

BRIGHTCOVE INC
Form 10-Q
November 02, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2016

OR

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission File Number: 001-35429

BRIGHTCOVE INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

20-1579162
(I.R.S. Employer
Identification No.)

290 Congress Street
Boston, MA 02210

(Address of principal executive offices)

(888) 882-1880

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

As of October 28, 2016 there were 33,783,814 shares of the registrant's common stock, \$0.001 par value per share, outstanding.

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BRIGHTCOVE INC.

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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****Brightcove Inc.****Condensed Consolidated Balance Sheets****(unaudited)****September 30, 2016 December 31, 2015**
(in thousands, except share**and per share data)**

Assets		
Current assets:		
Cash and cash equivalents	\$ 35,192	\$ 27,637
Accounts receivable, net of allowance of \$168 and \$332 at September 30, 2016 and December 31, 2015, respectively	22,710	21,213
Prepaid expenses	4,168	3,320
Other current assets	1,634	1,259
Total current assets	63,704	53,429
Property and equipment, net	9,501	8,689
Intangible assets, net	11,753	13,786
Goodwill	50,776	50,776
Deferred tax asset	80	63
Restricted cash, net of current portion	201	201
Other assets	956	724
Total assets	\$ 136,971	\$ 127,668
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	\$ 3,659	\$ 3,302
Accrued expenses	14,426	12,849
Capital lease liability	551	850
Equipment financing	304	
Deferred revenue	34,690	29,836
Total current liabilities	53,630	46,837
Deferred revenue, net of current portion	5	95
Other liabilities	2,033	2,601
Total liabilities	55,668	49,533
Commitments and contingencies (<i>Note 9</i>)		

Stockholders' equity:		
Undesignated preferred stock, \$0.001 par value; 5,000,000 shares authorized; no shares issued		
Common stock, \$0.001 par value; 100,000,000 shares authorized; 33,863,052 and 32,810,631 shares issued at September 30, 2016 and December 31, 2015, respectively		
	34	33
Additional paid-in capital	229,004	220,458
Treasury stock, at cost; 135,000 shares	(871)	(871)
Accumulated other comprehensive loss	(644)	(888)
Accumulated deficit	(146,220)	(140,597)
Total stockholders' equity	81,303	78,135
Total liabilities and stockholders' equity	\$ 136,971	\$ 127,668

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

Table of Contents**Brightcove Inc.****Condensed Consolidated Statements of Operations****(unaudited)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(in thousands, except share and per share data)			
Revenue:				
Subscription and support revenue	\$ 36,203	\$ 33,184	\$ 105,936	\$ 96,912
Professional services and other revenue	2,186	653	5,705	2,658
Total revenue	38,389	33,837	111,641	99,570
Cost of revenue: (1) (2)				
Cost of subscription and support revenue	11,691	10,314	35,041	31,017
Cost of professional services and other revenue	2,086	1,198	5,453	3,645
Total cost of revenue	13,777	11,512	40,494	34,662
Gross profit	24,612	22,325	71,147	64,908
Operating expenses: (1) (2)				
Research and development	7,704	7,233	22,385	22,320
Sales and marketing	13,334	11,664	39,845	34,406
General and administrative	5,126	4,391	14,190	14,761
Merger-related		62	21	138
Total operating expenses	26,164	23,350	76,441	71,625
Loss from operations	(1,552)	(1,025)	(5,294)	(6,717)
Other expense, net	(5)	(127)	(127)	(780)
Loss before income taxes	(1,557)	(1,152)	(5,421)	(7,497)
Provision for income taxes	61	123	202	255
Net loss	\$ (1,618)	\$ (1,275)	\$ (5,623)	\$ (7,752)
Net loss per share - basic and diluted	\$ (0.05)	\$ (0.04)	\$ (0.17)	\$ (0.24)
Weighted-average number of common shares used in computing net loss per share	33,345,161	32,636,084	32,956,186	32,560,478

