BRIGHTCOVE INC
Form 10-K
March 11, 2014

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2013

OR

o **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: 001-35429

Brightcove Inc.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation)	20-1579162 (I.R.S. Employer Identification No.)
290 Congress Street Boston, Massachusetts (Address of principal executive offices)	02210 (Zip Code)

(888) 882-1880

(Registrant s telephone number, including area code)

Securities Registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Exchange on Which Registered
Common Stock, par value $0.001 per share	The NASDAQ Global Market

Securities Registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

Large accelerated filer o	Accelerated filer þ
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The aggregate market value of common stock held by non-affiliates of the registrant based on the closing price of the registrant s common stock as reported on the NASDAQ Global Market on June 28, 2013, was $234,272,491. Shares of voting and non-voting stock held by executive officers, directors and holders of more than 5% of the outstanding stock have been excluded from this calculation because such persons or institutions may be deemed affiliates. This determination of affiliate status is not a conclusive determination for other purposes.

As of February 28, 2014 there were 32,020,371 shares of the registrant s common stock, par value $0.001 per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive Proxy Statement relating to its 2014 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated. Such Proxy Statement will be filed with the U.S. Securities and Exchange Commission within 120 days after the end of the fiscal year to which this report relates.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. The statements contained in this Annual Report on Form 10-K that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or Exchange Act. Such forward-looking statements include any expectation of earnings, revenue or other financial items; any statements of the plans, strategies and objectives of management for future operations; factors that may affect our operating results; statements related to adding employees; statements related to potential benefits of the acquisition of substantially all of the assets of Unicorn Media, Inc. and certain of its subsidiaries; statements related to future capital expenditures; statements related to future economic conditions or performance; statements as to industry trends and other matters that do not relate strictly to historical facts or statements of assumptions underlying any of the foregoing. Forward-looking statements are often identified by the use of words such as, but not limited to, anticipate, believe, can, continue, could, estimate, expect, intend, may, will, plan, project, seek, should, targ expressions or variations intended to identify forward-looking statements. 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 important 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 included in Item 1A of Part I of this Annual Report on Form 10-K, and the risks discussed in our other Securities and Exchange Commission, or SEC, filings. Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements. Forward-looking statements in this Annual Report on Form 10-K may include statements about:

- our ability to achieve profitability;
- our competitive position and the effect of competition in our industry;
- our ability to retain and attract new customers;
- our ability to penetrate existing markets and develop new markets for our services;
- our ability to integrate Unicorn products with Video Cloud;
- our ability to retain or hire qualified accounting and other personnel;
- our ability to protect our intellectual property and operate our business without infringing upon the intellectual property rights of others;
- our ability to maintain the security and reliability of our systems;
- our estimates with regard to our future performance and total potential market opportunity;
- our estimates regarding our anticipated results of operations, future revenue, capital requirements and our needs for additional financing; and
- our goals and strategies.

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PART I

Item 1. Business

Overview

Brightcove Inc., or Brightcove, is a leading global provider of cloud-based services for video. Brightcove was incorporated in Delaware in August 2004 and our headquarters are in Boston, Massachusetts. Brightcove Video Cloud, or Video Cloud, our flagship product released in 2006, is the world s leading online video platform. As of December 31, 2013, we had 6,318 customers in over 70 countries, including many of the world s leading media, retail, technology and financial services companies, as well as governments, educational institutions and non-profit organizations. In 2013, our customers used Video Cloud to deliver an average of approximately 963 million video streams per month, which we believe is more video streams per month than any other professional solution.

Video Cloud enables our customers to publish and distribute video to Internet-connected devices quickly, easily and in a cost-effective and high-quality manner. Our innovative technology and intuitive user interface give customers control over a wide range of features and functionality needed to publish and deliver a compelling user experience, including content management, format conversion, video player styling, distributed caching, advertising insertion, content protection and distribution to diverse device types and multiple websites, including their own websites, partner websites and social media sites. Video Cloud also includes comprehensive analytics that allow customers to understand and refine their engagement with end users.

The Zencoder media processing service, or the Zencoder Service, is a cloud-based video encoding service. The Zencoder Service provides our customers with high-quality, reliable encoding of live and on-demand video and access to highly-scalable encoding power without having to pay for, manage and scale expensive hardware and software.

On January 31, 2014, we acquired substantially all of the assets Unicorn Media, Inc. and certain of its subsidiaries, or Unicorn, a provider of cloud-based video ad insertion technology. The Unicorn Once service, re-branded as Brightcove Once, is an innovative, cloud-based ad insertion and video stitching service which addresses the limitations of traditional online video ad insertion technology. Brightcove Once, or Once, reduces or eliminates the need for platform-specific ad technology and makes it possible for customers to reliably deliver live or on-demand video with dynamically customized programming and targeted advertising to the maximum range of Internet-connected devices. We plan to continue to develop, operate, support and promote Once in its current form in the near term. We also plan to integrate Once with our Video Cloud product over time.

We generate revenue by offering our products to customers on a subscription-based, software as a service, or SaaS, model. Our revenue grew from $88.0 million in the year ended December 31, 2012 to $109.9 million in the year ended December 31, 2013. As of December 31, 2012, we had 6,367 customers, of which 4,742 used our volume offerings and 1,625 used our premium offerings. As of December 31, 2013, we had 6,318 customers, of which 4,556 used our volume offerings and 1,762 used our premium offerings. To date, substantially all of our revenue has been attributable to our Video Cloud product. Our consolidated net loss was $10.2 million for the year ended December 31, 2013 compared to $12.5 million for the year ended December 31, 2012.

Our Solutions

Our solutions provide our customers with the following key benefits:

Comprehensive, highly configurable and scalable solutions. Video Cloud includes all of the features necessary to publish and distribute video online to a broad range of Internet-connected devices in a high-quality manner. Once further enables cloud-based video ad insertion for content distributed to almost any Internet-connected device. The Zencoder Service includes all of the functionality necessary to encode digital files and convert them into a wide range of formats in a high-quality manner. In addition, our multi-tenant architecture enables us to deliver each of our solutions across our customer base with a single version of our software for each product, making it easier to scale our solutions as our customer and end user base expands.

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Easy to use and low total cost of ownership. Video Cloud, the Zencoder Service and Once were designed to be intuitive and easy to use, empowering anyone within an organization to distribute video online and encode digital files. We provide reliable, cost-effective, on-demand solutions to our customers, relieving them of the cost, time and resources associated with in-house solutions and enabling them to be up and running quickly after signing with us.
Open platform and extensive ecosystem. Video Cloud s open and extensible platform enables our customers to customize standard features and functionality and easily integrate third-party technology to meet their own specific requirements and business objectives. We have an extensive ecosystem of technology and solution partners, which we refer to as the Brightcove Alliance. More than 150 Brightcove Alliance members have built solutions that rely upon, or are already integrated with, our Video Cloud platform. This ecosystem includes large technology service providers such as Adobe and Google, many providers of niche technology services, creative agencies and digital development shops. These integrated technologies provide our customers with enhanced flexibility, functionality and ease of use.
Help customers grow their audience and generate revenue. Our customers use our products to achieve key business objectives such as driving site traffic, increasing viewer engagement on their sites, monetizing content, increasing conversion rates for transactions, increasing brand awareness and expanding their audiences. Video Cloud and Once provide our customers with video advertising features such as tools for ad insertion and built-in ad server and network integrations, which help our customers generate advertising revenue from their audience. We believe our customers view us as a strategic partner in part because our business model is not dependent on building our own audience or generating our own advertising revenue. Our business interests align with our customers interests as we each benefit from the success of our customers online strategy.
Ongoing customer-driven development. Through our account managers, customer support teams, product managers and regular outreach from senior leadership, we solicit and capture feedback from our customer base for incorporation into ongoing enhancements to our solutions. We regularly provide our customers with enhancements to Video Cloud, the Zencoder Service and Once. Delivering cloud-based solutions allows us to serve additional customers with little incremental expense and to deploy innovations and best practices quickly and efficiently to our existing customers.

Our Business Strengths

We believe that the following business strengths differentiate us from our competitors and are key to our success:

We are the recognized online video platform market leader. In 2013, our customers used Video Cloud to deliver an average of approximately 963 million video streams per month, which we believe is more video streams per month than any other professional solution. Frost & Sullivan awarded us the Global Market Share Leadership Award in Online Video Platforms in 2011 and 2012. In 2013, we were recognized by Forrester Research as having the best enterprise track record and partner and support ecosystem in a competitive assessment of online video platforms, and we topped a similar assessment of online video platforms and CDNs by ABI Research in 2012. In 2012 and 2013, we were also selected to the Deloitte Technology Fast 500 list.
We have a demonstrated track record of innovation and technology leadership. We pioneered the commercialization of online video platforms beginning with our first customer deployment in 2006. We have consistently released new features and functionality that have added to and improved our core technology. For example, although we initially built Video Cloud with a focus on delivering video to PCs via Adobe Flash technology, with the emergence of smartphones, we quickly adapted our platform s capabilities to handle multi-device delivery using both Adobe Flash and HTML5 technologies. Also, in April 2011, we were issued a U.S. patent covering aspects of publishing and distributing digital media online. In addition, through the Unicorn transaction, we acquired fourteen issued U.S. patents and seven issued international patents covering various aspects of cloud-based stream delivery and ad insertion, among other things.
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We have established a global presence. We have established a global presence, beginning with our first non-U.S. customer in 2007, and continuing with the expansion of our operations into Europe, Japan, Asia Pacific and the Middle East. We built our solutions to be localized into almost any language and currently offer 24/7 customer support worldwide. Today, we have employees in nine countries. As of December 31, 2013, organizations throughout the world used Video Cloud to reach viewers in approximately 230 countries and territories.

We have high visibility and predictability in our business. We sell our subscription and support services through monthly, quarterly or annual contracts and recognize revenue ratably over the committed term. The majority of our revenue comes from annual contracts. Our existing contracts provide us with visibility into revenue that has not yet been recognized. We have also achieved an overall recurring dollar retention rate of at least 84% in each of the last eight fiscal quarters, including 97%, 103%, 91% and 84% for the three months ended March 31, 2013, June 30, 2013, September 30, 2013 and December 31, 2013, respectively. Our business model and customer loyalty provide greater levels of recurring revenue and predictability compared to traditional, perpetual-license business models.

We have customers of all sizes across multiple industries. We offer different editions of our products tailored to meet the needs of organizations of various sizes, from large global enterprises to small and medium-sized businesses, across industries. Our offerings range from self-service, entry-level editions to enterprise-level editions used by multiple departments in a single organization.

Our management team has experience building and scaling software companies. Our senior leadership team has built innovative software platform businesses. Members of our senior leadership team have held senior product, business and technology roles at companies such as Adobe, Allaire, EMC, Lycos, Macromedia and Phase Forward.

Our Customers

As of December 31, 2013, we had 6,318 customers of all sizes in over 70 countries. We provide our solutions to many of the world s leading media, retail, technology and financial services companies, as well as governments, educational institutions and non-profit organizations. Our target markets are not confined to certain industries or geographies as we are focused on providing solutions that can benefit any organization with a website or digital content.

Our Products and Services

Video Cloud

Principal Features and Functionality

Uploading and Encoding. Using Video Cloud, customers may upload videos and related metadata in various formats for adaptive video encoding that maximizes quality and minimizes file size. Video Cloud then automatically enables the content to be delivered to end users via a third-party CDN such as Akamai or Limelight Networks.

Content Management. Whether a customer has a few short video clips or thousands of full-length episodes, Video Cloud makes it easy to organize a media library. Videos can be grouped together with drag-and-drop controls or smart playlists that automatically organize content. Customers can set rules for geographic access and schedules to define where and when their videos can be viewed.

Video Players. Video Cloud allows for point-and-click styling and configuration of video players that can reflect the brand or design of the customer with tools for customizing colors and graphics. Our video players also include a set of standard features such as full-screen playback, sharing through social media and localized player controls. Developers can also take advantage of a set of tools to create completely custom video player experiences.

Multi-platform video experiences. We have built Video Cloud to support numerous operating systems, formats and devices. In addition to web-based experiences, Video Cloud provides publishing and delivery services for cross-platform devices including smartphones, tablets and

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Connected TVs. Our solution includes automated device detection and manages multiple renditions of the same video encoded in different forms with optimized delivery protocols for different target formats. Our native player SDKs extend the native video player capabilities of Apple iOS and Google Android devices with additional functionality and integrations that can accelerate the development of high-quality consumer experiences. These native player SDKs have built-in support for mixed video types and automatic buffering, and have been integrated with leading advertising, analytics, audience measurement and digital rights management providers.

Live Video Streaming. In addition to on-demand video distribution, Video Cloud includes support for live video broadcasts. Video Cloud accepts multiple streams at different quality levels and delivers the rendition that attempts to best match each viewer s available bandwidth, processor utilization and player size.

Distribution and Syndication. Video Cloud supports a blended distribution strategy across the Internet, allowing customers to distribute videos on their own website, partner websites or video-sharing sites such as YouTube. These tools help content owners to drive site traffic, increase brand awareness and expand their audience.

Social Media. Customers can expand their audience by leveraging the social network of their viewers. Through integrated Video Cloud capabilities, users can share videos through Facebook and other social media destinations.

Advertising and Monetization. Video Cloud can help customers grow and monetize their audience with video advertising features such as tools for ad insertions and built-in ad server and network integrations. Video Cloud includes tools to support synchronized in-player advertising with embedded link functionality and overlays for persistent branding. Video Cloud also supports established video ad formats, and accommodates pre-, mid- and post-roll ads with tools to easily define insertion points.

Analytics. Video Cloud s integrated video analytics present information to optimize and support customers online video publishing and distribution strategy. Reports include audience metrics such as unique viewers, technology profile details about operating systems and devices, and engagement analytics such as viewed minutes and drop-off rates. Online publishers can also choose to integrate web analytics solutions such as Adobe Omniture or Google Analytics into their video experiences.

Editions

Video Cloud is offered to customers on a subscription-based SaaS model in premium and volume editions, as described below, that include varying levels of functionality, usage entitlements and support. Our customers pay us a monthly, quarterly or annual subscription fee for access to Video Cloud. This model allows our customers to scale their level of investment and usage based on the size and complexity of their needs. We currently offer Video Cloud in the following editions:

Video Cloud Express. Express is an entry-level volume edition of Video Cloud designed for small and medium-sized businesses or larger organizations looking to manage smaller projects. Customers may initiate a trial online and license Express entirely online using a credit card. Most of our Express customers are on month-to-month subscriptions. The Express edition includes functionality for basic professional online video publishing but excludes advanced customization and integration capabilities and is not eligible for advanced add-on services. The Express edition limits the volume of video that can be published and the viewership capacity for the content, but customers have the option of purchasing additional capacity.

Video Cloud Pro. Pro is a premium edition of Video Cloud designed with functionality needed to customize a customer s online video experience, advanced monetization features and more capacity for content libraries and viewership. Most of our Pro customers sign up for annual or longer subscriptions. These customers also have access to a broader range of add-on services as well as access to Brightcove Alliance member products and services.

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Video Cloud Enterprise. Enterprise is a premium edition of Video Cloud designed with all of the most advanced features of Video Cloud, including certain capabilities necessary for large organizations running many web properties, advanced security features and advanced reporting services. Most of our Enterprise customers sign up for annual subscriptions or for a longer period. Enterprise also includes significantly more capacity for larger content libraries.

Zencoder Service

Principal Features and Functionality

File Support. The Zencoder Service accepts files in an extensive range of formats and codecs and supports video output to a multitude of devices.

Quality and Control. The Zencoder Service includes tools to support high quality video output and to adjust and edit video.

Platform and Security. The Zencoder Service is scalable, globally distributed and includes advanced security features designed to protect content.

Account and Integration. The Zencoder Service provides a simple API for streamlined integration, supports most major transfer protocols and accelerated file transfers and allows users to manage their accounts and encoding jobs from an intuitive, online dashboard.

Media processing for on-demand video transcoding begins with an API request from a customer to the Zencoder Service to begin an encoding job, along with the location of the files to be encoded and any optional encoding settings. The Zencoder Service responds with an encoding job identification number to allow a customer to track the progress of the encoding. The Zencoder Service then downloads the files and converts them into as many applicable formats as the customer has identified, with each file being processed concurrently. The Zencoder Service uploads the resulting files to the location identified by the customer, such as a designated server, CDN or syndication partner of the customer. The process ends with the Zencoder Service sending a notification to the customer confirming that the encoding is complete and the files have been uploaded.

Media processing for live transcoding begins with a customer sending an API request and publishing a RTMP stream. The Zencoder Service ingests the RTMP stream, converts it to multiple bitrate streams in RTMP or HLS, and publishes them to a CDN location specified in the API call. As streams become available for playback, the Zencoder Service sends HTTP notifications with published bitrates and formats.

