7

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million (restated) of share-based compensation expense was not deductible for tax purposes by us, as certain executives and other employees made tax elections which established tax bases in these awards granted at lower than the fair value recognized within the financial statements. This permanent difference was material to our pre-tax net loss of \$14.1 million (restated) for the first six months of 2007. The current unvested awards are expected to generate permanent differences of \$1.3 million (restated) for the six months ended December 31, 2007 and \$2.4 million, \$2.4 million and \$2.0 million for 2008, 2009 and 2010, respectively, based upon the unvested portion of the equity awards outstanding at June 30, 2007 and the anticipated vesting at the time.

Liquidity and Capital Resources

To date, we have financed our operations primarily through the following transactions:

- private sales of common and preferred stock and subordinated notes;
- an initial public offering of our common stock in June 2007;
- borrowing on credit facilities; and
- cash generated by operations.

As of June 30, 2007, our cash, cash equivalents and marketable securities totaled \$187.9 million.

Operating Activities

Net cash provided by operating activities increased \$1.1 million to \$5.8 million for the six months ended June 30, 2007, compared to \$4.7 million for the six months ended June 30, 2006. The increase in cash provided by operating activities for the six month period ended June 30, 2007 was primarily due to the net loss incurred during the six months ended June 30, 2007, offset by increases in non-cash charges of depreciation and amortization, stock-based compensation and accounts receivable charges, and changes in working capital as a result of a increase in accounts receivable, prepaid expenses and other current assets, accounts payable and deferred revenue and other current liabilities.

We expect that cash provided by operating activities will continue to increase as a result of an upward trend in cash collections related to higher revenues, partially offset by an expected increase in operating expenses that require cash outlays such as salaries in connection with expected increases in headcount and higher commissions. The timing and amount of future working capital changes and our ability to manage our days sales outstanding will also affect the future amount of cash used in or provided by operating activities.

Investing Activities

Cash used in investing activities increased \$26.7 million to \$37.1 million for the six months ended June 30, 2007, compared to \$10.4 million for the six months ended June 30, 2006. Cash used in investing represented cash invested in short-term marketable securities from the proceeds of our IPO and capital expenditures primarily for computer equipment associated with the build-out and expansion of our content delivery network.

We expect to have significant ongoing capital expenditure requirements, as we continue to invest in and expand our CDN. We currently anticipate making aggregate capital expenditures of approximately \$30.0 million to \$35.0 million for 2007 and \$35.0 million to \$40.0 million for 2008.

Financing Activities

Cash provided by financing activities increased \$177.1 million to \$182.9 million for the six months ended June 30, 2007, as compared to \$5.8 million for the six months ended June 30, 2006. The increase is primarily due to net proceeds of approximately \$204.5 million from the sale of 14,900,000 shares of common stock in our initial public offering, \$2.4 million in reimbursement of litigation expenses from our escrow account during the six month period ended June 30, 2007, offset by a net decrease in borrowings of \$6.6 million on our bank line.

During the quarter ended June 30, 2007, we paid \$25.3 million to extinguish the outstanding balances on all of our credit facilities. At June 30, 2007 we had no outstanding balance on any of our credit facilities and we had an unused line of credit of up to \$5.0 million dollars. Under the terms of the line of credit, we can borrow up to 50% of the cash balances we hold at the bank, up to a maximum of \$5.0 million dollars. We do not anticipate having to utilize the line of credit for the remainder of 2007.

In connection with our Series B preferred stock financing in July 2006, an escrow account was established with an initial balance of approximately \$10.1 million to serve as security for the indemnification obligations of our stockholders tendering shares in that financing and to fund 50% of the ongoing monthly expenses associated with the Akamai litigation. In May 2007, we, the tendering

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stockholders and the Series B preferred stock investors agreed to distribute \$3.7 million of the escrow account to the tendering stockholders upon the closing of our initial public offering. During the six month period ended June 30, 2007, we received reimbursements from this escrow of approximately \$2.4 million. At June 30, 2007, the balance outstanding in the escrow was \$3.3 million. We expect to draw an additional \$1.5 million to \$2.5 million from this escrow during the remainder of 2007.