(1) Stock-based compensation included in above line items:

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Cost of subscription and support revenue	\$	94	\$	30	\$	204	\$	101
Cost of professional services and other revenue		69		79		158		131
Research and development		372		400		942		1,060
Sales and marketing		651		843		1,630		1,764
General and administrative		495		171		1,331		1,256
(2) Amortization of acquired intangible assets included in above line items:								
Cost of subscription and support revenue	\$	507	\$	508	\$	1,523	\$	1,523
Research and development		32		31		95		94
Sales and marketing		245		235		715		736

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

Table of Contents**Brightcove Inc.****Condensed Consolidated Statements of Comprehensive Loss****(unaudited)**

	Three Months Ended		Nine Months	
	September 30,		Ended	
	2016	2015	2016	2015
	(in thousands)			
Net loss	\$ (1,618)	\$ (1,275)	\$ (5,623)	\$ (7,752)
Other comprehensive (loss) income:				
Foreign currency translation adjustments	(13)	15	(244)	61
Comprehensive loss	\$ (1,631)	\$ (1,260)	\$ (5,867)	\$ (7,691)

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

Table of Contents**Brightcove Inc.****Condensed Consolidated Statements of Cash Flows****(unaudited)**

	Nine Months Ended September 30,	
	2016	2015
	(in thousands)	
Operating activities		
Net loss	\$ (5,623)	\$ (7,752)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	5,901	6,898
Stock-based compensation	4,265	4,312
Provision for reserves on accounts receivable	233	317
Loss on disposal of equipment		45
Changes in assets and liabilities:		
Accounts receivable	(1,441)	1,050
Prepaid expenses and other current assets	(1,720)	(441)
Other assets	(200)	(478)
Accounts payable	(17)	1,001
Accrued expenses	1,953	(1,660)
Deferred revenue	4,278	957
Net cash provided by operating activities	7,629	4,249
Investing activities		
Cash paid for purchase of intangible asset	(300)	
Purchases of property and equipment, net of returns	(1,194)	(2,479)
Capitalized internal-use software costs	(2,940)	(1,020)
Net cash used in investing activities	(4,434)	(3,499)
Financing activities		
Proceeds from exercise of stock options	4,392	72
Payments of withholding tax on RSU vesting	(216)	(48)
Proceeds from equipment financing	604	1,704
Payments on equipment financing	(196)	(576)
Payments under capital lease obligation	(682)	(988)
Net cash provided by financing activities	3,902	164
Effect of exchange rate changes on cash	458	(42)
Net increase in cash and cash equivalents	7,555	872
Cash and cash equivalents at beginning of period	27,637	22,916
Cash and cash equivalents at end of period	\$ 35,192	\$ 23,788

Supplemental disclosure of non-cash financing activities

Purchase of equipment and support under capital lease	\$	\$	875
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The accompanying notes are an integral part of these condensed consolidated financial statements.

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Brightcove Inc.

Notes to Condensed Consolidated Financial Statements

(unaudited)

(in thousands, except share and per share data, unless otherwise noted)

1. Business Description and Basis of Presentation

Business Description

Brightcove Inc. (the Company) is a leading global provider of cloud services for video which enable its customers to publish and distribute video to Internet-connected devices quickly, easily and in a cost-effective and high-quality manner.

The Company is headquartered in Boston, Massachusetts and was incorporated in the state of Delaware on August 24, 2004. At September 30, 2016, the Company had nine wholly-owned subsidiaries: Brightcove UK Ltd, Brightcove Singapore Pte. Ltd., Brightcove Korea, Brightcove Australia Pty Ltd, Brightcove Holdings, Inc., Brightcove Kabushiki Kaisha (Brightcove KK), Zencoder Inc. (Zencoder), Brightcove FZ-LLC, and Cacti Acquisition LLC.