Editions

The Zencoder Service is offered to customers on a subscription-based SaaS model in premium and volume editions, as described below, that include varying levels of usage entitlements. Our customers pay us on a usage basis or pay us a monthly or annual subscription fee for access to the Zencoder Service. As with Video Cloud, this model allows our customers to scale their level of investment and usage based on the size and complexity of their needs.

We currently offer the Zencoder Service in the following volume editions for on-demand video transcoding: Pay-As-You-Go, Launch, Traction and Growth. Pay-As-You-Go edition customers pay fees based on the number of minutes of output video for video on demand transcoding. Launch, Traction and Growth edition customers pay a monthly subscription fee that includes a fixed number of minutes of output video per month, with additional fees per minute of output video above the number of minutes included in the respective edition. The volume edition for live transcoding is a pay-as-you-go offering based on the number of monthly hours of transcoding.

The Zencoder Service is also available in premium Enterprise editions for both on-demand video transcoding and live transcoding that includes a higher volume of entitlements and typically requires an annual or longer subscription.

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Once

Principal Features and Functionality

Once is an innovative, cloud-based ad insertion and video stitching service which addresses the limitations of traditional online video ad insertion technology. Once reduces or eliminates the need for platform-specific ad technology and makes it possible for customers to reliably deliver live or on-demand video with dynamically customized programming and targeted advertising to the maximum range of devices.

There are currently three Once offerings. OnceVOD includes dynamic delivery and monetization for premium video-on-demand content. OnceLIVE includes dynamic delivery, linear ad replacement and ad insertion for live broadcasts, events and 24/7 linear channels. OnceUX includes dynamic ad insertion, with associated rich client and interactive ad capabilities delivered via an API method.

Editions

Once is offered to customers on a subscription-based SaaS model, with varying levels of functionality, usage entitlements and support based on the size and complexity of a customer's needs.

Account Management

A crucial component of our sales strategy is our account management organization. This organization is focused on ongoing customer success and engagement, as well as renewals of our customer contracts.

Professional Services

While our products are easy for customers to use and deploy without any additional specialized services, we offer a range of professional services for customers who seek customization or assistance with their implementations. These professional services are priced on a per project basis and include projects such as content migrations from other vendors or in-house solutions, video player enhancements and the creation of web pages optimized for video.

Support

All Video Cloud, Zencoder and Once editions receive free basic support for technical and operational issues. Our premium editions generally include telephone support during normal business hours. We also offer 24/7 global telephone support to customers paying for premium support packages.

Training

We offer free basic online training to all registered users of Video Cloud. We also offer customized, onsite training for customers that is priced on a per engagement basis.

Sales and Marketing

We sell our products primarily through our global direct sales organization. Our sales team is organized by the following geographic regions: Americas, Europe and the Middle East, Asia Pacific and Japan. We further organize our sales force into teams focused on selling to specific customer groups, based on the size of our prospective customers, such as small, medium-sized and enterprise, as well as vertical industry, to provide a higher level of service and understanding of our customers specific needs. A small but growing amount of sales are generated through referral partners, channel partners and resellers. We also sell some of our products online through our website.

We generate customer leads, accelerate sales opportunities and build brand awareness through our marketing programs. Our marketing programs target executives, technology professionals and senior business leaders. Like our sales teams, our marketing team and programs are organized by geography, organization size and industry segment. Our principal marketing programs include:

public relations and social media;

online event marketing activities, direct email, search engine marketing and display advertising and blogs;

field marketing events for customers and prospects;

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- participation in, and sponsorship of, user conferences, trade shows and industry events;
- use of our website to provide product and organization information, as well as learning opportunities for potential customers;
- cooperative marketing efforts with partners, including joint press announcements, joint trade show activities, channel marketing campaigns and joint seminars;
- telemarketing and lead generation representatives who respond to incoming leads to convert them into new sales opportunities; and
- customer programs, including user meetings and our online customer community.

Operations

We operate data center facilities in the greater Boston area, the greater Chicago area, Phoenix, Virginia, and Amsterdam, and also use third-party cloud computing platforms. We operate our own servers for systems that manage meta-data, business rules and archival storage of media assets. We take advantage of geographically dispersed, third-party, cloud computing capacity to improve the responsiveness of our service and lower network latency for our customers.

Media delivery to end users, including video, audio, images, JavaScript and Adobe Flash components, is served primarily through our CDN providers, Akamai Technologies, Inc., or Akamai, and Limelight Networks, Inc., or Limelight. We believe our agreements with Akamai and Limelight are based on competitive market terms and conditions, including service level commitments from these CDN providers.

We entered into our agreement with Akamai in July 2010. It enables us to use Akamai CDN services for our own benefit and to resell Akamai CDN services to our customers in every geographic location in which we offer our products. The current expiration date of the agreement is December 31, 2014.

We entered into our agreement with Limelight in March 2006. Our agreement with Limelight enables us to use Limelight CDN services for our own benefit and to resell Limelight CDN services to our customers in every geographic location in which we offer our products. The current expiration date of the agreement is March 31, 2014. We are engaged in renewal discussions with Limelight and believe the agreement will be renewed or the term of the agreement will be extended again prior to March 31, 2014 or prior to the expiration of the service continuation period described below.

Each agreement contains a service continuation period following expiration of the agreement which we believe is sufficient to enable transition to an alternative provider to avoid material disruption to our business or to our customers. Our agreement with Akamai provides that, upon termination for any reason, Akamai will continue to provide CDN services to our existing customers for up to twelve months. Our agreement with Limelight provides that, upon termination for any reason, Limelight will continue to provide CDN services for our benefit for up to six months.

Intellectual Property

We rely principally on a combination of trademark, patent, copyright and trade secret laws in the United States and other jurisdictions, as well as confidentiality procedures and contractual provisions to protect our proprietary technology, confidential information, business strategies and brands. We also believe that factors such as the technological and creative skills of our employees and personnel coupled with the creation of new features, functionality and products are essential to establishing and maintaining a technology leadership position. We enter into confidentiality and invention assignment agreements with our employees and consultants and confidentiality agreements with other third parties, and we rigorously control access to our proprietary technology.

We have one issued patent and four patent applications pending in the United States. Our issued patent expires in 2029 and covers aspects of publishing and distributing digital media online. We currently have patent applications pending in Europe, Hong Kong and Japan, and we may seek coverage in additional jurisdictions to the extent we determine such coverage is appropriate and cost-effective. Through the Unicorn transaction we acquired fourteen issued U.S. patents and seven issued international patents covering aspects of cloud-based stream delivery and ad insertion, among other things.

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Our registered trademarks in the United States include BRIGHTCOVE , BRIGHTCOVE.COM and our logo. These trademarks are also registered in certain non-U.S. jurisdictions, including the European Union. We may apply for registrations for these and other marks in additional jurisdictions to the extent we determine such coverage is appropriate and cost-effective.

We also have a registered trademark for ZENCODER in the United States, Canada and the European Union.

Through the Unicorn transaction, we acquired certain trademarks of Unicorn, including UNICORN and ONCE , registered in the United States.

Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy or obtain and use our technology to develop products with the same functionality as our solutions. Policing unauthorized use of our technology is difficult and expensive. Our competitors could also independently develop technologies equivalent to ours, and our intellectual property rights may not be broad enough for us to prevent competitors from selling products incorporating those technologies.

Competition

We compete with video-sharing sites such as YouTube, in-house solutions, online video platforms, media processing services and certain niche technology providers. Some of our actual and potential competitors may enjoy competitive advantages over us, such as larger marketing budgets, as well as greater financial, technical and other resources. The overall markets for cloud-based solutions for media processing and publishing and distributing professional digital media are fragmented, rapidly evolving and highly competitive.

We expect that the competitive landscape will change as our markets consolidate and mature. We believe the principal competitive factors in our industry include the following:

- total cost of ownership;
- breadth and depth of product functionality;
- ability to innovate and respond to customer needs rapidly;
- level of resources and investment in sales, marketing, product and technology;
- ease of deployment and use of solutions;
- level of integration into existing workflows, configurability, scalability and reliability;
- customer service;
- brand awareness and reputation;
- ability to integrate with third-party applications and technologies;
- size and scale of provider; and
- size of customer base and level of user adoption.

The mix of factors relevant in any given situation varies with regard to each prospective customer. We believe we compete favorably with respect to all of these factors.

Some of our competitors have made or may make acquisitions or enter into partnerships or other strategic relationships to offer a more comprehensive service than we do. These combinations may make it more difficult for us to compete effectively, including on the basis of price, sales and marketing programs, technology or service functionality. We expect these trends to continue as organizations attempt to strengthen or maintain their market positions.

Research and Development

We have focused our research and development efforts on expanding the functionality and scalability of our products and enhancing their ease of use, as well as creating new product offerings. We expect research and development expenses to increase in absolute dollars as we intend to continue to regularly release new features and functionality, expand our product offerings, continue the localization of our products in

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various languages, upgrade and extend our service offerings, and develop new technologies. Over the long term, we believe that research and development expenses as a percentage of revenue will decrease, but will vary depending upon the mix of revenue from new and existing products, features and functionality, as well as changes in the technology that our products must support, such as new operating systems or new Internet-connected devices.

Our research and development expenses were $21.1 million, $18.7 million and $15.3 million in 2013, 2012 and 2011, respectively, which included stock-based compensation expenses of $1.2 million, $687,000 and $367,000, respectively.

Employees

As of December 31, 2013, we had 347 employees, of which 36 provided customer support services, 26 provided professional services, 95 were in research and development, 141 were in sales and marketing and 49 were in general and administrative positions. Of these employees, 276 were located in the United States and 71 were located outside of the United States. None of our employees are represented by a labor union or covered by a collective bargaining agreement. We consider our relationship with our employees to be good.

Information about Segment and Geographic Revenue

Information about segment and geographic revenue is set forth in Note 13 of the Notes to Consolidated Financial Statements under Item 8 of this Annual Report on Form 10-K.

Available Information

Our website address is *www.brightcove.com*. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available free of charge through the investor relations page of our internet website as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission. Alternatively, these reports may be accessed at the SEC s website at *www.sec.gov*.

Item 1A. Risk Factors

You should carefully consider the risks described below and the other information in this Annual Report on Form 10-K. Our business, prospects, financial condition, or operating results could be harmed by any of these risks, as well as other risks not currently known to us or that we currently consider immaterial. If any of such risks and uncertainties actually occurs, our business, financial condition or operating results could differ materially from the plans, projections and other forward-looking statements included in the section titled Management s Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this report and in our other public filings. The trading price of our common stock could decline due to any of these risks, and, as a result, you may lose all or part of your investment.

We have a history of losses, we expect to continue to incur losses and we may not achieve or sustain profitability in the future.

We have incurred significant losses in each fiscal year since our inception in 2004. We experienced a consolidated net loss of $17.3 million for the year ended December 31, 2011, a consolidated net loss of $12.5 million for the year ended December 31, 2012 and a consolidated net loss of $10.2 million for the year ended December 31, 2013. These losses were due to the substantial investments we made to build our products and services, grow and maintain our business and acquire customers. Key elements of our growth strategy include acquiring new customers and continuing to innovate and build our brand. As a result, we expect our operating expenses to increase in the future due to expected increased sales and marketing expenses, operations costs, research and development costs and general and administrative costs and, therefore, our operating losses will continue or even potentially increase for the foreseeable future. In addition, as a public company we incur significant legal, accounting and other expenses that we did not incur as a private company. Furthermore, to the extent that we are successful in increasing our customer base, we will also incur increased expenses because costs associated with generating and supporting customer agreements are generally incurred up front, while revenue is generally recognized ratably over the committed term of the agreement. You should not rely upon our recent revenue growth as indicative of our future performance. We cannot assure you that we will reach profitability in the future or at any specific time in the future or that, if and when we do become profitable, we will sustain profitability. If we are ultimately unable to generate sufficient revenue to meet our financial targets, become profitable and have sustainable positive cash flows, investors could lose their investment.

Substantially all of our revenue comes from a single product, Video Cloud.

We are currently substantially dependent on revenue from a single product, Video Cloud. Our business would be harmed by a decline in the market for Video Cloud, increased competition in the market for online video platforms, or our failure or inability to provide sufficient investment to support Video Cloud as needed to maintain or grow its competitive position.

If we are unable to retain our existing customers, our revenue and results of operations will be adversely affected.

We sell our products pursuant to agreements that are generally for monthly or annual terms. Our customers have no obligation to renew their subscriptions after their subscription period expires, and these subscriptions may not be renewed on the same or on more profitable terms. As a result, our ability to retain our existing customers and grow depends in part on subscription renewals. We may not be able to accurately predict future trends in customer renewals, and our customers renewal rates have and may continue to decline or fluctuate because of several factors, including their satisfaction or dissatisfaction with our services, the cost of our services and the cost of services offered by our competitors, reductions in our customers spending levels or the introduction by competitors of attractive features and functionality. If our customer retention rate decreases, we may need to increase the rate at which we add new customers in order to maintain and grow our revenue, which may require us to incur significantly higher advertising and marketing expenses than we currently anticipate, or our revenue may decline. If our customers do not renew their subscriptions for our services, renew on less favorable terms, or do not purchase additional functionality or subscriptions, our revenue may grow more slowly than expected or decline, and our profitability and gross margins may be harmed.

The actual market for our solutions could be significantly smaller than our estimates of our total potential market opportunity, and if customer demand for our services does not meet expectations, our ability to generate revenue and meet our financial targets could be adversely affected.

While we expect strong growth in the markets for our products, it is possible that the growth in some or all of these markets may not meet our expectations, or materialize at all. The methodology on which our estimate of our total potential market opportunity is based includes several key assumptions based on our industry knowledge and customer experience. If any of these assumptions proves to be inaccurate, then the actual market for our solutions could be significantly smaller than our estimates of our total potential market opportunity. If the customer demand for our services or the adoption rate in our target markets does not meet our expectations, our ability to generate revenue from customers and meet our financial targets could be adversely affected.

Our business is substantially dependent upon the continued growth of the market for on-demand software solutions.

We derive, and expect to continue to derive, substantially all of our revenue from the sale of our on-demand solutions. As a result, widespread acceptance and use of the on-demand business model is critical to our future growth and success. Under the perpetual or periodic license model for software procurement, users of the software would typically install and operate the applications on their hardware. Because many companies are generally predisposed to maintaining control of their information technology, or IT, systems and infrastructure, there may be resistance to the concept of accessing software as a service provided by a third party. In addition, the market for on-demand software solutions is still evolving, and competitive dynamics may cause pricing levels to change as the market matures and as existing and new market participants introduce new types of solutions and different approaches to enable organizations to address their technology needs. As a result, we may be forced to reduce the prices we charge for our products and may be unable to renew existing customer agreements or enter into new customer agreements at the same prices and

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upon the same terms that we have historically. If the market for on-demand software solutions fails to grow, grows more slowly than we currently anticipate or evolves and forces us to reduce the prices we charge for our products, our revenue, gross margin and other operating results could be materially adversely affected.

Our operating results may fluctuate from quarter to quarter, which could make them difficult to predict.

Our quarterly operating results are tied to certain financial and operational metrics that have fluctuated in the past and may fluctuate significantly in the future. As a result, you should not rely upon our past quarterly operating results as indicators of future performance. Our operating results depend on numerous factors, many of which are outside of our control. In addition to the other risks described in this Risk Factors section, the following risks could cause our operating results to fluctuate:

our ability to retain existing customers and attract new customers;
the rates at which our customers renew;
the mix of annual and monthly customers at any given time;
the timing and amount of costs of new and existing marketing and advertising efforts;
the timing and amount of operating costs and capital expenditures relating to expansion of our business, operations and infrastructure;
the cost and timing of the development and introduction of new product and service offerings by us or our competitors; and
system or service failures, security breaches or network downtime.

We have a relatively short operating history, which makes it difficult to evaluate our business and future prospects.

Our business has a relatively short operating history, which makes it difficult to evaluate our business and future prospects. We have been in existence since 2004, and much of our growth has occurred in recent periods. We have encountered, and will continue to encounter, risks and difficulties frequently experienced by growing companies in rapidly changing industries, including those related to:

market acceptance of our current and future products and services;
customer renewal rates;
our ability to compete with other companies that are currently in, or may in the future enter, the market for our products;
our ability to successfully expand our business, especially internationally;
our ability to control costs, including our operating expenses;
the amount and timing of operating expenses, particularly sales and marketing expenses, related to the maintenance and expansion of our business, operations and infrastructure;
network outages or security breaches and any associated expenses;
foreign currency exchange rate fluctuations;
write-downs, impairment charges or unforeseen liabilities in connection with acquisitions;
our ability to successfully manage acquisitions; and
general economic and political conditions in our domestic and international markets.

If we do not manage these risks successfully, our business will be harmed.