Changes in cash, cash equivalents and marketable securities are dependent upon changes in, among other things, working capital items such as deferred revenues, accounts payable, accounts receivable and various accrued expenses, as well as changes in our capital and financial structure due to debt repurchases and issuances, stock option exercises, sales of equity investments and similar events.

We believe that our existing cash and cash equivalents will be sufficient to meet our anticipated cash needs for at least the next 18 months. If the assumptions underlying our business plan regarding future revenue and expenses change, or if unexpected opportunities or needs arise, we may seek to raise additional cash by selling equity or debt securities. If additional funds are raised through the issuance of equity or debt securities, these securities could have rights, preferences and privileges senior to those accruing to holders of common stock, and the terms of such debt could impose restrictions on our operations. The sale of additional equity or convertible debt securities would also result in additional dilution to our stockholders. In the event that additional financing is required from outside sources, we may not be able to raise it on terms acceptable to us or at all. If we are unable to raise additional capital when desired, our business, operating results and financial condition could be harmed.

Contractual Obligations, Contingent Liabilities and Commercial Commitments

In the normal course of business, we make certain long-term commitments for operating leases, primarily office facilities, bandwidth and computer rack space. These leases expire on various dates ranging from 2007 to 2011. We expect that the growth of our business will require us to continue to add to and increase our long-term commitments in 2007 and beyond. As a result of our growth strategies, we believe that our liquidity and capital resources requirements will grow in absolute dollars but will be generally consistent with that of historical periods on an annual basis as a percentage of net revenue.

The following table presents our contractual obligations and commercial commitments, as of June 30, 2007 over the next five years and thereafter (in thousands):

Contractual Obligations as of June 30, 2007	Payments Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Operating Leases					
Bandwidth leases	\$ 14,748	\$ 7,559	\$ 6,048	\$ 1,141	\$ —
Rack space leases	14,777	6,699	7,991	87	—
Real estate leases	2,818	865	1,688	265	—
Total operating leases	32,343	15,123	15,727	1,493	—
Capital leases	—	—	—	—	—
Bank debt	—	—	—	—	—
Interest on bank debt	—	—	—	—	—
Total commitments	\$ 32,343	\$ 15,123	\$ 15,727	\$ 1,493	\$ —

Off Balance Sheet Arrangements

We do not have, and have never had, any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Litigation

We are involved in litigation with Akamai Technologies, Inc. and the Massachusetts Institute of Technology relating to a claim of patent infringement. The action was filed in June 2006. The trial date for the case has recently been set for February 11, 2008. While the outcome of this claim cannot be predicted with certainty, management does not believe that the outcome of this matter will have a material adverse effect on our business. However an unfavorable outcome could seriously impact our ability to conduct our business which, in turn, would have a material adverse impact on our results of operations and financial position.

Beginning in August 2007, we, certain of our officers and directors, and the firms that served as the lead underwriters in our initial public offering were named as defendants in several purported class action lawsuits. The complaints assert causes of action under Sections 11, 12 and 15 of the Securities Act of 1933, as amended, and Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder, on behalf of a professed class consisting of all those who were allegedly damaged as a result

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of acquiring our common stock between June 8, 2007 and August 8, 2007. The complaints allege, among other things, that we omitted and/or misstated certain facts concerning the seasonality of our business and the degree to which we offer discounted services to our customers. Although we believe that we and the individual defendants have meritorious defenses to the claims made in these complaints and we intend to contest the lawsuits vigorously, an adverse resolution of the lawsuits may have a material adverse effect on our financial position and results of operations in the period in which the lawsuits are resolved.

We are not able at this time to estimate the range of potential loss nor do we believe that a loss is probable. Therefore, we have made no provision for these lawsuits in our financial statements.