On March 10, 2016, the Company purchased an intangible asset for \$300 plus a contingent amount of up to an additional \$250 to be determined on the 90th day following the closing date. In June 2016, it was determined that no additional consideration was to be provided in connection with the intangible asset purchase. The useful life of the intangible asset was determined to be three years. As of September 30, 2016, the net carrying value of the intangible asset was \$244.

Basis of Presentation

The accompanying interim condensed consolidated financial statements are unaudited. These condensed consolidated financial statements and notes should be read in conjunction with the audited consolidated financial statements and related notes, together with Management's Discussion and Analysis of Financial Condition and Results of Operations, contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the unaudited condensed consolidated financial statements and notes have been prepared on the same basis as the audited consolidated financial statements for the year ended December 31, 2015 contained in the Company's Annual Report on Form 10-K and include all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the Company's financial position for the three and nine months ended September 30, 2016 and 2015. These interim periods are not necessarily indicative of the results to be expected for any other interim period or the full year.

The Company considers events or transactions that occur after the balance sheet date but prior to the issuance of the financial statements to provide additional evidence for certain estimates or to identify matters that require additional disclosure. Subsequent events have been evaluated as required. The Company has evaluated all subsequent events and

determined that there are no material recognized or unrecognized subsequent events requiring disclosure, other than those disclosed in this Report on Form 10-Q.

The accompanying condensed consolidated financial statements reflect the application of certain significant accounting policies as described below and elsewhere in these notes to the condensed consolidated financial statements. As of September 30, 2016, the Company's significant accounting policies and estimates, which are detailed in the Company's Annual Report on Form 10-K for the year ended December 31, 2015, have not changed.

2. Concentration of Credit Risk

The Company has no significant off-balance sheet risk, such as foreign exchange contracts, option contracts or other foreign hedging arrangements. Financial instruments that potentially expose the Company to concentrations of credit risk consist primarily of cash, cash equivalents and trade accounts receivable. The Company maintains its cash and cash equivalents principally with accredited financial institutions of high credit standing. Although the Company deposits its cash with multiple financial institutions, its deposits, at times, may exceed federally insured limits. The Company routinely assesses the creditworthiness of its customers. The Company generally has not experienced any material losses related to receivables from individual customers, or groups of customers. The Company does not require collateral. Due to these factors, no additional credit risk beyond amounts provided for collection losses is believed by management to be probable in the Company's accounts receivable.

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At September 30, 2016 and December 31, 2015, no individual customer accounted for 10% or more of net accounts receivable. For the three and nine months ended September 30, 2016 and 2015, no individual customer accounted for 10% or more of total revenue.

3. Concentration of Other Risks

The Company is dependent on certain content delivery network providers who provide digital media delivery functionality enabling the Company's on-demand application service to function as intended for the Company's customers and ultimate end-users. The disruption of these services could have a material adverse effect on the Company's business, financial position, and results of operations.

4. Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less at the date of purchase to be cash equivalents. Management determines the appropriate classification of investments at the time of purchase, and re-evaluates such determination at each balance sheet date. The Company did not have any short-term or long-term investments at September 30, 2016 or December 31, 2015.

Cash and cash equivalents primarily consist of cash on deposit with banks and amounts held in interest-bearing money market accounts. Cash equivalents are carried at cost, which approximates their fair market value.

Cash and cash equivalents as of September 30, 2016 consist of the following:

Description	Contracted Maturity	September 30, 2016		
		Amortized Cost	Fair Market Value	Balance Per Balance Sheet
Cash	Demand	\$ 25,584	\$ 25,584	\$ 25,584
Money market funds	Demand	9,608	9,608	9,608
Total cash and cash equivalents		\$ 35,192	\$ 35,192	\$ 35,192

Cash and cash equivalents as of December 31, 2015 consist of the following:

Description	Contracted Maturity	December 31, 2015		
		Amortized Cost	Fair Market Value	Balance Per Balance Sheet
Cash	Demand	\$ 18,057	\$ 18,057	\$ 18,057
Money market funds	Demand	9,580	9,580	9,580
Total cash and cash equivalents		\$ 27,637	\$ 27,637	\$ 27,637