Our long-term success depends, in part, on our ability to expand the sales of our products to customers located outside of the United States, and thus our business is susceptible to risks associated with international sales and operations.

We currently maintain offices and have sales personnel in Australia, France, Japan, Singapore, South Korea, Spain, the United Arab Emirates and the United Kingdom, and we intend to expand our international

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operations. Any international expansion efforts that we may undertake may not be successful. In addition, conducting international operations subjects us to new risks that we have not generally faced in the United States. These risks include:

- unexpected costs and errors in the localization of our products, including translation into foreign languages and adaptation for local practices and regulatory requirements;
- lack of familiarity with and burdens of complying with foreign laws, legal standards, regulatory requirements, tariffs, and other barriers;
- unexpected changes in regulatory requirements, taxes, trade laws, tariffs, export quotas, custom duties or other trade restrictions;
- difficulties in managing systems integrators and technology partners;
- differing technology standards;
- longer accounts receivable payment cycles and difficulties in collecting accounts receivable;
- difficulties in managing and staffing international operations and differing employer/employee relationships;
- fluctuations in exchange rates that may increase the volatility of our foreign-based revenue;
- potentially adverse tax consequences, including the complexities of foreign value added tax (or other tax) systems and restrictions on the repatriation of earnings;
- uncertain political and economic climates; and
- reduced or varied protection for intellectual property rights in some countries.

These factors may cause our costs of doing business in these geographies to exceed our comparable domestic costs. Operating in international markets also requires significant management attention and financial resources. Any negative impact from our international business efforts could negatively impact our business, results of operations and financial condition as a whole.

We must keep up with rapid technological change to remain competitive in a rapidly evolving industry.

Our market is characterized by rapid technological change, frequent new product and service introductions and evolving industry standards. Our future success will depend on our ability to adapt quickly to rapidly changing technologies, to adapt our services and products to evolving industry standards and to improve the performance and reliability of our services and products. To achieve market acceptance for our products, we must effectively anticipate and offer products that meet changing customer demands in a timely manner. Customers may require features and functionality that our current products do not have. If we fail to develop products that satisfy customer preferences in a timely and cost-effective manner, our ability to renew our contracts with existing customers and our ability to create or increase demand for our products will be harmed.

We may experience difficulties with software development, industry standards, design or marketing that could delay or prevent our development, introduction or implementation of new products and enhancements. The introduction of new products by competitors, the emergence of new industry standards or the development of entirely new technologies to replace existing offerings could render our existing or future products obsolete.

If we are unable to successfully develop or acquire new features and functionality, enhance our existing products to anticipate and meet customer requirements or sell our products into new markets, our revenue and results of operations will be adversely affected.

We face significant competition and may be unsuccessful against current and future competitors. If we do not compete effectively, our operating results and future growth could be harmed.

We compete with video sharing sites, in-house solutions, online video platforms, media processing services and certain niche technology providers, as well as larger companies that offer multiple services, including those that may be used as substitute services for our products. Competition is already intense in

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these markets and, with the introduction of new technologies and market entrants, we expect competition to further intensify in the future. In addition, some of our competitors may make acquisitions, be acquired, or enter into strategic relationships to offer a more comprehensive service than we do. These combinations may make it more difficult for us to compete effectively. We expect these trends to continue as competitors attempt to strengthen or maintain their market positions.

Demand for our services is sensitive to price. Many factors, including our advertising, customer acquisition and technology costs, and our current and future competitors pricing and marketing strategies, can significantly affect our pricing strategies. There can be no assurance that we will not be forced to engage in price-cutting initiatives, or to increase our advertising and other expenses to attract and retain customers in response to competitive pressures, either of which could have a material adverse effect on our revenue, operating results and resources.

We will likely encounter significant, growing competition in our business from many sources, including portals and digital media retailers, search engines, social networking and consumer-sharing services companies, broadband media distribution platforms, technology suppliers, direct broadcast satellite television service companies and digital and traditional cable systems. Many of our present and likely future competitors have substantially greater financial, marketing, technological and other resources than we do. Some of these companies may even choose to offer services competitive with ours at no cost as a strategy to attract or retain customers of their other services. If we are unable to compete successfully with traditional and other emerging providers of competing services, our business, financial condition and results of operations could be adversely affected.

We depend on the experience and expertise of our executive officers, senior management team and key technical employees, and the loss of any key employee could have an adverse effect on our business, financial condition and results of operations.

Our success depends upon the continued service of our executive officers, senior management team and key technical employees, as well as our ability to continue to attract and retain additional highly qualified personnel. Each of our executive officers, senior management team, key technical personnel and other employees could terminate his or her relationship with us at any time. The loss of any member of our senior management team or key personnel might significantly delay or prevent the achievement of our business objectives and could materially harm our business and our customer relationships. In addition, because of the nature of our business, the loss of any significant number of our existing engineering, project management and sales personnel could have an adverse effect on our business, financial condition and results of operations.

Our business and operations have experienced rapid growth and organizational change in recent periods, which has placed, and may continue to place, significant demands on our management and infrastructure. If we fail to manage our growth effectively and successfully recruit additional highly-qualified employees, we may be unable to execute our business plan, maintain high levels of service or address competitive challenges adequately.

We increased our number of full-time employees from 312 as of December 31, 2011, to 335 as of December 31, 2012 and to 347 as of December 31, 2013, and our revenue grew from $63.6 million in 2011 to $88.0 million in 2012 and to $109.9 million in 2013. Our headcount and operations have grown, both domestically and internationally, since our inception. This growth has placed, and will continue to place, a significant strain on our management, administrative, operational and financial infrastructure. We anticipate further growth will be required to address increases in our product and service offerings and continued international expansion. Our success will depend in part upon the ability of our senior management team to manage this growth effectively. To do so, we must continue to recruit, hire, train, manage and integrate a significant number of qualified managers, technical personnel and employees in specialized roles within our company, including in technology, sales and marketing. If our new employees perform poorly, or if we are unsuccessful in recruiting, hiring, training, managing and integrating these new employees, or retaining these or our existing employees, our business may suffer.

In addition, to manage the expected continued growth of our headcount, operations and geographic expansion, we will need to continue to improve our information technology infrastructure, operational, financial and management systems and procedures. Our expected additional headcount and capital investments will increase our costs, which will make it more difficult for us to address any future revenue shortfalls by

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reducing expenses in the short term. If we fail to successfully manage our growth we will be unable to successfully execute our business plan, which could have a negative impact on our business, financial condition or results of operations.

Our recent transaction with Unicorn Media, and/or potential future acquisitions, could be difficult to integrate, divert the attention of key personnel, disrupt our business, dilute stockholder value and impair our financial results.

As part of our business strategy, we intend to consider acquisitions of companies, technologies and products that we believe could accelerate our ability to compete in our core markets or allow us to enter new markets. For example, in January 2014 we completed our acquisition of substantially all of the assets of Unicorn Media, Inc., or Unicorn, a leading provider of cloud video ad insertion technology. Acquisitions, including the Unicorn transaction, involve numerous risks, any of which could harm our business, including:

- difficulties in integrating the technologies, products, operations and existing contracts of a target company and realizing the anticipated benefits of the combined businesses;
- difficulties in integrating the personnel of a target company, including the onboarding of approximately 60 Unicorn employees whom we hired in connection with the Unicorn transaction;
- difficulties in supporting and transitioning customers, if any, of a target company;
- diversion of financial and management resources from existing operations;
- the price we pay or other resources that we devote may exceed the value we realize, or the value we could have realized if we had allocated the purchase price or other resources to another opportunity;
- risks of entering new markets in which we have limited or no experience;
- potential loss of key employees, customers and strategic alliances from either our current business or a target company s business; and
- inability to generate sufficient revenue to offset acquisition costs.

Acquisitions also frequently result in the recording of goodwill and other intangible assets which are subject to potential impairments in the future that could harm our financial results. In addition, if we finance acquisitions by issuing equity securities, our existing stockholders may be diluted. As a result, if we fail to properly evaluate acquisitions or investments, we may not achieve the anticipated benefits of any such acquisitions, and we may incur costs in excess of what we anticipate. The failure to successfully evaluate and execute acquisitions or investments or otherwise adequately address these risks could materially harm our business and financial results.

We may experience delays in product and service development, including delays beyond our control, which could prevent us from achieving our growth objectives and hurt our business.

Many of the problems, delays and expenses we may encounter may be beyond our control. Such problems may include, but are not limited to, problems related to the technical development of our products and services, problems with the infrastructure for the distribution and delivery of online media, the competitive environment in which we operate, marketing problems, consumer and advertiser acceptance and costs and expenses that may exceed current estimates. Problems, delays or expenses in any of these areas could have a negative impact on our business, financial conditions or results of operations.

Delays in the timely design, development, deployment and commercial operation of our product and service offerings, and consequently the achievement of our revenue targets and positive cash flow, could result from a variety of causes, including many causes that are beyond our control. Such delays include, but are not limited to, delays in the integration of new offers into our existing offering, changes to our products and services made to correct or enhance their features, performance or marketability or in response to regulatory developments or otherwise, delays encountered in the development, integration or testing of our products and services and the infrastructure for the distribution and delivery of online media and other systems, unsuccessful commercial launches of new products and services, delays in our ability to obtain financing,

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insufficient or ineffective marketing efforts and slower-than-anticipated consumer acceptance of our products. Delays in any of these matters could hinder or prevent our achievement of our growth objectives and hurt our business.

There is no assurance that the current cost of Internet connectivity and network access will not rise with the increasing popularity of online media services.

We rely on third-party service providers for our principal connections to the Internet and network access, and to deliver media to consumers. As demand for online media increases, there can be no assurance that Internet and network service providers will continue to price their network access services on reasonable terms. The distribution of online media requires delivery of digital content files and providers of network access and distribution may change their business models and increase their prices significantly, which could slow the widespread adoption of such services. In order for our services to be successful, there must be a reasonable price model in place to allow for the continuous distribution of digital media files. We have limited or no control over the extent to which any of these circumstances may occur, and if network access or distribution prices rise, our business, financial condition and results of operations would likely be adversely affected.

Failure of our infrastructure for the distribution and delivery of online media could adversely affect our business.

Our success as a business depends, in large part, on our ability to provide a consistently high-quality digital experience to consumers via our relationships and infrastructure for the distribution and delivery of online media generally. There is no guarantee that our relationships and infrastructure will not experience problems or other performance issues, which could seriously impair the quality and reliability of our delivery of digital media to end users. For example, we primarily use two content delivery networks, or CDNs, to deliver content to end users. If one or both of these CDNs were to experience sustained technical failures, it could cause delays in our service and we could lose customers. If we do not accurately predict our infrastructure capacity requirements, our customers could experience service outages or service degradation that may subject us to financial penalties and liabilities and result in customer losses. In the past we have, on limited occasions, suffered temporary interruptions of certain aspects of our service, including our customers ability to upload new content into our system, our customers ability to access administrative control of their accounts, and our ability to deliver content to end users in certain geographic locations. These service interruptions were the results of human error, hardware and software failures or failures of third-party networks. On a limited number of occasions, these service interruptions have required us to provide service credits to customers. We cannot guarantee that service interruptions will not occur again or predict the duration of interruptions of our service or the impact of such interruptions on our customers. Failures and interruptions of our service may impact our reputation, result in our payment of compensation or service credits to our customers, result in loss of customers and adversely affect our financial results and ability to grow our business. In addition, if our hosting infrastructure capacity fails to keep pace with increased sales or if our delivery capabilities fail, customers may experience delays as we seek to obtain additional capacity or enable alternative delivery capability, which could harm our reputation and adversely affect our revenue growth.

We may have difficulty scaling and adapting our existing infrastructure to accommodate increased traffic and storage, technology advances or customer requirements.

In the future, advances in technology, increases in traffic and storage, and new customer requirements may require us to change our infrastructure, expand our infrastructure or replace our infrastructure entirely. Scaling and adapting our infrastructure is likely to be complex and require additional technical expertise. If we are required to make any changes to our infrastructure, we may incur substantial costs and experience delays or interruptions in our service. These delays or interruptions may cause customers and partners to become dissatisfied with our service and move to competing service providers. Our failure to accommodate increased traffic and storage, increased costs, inefficiencies or failures to adapt to new technologies or customer requirements and the associated adjustments to our infrastructure could harm our business, financial condition and results of operations.

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We rely on software and services licensed from other parties. The loss of software or services from third parties could increase our costs and limit the features available in our products and services.

Components of our service and product offerings include various types of software and services licensed from unaffiliated parties. For example, some of our products incorporate software licensed from Adobe. If any of the software or services we license from others or functional equivalents thereof were either no longer available to us or no longer offered on commercially reasonable terms, we would be required to either redesign our services and products to function with software or services available from other parties or develop these components ourselves. In either case, the transition to a new service provider or an internally-developed solution could result in increased costs and could result in delays in our product launches and the release of new service and product offerings. Furthermore, we might be forced to temporarily limit the features available in our current or future products and services. If we fail to maintain or renegotiate any of these software or service licenses, we could face significant delays and diversion of resources in attempting to license and integrate functional equivalents.

If our software products contain serious errors or defects, then we may lose revenue and market acceptance and may incur costs to defend or settle claims.

Complex software applications such as ours often contain errors or defects, particularly when first introduced or when new versions or enhancements are released. Despite internal testing and testing by our customers, our current and future products may contain serious defects, which could result in lost revenue, lost customers, slower growth or a delay in market acceptance.

Since our customers use our products for critical business applications, such as online video, errors, defects or other performance problems could result in damage to our customers. They could seek significant compensation from us for the losses they suffer. Although our customer agreements typically contain provisions designed to limit our exposure to claims, existing or future laws or unfavorable judicial decisions could negate these limitations. Even if not successful, a claim brought against us would likely be time-consuming and costly and could seriously damage our reputation in the marketplace, making it harder for us to sell our products.

Unauthorized disclosure of data or unauthorized access to our service could adversely affect our business.

Any security breaches, unauthorized access, unauthorized usage, virus or similar breach or disruption could result in loss of confidential information, personal data and customer content, damage to our reputation, early termination of our contracts, litigation, regulatory investigations or other liabilities. If our security measures, or those of our partners or service providers, are breached as a result of third-party action, employee error, malfeasance or otherwise and, as a result, someone obtains unauthorized access to confidential information, personal data or customer content, our reputation will be damaged, our business may suffer or we could incur significant liability.

Techniques used to obtain unauthorized access or to sabotage systems change frequently and generally are not recognized until launched against a target. As a result, we may be unable to anticipate these techniques or to implement adequate preventative measures. If an actual or perceived security breach occurs, the market perception of our security measures could be harmed and we could lose sales and customers. Any significant violations of data privacy or unauthorized disclosure of information could result in the loss of business, litigation and regulatory investigations and penalties that could damage our reputation and adversely impact our results of operations and financial condition. Moreover, if a security breach occurs with respect to another software as a service, or SaaS, provider, our customers and potential customers may lose trust in the security of the SaaS business model generally, which could adversely impact our ability to retain existing customers or attract new ones.

We use a limited number of data centers and cloud computing services facilities to deliver our services. Any disruption of service at these facilities could harm our business.

We manage our services and serve all of our customers from a limited number of third-party data center facilities and cloud computing services facilities. While we control the actual computer and storage systems upon which our software runs, and deploy them to the data center facilities, we do not control the operation of these facilities.

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The owners of these facilities have no obligation to renew their agreements with us on commercially reasonable terms, or at all. If we are unable to renew these agreements on commercially reasonable terms, we may be required to transfer to new facilities, and we may incur significant costs and possible service interruption in connection with doing so.

Any changes in third-party service levels at these facilities or any errors, defects, disruptions or other performance problems at or related to these facilities that affect our services could harm our reputation and may damage our customers businesses. Interruptions in our services might reduce our revenue, cause us to issue credits to customers, subject us to potential liability, and cause customers to terminate their subscriptions or harm our renewal rates.

These facilities are vulnerable to damage or service interruption resulting from human error, intentional bad acts, earthquakes, hurricanes, floods, fires, war, terrorist attacks, power losses, hardware failures, systems failures, telecommunications failures and similar events. The occurrence of a natural disaster or an act of terrorism, or vandalism or other misconduct, or a decision to close the facilities without adequate notice or other unanticipated problems could result in lengthy interruptions in our services.

Our business may be adversely affected by third-party claims, including by governmental bodies, regarding the content and advertising distributed through our service.

We rely on our customers to secure the rights to redistribute content over the Internet, and we do not screen the content that is distributed through our service. There is no assurance that our customers have licensed all rights necessary for distribution, including Internet distribution. Other parties may claim certain rights in the content of our customers.