Use of Non-GAAP Financial Measures

In evaluating our business, we consider and use Non-GAAP revenue, Non-GAAP net income and Adjusted EBITDA as a supplemental measure of our operating performance. We consider Non-GAAP revenue and net income measurements to be an important indicator of our overall performance because it allows us to illustrate the impact of revenue generated from our multi-element contract as well as to eliminate the effects of stock based compensation and litigation expense. We define EBITDA as GAAP net income before net interest expense, provision for income taxes, depreciation and amortization. We define Adjusted EBITDA as EBITDA plus income from our multi-element contract and expenses that we do not consider reflective of our ongoing operations. We use Adjusted EBITDA as a supplemental measure to review and assess our operating performance. We also believe use of Adjusted EBITDA facilitates investors' use of operating performance comparisons from period to period and company to company by backing out potential differences caused by variations in such items as capital structures (affecting relative interest expense and stock-based compensation expense), the book amortization of intangibles (affecting relative amortization expense), the age and book value of facilities and equipment (affecting relative depreciation expense) and other non cash expenses. We also present Adjusted EBITDA because we believe it is frequently used by securities analysts, investors and other interested parties as a measure of financial performance.

In our August 9, 2007 earnings press release, we included Non-GAAP revenue and net income, EBITDA and Adjusted EBITDA. The terms Non-GAAP revenue and net income, EBITDA and Adjusted EBITDA are not defined under U.S. generally accepted accounting principles, or U.S. GAAP, and are not measures of operating income, operating performance or liquidity presented in accordance with U.S. GAAP. Our Non-GAAP revenue and net income, EBITDA and Adjusted EBITDA have limitations as analytical tools, and when assessing our operating performance, you should not consider Non-GAAP revenue and net income, EBITDA and Adjusted EBITDA in isolation, or as a substitute for net income (loss) or other consolidated income statement data prepared in accordance with U.S. GAAP. Some of these limitations include, but are not limited to:

- EBITDA and Adjusted EBITDA do not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments;
- they do not reflect changes in, or cash requirements for, our working capital needs;
- they do not reflect the interest expense, or the cash requirements necessary to service interest or principal payments, on our debt;
- they do not reflect income taxes or the cash requirements for any tax payments;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized often will have to be replaced in the future, and EBITDA and Adjusted EBITDA do not reflect any cash requirements for such replacements;
- while stock-based compensation is a component of operating expense, the impact on our financial statements compared to other companies can vary significantly due to such factors as assumed life of the options and assumed volatility of our common stock: and
- other companies may calculate EBITDA and Adjusted EBITDA differently than we do, limiting their usefulness as comparative measures.

We compensate for these limitations by relying primarily on our GAAP results and using Non-GAAP Net Income and Adjusted EBITDA only supplementally. Non-GAAP Net Income, EBITDA and Adjusted EBITDA are calculated as follows for the periods presented in thousands:

Reconciliation of Non-GAAP Financial Measures

In accordance with the requirements of Regulation G issued by the Securities and Exchange Commission, we are presenting the

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most directly comparable GAAP financial measures and reconciling the non-GAAP financial metrics to the comparable GAAP measures.

Reconciling items to GAAP revenue to arrive on non-GAAP revenue represents the difference between the determined value of services delivered which are different from the corresponding revenue recognized for each respective period.

Reconciliation of GAAP Revenue to Non-GAAP Revenue (In thousands) (Unaudited)

	Three Months Ended				Six Months Ended	
	June 30, 2007 (Restated)	March 31, 2007 (Restated)	June 30, 2006	March 31, 2006	June 30, 2007 (Restated)	June 30, 2006
GAAP Revenue	\$ 21,436	\$ 23,353	\$ 14,841	\$ 10,838	\$ 44,789	\$ 25,679
Deferred Traffic Revenue	2,645	—	—	—	2,645	—
Deferred Custom CDN Services Revenue	820	—	—	—	820	—
Non-GAAP Revenue	<u>\$ 24,901</u>	<u>\$ 23,353</u>	<u>\$ 14,841</u>	<u>\$ 10,838</u>	<u>\$ 48,254</u>	<u>\$ 25,679</u>