5. Net Loss per Share

The following potentially dilutive common stock equivalent shares have been excluded from the computation of weighted-average shares outstanding as their effect would have been anti-dilutive (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Options outstanding	4,152	4,181	4,419	4,133
Restricted stock units outstanding	1,752	1,094	1,604	982
Warrants	21	28	26	28

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The following tables set forth the Company's financial instruments carried at fair value using the lowest level of input as of September 30, 2016 and December 31, 2015:

	September 30, 2016			Total	
	Quoted Prices in Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
	Assets:				
	Money market funds	\$ 9,608	\$		\$
Restricted cash		201		201	
Total assets	\$ 9,608	\$	201	\$ 9,809	

	December 31, 2015			Total	
	Quoted Prices in Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
	Assets:				
	Money market funds	\$ 9,580	\$		\$
Restricted cash		201		201	
Total assets	\$ 9,580	\$	201	\$ 9,781	

7. Stock-based Compensation

The fair value of stock options granted was estimated at the date of grant using the following weighted-average assumptions:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Expected life in years	6.2	6.3	6.1	6.2
Risk-free interest rate	1.35%	1.90%	1.41%	1.85%
Volatility	45%	46%	45%	47%

Dividend yield

Weighted-average fair value of stock options granted	\$ 4.98	\$ 2.49	\$ 4.17	\$ 3.25
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The Company recorded stock-based compensation expense of \$1,681 and \$1,523 for the three months ended September 30, 2016 and 2015, respectively, and \$4,265 and \$4,312 for the nine months ended September 30, 2016 and 2015, respectively. As of September 30, 2016, there was \$13,113 of unrecognized stock-based compensation expense related to stock-based awards that is expected to be recognized over a weighted-average period of 2.55 years. The following is a summary of the status of the Company's stock options as of September 30, 2016 and the stock option activity during the nine months ended September 30, 2016.

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (In Years)	Aggregate Intrinsic Value (1)
Outstanding at December 31, 2015	4,622,886	\$ 6.63		
Granted	497,238	9.32		
Exercised	(797,895)	5.50		\$ 4,285
Canceled	(378,193)	8.83		
Outstanding at September 30, 2016	3,944,036	\$ 6.99	7.05	\$ 24,248
Exercisable at September 30, 2016	1,790,873	\$ 6.26	5.03	\$ 12,464
Vested or expected to vest at September 30, 2016 (2)	3,439,754	\$ 6.89	6.78	\$ 21,527

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- (1) The aggregate intrinsic value was calculated based on the positive difference between the fair value of the Company's common stock on September 30, 2016 of \$13.05 per share, or the date of exercise, as appropriate, and the exercise price of the underlying options.
- (2) This represents the number of vested options as of September 30, 2016 plus the number of unvested options expected to vest as of September 30, 2016 based on the unvested options outstanding at September 30, 2016 adjusted for an estimated forfeiture rate.

The following table summarizes the restricted stock unit activity during the nine months ended September 30, 2016:

	Shares	Weighted Average Grant Date Fair Value
Unvested by December 31, 2015	1,503,814	\$ 6.69
Granted	819,623	11.08
Vested and issued	(233,992)	5.83
Canceled	(194,258)	6.79
Unvested by September 30, 2016	1,895,187	\$ 7.78

8. Income Taxes

For the three months ended September 30, 2016 and 2015, the Company recorded income tax expense of \$61 and \$123, respectively. For the nine months ended September 30, 2016 and 2015, the Company recorded income tax expense of \$202 and \$255, respectively. The income tax expense relates principally to the Company's foreign operations.