In the event that our customers do not have the necessary distribution rights related to content, we may be required to cease distributing such content, or we may be subject to lawsuits and claims of damages for infringement of such rights. If these claims arise with frequency, the likelihood of our business being adversely affected would rise significantly. In some cases, we may have rights to indemnification or claims against our customers if they do not have appropriate distribution rights related to specific content items, however there is no assurance that we would be successful in any such claim.

We operate an open publishing platform and do not screen the content that is distributed through our service. Content may be distributed through our platform that is illegal or unlawful under international, federal, state or local laws or the laws of other countries. We may face lawsuits, claims or even criminal charges for such distribution, and we may be subject to civil, regulatory or criminal sanctions and damages for such distribution. Any such claims or investigations could adversely affect our business, financial condition and results of operations.

We could incur substantial costs as a result of any claim of infringement of another party s intellectual property rights.

In recent years, there has been significant litigation in the United States involving patents and other intellectual property rights. Companies providing Internet-related products and services are increasingly bringing and becoming subject to suits alleging infringement of proprietary rights, particularly patent rights. These risks have been amplified by the increase in third parties whose sole or primary business is to assert such claims, some of whom have sent letters to and/or filed suit alleging infringement against some of our customers. From time to time, third parties claim that we are infringing upon their intellectual property rights. For information regarding these claims, see Part I, Item 3, Legal Proceedings. We could incur substantial costs in prosecuting or defending any intellectual property litigation. Additionally, the defense or prosecution of claims could be time-consuming, and could divert our management s attention away from the execution of our business plan.

Moreover, any settlement or adverse judgment resulting from a claim could require us to pay substantial amounts or obtain a license to continue to use the technology that is the subject of the claim, or otherwise restrict or prohibit our use of the technology. There can be no assurance that we would be able to obtain a license from the third party asserting the claim on commercially reasonable terms, if at all, that we would be able to develop alternative technology on a timely basis, if at all, or that we would be able to obtain a license to use a suitable alternative technology to permit us to continue offering, and our customers to continue using, our affected product or service. In addition, we may be required to indemnify our customers for third-party intellectual property infringement claims, which would increase the cost to us. An adverse determination could also prevent us from offering our products or services to others. Infringement claims asserted against us may have an adverse effect on our business, financial condition and results of operations.

Our agreements with customers often include contractual obligations to indemnify them against claims that our products infringe the intellectual property rights of third parties. The results of any intellectual property litigation to which we might become a party, or for which we are required to provide indemnification, may force us to do one or more of the following:

- cease selling or using products or services that incorporate the challenged intellectual property;
- make substantial payments for costs or damages;
- obtain a license, which may not be available on reasonable terms, to sell or use the relevant technology; or
- redesign those products or services to avoid infringement.

If we are required to make substantial payments or undertake any of the other actions noted above as a result of any intellectual property infringement claims against us or any obligation to indemnify our customers for such claims, such payments or costs could have a material adverse effect upon our business and financial results.

Failure to adequately protect our intellectual property could substantially harm our business and operating results.

Because our business depends substantially on our intellectual property, the protection of our intellectual property rights is important to the success of our business. We rely upon a combination of trademark, patent, trade secret and copyright law and contractual restrictions to protect our intellectual property. These afford only limited protection. Despite our efforts to protect our property rights, unauthorized parties may attempt to copy aspects of our products, service, software and functionality or obtain and use information that we consider proprietary. Moreover, policing our proprietary rights is difficult and may not always be effective. In addition, we may need to enforce our rights under the laws of countries that do not protect proprietary rights to as great an extent as do the laws of the United States.

Litigation or proceedings before the U.S. Patent and Trademark Office or other governmental authorities and administrative bodies in the United States and abroad may be necessary in the future to enforce our intellectual property rights, to protect our patent rights, trade secrets, trademarks and domain names, and to determine the validity and scope of the proprietary rights of others. Such litigation or proceedings may be very costly and impact our financial performance. We may also incur substantial costs defending against frivolous litigation or be asked to indemnify our customers against the same. Our efforts to enforce or protect our proprietary rights may prove to be ineffective and could result in substantial costs and diversion of resources and could substantially harm our operating results.

Our exposure to risks associated with the use of intellectual property may increase as a result of acquisitions, as we have less opportunity to have visibility into the development process with respect to acquired technology or the care taken to safeguard against infringement risks. Third parties may make infringement and similar or related claims after we have acquired technology that had not been asserted prior to our acquisition.

Confidentiality agreements with employees and others may not adequately prevent disclosure of trade secrets and other proprietary information.

We have devoted substantial resources to the development of our technology, business operations and business plans. In order to protect our trade secrets and proprietary information, we rely in significant part on confidentiality agreements with our employees, licensees, independent contractors, advisers and customers. These agreements may not be effective to prevent disclosure of confidential information, including trade secrets, and may not provide an adequate remedy in the event of unauthorized disclosure of confidential information. In addition, others may independently discover trade secrets and proprietary information, and in such cases we would not be able to assert trade secret rights against such parties. To the extent that our employees and others with whom we do business use intellectual property owned by others in their work for us, disputes may arise as to the rights in related or resulting know-how and inventions. Laws regarding trade secret rights in certain markets in which we operate may afford little or no protection to our trade secrets. The loss of trade secret protection could make it easier for third parties to compete with our products by copying functionality. In addition, any changes in, or unexpected interpretations of, the trade secret and other intellectual property laws in any country in which we operate may compromise our ability to enforce our trade secret and intellectual property rights. Costly and time-consuming litigation could be necessary to enforce and determine the scope of our proprietary rights, and failure to obtain or maintain trade secret protection could adversely affect our competitive business position.

Our use of open source software could negatively affect our ability to sell our services and subject us to possible litigation.

A portion of the technology licensed by us incorporates open source software, and we may incorporate open source software in the future. Such open source software is generally licensed by its authors or other third parties under open source licenses. If we fail to comply with these licenses, we may be subject to certain conditions, including requirements that we offer our services that incorporate the open source software for no cost, that we make available source code for modifications or derivative works we create based upon, incorporating or using the open source software and that we license such modifications or alterations under the terms of the particular open source license. If an author or other third party that distributes such open source software were to allege that we had not complied with the conditions of one or more of these licenses, we could be required to incur significant legal expenses defending against such allegations and could be subject to significant damages, enjoined from the sale of our services that contained the open source software and required to comply with the foregoing conditions, which could disrupt the distribution and sale of some of our services.

Fluctuations in the exchange rate of foreign currencies could result in currency transactions losses.

We currently have foreign sales denominated in Australian dollars, British pound sterling, euros, Japanese yen and New Zealand dollars and may, in the future, have sales denominated in the currencies of additional countries in which we establish or have established sales offices. In addition, we incur a portion of our operating expenses in euros and, to a lesser extent, other foreign currencies. Any fluctuation in the exchange rate of these foreign currencies may negatively impact our business, financial condition and operating results. We have not previously engaged in foreign currency hedging. If we decide to hedge our foreign currency exposure, we may not be able to hedge effectively due to lack of experience, unreasonable costs or illiquid markets.

We may be required to collect sales and use taxes on the services we sell in additional jurisdictions in the future, which may decrease sales, and we may be subject to liability for sales and use taxes and related interest and penalties on prior sales.

State and local taxing jurisdictions have differing rules and regulations governing sales and use taxes and these rules and regulations are subject to varying interpretations that may change over time. In particular, the applicability of sales and use taxes to our subscription services in various jurisdictions is unclear. We cannot assure you that we will not be subject to sales and use taxes or related penalties for past sales in states where we presently believe sales and use taxes are not due. We reserve estimated sales and use taxes in our financial statements but we cannot be certain that we have made sufficient reserves to cover all taxes that might be assessed.

If one or more taxing authorities determines that taxes should have, but have not, been paid with respect to our services, we may be liable for past taxes in addition to being required to collect sales or similar taxes in respect of our services going forward. Liability for past taxes may also include substantial interest and penalty charges. Our client contracts typically provide that our clients must pay all applicable sales and similar taxes. Nevertheless, clients may be reluctant to pay back taxes and may refuse responsibility for interest or penalties associated with those taxes or we may determine that it would not be feasible to seek reimbursement. If we are required to collect and pay back taxes and the associated interest and penalties and if our clients do not reimburse us for all or a portion of these amounts, we will incur unplanned expenses that may be substantial. Moreover, imposition of such taxes on our services going forward will effectively increase the cost of such services to our clients and may adversely affect our ability to retain existing clients or to gain new clients in the areas in which such taxes are imposed.

Government and industry regulation of the Internet is evolving and could directly restrict our business or indirectly affect our business by limiting the growth of our markets. Unfavorable changes in government regulation or our failure to comply with regulations could harm our business and operating results.

Federal, state and foreign governments and agencies have adopted and could in the future adopt regulations covering issues such as user privacy, content, and taxation of products and services. Government regulations could limit the market for our products and services or impose burdensome requirements that render our business unprofitable. Our products enable our customers to collect, manage and store a wide range of data. The United States and various state governments have adopted or proposed limitations on the collection, distribution and use of personal information. Several foreign jurisdictions, including the European Union and the United Kingdom, have adopted legislation (including directives or regulations) that increase or change the requirements governing data collection and storage in these jurisdictions. If our privacy or data security measures fail to comply with current or future laws and regulations, we may be subject to litigation, regulatory investigations or other liabilities, or our customers may terminate their relationships with us.

In addition, although many regulations might not apply to our business directly, we expect that laws regulating the solicitation, collection or processing of personal and consumer information could affect our customers ability to use and share data, potentially reducing demand for our services. The Telecommunications Act of 1996 and the European Union Data Protection Directive along with other similar laws and regulations prohibit certain types of information and content from being transmitted over the Internet. The scope of this prohibition and the liability associated with a violation are currently unsettled. In addition, although substantial portions of the Communications Decency Act were held to be unconstitutional, we cannot be certain that similar legislation will not be enacted and upheld in the future. Legislation like the Telecommunications Act and the Communications Decency Act could dampen the growth in web usage and decrease its acceptance as a medium of communications and commerce. Moreover, if future laws and regulations limit our customers ability to use and share consumer data or our ability to store, process and share data with our customers over the Internet, demand for our products could decrease, our costs could increase, and our results of operations and financial condition could be harmed.

In addition, taxation of services provided over the Internet or other charges imposed by government agencies or by private organizations for accessing the Internet may be imposed. Any regulation imposing greater fees for Internet use or restricting information exchange over the Internet could result in a decline in the use of the Internet and the viability of Internet-based services, which could harm our business and operating results.

Our stock price has been volatile and is likely to be volatile in the future.

The market price of our common stock has been and is likely to be highly volatile and could be subject to significant fluctuations in response to, among other things, the risk factors described in this report and other factors beyond our control. Market prices for securities of early stage companies have historically been particularly volatile. Some, but not all, of the factors that may cause the market price of our common stock to fluctuate include:

fluctuations in our quarterly or annual financial results or the quarterly or annual financial results of companies perceived to be similar to us or relevant for our business;

changes in estimates of our financial results or recommendations by securities analysts;

failure of our products to achieve or maintain market acceptance;

changes in market valuations of similar or relevant companies;

success of competitive service offerings or technologies;

changes in our capital structure, such as the issuance of securities or the incurrence of debt;

announcements by us or by our competitors of significant services, contracts, acquisitions or strategic alliances;

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regulatory developments in the United States, foreign countries, or both;
litigation;
additions or departures of key personnel;
investors general perceptions; and
changes in general economic, industry or market conditions.

In addition, if the market for technology stocks, or the stock market in general, experiences a loss of investor confidence, the trading price of our common stock could decline for reasons unrelated to our business, financial condition, or results of operations. If any of the foregoing occurs, it could cause our stock price to fall and may expose us to lawsuits that, even if unsuccessful, could be costly to defend and a distraction to management.

A significant portion of our total outstanding shares may be sold into the public market in the near future, which could cause the market price of our common stock to drop significantly, even if our business is doing well.

Sales of up to 1,536,261 shares of our common stock in the public market could occur at any time after the expiration of the lock-up agreement entered into in connection with our acquisition of substantially all of the assets of Unicorn. Following the expiration of the lock-up period 180 days following the closing date of the acquisition, these shares will be eligible for resale in compliance with Rule 144. These sales or the market perception that the holder or holders of a large number of shares intend to sell shares, could reduce the market price of our common stock.

If securities or industry analysts do not publish, or cease publishing, research or reports about us, our business or our market, or if they adversely change their recommendations regarding our stock, our stock price and trading volume could decline.

The trading market for our common stock will be influenced by research and reports that industry or security analysts may publish about us, our business, our market or our competitors. If any of the analysts who may cover us adversely change their recommendations regarding our stock, or provide more favorable relative recommendations about our competitors, our stock price would likely decline. If any analyst who may cover us were to cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline.

We are an emerging growth company and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our common stock less attractive to investors.

We are an emerging growth company, as defined in the Jumpstart Our Business Startups Act of 2012, or the JOBS Act, and we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies including, but not limited to, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved. We cannot predict if investors will find our common stock less attractive because we may rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile. We may take advantage of these reporting exemptions until we are no longer an emerging growth company.

In addition, Section 107 of the JOBS Act also provides that an emerging growth company can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. In other words, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. However, we are choosing to opt out of such extended transition period, and as a result, we will comply with new or revised accounting standards on the relevant dates on which adoption of such standards is required for non-emerging growth companies. Section 107 of the JOBS Act provides that our decision to opt out of the extended transition period for complying with new or revised accounting standards is irrevocable.

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We do not expect to declare any dividends in the foreseeable future.

We do not anticipate declaring any dividends to holders of our common stock in the foreseeable future. Consequently, investors may need to rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investment. Investors seeking dividends should not purchase our common stock.

We may be unable to meet our future capital requirements, which could limit our ability to grow.

We believe our existing cash and cash equivalents will be sufficient to meet our anticipated working capital and capital expenditure needs over at least the next 12 months. We may, however, need, or could elect to seek, additional funding at any time. To the extent that existing resources are insufficient to fund our business operations, our future activities for the expansion of our service and our product offerings, developing and sustaining our relationships and infrastructure for the distribution and delivery of digital media online, marketing, and supporting our office facilities, we may need to raise additional funds through equity or debt financing. Additional funds may not be available on terms favorable to us or our stockholders. Furthermore, if we issue equity securities, our stockholders may experience additional dilution or the new equity securities may have rights, preferences and privileges senior to those of our existing classes of stock. If we cannot raise funds on acceptable terms, we may not be able to develop or enhance our products, take advantage of future opportunities or respond to competitive pressures or unanticipated requirements.

Failure to achieve and maintain effective internal control over financial reporting could result in our failure to accurately report our financial results. Any inability to report and file our financial results accurately and timely could harm our business and adversely impact investor confidence in our company and, as a result, the value of our common stock.

We will need to continue to evaluate our internal control over financial reporting in connection with Section 404 of the Sarbanes-Oxley Act going forward, and our independent registered public accounting firm will be required to attest to the effectiveness of our internal control over financial reporting. This assessment includes the disclosure of any material weaknesses in our internal control over financial reporting identified by our management, as well as our independent registered public accounting firm s attestation report on our internal control over financial reporting. During the evaluation and testing process, if we identify one or more material weaknesses in our internal control over financial reporting, we will be unable to assert that our internal control over financial reporting is effective. If we are unable to assert that our internal control over financial reporting is effective, or if our independent registered public accounting firm is unable to express an opinion on the effectiveness of our internal control over financial reporting, we could lose investor confidence in the accuracy and completeness of our financial reports, which could have a material adverse effect on the price of our common stock.

Anti-takeover provisions contained in our amended and restated certificate of incorporation and amended and restated bylaws, as well as provisions of Delaware law, could impair a takeover attempt.

Our amended and restated certificate of incorporation and bylaws, and Delaware law, contain provisions that could have the effect of rendering more difficult or discouraging an acquisition deemed undesirable by our board of directors. Our corporate governance documents include provisions:

authorizing blank check preferred stock, which could be issued with voting, liquidation, dividend, and other rights superior to our common stock;

limiting the liability of, and providing indemnification to, our directors and officers;

limiting the ability of our stockholders to call and bring business before special meetings and to take action by written consent in lieu of a meeting;

requiring advance notice of stockholder proposals for business to be conducted at meetings of our stockholders and for nominations of candidates for election to our board of directors;

controlling the procedures for the conduct and scheduling of board of directors and stockholder meetings;

providing our board of directors with the express power to postpone previously scheduled annual meetings and to cancel previously scheduled special meetings;

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establishing a classified board of directors so that not all members of our board are selected at one time;
limiting the determination of the number of directors on our board of directors and the filling of vacancies or newly created seats on the board to our board of directors then in office; and
providing that directors may be removed by stockholders only for cause.
These provisions, alone or together, could delay hostile takeovers and changes in control of our company or changes in our management.