Reconciliation of GAAP Net Income (Loss) to Non-GAAP Net Income (Loss) (In thousands, except per share data) (Unaudited)

	Three Months Ended				Six Months Ended	
	June 30, 2007 (Restated)	March 31, 2007 (Restated)	June 30, 2006	March 31, 2006	June 30, 2007 (Restated)	June 30, 2006
GAAP net income (loss)	\$ (10,644)	\$ (3,905)	\$ 1,722	\$ 1,270	\$ (14,549)	\$ 2,992
Share-based compensation	6,259	5,071	229	112	11,330	341
Litigation expenses	1,636	885	—	—	2,521	—
Deferred revenue	3,465	—	—	—	3,465	—
Deferred cost of traffic and services	(935)	—	—	—	(935)	—
Non-GAAP net income	<u>\$ (219)</u>	<u>\$ 2,051</u>	<u>\$ 1,951</u>	<u>\$ 1,382</u>	<u>\$ 1,832</u>	<u>\$ 3,333</u>

Reconciliation of GAAP Net Income (Loss) to EBITDA to Adjusted EBITDA
(In thousands, except per share data)
(Unaudited)

	Three Months Ended				Six Months Ended	
	June 30, 2007 (Restated)	March 31, 2007 (Restated)	June 30, 2006	March 31, 2006	June 30, 2007 (Restated)	June 30, 2006
GAAP net income (loss)	\$(10,644)	\$ (3,905)	\$ 1,722	\$ 1,270	\$(14,549)	\$ 2,992
Add: depreciation and amortization	5,194	4,825	2,079	1,501	10,019	3,580
Add: interest expense	821	573	519	505	1,394	1,024
Less: interest income	(573)	(89)	—	—	(662)	—
Plus (less) income tax expense (benefit)	221	200	1,125	829	421	1,954
EBITDA	<u>\$ (4,981)</u>	<u>\$ 1,604</u>	<u>\$ 5,445</u>	<u>\$ 4,105</u>	<u>\$ (3,377)</u>	<u>\$ 9,550</u>
Add: share-based compensation	6,259	5,071	229	112	11,330	341
Add: litigation expenses recoverable from escrow (1)	818	442	—	—	1,260	—
Add: deferred traffic and services revenue	3,465	—	—	—	3,465	—
Less: deferred traffic and service costs	(935)	—	—	—	(935)	—
Adjusted EBITDA	<u>\$ 4,626</u>	<u>\$ 7,117</u>	<u>\$ 5,674</u>	<u>\$ 4,217</u>	<u>\$ 11,743</u>	<u>\$ 9,891</u>

- (1) During 2006, we repurchased stock in a transaction with a total value of \$102.1 million. Selling stockholders agreed to hold \$10.1 million of the proceeds to offset specific claims for reimbursement associated with the Akamai lawsuit and other undisclosed obligations that may arise. For the three month periods ended June 30, 2007 and 2006, we had \$0.8 million and \$ -0- million, respectively, of litigation costs subject to reimbursement from this escrow. For the six month periods ended June 30, 2007 and 2006, we had \$1.3 million and \$ -0- million, respectively, of litigation costs subject to reimbursement from this escrow.

Item 4. Controls and Procedures

We are responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in SEC Rule 13a-15(e). We maintain disclosure controls and procedures, as such term is defined in SEC Rule 13a-15(e), that are designed to ensure that information required to be disclosed in our reports under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

During our third quarter ended September 30, 2007 we were notified by a customer of a billing error. In response, we conducted an internal review of customer contracts and billings. We also implemented a stock administration system during the quarter. In performing the above, we identified material weaknesses in our system of internal controls over the revenue recognition and stock-based compensation processes that required us to restate our previously reported consolidated financial statements for the three and nine months ended September 30, 2006, the three months and year ended December 31, 2006, the three month period ended March 31, 2007 and the three and six month periods ended June 30, 2007. A material weakness is defined as a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. Information with respect to the material weaknesses is as follows:

- In conjunction with a customer inquiry, we conducted an internal review of customer billing files covering a significant portion of our monthly billings for the current period. During this review, we identified one customer that had been under-billed for CDN services delivered. Further review revealed that the billing error had begun in July 2006. These procedures revealed that during our quarter ended September 30, 2006, we did not have sufficient internal controls in place to ensure that customer contract amendments were properly maintained within our customer billing system. This deficiency resulted in our incorrectly updating our customer billing system for contract amendments associated with one customer in July and August 2006. Further, our internal control procedures were not adequate to identify this ongoing customer billing error, which continued until September 2007. The

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error resulted in our under-billing the customer by \$1.6 million, which has since been billed to and collected from the customer. As a result of correcting these errors, revenue increased for each of the 3 months ended September 30, 2006, December 31, 2006, March 31, 2007 and June 30, 2007 by \$0.4 million, \$0.5 million, \$0.5 million and \$0.2 million, respectively.

- During the third quarter ended September 30, 2007, we engaged a third party stock administration firm to administer our employee stock option program. In connection with converting from our previous manual process to an automated computation, we determined that there were errors in the original manual calculation of stock-based compensation under SFAS No. 123R. Specifically, assumptions input for certain stock option and restricted stock grants were in error primarily related to the service period assumption, which affects not only the valuation of the stock options but also the period over which the stock options and restricted stock is recognized. As a result of correcting these errors, stock-based compensation expense increased by \$0.1 million for the year ended December 31, 2006, and decreased by \$0.5 million and \$0.4 million for the three month periods ended March 31, 2007 and June 30, 2007, respectively.

Since the date of discovery of these material weaknesses and through the date of this Form 10-Q/A, we have taken steps which we feel have strengthened our internal controls, including the following actions:

- We have implemented a reconciliation of monthly customer bookings to monthly revenue results. We have established a process of senior management review of revenue by customer on a monthly basis. Further, we have implemented a practice of periodic reviews of customer information in our billing system to customer contract files. Additionally, we completed a reconciliation of the customer billing file to the customer contract file covering a significant portion of our monthly customer billings. No additional material errors were found during this review.
- Previously, we had relied on a manual system to calculate our stock-based compensation expense. During the third quarter which ended September 30, 2007, we engaged a third party company specializing in stock option administration to take over the administration of our stock option and restricted stock plan. In conjunction with this change, we implemented the vendor's automated stock option and restricted stock accounting system. We feel the implementation of this system coupled with the reconciliation of the input data to the original employee option and restricted stock agreements has improved the accuracy of the stock option and restricted stock data. Notwithstanding the initiation of these remediation actions, the identified material weaknesses in our internal control over financial reporting will not be considered remediated until the new controls are fully implemented and in operation for a sufficient period of time to be evaluated.
- Additionally, we have recently engaged an international accounting firm to commence a review of our overall control environment and assist us in our preparation for compliance under Section 404 of the Sarbanes-Oxley Act.

Furthermore, SEC rules require that, as a publicly-traded company, we file periodic reports containing our financial statements within a specified time following the completion of quarterly and annual periods. Commencing with our year ending December 31, 2008, we must perform system and process evaluations and testing of our internal controls over financial reporting to allow management and our independent registered public accounting firm to report on the effectiveness of our internal controls over financial reporting, as required under Section 404 of the Sarbanes-Oxley Act. We may experience difficulty in meeting these reporting requirements in a timely manner, particularly if a material weakness or significant deficiencies persist. Even if we are able to report our financial statements accurately and timely, if we do not make all the necessary improvements to address the material weaknesses, continued disclosure of our material weaknesses will be required in future filings with the SEC.

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The actions we have taken to remediate these material weaknesses are subject to continued management review supported by confirmation and testing, as well as oversight by the Audit Committee of our Board of Directors. We cannot assure you that material weaknesses or significant deficiencies will not occur in the future and that we will be able to remediate such weaknesses or deficiencies in a timely manner, which could impair our ability to accurately and timely report our financial position, results of operations or cash flows. See the Risk Factor entitled “*If we fail to maintain proper and effective internal controls, our ability to produce accurate financial statements could be impaired, which could adversely affect our operating results, our ability to operate our business and investors view of us*” in our Quarterly Report on Form 10-Q filed on August 14, 2007.