The Company has evaluated the positive and negative evidence bearing upon the realizability of its U.S. net deferred tax assets. As required by the provisions of Accounting Standards Codification (ASC) 740, *Income Taxes*, management has determined that it is more-likely-than-not that the Company will not utilize the benefits of federal and state U.S. net deferred tax assets for financial reporting purposes. Accordingly, the net deferred tax assets are subject to a valuation allowance at September 30, 2016 and December 31, 2015. The Company's income tax return reporting periods since December 31, 2012 are open to income tax audit examination by the federal and state tax authorities. In addition, because the Company has net operating loss carryforwards, the Internal Revenue Service is permitted to audit earlier years and propose adjustments up to the amount of net operating losses generated in those years. There are currently no federal, state or foreign audits in progress.

9. Commitments and Contingencies**Legal Matters**

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

On July 8, 2016, a complaint was filed by Brand Technologies, Inc. naming the Company, along with several others, as a defendant in a case alleging copyright infringement, violations of the Lanham Act, unfair competition and related claims (Brand Technologies, Inc. v. Cox Enterprises, Inc., et al., United States District Court for the Central District of

California). The complaint alleges that Cox Media Group (CMG) engaged in the unlicensed provision of copyrighted videos owned by the plaintiff on CMG websites by using a Brightcove technology. The complaint seeks actual and statutory damages, costs and injunctive relief. On September 22, 2016, the plaintiff filed an amended complaint. The Company has not yet answered the amended complaint or otherwise filed a responsive pleading. The Company cannot yet determine whether it is probable that a loss will be incurred in connection with this complaint, nor can the Company reasonably estimate the potential loss, if any.

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On July 30, 2016, a complaint was filed by Autumn Cloud LLC naming the Company as a defendant in a patent infringement case (Autumn Cloud LLC v. Brightcove Inc., United States District Court for the Eastern District of Texas). The complaint alleges that Brightcove has infringed U.S. Patent 7,606,843 with an issue date of October 20, 2009, entitled System and Method for Customizing the Storage and Management of Device Data in a Networked Environment, and U.S. Patent 8,239,347 with an issue date of August 7, 2012, entitled System and Method for Customizing the Storage and Management of Device Data in a Networked Environment. The complaint seeks monetary damages and declarations of infringement. Autumn Cloud has not yet served the complaint on Brightcove. Brightcove 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.

Guarantees and Indemnification Obligations

The Company typically enters into indemnification agreements in the ordinary course of business. Pursuant to these agreements, the Company indemnifies and agrees to reimburse the indemnified party for losses and costs incurred by the indemnified party, generally the Company's customers, in connection with patent, copyright, trade secret, or other intellectual property or personal right infringement claim by third parties with respect to the Company's technology. The term of these indemnification agreements is generally perpetual after execution of the agreement. Based on when customers first subscribe for the Company's service, the maximum potential amount of future payments the Company could be required to make under certain of these indemnification agreements is unlimited, however, more recently the Company has typically limited the maximum potential value of such potential future payments in relation to the value of the contract. Based on historical experience and information known as of September 30, 2016, the Company has not incurred any costs for the above guarantees and indemnities. The Company has received requests for indemnification from customers in connection with patent infringement suits brought against the customer by a third party. To date, the Company has not agreed that the requested indemnification is required by the Company's contract with any such customer.

In certain circumstances, the Company warrants that its products and services will perform in all material respects in accordance with its standard published specification documentation in effect at the time of delivery of the licensed products and services to the customer for the warranty period of the product or service. To date, the Company has not incurred significant expense under its warranties and, as a result, the Company believes the estimated fair value of these agreements is immaterial.

10. Debt

On November 19, 2015, the Company entered into an amended and restated loan and security agreement with a lender (the Loan Agreement) providing for up to a \$20.0 million asset based line of credit (the Line of Credit). Under the Line of Credit, the Company can borrow up to \$20.0 million. Borrowings under the Line of Credit are secured by substantially all of the Company's assets, excluding our intellectual property. Outstanding amounts under the Line of Credit accrue interest at a rate equal to the prime rate or the LIBOR rate plus 2.5%. Under the Loan Agreement, the Company must comply with certain financial covenants, including maintaining a minimum asset coverage ratio. If the outstanding principal during any month is at least \$15.0 million, the Company must also maintain a minimum net income threshold based on non-GAAP operating measures. Failure to comply with these covenants, or the occurrence of an event of default, could permit the lender under the Line of Credit to declare all amounts borrowed under the Line of Credit, together with accrued interest and fees, to be immediately due and payable. The Company was in compliance with all covenants under the Line of Credit as of September 30, 2016. As the Company has not drawn on the Line of Credit, there are no amounts outstanding as of September 30, 2016.