As a Delaware corporation, we are also subject to provisions of Delaware law, including Section 203 of the Delaware General Corporation Law, which prevents some stockholders holding more than 15% of our outstanding common stock from engaging in certain business combinations without approval of the holders of substantially all of our outstanding common stock. Any provision of our amended and restated certificate of incorporation or bylaws or Delaware law that has the effect of delaying or deterring a change in control could limit the opportunity for our stockholders to receive a premium for their shares of our common stock, and could also affect the price that some investors are willing to pay for our common stock.

We record substantial expenses related to our issuance of stock options that may have a material adverse impact on our operating results for the foreseeable future.

We expect our stock-based compensation expenses will continue to be significant in future periods, which will have an adverse impact on our operating results. The model used by us requires the input of highly subjective assumptions, including the price volatility of the option s underlying stock. If facts and circumstances change and we employ different assumptions for estimating stock-based compensation expense in future periods, or if we decide to use a different valuation model, the future period expenses may differ significantly from what we have recorded in the current period and could materially affect the fair value estimate of stock-based payments, our operating income, net income and net income per share.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

Our corporate headquarters are located in Boston, Massachusetts. We lease 82,184 square feet pursuant to a lease that terminates March 31, 2022. We have sales and marketing offices in New York, New York; London, England; Paris, France; Barcelona, Spain; Tokyo, Japan; Sydney, Australia; Seoul, South Korea; Singapore; and Dubai, United Arab Emirates. We have a research and development office in Middleton, Wisconsin. Our offices in Seattle, Washington, San Francisco, California and Tempe, Arizona are used for sales and marketing as well as research and development. We believe our facilities are adequate for our current needs.

The Company s primary office lease has the option to renew the lease for two successive periods of five years each. In connection with the office lease, the Company entered into a letter of credit in the amount of $2,404.

Item 3. Legal Proceedings

On August 27, 2012, a complaint was filed by Blue Spike, LLC naming us in a patent infringement case (Blue Spike, LLC v. Audible Magic Corporation, et al., United States District Court for the Eastern District of Texas). The complaint alleges that we have infringed U.S. Patent No. 7,346,472 with a listed issue date of March 18, 2008, entitled Method and Device for Monitoring and Analyzing Signals, U.S. Patent No. 7,660,700 with a listed issue date of February 9, 2010, entitled Method and Device for Monitoring and Analyzing Signals, U.S. Patent No. 7,949,494 with a listed issue date of May 24, 2011, entitled Method and Device for Monitoring and Analyzing Signals and U.S. Patent No. 8,214,175 with a listed issue date of July 3, 2012, entitled Method and Device for Monitoring and Analyzing Signals. The complaint seeks an injunction enjoining infringement, damages and pre- and post-judgment costs and interest. We answered and filed counterclaims against Blue Spike on December 3, 2012. We amended our answer and counterclaims on

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July 15, 2013. This complaint is subject to indemnification by one of our vendors. We cannot yet determine whether it is probable that a loss will be incurred in connection with this complaint, nor can we reasonably estimate the potential loss, if any.

On September 10, 2013, a complaint was filed by Cinsay Inc. naming us in a patent infringement case (Cinsay Inc. v. Brightcove Inc. and Joyus Inc., United States District Court for the Northern District of Texas). The complaint alleges that we have infringed U.S. Patent No. 8,312,486 with a listed issue date of November 13, 2012, entitled Interactive Product Placement and Method Therefor and U.S. Patent No. 8,533,753 with a listed issue date of September 10, 2013, entitled Interactive Product Placement and Method Therefor. On October 1, 2013, Cinsay filed an amended complaint against us in which it reasserted the allegations of infringement of U.S. Patent No. 8,312,486 and U.S. Patent No. 8,533,753 and added allegations that we infringed U.S. Patent No. 8,549,555 with a listed issue date of October 1, 2013, entitled Interactive Product Placement and Method Therefor. The amended complaint seeks an injunction enjoining infringement, damages and pre- and post-judgment costs and interest. We answered the amended complaint on November 12, 2013. We cannot yet determine whether it is probable that a loss will be incurred in connection with this complaint, nor can we reasonably estimate the potential loss or range of a possible loss, if any.

In addition, we are, from time to time, party to litigation arising in the ordinary course of our business. Management does not believe that the outcome of these claims will have a material adverse effect on our consolidated financial position, results of operations or cash flows based on the status of proceedings at this time.

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock has been traded on the NASDAQ Global Market under the symbol BCOV since our initial public offering on February 17, 2012. Prior to this time, there was no public market for our common stock. The following table shows the high and low sale prices per share of our common stock as reported on the NASDAQ Global Market for the periods indicated:

	High	Low
2012		
First Quarter 2012	$ 25.50	$ 14.00
Second Quarter 2012	$ 24.90	$ 12.10
Third Quarter 2012	$ 17.17	$ 10.81
Fourth Quarter 2012	$ 14.00	$ 8.26
2013		
First Quarter 2013	$ 10.25	$ 5.77
Second Quarter 2013	$ 9.00	$ 4.89
Third Quarter 2013	$ 11.79	$ 8.35
Fourth Quarter 2013	$ 16.25	$ 10.84

On February 28, 2014, the last reported sale price for our common stock on the NASDAQ Global Market was $9.70 per share.

Dividend Policy

We have never paid or declared any cash dividends on our common stock. We currently intend to retain any cash flow to finance the growth and development of our business, and we do not expect to pay any cash dividends on our common stock in the foreseeable future. Payment of future dividends, if any, will be at the discretion of our board of directors and will depend on our financial condition, results of operations, capital requirements, restrictions contained in current or future financing instruments and other factors our board of directors deems relevant.

Stockholders

As of February 28, 2014, there were approximately 49 holders of record of our common stock (not including beneficial holders of stock held in street name).

Stock Performance Graph

The graph set forth below compares the cumulative total stockholder return on our common stock between February 17, 2012 (the date of our initial public offering) and December 31, 2013, with the cumulative total return of (a) the NASDAQ Computer & Data Processing Index and (b) the NASDAQ Composite Index, over the same period. This graph assumes the investment of $100 on February 17, 2012 in our common stock, the NASDAQ Computer & Data

Processing Index and the NASDAQ Composite Index and assumes the reinvestment of dividends, if any. The graph assumes our closing sales price on February 17, 2012 of $14.30 per share as the initial value of our common stock and not the initial offering price to the public of $11.00 per share.

The comparisons shown in the graph below are based upon historical data. We caution that the stock price performance shown in the graph below is not necessarily indicative of, nor is it intended to forecast, the potential future performance of our common stock. Information used in the graph was obtained from the NASDAQ Stock Market LLC, a financial data provider and a source believed to be reliable. The NASDAQ Stock Market LLC is not responsible for any errors or omissions in such information.

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	2/17/2012	3/31/2012	6/30/2012	9/30/2012	12/31/2012	3/31/2013	6/30/2013	9/30/2013	12/31/2013
Brightcove Inc.	100.0	173.4	107.1	81.7	63.2	43.4	61.3	78.7	98.9
NASDAQ Composite Index	100.0	104.7	99.4	105.6	102.3	110.7	115.3	127.8	141.5
NASDAQ Computer & Data Processing Index	100.0	107.0	99.2	105.2	97.4	99.6	101.4	112.6	128.5

Sales of Unregistered Securities

Not applicable.

Use of Proceeds from Public Offering of Common Stock

On February 16, 2012, our registration statement on Form S-1 (File No. 333-176444) was declared effective for our initial public offering. On February 23, 2012, we closed our initial public offering of 5,750,000 shares of common stock, including 750,000 shares pursuant to the underwriters overallotment option, at an offering price of $11.00 per share. The managing underwriters of the offering were Morgan Stanley & Co. LLC, and Stifel, Nicolaus & Company, Incorporated. Following the sale of the shares in connection with the closing of our initial public offering, the offering terminated.

As a result of the offering, including the underwriters option to purchase additional shares, we received net proceeds of approximately $54.5 million, after deducting total expenses of approximately $8.7 million, consisting of underwriting discounts and commissions of $4.4 million and offering-related expenses reasonably estimated to be $4.3 million. None of such payments were direct or indirect payments to any of our directors or officers or their associates, to persons owning 10% or more of our common stock, or to any of our affiliates.

We have used $7.0 million of the net proceeds from our initial public offering to repay certain indebtedness. None of such payments were direct or indirect payments to any of our directors or officers or their associates, to persons owning 10% or more of our common stock, or to any of our affiliates. We also used approximately $27.4 million of the net proceeds from our initial public offering as consideration for the purchase of Zencoder in August 2012. On January 31, 2014, we acquired substantially all of the assets of Unicorn for total consideration of approximately $40.1 million, which was funded by approximately $9.5 million of the net proceeds from our initial public offering and 2,850,547 shares of our common stock.

There has been no material change in the planned use of proceeds from our initial public offering as described in our final prospectus filed with the SEC on February 17, 2012 pursuant to Rule 424(b) under the Securities Act.

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Purchases of Equity Securities by the Issuer or Affiliated Purchasers

There were no repurchases of shares of common stock made during the year ended December 31, 2013.

Item 6. Selected Consolidated Financial Data

The following selected consolidated financial data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations , the consolidated financial statements and related notes, and other financial information included in this Annual Report on Form 10-K.

We derived the consolidated financial data for the years ended December 31, 2013, 2012 and 2011 and as of December 31, 2013 and 2012 from our audited consolidated financial statements, which are included elsewhere in this Annual Report on Form 10-K. We derived the consolidated financial data for the years ended December 31, 2010 and 2009 and as of December 31, 2011, 2010 and 2009 from audited consolidated financial statements which are not included in this Annual Report on Form 10-K. Historical results are not necessarily indicative of the results to be expected in future periods.

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	Year Ended December 31,				
	2013	2012[1]	2011	2010	2009
	(in thousands, except per share data)				
Consolidated statements of operations data:					
Revenue:					
Subscription and support revenue	$103,116	$84,257	$60,169	$40,521	$32,240
Professional services and other revenue	6,779	3,716	3,394	3,195	3,947
Total revenue	109,895	87,973	63,563	43,716	36,187
Cost of revenue:[2][3]					
Cost of subscription and support revenue	29,205	22,553	15,478	11,060	6,986
Cost of professional services and other revenue	7,585	4,831	4,744	4,065	3,463
Total cost of revenue	36,790	27,384	20,222	15,125	10,449
Gross profit	73,105	60,589	43,341	28,591	25,738
Operating expenses:[2][3]					
Research and development	21,052	18,725	15,267	12,257	8,927
Sales and marketing	41,000	38,725	31,564	24,124	13,218
General and administrative	18,478	16,734	12,640	9,617	6,696
Merger-related	2,069	1,852			
Total operating expenses	82,599	76,036	59,471	45,998	28,841
Loss from operations	(9,494)	(15,447)	(16,130)	(17,407)	(3,103)
Other income (expense):					
Interest income	58	106	23	185	313
Interest expense		(241)	(358)		
Other (expense) income, net	(594)	(359)	(719)	(503)	22
Total other (expense) income, net	(536)	(494)	(1,054)	(318)	335
Loss before income taxes and non-controlling interest in consolidated subsidiary	(10,030)	(15,941)	(17,184)	(17,725)	(2,768)
Provision for (benefit from) income taxes	212	(3,489)	90	56	55
Consolidated net loss	(10,242)	(12,452)	(17,274)	(17,781)	(2,823)
Net (income) loss attributable to non-controlling interest in consolidated subsidiary	(20)	(734)	(361)	280	478
Net loss attributable to Brightcove Inc.	(10,262)	(13,186)	(17,635)	(17,501)	(2,345)
Accretion of dividends on redeemable convertible preferred stock		(733)	(5,639)	(5,470)	(4,918)
Net loss attributable to common stockholders	$(10,262)	$(13,919)	$(23,274)	$(22,971)	$(7,263)
Net loss per share attributable to common stockholders basic and diluted	$(0.36)	$(0.57)	$(4.75)	$(4.98)	$(1.70)
Weighted-average number of common shares used in computing net loss per share attributable to common stockholders basic and diluted	28,351	24,626	4,900	4,612	4,276

(1) The results of operations for Zencoder have been included in our consolidated financial statements since the date of acquisition on August 14, 2012.

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		Year Ended December 31,				
		2013	2012	2011	2010	2009
		(in thousands)				
(2)	Stock-based compensation included in above line items:					
	Cost of subscription and support revenue	$248	$125	$52	$26	$ 21
	Cost of professional services and other revenue	149	116	117	99	36
	Research and development	1,191	687	367	369	125
	Sales and marketing	2,225	1,606	1,008	1,459	102
	General and administrative	2,588	3,309	2,653	1,362	224
	Total stock-based compensation	$6,401	$5,843	$4,197	$3,315	$ 508
(3)	Amortization of acquired intangible assets included in above line items:					
	Cost of subscription and support revenue	$1,013	$379	$	$	$
	Research and development	39	15			
	Sales and marketing	667	250			
	Total amortization of acquired intangible assets	$1,719	$664	$	$	$

	As of December 31,				
	2013	2012	2011	2010	2009
	(in thousands)				
Consolidated Balance Sheet Data:					
Cash, cash equivalents and investments	$36,108	$33,041	$17,227	$23,219	$25,528
Property and equipment, net	8,795	8,400	6,079	4,706	3,355
Working capital	20,759	20,843	10,204	17,263	21,054
Total assets	103,126	96,993	47,338	41,984	40,255
Current and long-term debt			7,000		
Current and long-term deferred revenue	23,818	19,216	13,772	5,742	4,197
Redeemable convertible preferred stock warrants			424	285	99
Redeemable convertible preferred stock			120,351	114,404	96,725
Total stockholders equity (deficit)	60,380	64,492	(105,085)	(86,937)	(66,855)

Item 7. 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 financial statements and related notes appearing elsewhere in this Annual Report on Form 10-K. The following discussion contains forward-looking statements that reflect our plans, estimates, and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this Annual Report on Form 10-K, particularly in Risk Factors.

We are a leading global provider of cloud services for video. Brightcove Video Cloud, or Video Cloud, our flagship product released in 2006, is the world s leading online video platform. As of December 31, 2013, we had 6,318 customers in over 70 countries, including many of the world s leading media, retail, technology and financial services companies, as well as governments, educational institutions and non-profit organizations. In 2013, our customers used

Video Cloud to deliver an average of approximately 963 million video streams per month, which we believe is more video streams per month than any other professional solution.

Video Cloud enables our customers to publish and distribute video to Internet-connected devices quickly, easily and in a cost-effective and high-quality manner. Our innovative technology and intuitive user interface give customers control over a wide range of features and functionality needed to publish and deliver a compelling user experience, including content management, format conversion, video player styling, distributed caching, advertising insertion, content protection and distribution to diverse device types and

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multiple websites, including their own websites, partner websites and social media sites. Video Cloud also includes comprehensive analytics that allow customers to understand and refine their engagement with end users.

As of December 31, 2012, we had 335 employees and 6,367 customers, of which 4,742 used our volume offerings and 1,625 used our premium offerings. As of December 31, 2013, we had 347 employees and 6,318 customers, of which 4,556 used our volume offerings and 1,762 used our premium offerings.

We have generated substantially all of our revenue to date by offering our Video Cloud product to customers on a subscription-based, software-as-a-service, or SaaS, model. Our revenue grew from $88.0 million in the year ended December 31, 2012 to $109.9 million in the year ended December 31, 2013. Our consolidated net loss was $12.5 million and $10.2 million for the years ended December 31, 2012 and 2013, respectively. Included in consolidated net loss for the year ended December 31, 2013 was stock-based compensation expense and amortization of acquired intangible assets of $6.4 million and $1.7 million, respectively. Included in consolidated net loss for the year ended December 31, 2012 was stock-based compensation and amortization of acquired intangible assets of $5.8 million and $644,000, respectively.

For the years ended December 31, 2013 and 2012, our revenue derived from customers located outside North America was 41% and 37%, respectively. We expect the percentage of total net revenue derived from outside North America to increase in future periods as we continue to expand our international operations.

Our philosophy for the next few years will continue to be to invest for long-term growth. We believe these investments will help us address some of the challenges facing our business such as demand for our products by customers and potential customers, rapid technological change in our industry, increased competition and resulting price sensitivity. These investments include support for the expansion of our infrastructure within our hosting facilities, the hiring of additional technical and sales personnel, and the innovation of new features for Video Cloud, the Zencoder media processing service, or the Zencoder Service, Brightcove Once, or Once, and the development of new products. We believe these investments will help us retain our existing customers and lead to the acquisition of new customers. Additionally, we believe customer growth will enable us to achieve economies of scale which will reduce our cost of goods sold, research and development and general and administrative expenses as a percentage of total revenue.