PART II. OTHER INFORMATION

Item 6. Exhibits

Exhibit Number	Exhibit Description
31.01	Certification of Principal Executive Officer Pursuant to Securities Exchange Act Rule 13a-14(a).
31.02	Certification of Principal Financial Officer Pursuant to Securities Exchange Act Rule 13a-14(a)
32.01	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350 and Securities Exchange Act Rule 13a-14(b).*
32.02	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350 and Securities Exchange Act Rule 13a-14(b).*

* This certification is not deemed “filed” for purposes of Section 18 of the Securities Exchange Act, or otherwise subject to the liability of that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that Limelight Networks, Inc. specifically incorporates it by reference.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

LIMELIGHT NETWORKS, INC.

Date: October 29, 2007

By: /s/ Matthew Hale
Matthew Hale
Chief Financial Officer and Secretary
(Principal Financial Officer)

EXHIBIT INDEX

Exhibit Number	Exhibit Description
31.01	Certification of Principal Executive Officer Pursuant to Securities Exchange Act Rule 13a-14(a).
31.02	Certification of Principal Financial Officer Pursuant to Securities Exchange Act Rule 13a-14(a)
32.01	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350 and Securities Exchange Act Rule 13a-14(b).*
32.02	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350 and Securities Exchange Act Rule 13a-14(b).*

* This certification is not deemed “filed” for purposes of Section 18 of the Securities Exchange Act, or otherwise subject to the liability of that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that Limelight Networks, Inc. specifically incorporates it by reference.

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Jeffrey W. Lunsford, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A of Limelight Networks, Inc. (the "Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: October 29, 2007

By: /s/ Jeffrey W. Lunsford
Jeffrey W. Lunsford
President, Chief Executive Officer and Chairman
(Principal Executive Officer)

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Matthew Hale, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A of Limelight Networks, Inc. (the "Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: October 29, 2007

By: /s/ Matthew Hale

Matthew Hale
Chief Financial Officer and Secretary
(Principal Financial Officer)

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

**Pursuant to
18 U.S.C. Section 1350,
As Adopted pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

I, Jeffrey W. Lunsford, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the quarterly report of Limelight Networks, Inc. on Form 10-Q/A for the quarterly period ended June 30, 2007, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such quarterly report on Form 10-Q/A fairly presents, in all material respects, the financial condition and results of operations of Limelight Networks, Inc.

Date: October 29, 2007

By: /s/ Jeffrey W. Lunsford
Jeffrey W. Lunsford
President, Chief Executive Officer and Chairman
(Principal Executive Officer)

A signed original of this written statement required by Section 906 has been provided to Limelight Networks, Inc. and will be retained by, Limelight Networks Inc. and furnished to the Securities and Exchange Commission or its staff upon request. This certification "accompanies" the Form 10-Q/A to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q/A), irrespective of any general incorporation language contained in such filing.

CERTIFICATION OF CHIEF FINANCIAL OFFICER

**Pursuant to
18 U.S.C. Section 1350,
As Adopted pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

I, Matthew Hale, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the quarterly report of Limelight Networks, Inc. on Form 10-Q/A for the quarterly period ended June 30, 2007, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such quarterly report on Form 10-Q/A fairly presents, in all material respects, the financial condition and results of operations of Limelight Networks, Inc.

Date: October 29, 2007

By: /s/ Matthew Hale
Matthew Hale
Chief Financial Officer and Secretary
(Principal Financial Officer)

A signed original of this written statement required by Section 906 has been provided to Limelight Networks, Inc. and will be retained by, Limelight Networks Inc. and furnished to the Securities and Exchange Commission or its staff upon request. This certification "accompanies" the Form 10-Q/A to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q/A), irrespective of any general incorporation language contained in such filing.