On December 31, 2015, the Company entered into an equipment financing agreement with a lender (the December 2015 Equipment Financing Agreement) to finance the purchase of \$604 in computer equipment. In February 2016, the Company drew down \$604 under the December 2015 Equipment Financing Agreement, and the liability was recorded at fair value using a market interest rate. The Company is repaying its obligation over a two year period through January 2018, and the amount outstanding was \$408 as of September 30, 2016.

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Total revenue from unaffiliated customers by geographic area, based on the location of the customer, was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenue:				
North America	\$ 23,246	\$ 22,118	\$ 68,913	\$ 63,636
Europe	6,412	6,049	18,843	19,235
Japan	4,243	2,249	11,447	6,294
Asia Pacific	4,136	3,035	11,495	9,144
Other	352	386	943	1,261
Total revenue	\$ 38,389	\$ 33,837	\$ 111,641	\$ 99,570

North America is comprised of revenue from the United States, Canada and Mexico. Revenue from customers located in the United States was \$21,793 and \$20,652 during the three months ended September 30, 2016 and 2015, respectively, and \$64,615 and \$59,403 during the nine months ended September 30, 2016 and 2015, respectively. Revenue from customers located in Japan was \$4,243 and \$2,249 during the three months ended September 30, 2016 and 2015, respectively, and \$11,447 and \$6,294 during the nine months ended September 30, 2016 and 2015, respectively. During the three and nine months ended September 30, 2016 and 2015, no other country contributed more than 10% of the Company's total revenue.

As of September 30, 2016 and December 31, 2015, property and equipment at locations outside the U.S. was not material.

12. Recently Issued and Adopted Accounting Standards

In May 2014, the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board jointly issued Accounting Standards Update (ASU) No. 2014-9, *Revenue from Contracts with Customers*, which clarifies the principles for recognizing revenue and develops a common revenue standard for GAAP and International Financial Reporting Standards. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The ASU is effective for public entities for annual and interim periods beginning after December 15, 2017 and allows for either full retrospective or modified retrospective application. Accordingly, the standard is effective for the Company on January 1, 2018. The Company is currently evaluating the adoption method it will apply and the impact that this guidance will have on its financial statements and related disclosures. Early adoption is permitted, but not before the original public organization effective date (that is, annual periods beginning after December 15, 2016).

In August 2014, the FASB issued ASU No. 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. ASU 2014-15 requires management to evaluate, at each annual or interim reporting

period, whether there are conditions or events that exist that raise substantial doubt about an entity's ability to continue as a going concern within one year after the date the financial statements are issued and provide related disclosures. ASU 2014-15 is effective for annual periods ending after December 15, 2016 and earlier application is permitted. The adoption of ASU 2014-15 is not expected to have a material effect on the Company's consolidated financial statements or disclosures.

In March 2016, the FASB issued ASU No. 2016-09, *Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. ASU 2016-09 identifies areas for simplification involving several aspects of accounting for share based payments, including income tax consequences, classification of awards as either equity, or liabilities, an option to make a policy election to recognize gross share based compensation expense with actual forfeitures recognized as they occur as well as certain classification changes on the statement of cash flows. This guidance is effective for annual and interim reporting periods beginning after December 15, 2016, with early adoption permitted. The Company is currently assessing the impact that adopting ASU 2016-09 will have on its consolidated financial statements and related disclosures.