Acquisitions

On August 14, 2012, we acquired Zencoder, a cloud-based media processing service and HTML5 video player technology provider, for total consideration of approximately $27.4 million. This transaction was accounted for under the purchase method of accounting. Accordingly, the results of operations of Zencoder have been included in our consolidated financial statements since the date of acquisition. All of the assets acquired and liabilities assumed in the transaction have been recognized at their acquisition date fair values, which were finalized at December 31, 2012. The acquisition did not result in the addition of any reportable segments.

On January 8, 2013, we acquired the remaining 37% interest of our majority-owned subsidiary, Brightcove Kabushiki Kaisha, or Brightcove KK, a Japanese joint venture which was formed on July 18, 2008. The purchase price of the remaining equity interest was approximately $1.1 million and was funded by cash on hand. Given that we now own 100% of Brightcove KK, we will continue to consolidate Brightcove KK for financial reporting purposes, however, commencing on January 8, 2013, we no longer record a non-controlling interest in the consolidated statements of operations.

On January 31, 2014, we acquired substantially all of the assets of Unicorn Media, Inc. and certain of its subsidiaries, or Unicorn, a provider of cloud video ad insertion technology, for total consideration of approximately $40.1 million, which was funded by cash on hand of $9.5 million and 2,850,547 shares of our common stock. The results of operations of Unicorn will be consolidated with our results of operations beginning on January 31, 2014, the closing date of the transaction.

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Key Metrics

We regularly review a number of metrics, including the following key metrics, to evaluate our business, measure our performance, identify trends affecting our business, formulate financial projections and make strategic decisions.

Number of Customers. We define our number of customers at the end of a particular quarter as the number of customers generating subscription revenue at the end of the quarter. We believe the number of customers is a key indicator of our market penetration, the productivity of our sales organization and the value that our products bring to both large and small organizations. We classify our customers by including them in either premium or volume offerings. Our premium offerings include our premium Video Cloud customers (Enterprise and Pro editions) and our Zencoder customers who are on annual contracts. Our volume offerings include our Video Cloud Express customers and our Zencoder customers on month-to-month and pay-as-you-go contracts.

During 2013, the number of customers remained relatively consistent, and during 2012, the number of customers increased 64%. As of December 31, 2013, we had 6,318 customers, of which 4,556 used our volume offerings and 1,762 used our premium offerings. As of December 31, 2012, we had 6,367 customers, of which 4,742 used our volume offerings and 1,625 used our premium offerings. Volume customers decreased during 2013 primarily due to our discontinuation of the promotional Video Cloud Express offering. As a result, we experienced attrition of this base level offering without a corresponding addition of customers. We expect customers using our volume offerings to continue to decrease in 2014 as we discontinue additional Video Cloud Express price levels.

Average Monthly Streams. We define average monthly streams as the year-to-date average number of monthly stream starts on Video Cloud. We believe the average number of monthly streams is a key indicator of both the adoption of Video Cloud as an online video platform and the growth of video content across the Internet.

During the year ended December 31, 2013, the average number of monthly streams was approximately 963 million, an increase of 38% from approximately 699 million during the year ended December 31, 2012.

Recurring Dollar Retention Rate. We assess our ability to retain customers using a metric we refer to as our recurring dollar retention rate. We calculate the recurring dollar retention rate by dividing the retained recurring value of subscription revenue for a period by the previous recurring value of subscription revenue for the same period. We define retained recurring value of subscription revenue as the committed subscription fees for all contracts that renew in a given period. We define previous recurring value of subscription revenue as the recurring value from committed subscription fees for all contracts that expire in that same period. We typically calculate our recurring dollar retention rate on a monthly basis. Recurring dollar retention rate provides visibility into our ongoing revenue.

During both the years ended December 31, 2013 and 2012, the recurring dollar retention rate was 94%.

The following table includes our key metrics for the periods presented:

	Year Ended December 31,	
	2013	2012
Customers (at period end)		
Volume	4,556	4,742
Premium	1,762	1,625
Total customers (at period end)	6,318	6,367
Average monthly year-to-date streams (in thousands)	962,848	698,685
Recurring dollar retention rate	94 %	94 %

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Components of Consolidated Statements of Operations

Revenue

Subscription and Support Revenue We generate subscription and support revenue from the sale of Video Cloud and the Zencoder Service.

Video Cloud is offered in two product lines. The first product line is comprised of our premium product editions, Enterprise and Pro. The Enterprise edition provides additional features and functionality such as a multi-account environment with consolidated billing, IP address filtering, the ability to produce live events with DVR functionality and advanced upload acceleration of content. Customer arrangements are typically one year contracts, which include a subscription to our platform, basic support and a pre-determined amount of video streams, bandwidth, and managed content. We also offer gold support to our premium customers for an additional fee, which includes extended phone support. The pricing for our premium editions is based on the number of users, accounts and usage, which is comprised of video streams, bandwidth and managed content. Should a customer s usage of this service exceed the contractual entitlements, the contract will provide the rate at which the customer must pay for actual usage above the contractual entitlements. The second product line is comprised of our volume product edition, which we refer to as our Express edition. Our Express edition targets small and medium-sized businesses, or SMBs. The Express edition provides customers with the same basic functionality that is offered in our premium product editions but has been designed for customers who have lower usage requirements and do not typically seek advanced features and functionality. We are discontinuing the lower level pricing options for the Express edition and expect the total number of customers using the Express edition to continue to decrease. Customers who purchase the Express edition generally enter into month-to-month agreements. Express customers are generally billed on a monthly basis and pay via a credit card, or they are billed annually in advance.

The Zencoder Service includes all of the features and functionality necessary to encode digital files and convert them into a wide range of formats in a high-quality manner. The service is offered to customers on a subscription basis, with either committed contracts or pay-as-you-go contracts. The pricing is based on usage, which is comprised of minutes of video processed. The committed contracts include a fixed number of minutes of video processed. Should a customer s usage of this service exceed the contractual entitlements, the contract will provide the rate at which the customer must pay for actual usage above the contractual entitlements. Customers of the Zencoder Service on annual contracts are considered premium customers. Customers on month-to-month contracts, pay-as-you-go contracts, or contracts for a period of less than one year, are considered volume customers.

Professional Services and Other Revenue Professional services and other revenue consists of services such as implementation, software customizations and project management for customers who subscribe to our premium editions. These arrangements are priced either on a fixed fee basis with a portion due upon contract signing and the remainder due when the related services have been completed, or on a time and materials basis.

Our backlog consists of the total future value of our committed customer contracts, whether billed or unbilled. As of December 31, 2013, we had backlog of approximately $59 million compared to backlog of approximately $53 million as of December 31, 2012. Of the approximately $59 million in backlog as of December 31, 2013, between $52 million and $54 million is expected to be recognized as revenue during the year ended December 31, 2014. Because revenue for any period is a function of revenue recognized from backlog at the beginning of the period as well as from contract renewals and new customer contracts executed during the period, backlog at the beginning of any period is not necessarily indicative of future performance. Our presentation of backlog may differ from that of other companies in our industry.

Cost of Revenue

Cost of subscription, support and professional services revenue primarily consists of costs related to supporting and hosting our product offerings and delivering our professional services. These costs include salaries, benefits, incentive compensation and stock-based compensation expense related to the management of our data centers, our customer support team and our professional services staff. In addition to these expenses, we incur third-party service provider costs such as data center and content delivery network expenses, allocated overhead, depreciation expense and amortization of capitalized internal-use software development costs and acquired intangible assets. We allocate overhead costs such as rent, utilities and supplies to all departments based on relative headcount. As such, general overhead expenses are reflected in cost of revenue in addition to each operating expense category.

The costs associated with providing professional services are significantly higher as a percentage of related revenue than the costs associated with delivering our subscription and support services due to the labor costs of providing professional services. As such, the implementation and professional services costs relating to an arrangement with a new customer are more significant than the costs to renew a customer s subscription and support arrangement.

Cost of revenue increased in absolute dollars from 2012 to 2013. In future periods we expect our cost of revenue will increase in absolute dollars as our revenue increases. We also expect that cost of revenue as a percentage of revenue will decrease over time as we are able to achieve economies of scale in our business. However, cost of revenue as a percentage of revenue could fluctuate from period to period depending on the growth of our professional services business and any associated costs relating to the delivery of subscription services and the timing of significant expenditures. To the extent that our customer base grows, we intend to continue to invest additional resources in expanding the delivery capability of our products and other services. The timing of these additional expenses could affect our cost of revenue, both in terms of absolute dollars and as a percentage of revenue, in any particular quarterly or annual period.

Operating Expenses

We classify our operating expenses as follows:

Research and Development. Research and development expenses consist primarily of personnel and related expenses for our research and development staff, including salaries, benefits, incentive compensation and stock-based compensation, in addition to the costs associated with contractors and allocated overhead. We have focused our research and development efforts on expanding the functionality and scalability of our products and enhancing their ease of use, as well as creating new product offerings. We expect research and development expenses to increase in absolute dollars as we intend to continue to periodically release new features and functionality, expand our product offerings, continue the localization of our products in various languages, upgrade and extend our service offerings, and develop new technologies. Over the long term, we believe that research and development expenses as a percentage of revenue will decrease, but will vary depending upon the mix of revenue from new and existing products, features and functionality, as well as changes in the technology that our products must support, such as new operating systems or new Internet-connected devices.

Sales and Marketing. Sales and marketing expenses consist primarily of personnel and related expenses for our sales and marketing staff, including salaries, benefits, incentive compensation, commissions, stock-based compensation and travel costs, amortization of acquired intangible assets, in addition to costs associated with marketing and promotional events, corporate communications, advertising, other brand building and product marketing expenses and allocated overhead. Our sales and marketing expenses have increased in absolute dollars in each of the last three years. We intend to continue to invest in sales and marketing and increase the number of sales representatives to add new customers and expand the sale of our product offerings within our existing customer base, build brand awareness and sponsor additional marketing events. Accordingly, in future periods we expect sales and marketing expense to increase in absolute dollars and continue to be our most significant operating expense. Over the long term, we believe that sales and marketing expense as a percentage of revenue will decrease, but will vary depending upon the mix of revenue from new and existing customers and from small, medium-sized and enterprise customers, as well as changes in the productivity of our sales and marketing programs.

General and Administrative. General and administrative expenses consist primarily of personnel and related expenses for executive, legal, finance, information technology and human resources functions, including salaries, benefits, incentive compensation and stock-based compensation, in addition to the costs associated with professional fees, insurance premiums, other corporate expenses and allocated overhead. In future periods we expect general and administrative expenses to increase in absolute dollars as we continue to incur additional personnel and professional services costs in order to meet the compliance requirements of operating as a public company, including those costs incurred in connection with Section 404 of the Sarbanes-Oxley Act. Over the long term, we believe that general and administrative expenses as a percentage of revenue will decrease.

Merger-related. Merger-related costs consisted of transaction expenses and related charges incurred as part of the Zencoder and Unicorn Media acquisitions as well as costs associated with the retention of key employees of Zencoder. Approximately $2.7 million is required to be paid to retain certain key employees from the Zencoder acqusition over a two-year period from the date of acquisition of Zencoder as services are performed. Given that the retention amount is related to a future service requirement, the related expense is being recorded as merger-related compensation expense in the consolidated statement of operations over the expected service period.

Other Expense

Other expense consists primarily of interest income earned on our cash, cash equivalents and investments, foreign exchange gains and losses, interest expense payable on our debt, loss on disposal of equipment and changes in the fair value of the warrants issued in connection with a line of credit.

Non-Controlling Interest

Our results include a non-controlling interest in Brightcove KK. We owned 63% of the entity at December 31, 2012. The non-controlling interest in Brightcove KK is reported as a separate component of stockholders equity in our consolidated balance sheet at December 31, 2012. The portion of net income attributable to non-controlling interest is presented as net income attributable to non-controlling interest in consolidated subsidiary in our consolidated statements of operations through January 7, 2013. Two of the minority interest holders in Brightcove KK, J-Stream and Dentsu, also acted as product distributors for Brightcove KK in Japan. We historically recorded revenue from sales to J-Stream and Dentsu as revenue from a related party.

On January 8, 2013, we acquired the remaining 37% interest in Brightcove KK for a purchase price of approximately $1.1 million. As a result of the transaction, we now own 100% of Brightcove KK and will continue to consolidate Brightcove KK for financial reporting purposes, however, commencing on January 8, 2013, we will no longer record a non-controlling interest in the consolidated statements of operations.

Income Taxes

As part of the process of preparing our consolidated financial statements, we are required to estimate our taxes in each of the jurisdictions in which we operate. We account for income taxes in accordance with the asset and liability method. Under this method, deferred tax assets and liabilities are recognized based on temporary differences between the financial reporting and income tax bases of assets and liabilities using statutory rates. In addition, this method requires a valuation allowance against net deferred tax assets if, based upon the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. We have provided a valuation allowance against our existing net deferred tax assets at December 31, 2013, with the exception of the deferred tax assets related to Brightcove KK.

Stock-Based Compensation Expense

Our cost of revenue, research and development, sales and marketing, and general and administrative expenses include stock-based compensation expense. Stock-based compensation expense represents the fair value of outstanding stock options and restricted stock awards, which is recognized as expense over the respective stock option and restricted stock award service periods. For the years ended December 31, 2013, 2012, and 2011, we recorded $6.4 million, $5.8 million, and $4.2 million, respectively, of stock-based compensation expense. We expect stock-based compensation expense to increase in absolute dollars in future periods.

Foreign Currency Translation

With regard to our international operations, we frequently enter into transactions in currencies other than the U.S. dollar. As a result, our revenue, expenses and cash flows are subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the euro, British pound, Australian dollar, and

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Japanese yen. For the year ended December 31, 2013, 2012, and 2011, 45%, 41%, and 39%, respectively, of our revenue was generated in locations outside the United States. During the same periods, 31%, 29%, and 28%, respectively, of our revenue was in currencies other than the U.S. dollar, as were some of the associated expenses. In periods when the U.S. dollar declines in value as compared to the foreign currencies in which we conduct business, our foreign currency-based revenue and expenses generally increase in value when translated into U.S. dollars. We expect our foreign currency-based revenue to increase in absolute dollars and as a percentage of total revenue.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Our actual results may differ from these estimates under different assumptions or conditions.

We believe that the following significant accounting policies, which are more fully described in the notes to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K, involve a greater degree of judgment and complexity. Accordingly, these are the policies we believe are the most critical to aid in fully understanding and evaluating our financial condition and results of operations.

Revenue Recognition

We primarily derive revenue from the sale of our online video platform, which enables our customers to publish and distribute video to Internet-connected devices quickly, easily and in a cost-effective and high-quality manner. Revenue is derived from three primary sources: (1) the subscription to our technology and related support; (2) hosting, bandwidth and encoding services; and (3) professional services, which include initiation, set-up and customization services.

We recognize revenue when all of the following conditions are satisfied: (1) there is persuasive evidence of an arrangement; (2) the service has been provided to the customer; (3) the collection of fees is probable; and (4) the amount of fees to be paid by the customer is fixed or determinable.

Our subscription arrangements provide customers the right to access our hosted software applications. Customers do not have the right to take possession of our software during the hosting arrangement. Accordingly, we recognize revenue in accordance with Accounting Standards Codification (ASC) 605, *Revenue Recognition*. Contracts for premium customers generally have a term of one year and are non-cancellable. These contracts generally provide the customer with an annual level of usage, and provide the rate at which the customer must pay for actual usage above the annual allowable usage. For these services, we recognize the annual fee ratably as revenue each month. Should a customer s usage of our services exceed the annual allowable level, revenue is recognized for such excess in the period of the usage. Contracts for volume customers are generally month-to-month arrangements, have a maximum monthly level of usage and provide the rate at which the customer must pay for actual usage above the monthly allowable usage. The monthly volume subscription and support and usage fees are recognized as revenue during the period in which the related cash is collected.

Revenue recognition commences upon the later of when the application is placed in a production environment, or when all revenue recognition criteria have been met.

Professional services and other revenue sold on a stand-alone basis are recognized as the services are performed, subject to any refund or other obligation.

Deferred revenue includes amounts billed to customers for which revenue has not been recognized, and primarily consists of the unearned portion of annual software subscription and support fees, and deferred professional service fees.

Revenue is presented net of any taxes collected from customers.

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Multiple-Element Arrangements

We periodically enter into multiple-element service arrangements that include platform subscription fees, support fees, initiation fees, and, in certain cases, other professional services.

Initiation fees and other professional services charged when services are first activated are recorded as deferred revenue, and recognized as revenue ratably over a term beginning upon go-live of the software application and extending through the contract term.

We assess arrangements with multiple deliverables under Accounting Standards Update (ASU) No. 2009-13, *Revenue Recognition (Topic 605), Multiple-Deliverable Revenue Arrangements a Consensus of the FASB Emerging Issues Task Force*. Arrangement consideration is allocated to deliverables based on their relative selling price.