In February 2016 the FASB issued ASU 2016-02, *Leases (Topic 842), Amendments to the FASB Accounting Standards Codification*, which replaces the existing guidance for leases. ASU 2016-02 requires the identification of arrangements that should be accounted for as leases by lessees. In general, for lease arrangements exceeding a twelve month term, these arrangements must now be recognized as assets and liabilities on the balance sheet of the lessee. Under ASU 2016-02, a right-of-use asset and lease obligation will be recorded for all leases, whether operating or financing, while the income statement will reflect lease expense for operating

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leases and amortization/interest expense for financing leases. The balance sheet amount recorded for existing leases at the date of adoption of ASU 2016-02 must be calculated using the applicable incremental borrowing rate at the date of adoption. In addition, ASU 2016-02 requires the use of the modified retrospective method, which will require adjustment to all comparative periods presented in the consolidated financial statements. This guidance is effective for annual and interim periods beginning after December 15, 2018 and requires retrospective application. The Company is currently assessing the impact that adopting ASU 2016-02 will have on its consolidated financial statements and related disclosures.

In April 2015, the FASB issued ASU 2015-05, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40), Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement*. ASU 2015-05 provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The guidance will not change GAAP for a customer’s accounting for service contracts. The ASU aims to reduce complexity and diversity in practice. We adopted this standard on January 1, 2016 and the adoption did not have a material impact on our consolidated financial statements.

In April 2015, the FASB, issued ASU 2015-03, *Interest – Imputation of Interest (Subtopic 835-30), Simplifying the Presentation of Debt Issuance Costs*, which provides that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct reduction from the carrying amount of the related debt liability, rather than classifying the costs separately in the balance sheet as a deferred charge. The ASU aims to reduce complexity. We adopted this standard on January 1, 2016 and the adoption did not have a material impact on our consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, *Consolidation (Topic 810), Amendments to the Consolidation Analysis*, which updated accounting guidance on consolidation requirements. This update changes the guidance with respect to the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. This guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015, with early adoption permitted. We adopted this standard on January 1, 2016 and the adoption did not have a material impact on our consolidated financial statements.

Table of Contents**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the year ended December 31, 2015.

Forward-Looking Statements

This Quarterly Report on Form 10-Q 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 Quarterly Report on Form 10-Q 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 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, target, will, would, and similar 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 II of this Quarterly Report on Form 10-Q, our Annual Report on Form 10-K for the year ended December 31, 2015 and the risks discussed in our other 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.

Company Overview

We are a leading global provider of cloud-based services for video. We were incorporated in Delaware in August 2004 and our headquarters are in Boston, Massachusetts. Our suite of products and services reduce the cost and complexity associated with publishing, distributing, measuring and monetizing video across devices.

Brightcove Video Cloud, or Video Cloud, our flagship product released in 2006, is the world's leading online video platform. 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. Brightcove Zencoder, or Zencoder, is a cloud-based video encoding service. Brightcove Once, or Once, is an innovative, cloud-based ad insertion and video stitching service that addresses the limitations of traditional online video ad insertion technology. Brightcove Gallery, or Gallery, is a cloud-based service that enables customers to create and publish video portals. Brightcove Perform, or Perform, is a cloud-based service for creating and managing video player experiences. Brightcove Video Marketing Suite, or Video Marketing Suite, is a comprehensive suite of video technologies designed to address the needs of marketers to drive awareness, engagement and conversion. Brightcove Lift, or Lift, released in October 2015, is a solution designed to defeat ad blockers, optimize ad delivery and deliver a premium TV-like viewing experience across connected

platforms.

Our philosophy for the next few years will continue to be to invest in our product strategy and development, sales, and go-to-market to support our long-term revenue growth. We believe these investments will help us address some of the challenges facing our business such as demand for our products by existing 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, the innovation of new features for existing products and the development of new products. We believe this strategy will help us retain our existing customers, increase our average annual subscription revenue per premium customer 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.