In order to treat deliverables in a multiple-element arrangement as separate units of accounting, the deliverables must have stand-alone value upon delivery. If the deliverables have stand-alone value upon delivery, we account for each deliverable separately. Subscription services have stand-alone value as such services are often sold separately. In determining whether professional services have stand-alone value, we consider the following factors for each professional services agreement: availability of the services from other vendors, the nature of the professional services, the timing of when the professional services contract was signed in comparison to the subscription service start date, and the contractual dependence of the subscription service on the customer s satisfaction with the professional services work. To date, we have concluded that all of the professional services included in multiple-element arrangements executed have stand-alone value, with the exception of initiation and activation fees.

When multiple deliverables included in an arrangement are separated into different units of accounting, the arrangement consideration is allocated to the identified separate units based on a relative selling price hierarchy. We determine the relative selling price for a deliverable based on its vendor-specific objective evidence of fair value (VSOE), if available, or its best estimate of selling price (BESP), if VSOE is not available. We have determined that third-party evidence of selling price is not a practical alternative due to differences in our service offerings compared to other parties and the availability of relevant third party pricing information. The amount of revenue allocated to delivered items is limited by contingent revenue, if any.

We have not established VSOE for our offerings due to the lack of pricing consistency, the introduction of new services and other factors. Accordingly, we use our BESP to determine the relative selling price. We determine BESP by considering our overall pricing objectives and market conditions. Significant pricing practices taken into consideration include our discounting practices, the size and volume of our transactions, the geographic area where services are sold, price lists, our go-to-market strategy, historical contractually stated prices and prior relationships and future subscription service sales with certain classes of customers.

The determination of BESP is made through consultation with and approval by our management, taking into consideration the go-to-market strategy. As our go-to-market strategies evolve, we may modify our pricing practices in the future, which could result in changes in selling prices, including both VSOE and BESP. We plan to analyze the selling prices used in our allocation of arrangement consideration, at a minimum, on an annual basis. Selling prices will be analyzed on a more frequent basis if a significant change in our business necessitates a more timely analysis or if we experience significant variances in our selling prices.

Allowance for Doubtful Accounts

We offset gross trade accounts receivable with an allowance for doubtful accounts. The allowance for doubtful accounts is our best estimate of the amount of probable credit losses in our existing accounts receivable and is based upon historical loss patterns, the number of days that billings are past due and an evaluation of the potential risk of loss associated with specific accounts. Provisions for allowances for doubtful accounts are recorded in general and administrative expense. If, upon signing a customer arrangement, the related account receivable is not considered collectable, we will defer the associated revenue until we collect the cash. To date, we have not incurred any significant write-offs of accounts receivable and

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have not been required to revise any of our assumptions or estimates used in determining our allowance for doubtful accounts. As of December 31, 2013, our allowance for doubtful accounts was $461,000.

Software Development Costs

Costs incurred to develop software applications used in our on-demand application services consist of (a) certain external direct costs of materials and services incurred in developing or obtaining internal-use computer software and (b) payroll and payroll-related costs for employees who are directly associated with, and who devote time to, the project. These costs generally consist of internal labor during configuration, coding and testing activities. Research and development costs incurred during the preliminary project stage or costs incurred for data conversion activities, training, maintenance and general and administrative or overhead costs are expensed as incurred. Capitalization begins when the preliminary project stage is complete, management with the relevant authority authorizes and commits to the funding of the software project, it is probable the project will be completed, and the software will be used to perform the functions intended and certain functional and quality standards have been met. Qualified costs incurred during the operating stage of our software applications relating to upgrades and enhancements are capitalized to the extent it is probable that they will result in added functionality, while costs that cannot be separated between maintenance of, and minor upgrades and enhancements to, internal-use software are expensed as incurred. These capitalized costs are amortized on a straight line basis over the expected useful life of the software, which is three years. We capitalized $1.1 million in 2013, $24,000 in 2012 and $354,000 in 2011, respectively, of internal-use software development costs. Amortization of software development costs was $312,000 in 2013, $542,000 in 2012 and $886,000 in 2011, respectively.

In addition to the software development costs described above, we incur costs to develop computer software to be licensed or otherwise marketed to customers. Costs incurred in the research, design and development of software for sale to others are charged to expense until technological feasibility is established. We capitalize direct computer software development costs upon achievement of technological feasibility subject to net realizable value considerations. Thereafter, software development costs are capitalized until the product is released and amortized to product cost of sales on a straight-line basis over the lesser of three years or the estimated economic lives of the respective products. We have determined that technological feasibility is established at the time a working model of software is completed. Because we believe our current process for developing software will be essentially completed concurrently with the establishment of technological feasibility, no costs have been capitalized to date.

Income Taxes

We are subject to income taxes in both the United States and international jurisdictions, and we use estimates in determining our provision for income taxes. We account for income taxes under the asset and liability method for accounting and reporting for income taxes. Deferred tax assets and liabilities are recognized based on temporary differences between the financial reporting and income tax basis of assets and liabilities using statutory rates. This process requires us to project our current tax liability and estimate our deferred tax assets and liabilities, including net operating losses and tax credit carryforwards. In assessing the need for a valuation allowance, we considered our recent operating results, future taxable income projections and feasible tax planning strategies. We have provided a valuation allowance against our net deferred tax assets at December 31, 2013 with the exception of the deferred tax assets related to Brightcove KK. Due to the evolving nature and complexity of tax regulations combined with the number of jurisdictions in which we operate, it is possible that our estimates of our tax liability could change in the future, which may result in additional tax liabilities and adversely affect our results of operations, financial condition and cash flows.

As of December 31, 2013 and 2012, we had no material unrecognized tax benefits.

Business Combinations

We record tangible and intangible assets acquired and liabilities assumed in business combinations under the purchase method of accounting. Amounts paid for each acquisition are allocated to the assets acquired and liabilities assumed based on their fair values at the date of acquisition. We then allocate the purchase price in excess of net tangible assets acquired to identifiable intangible assets based on detailed valuations that use information and assumptions provided by management. We allocate any excess purchase price over the fair

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value of the net tangible and intangible assets acquired and liabilities assumed to goodwill. If the fair value of the assets acquired exceeds our purchase price, the excess is recognized as a gain.

Significant management judgments and assumptions are required in determining the fair value of acquired assets and liabilities, particularly acquired intangible assets. The valuation of purchased intangible assets is based upon estimates of the future performance and cash flows from the acquired business. Each asset is measured at fair value from the perspective of a market participant.

If different assumptions are used, it could materially impact the purchase price allocation and adversely affect our results of operations, financial condition and cash flows.

Intangible Assets and Goodwill

We amortize our intangible assets that have finite lives using either the straight-line method or, if reliably determinable, based on the pattern in which the economic benefit of the asset is expected to be consumed utilizing expected undiscounted future cash flows. Amortization is recorded over the estimated useful lives ranging from two to fourteen years.

We review our intangible assets subject to amortization to determine if any adverse conditions exist or a change in circumstances has occurred that would indicate impairment or a change in the remaining useful life. If the carrying value of an asset exceeds its undiscounted cash flows, we will write down the carrying value of the intangible asset to its fair value in the period identified. In assessing recoverability, we must make assumptions regarding estimated future cash flows and discount rates. If these estimates or related assumptions change in the future, we may be required to record impairment charges. We generally calculate fair value as the present value of estimated future cash flows to be generated by the asset using a risk adjusted discount rate. If the estimate of an intangible asset s remaining useful life is changed, we will amortize the remaining carrying value of the intangible asset prospectively over the revised remaining useful life.

We review the carrying value of goodwill for impairment whenever events or changes in circumstances indicate that the carrying value of goodwill may exceed its fair value, and otherwise at least annually. Conditions that could trigger a more frequent impairment assessment include, but are not limited to, a significant adverse change in certain agreements, significant underperformance relative to historical or projected future operating results, an economic downturn in customers industries, increased competition, a significant reduction in our stock price for a sustained period or a reduction of our market capitalization relative to net book value. We evaluate impairment by comparing the estimated fair value of each reporting unit to its carrying value. We estimate fair value primarily utilizing the market approach, which calculates fair value based on the market values of comparable companies or comparable transactions. Actual results may differ materially from these estimates. The estimates we make in determining the fair value of our reporting unit involve the application of judgment, which could affect the timing and size of any future impairment charges. Impairment of our goodwill could significantly affect our operating results and financial position.

We continually evaluate whether events or circumstances have occurred that indicate that the estimated remaining useful life of our long-lived assets may warrant revision or that the carrying value of these assets may be impaired. Any write-downs are treated as permanent reductions in the carrying amount of the assets. We must use judgment in evaluating whether events or circumstances indicate that useful lives should change or that the carrying value of assets has been impaired. Any resulting revision in the useful life or the amount of an impairment also requires judgment. Any of these judgments could affect the timing or size of any future impairment charges. Revision of useful lives or impairment charges could significantly affect our operating results and financial position.

We adopted ASU No. 2011-08, *Intangibles Goodwill and Other (Topic 350) Testing Goodwill for Impairment*. Under ASU 2011-08, we have the option to assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount to determine whether further impairment testing is necessary. Based on the assessment of these qualitative factors, we determined that no impairment indicators were noted, allowing us to forego the quantitative analysis.

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Stock-based Compensation

Accounting guidance requires employee stock-based payments to be accounted for under the fair value method. Under this method, we are required to record compensation cost based on the estimated fair value for stock-based awards granted over the requisite service periods for the individual awards, which generally equals the vesting periods. We use the straight-line amortization method for recognizing stock-based compensation expense associated with equity awards to employees.

We estimate the fair value of employee stock options on the date of grant using the Black-Scholes option-pricing model, which requires the use of highly subjective estimates and assumptions. For restricted stock awards issued we estimate the fair value of each grant based on the stock price of our common stock on the date of grant. As there was no public market for our common stock prior to February 17, 2012, the effective date of our initial public offering, or IPO, and as the trading history of our common stock was limited through December 31, 2012, we determined the volatility for options granted based on an analysis of reported data for a peer group of companies that issued options with substantially similar terms. The expected volatility of options granted has been determined using an average of the historical volatility measures of this peer group of companies. The expected life assumption is based on the simplified method for estimating expected term as we do not have sufficient stock option exercise experience to support a reasonable estimate of the expected term. The risk-free interest rate is based on a treasury instrument whose term is consistent with the expected life of the stock options. We use an expected dividend rate of zero as we currently have no history or expectation of paying dividends on our common stock. In addition, we have estimated expected forfeitures of stock options based on our historical forfeiture rate and used these rates in developing a future forfeiture rate. If our actual forfeiture rate varies from our historical rates and estimates, additional adjustments to compensation expense may be required in future periods.

Given the absence of an active market for our common stock prior to the completion of our IPO on February 17, 2012, the fair value of our common stock underlying our stock-based awards was determined by our board of directors, which intended all stock-based awards granted to be at a price per share not less than the per share fair value of our common stock underlying those awards on the date of grant. The valuations of our common stock were determined in accordance with the guidelines outlined in the American Institute of Certified Public Accountants Practice Aid, *Valuation of Privately-Held-Company Equity Securities Issued as Compensation*. The assumptions we use in the valuation model were based on future expectations combined with management s judgment. In the absence of a public trading market, our board, with input from management, exercised significant judgment and considered numerous objective and subjective factors to determine the fair value of our common stock as of the date of each award grant, including the following factors:

the rights, preferences and privileges of our redeemable convertible preferred stock relative to our common stock;
the prices of our preferred stock sold to outside investors in arms-length transactions;
secondary transactions in our common stock;
our stage of development, operating and financial performance and revenue growth;
current business conditions and projections;
the hiring of key personnel;
the history of our company and the introduction of new products and services;
the illiquid nature of our common stock;
contemporaneous or other valuations of our common stock performed by an independent valuation specialist;
the likelihood of achieving a liquidity event for the shares of common stock underlying these awards, such as an IPO or sale of our company, given prevailing market conditions; and
the U.S. and global capital market conditions.

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Results of Operations

The following tables set forth our results of operations for the periods presented. The period-to-period comparison of financial results is not necessarily indicative of future results.

	Year Ended December 31,		
	2013	2012	2011
	(in thousands)		
Consolidated statements of operations data:			
Revenue:			
Subscription and support revenue	$ 103,116	$ 84,257	$ 60,169
Professional services and other revenue	6,779	3,716	3,394
Total revenue	109,895	87,973	63,563
Cost of revenue:			
Cost of subscription and support revenue	29,205	22,553	15,478
Cost of professional services and other revenue	7,585	4,831	4,744
Total cost of revenue	36,790	27,384	20,222
Gross profit	73,105	60,589	43,341
Operating expenses:			
Research and development	21,052	18,725	15,267
Sales and marketing	41,000	38,725	31,564
General and administrative	18,478	16,734	12,640
Merger-related	2,069	1,852	
Total operating expenses	82,599	76,036	59,471
Loss from operations	(9,494)	(15,447)	(16,130)
Other income (expense):			
Interest income	58	106	23
Interest expense		(241)	(358)
Other expense, net	(594)	(359)	(719)
Total other expense, net	(536)	(494)	(1,054)
Loss before income taxes and non-controlling interest in consolidated subsidiary	(10,030)	(15,941)	(17,184)
Provision for (benefit from) income taxes	212	(3,489)	90
Consolidated net loss	(10,242)	(12,452)	(17,274)
Net income attributable to non-controlling interest in consolidated subsidiary	(20)	(734)	(361)
Net loss attributable to Brightcove Inc.	(10,262)	(13,186)	(17,635)
Accretion of dividends on redeemable convertible preferred stock		(733)	(5,639)
Net loss attributable to common stockholders	$ (10,262)	$ (13,919)	$ (23,274)

Overview of Results of Operations for the Years Ended December 31, 2013 and 2012

Total revenue increased by 25%, or $21.9 million, in 2013 compared to 2012 due to an increase in subscription and support revenue of 22%, or $18.9 million, respectively, and an increase in professional services and other revenue of 82%, or $3.1 million, respectively. The increase in subscription and support revenue resulted primarily from an increase in the number of our premium customers, which was 1,762 as of December 31, 2013 an increase of 8% from 1,625 customers as of December 31, 2012, as well as an increase in revenue from existing customers. In addition, our revenue from volume offerings grew by $2.3 million, or 28%, from the prior year. Our ability to continue to provide the product functionality and performance that our customers require will be a major factor in our ability to continue to increase revenue.

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Our gross profit increased by $12.5 million, or 21%, in 2013 compared to 2012, primarily due to an increase in revenue. With the continued growth in our total revenue, our ability to continue to maintain our overall gross profit will depend on our ability to continue controlling our costs of delivery.

Loss from operations was $9.5 million in 2013 compared to $15.4 million in 2012. Loss from operations in 2013 included stock-based compensation expense, amortization of acquired intangible assets and merger-related expenses of $6.4 million, $1.7 million and $2.1 million, respectively. Loss from operations in 2012 included stock-based compensation expense, amortization of acquired intangible assets and merger-related expenses of $5.8 million, $644,000 and $1.9 million, respectively. Over time we expect operating income to improve from increased sales to both new and existing customers and from improved efficiencies throughout our organization as we continue to grow and scale our operations.

As of December 31, 2013, we had $33.0 million of unrestricted cash and cash equivalents, an increase of $11.3 million from $21.7 million at December 31, 2012, due primarily to $8.2 million in maturities of investments offset by $1.1 million used to purchase the non-controlling interest of our Brightcove KK subsidiary and $3.9 million in capital expenditures to support the business.

Revenue

	Year Ended December 31,					
	2013		2012		Change	
Revenue by Product Line	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	%
	(in thousands, except percentages)					
Premium	$ 99,468	91 %	$ 79,796	91 %	$ 19,672	25 %
Volume	10,427	9	8,177	9	2,250	28
Total	$ 109,895	100 %	$ 87,973	100 %	$ 21,922	25 %

During 2013, revenue increased by $21.9 million, or 25%, compared to 2012, primarily due to an increase in revenue from our premium offerings, which consist of subscription and support revenue, as well as professional services and other revenue. The increase in premium revenue of $19.7 million, or 25%, compared to 2012, is partially the result of an 8% increase in the number of premium customers from 1,625 at December 31, 2012 to 1,762 at December 31, 2013. There were also increases in professional services revenue as well as an increase in revenue from existing customers. In 2013, volume revenue grew by $2.3 million, or 28%, compared to 2012. The increase can be attributed to a full twelve months of Zencoder volume revenue during 2013 as compared to partial revenue in the corresponding period of the prior year.

	Year Ended December 31,					
	2013		2012		Change	
Revenue by Type	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	%
	(in thousands, except percentages)					
Subscription and support	$ 103,116	94 %	$ 84,257	96 %	$ 18,859	22 %
Professional services and other	6,779	6	3,716	4	3,063	82
Total	$ 109,895	100 %	$ 87,973	100 %	$ 21,922	25 %

During 2013, subscription and support revenue increased by $18.9 million, or 22%, compared to 2012. The increase was primarily related to the continued growth of our customer base for our premium offerings, including sales to both new and existing customers. Professional services and other revenue increased by $3.1 million, or 82%. During 2013, there was an increase in the number of professional services engagements that were related to projects and implementations supporting subscription sales. Professional services and other revenue will vary from period to period depending on the number of implementations and other projects that are in process.

Revenue by Geography	Year Ended December 31, 2013 Amount	Percentage of Revenue	2012 Amount	Percentage of Revenue	Change Amount	%
	(in thousands, except percentages)					
North America	$ 65,336	59 %	$ 55,836	63 %	$ 9,500	17 %
Europe	27,180	25	20,314	23	6,866	34
Japan	6,497	6	5,949	7	548	9
Asia Pacific	10,095	9	5,174	6	4,921	95
Other	787	1	700	1	87	12
International subtotal	44,559	41	32,137	37	12,422	39
Total	$ 109,895	100 %	$ 87,973	100 %	$ 21,922	25 %

For purposes of this section, we designate revenue by geographic regions based upon the locations of our customers. North America is comprised of revenue from the United States, Canada and Mexico. International is comprised of revenue from locations outside of North America. Depending on the timing of new customer contracts, revenue mix from a geographic region can vary from period to period.

During 2013, total revenue for North America increased $9.5 million, or 17%, compared to 2012. The increase in revenue for North America resulted primarily from an increase in subscription and support revenue from our premium offerings. During 2013, total revenue outside of North America increased $12.4 million, or 39%, compared to 2012. The increase in revenue internationally was the result of our increasing focus on marketing our services internationally.

Cost of Revenue

Cost of Revenue	Year Ended December 31, 2013 Amount	Percentage of Related Revenue	2012 Amount	Percentage of Related Revenue	Change Amount	%
	(in thousands, except percentages)					
Subscription and support	$ 29,205	28 %	$ 22,553	27 %	$ 6,652	29 %
Professional services and other	7,585	112	4,831	130	2,754	57
Total	$ 36,790	33 %	$ 27,384	31 %	$ 9,406	34 %

During 2013, cost of subscription and support revenue increased $6.7 million, or 29%, compared to 2012. The increase resulted primarily from an increase in the cost of content delivery network expenses, network hosting services, employee-related expenses and third-party software as a service integrated with our service offering of $3.6 million, $1.4 million, $436,000 and $175,000, respectively. There were also increases in amortization of acquired intangible assets and expenses related to computer maintenance and support of $634,000 and $309,000, respectively.

During 2013, cost of professional services and other revenue increased $2.8 million, or 57%, compared to 2012. The increase resulted primarily from an increase in contractor expenses and employee-related expenses of $2.1 million and $493,000, respectively, in order to support the increase in professional services engagements.

Gross Profit

	Year Ended December 31,				Change	
	2013		2012			
Gross Profit	Amount	Percentage of Related Revenue	Amount	Percentage of Related Revenue	Amount	%
	(in thousands, except percentages)					
Subscription and support	$ 73,911	72 %	$ 61,704	73 %	$ 12,207	20 %
Professional services and other	(806)	(12)	(1,115)	(30)	309	28
Total	$ 73,105	67 %	$ 60,589	69 %	$ 12,516	21 %

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During 2013, the overall gross profit percentage was 67% compared to 69% during 2012. It is likely that gross profit, as a percentage of revenue, will fluctuate quarter by quarter due to the timing and mix of subscription and support revenue and professional services and other revenue, and the type, timing and duration of service required in delivering certain projects. The professional services and other gross profit percentage increased from 2012 to 2013 as we have continued to build the professional services organization while better leveraging fixed costs with increased customer implementation and customization projects.

Operating Expenses

	Year Ended December 31,				Change	
	2013		2012			
Operating Expenses	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	%
	(in thousands, except percentages)					
Research and development	$ 21,052	19 %	$ 18,725	21 %	$ 2,327	12 %
Sales and marketing	41,000	37	38,725	44	2,275	6
General and administrative	18,478	17	16,734	19	1,744	10
Merger-related	2,069	2	1,852	2	217	12
Total	$ 82,599	75 %	$ 76,036	86 %	$ 6,563	9 %

Research and Development. During 2013, research and development expense increased by $2.3 million, or 12%, compared to 2012 primarily due to increases in employee-related and stock-based compensation expenses of $1.3 million and $504,000, respectively. Rent and travel expenses also increased by $254,000 and $210,000, respectively. In future periods, we expect that our research and development expense will continue to increase in absolute dollars as we continue to add employees, develop new features and functionality for our products, introduce additional software solutions and expand our product and service offerings.

Sales and Marketing. During 2013, sales and marketing expense increased $2.3 million, or 6%, compared to 2012 primarily due to increases in employee-related expenses, stock based compensation and marketing programs of $636,000, $619,000 and $350,000, respectively. There were also increases in rent and amortization of acquired intangible assets of $621,000 and $417,000, respectively. These increases were offset by a decrease in commission expenses of $547,000. We expect that our sales and marketing expense will continue to increase in absolute dollars along with our revenue, as we continue to expand sales coverage and build brand awareness through what we believe are cost-effective channels. We expect that such increases may fluctuate from period to period, however, due to the timing of marketing programs.

General and Administrative. During 2013, general and administrative expense increased by $1.7 million, or 10%, compared 2012 primarily due to an increase in outside accounting and legal fees, insurance and investor relations of $1.2 million, $193,000 and $149,000, respectively. There were also increases in bad debt, rent and contractor expenses of $312,000, $149,000 and $112,000, respectively. These increases were offset by a decrease in stock based compensation expense of $721,000. In future periods, we expect general and administrative expenses will increase in absolute dollars as we add personnel and incur additional costs related to the growth of our business and operations.

Merger-related. During 2013, we incurred $2.1 million of merger-related expenses, of which $1.7 million was associated with the retention of certain employees of Zencoder and $429,000 was related to transaction expenses incurred in connection with the acquisition of Unicorn Media. During 2012, we incurred merger-related expenses associated with the retention of certain employees of Zencoder of $826,000, in addition to transaction expenses of

$1.1 million incurred in connection with the acquisition of Zencoder.

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Other Expense, Net

Other Expense	Year Ended December 31, 2013 Amount	Percentage of Revenue	2012 Amount	Percentage of Revenue	Change Amount	%
	(in thousands, except percentages)					
Interest income, net	$ 58	%	$ 106	%	$ (48)	(45)%
Interest expense			(241)		241	100
Other expense, net	(594)	(1)	(359)	(1)	(235)	(65)
Total	$ (536)	(1)%	$ (494)	(1)%	$ (42)	(9)%

During 2013, interest income, net, decreased by $48,000 compared to 2012. The decrease is primarily due to lower average cash balances as interest income is generated from the investment of our cash balances, less related bank fees.

The interest expense during 2012 is related to borrowings under our term loan which were repaid during the first quarter of 2012. The increase in other expense, net during 2013 was primarily due to an increase in foreign currency exchange losses of $329,000 upon collection of foreign denominated accounts receivable.

Provision for (Benefit from) Income Taxes

Provision for (Benefit from) Income Taxes	Year Ended December 31, 2013 Amount	Percentage of Revenue	2012 Amount	Percentage of Revenue	Change Amount	%
	(in thousands, except percentages)					
Provision for (benefit from) income taxes	$212	%	$(3,489)	(4)%	$3,701	(106)%

The provision for income taxes during 2013 was primarily comprised of income tax expenses related to foreign jurisdictions. During 2012, we recorded a benefit from income taxes of approximately $3.4 million related to the reduction of our valuation against our existing net deferred tax assets to offset certain deferred tax liabilities on amortizable intangibles recognized upon the acquisition of Zencoder. Upon the closing of the acquisition of Zencoder, we assumed $3.4 million of net deferred tax liabilities which created a future source of taxable income for which our net deferred tax assets can be realized and as a result we reduced the valuation allowance by approximately $3.4 million during 2012. We also recorded a $193,000 benefit for the release of the valuation allowance related to the remaining deferred tax assets of Brightcove KK. Based upon the level of historical income of Brightcove KK and future projections, we determined in the fourth quarter of 2012 that it was probable we will realize the benefits of future deductible differences in Japan. These benefits were partially offset by $109,000 of expense relating to income tax in foreign jurisdictions.

Non-Controlling Interest in Consolidated Subsidiary

Year Ended December 31, 2013	2012	Change

Non-Controlling Interest in Consolidated Subsidiary	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	%
	(in thousands, except percentages)					
Net income attributable to non-controlling interest in consolidated subsidiary	$(20)	%	$(734)	(1)%	$714	(97)%

Non-controlling interest represents the minority stockholders proportionate share (37%) of Brightcove KK. On January 8, 2013, we acquired the remaining 37% interest in Brightcove KK and, as a result, we now own 100% of Brightcove KK. We continue to consolidate Brightcove KK for financial reporting purposes, however, commencing on January 8, 2013, we no longer record a non-controlling interest in the consolidated statements of operations. The $20,000 above represents our proportionate share of the net income of Brightcove KK for the period from January 1, 2013 through January 7, 2013.

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Overview of Results of Operations for the Years Ended December 31, 2012 and 2011

Total revenue increased by 38%, or $24.4 million, in 2012 compared to 2011 due to an increase in subscription and support revenue of 40%, or $24.1 million, and an increase in professional services revenue of 9%, or $322,000. The increase in subscription and support revenue resulted primarily from an increase in the number of our premium customers, which was 1,625 as of December 31, 2012, an increase of 25% from 1,301customers as of December 31, 2011. In addition, our revenues from volume offerings grew by $2.7 million, or 48%, from the prior year as our volume customer base increased by approximately 84% from the prior year .. Our ability to continue to provide the product functionality and performance that our customers require will be a major factor in our ability to continue to increase revenue.

Our gross profit increased by $17.2 million, or 40%, in 2012 compared to 2011, primarily due to an increase in revenue. With the continued growth in our total revenue, our ability to continue to maintain our overall gross profit will depend on our ability to continue controlling our costs of delivery.

Loss from operations was $15.4 million in 2012 compared to $16.1 million in 2011. Loss from operations in 2012 and 2011 included $5.8 million and $4.2 million, respectively, of stock-based compensation expense.

Our results of operations in 2012 compared to 2011 were impacted by foreign exchange rate fluctuations, resulting in a decrease in revenue of approximately $967,000, or 2%, of revenue, and a decrease in expense of approximately $373,000.

As of December 31, 2012, we had $21.7 million of unrestricted cash and cash equivalents, an increase of $4.5 million from $17.2 million at December 31, 2011, due to the net proceeds of $58.8 million received from the issuance of common stock in connection with our IPO. This increase was offset by the $27.2 million of net cash paid as part of the Zencoder acquisition, investments of $14.1 million and $1.2 million of cash used in operating activities. In addition, as of December 31, 2011, we had $7.0 million of outstanding debt which was repaid during 2012.

Revenue

	Year Ended December 31,					
	2012		2011		Change	
Revenue by Product Line	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	%
	(in thousands)					
Premium	$ 79,796	91 %	$ 58,042	91 %	$ 21,754	37 %
Volume	8,177	9	5,521	9	2,656	48
Total	$ 87,973	100 %	$ 63,563	100 %	$ 24,410	38 %

During 2012, revenue increased by $24.4 million compared to 2011, primarily due to an increase in revenue from our premium offerings, which consist of subscription and support revenue, as well as professional service and other revenue. The increase in premium revenue of $21.8 million, or 37%, is the result of a 25% increase in the number of premium customers from 1,301 at December 31, 2011 to 1,625 at December 31, 2012, as well as increased revenue from our existing customers. Revenue from our volume offerings grew by $2.7 million, or 48%. The increase in volume revenue was driven by an increase of 84% in customers from 2,571 at December 31, 2011 to 4,742 at

December 31, 2012, which includes customers acquired as part of the Zencoder acquisition.

	Year Ended December 31,									
	2012			2011			Change		
Revenue by Type	Amount	Percentage of Revenue		Amount	Percentage of Revenue		Amount	%	
	(in thousands)								
Subscription and support	$ 84,257	96	%	$ 60,169	95	%	$ 24,088	40	%
Professional services and other	3,716	4		3,394	5		322	9	
Total	$ 87,973	100	%	$ 63,563	100	%	$ 24,410	38	%

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During 2012, subscription and support revenue increased by $24.1 million, or 40%, compared to 2011. The increase was primarily related to the continued growth of our customer base for our premium offerings. In addition, professional services and other revenue increased by $322,000, or 9%. Professional services and other revenue will vary from period to period depending on the timing and completion of related implementation and other projects.

	Year Ended December 31,										
	2012			2011			Change		
Revenue by Geography	Amount	Percentage of Revenue		Amount	Percentage of Revenue		Amount	%	
	(in thousands)								
North America	$ 55,836	63	%	$ 41,953	66	%	$ 13,883	33	%
Europe	20,314	23		14,489	23		5,825	40	
Japan	5,949	7		4,764	8		1,185	25	
Asia Pacific	5,174	6		2,219	3		2,955	133	
Other	700	1		138			562	407	
International subtotal	32,137	37		21,610	34		10,527	49	
Total	$ 87,973	100	%	$ 63,563	100	%	$ 24,410	38	%

For purposes of this section, we designate revenue by geographic regions based upon the locations of our customers. North America is comprised of revenue from the United States, Canada and Mexico. International is comprised of revenue from locations outside of North America. Depending on the timing of new customer contracts, revenue mix from a geographic region can vary from period to period.

During 2012, total revenue for North America increased $13.9 million, or 33%, compared to 2011. The increase in revenue for North America resulted primarily from an increase in subscription and support revenue from our premium offerings. During 2012, total revenue outside of North America increased $10.5 million, or 49%, compared to 2011. The increase in revenue internationally was the result of our increasing focus on marketing our services internationally.

Cost of Revenue

	Year Ended December 31,								
	2012			2011			Change		
Cost of Revenue	Amount	Percentage of Related Revenue		Amount	Percentage of Related Revenue		Amount	%	
	(in thousands)								
Subscription and support	$ 22,553	27	%	$ 15,478	26	%	$ 7,075	46	%
Professional services and other	4,831	130		4,744	140		87	2	
Total	$ 27,384	31	%	$ 20,222	32	%	$ 7,162	35	%

During 2012, cost of subscription and support revenue increased $7.1 million, or 46%, compared to 2011. The increase resulted primarily from an increase in the cost of content delivery network expenses, network hosting services, employee-related expenses and depreciation expense of $2.0 million, $1.6 million, $1.0 million and $606,000, respectively. There were also increases in expenses related to third-party software as a service integrated with our service offering, amortization of intangible assets acquired in the acquisition of Zencoder, sales tax expense and telecommunications of $419,000, $379,000, $332,000 and $321,000, respectively. These increases were partially offset by a decrease in amortization of capitalized software development costs of $344,000, as some of our previously capitalized software development costs were fully amortized.

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During 2012, cost of professional services and other revenue remained relatively unchanged when compared to 2011.

Gross profit

Gross profit	Year Ended December 31, 2012 Amount	2012 Percentage of Related Revenue	2011 Amount	2011 Percentage of Related Revenue	Change Amount	Change %
	(in thousands)					
Subscription and support	$ 61,704	73 %	$ 44,691	74 %	$ 17,013	38 %
Professional services and other	(1,115)	(30)	(1,350)	(40)	235	17
Total	$ 60,589	69 %	$ 43,341	68 %	$ 17,248	40 %

During 2012, the overall gross profit percentage was 69% compared to 68% during 2011. The increase in overall gross profit percentage was related to improvement in the professional services and other gross profit percentage as we were able to better leverage our fixed costs to deliver professional services and increase related revenue. Subscription and support gross profit percentage decreased slightly when compared to the corresponding period of the prior year. It is likely that gross profit, as a percentage of revenue, will fluctuate quarter by quarter due to the timing and mix of subscription and support revenue and professional services and other revenue, and the type, timing and duration of service required in delivering certain projects.

Operating Expenses

Operating Expenses	Year Ended December 31, 2012 Amount	2012 Percentage of Revenue	2011 Amount	2011 Percentage of Revenue	Change Amount	Change %
	(in thousands)					
Research and development	$ 18,725	21 %	$ 15,267	24 %	$ 3,458	23 %
Sales and marketing	38,725	44	31,564	50	7,161	23
General and administrative	16,734	19	12,640	20	4,094	32
Merger-related	1,852	2			1,852	100
Total	$ 76,036	86 %	$ 59,471	94 %	$ 16,565	28 %

Research and Development. During 2012, research and development expense increased by $3.5 million, or 23%, compared to 2011 primarily due to increases in employee-related, rent and stock-based compensation expenses of $2.1 million and $550,000 and $320,000, respectively. A portion of the increase in employee-related expenses can be attributed to higher capitalized software devel