As of September 30, 2016, we had 471 employees and 4,647 customers, of which 2,666 used our volume offerings and 1,981 used our premium offerings. As of September 30, 2015, we had 415 employees and 5,162 customers, of which 3,310 used our volume offerings and 1,852 used our premium offerings.

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We generate revenue by offering our products to customers on a subscription-based, software as a service, or SaaS, model. Our revenue grew from \$99.6 million in the nine months ended September 30, 2015 to \$111.6 million in the nine months ended September 30, 2016, primarily related to an increase in sales of Video Cloud to both new and existing customers. Our consolidated net loss was \$5.6 million and \$7.8 million for the nine months ended September 30, 2016 and 2015, respectively. Included in consolidated net loss for the nine months ended September 30, 2016 was stock-based compensation expense and amortization of acquired intangible assets of \$4.3 million and \$2.3 million, respectively. Included in consolidated net loss for the nine months ended September 30, 2015 was stock-based compensation expense and amortization of acquired intangible assets of \$4.3 million and \$2.4 million, respectively.

For the nine months ended September 30, 2016 and 2015, our revenue derived from customers located outside North America was 38% and 35%, 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.

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 our customers. 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), our Once customers, our Zencoder customers, our Gallery customers, our Perform customers, our Video Marketing Suite customers and our Lift customers. Our volume offerings include our Video Cloud Express customers and our Zencoder customers on month-to-month and pay-as-you-go contracts.

As of September 30, 2016, we had 4,647 customers, of which 2,666 used our volume offerings and 1,981 used our premium offerings. As of September 30, 2015, we had 5,162 customers, of which 3,310 used our volume offerings and 1,852 used our premium offerings. During 2013, we shifted our go-to-market focus and growth strategy to expanding our premium customer base, as we believe our premium customers represent a greater opportunity for our solutions. Volume customers decreased during 2014 and 2015 primarily due to our discontinuation of the promotional Video Cloud Express offering. As a result, we have 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 2016 as we continue to focus on the market for our premium solutions and adjust Video Cloud Express price levels.

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, including any increase or decrease in contract value. 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 the nine months ended

September 30, 2016 and 2015, the recurring dollar retention rate was 97% and 93%, respectively.

Average Annual Subscription Revenue Per Premium Customer. We define average annual subscription revenue per premium customer as the total subscription revenue from premium customers for an annual period, excluding professional services revenue, divided by the average number of premium customers for that period. We believe that this metric is important in understanding subscription revenue for our premium offerings in addition to the relative size of premium customer arrangements.

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

	Nine Months Ended September 30,	
	2016	2015
Customers (at period end)		
Volume	2,666	3,310
Premium	1,981	1,852
Total customers (at period end)	4,647	5,162
Recurring dollar retention rate	97%	93%
Average annual subscription revenue per premium customer (in thousands)	\$ 69.6	\$ 64.7

Components of Consolidated Statements of Operations**Revenue**

Subscription and Support Revenue We generate subscription and support revenue from the sale of our products.

Video Cloud is offered in two product lines. The first product line is comprised of our premium product editions, Pro and Enterprise. All Pro and Enterprise editions include functionality to publish and distribute video to Internet-connected devices. 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 Video Cloud, basic support and a pre-determined amount of video streams, bandwidth, and managed content. We also offer gold support or platinum 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 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.

Zencoder 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 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 Zencoder 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.

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

Gallery is offered to customers of our premium Video Cloud editions on a subscription basis. A customer's usage of Gallery counts against the pre-determined amount of video streams, bandwidth and managed content included with their Video Cloud Pro or Enterprise contract. Should a customer's usage exceed the contractual entitlements, the contract will provide the rate at which the customer must pay for actual usage above the contractual entitlements. We also offer gold support or platinum support to our Gallery customers for an additional fee, which includes extended phone support.

Perform is offered to customers on a subscription basis. Customer arrangements are typically one-year contracts, which include a subscription to Perform, basic support and a pre-determined amount of video streams. We also offer gold support or platinum support to our Perform customers for an additional fee, which includes extended phone support. The pricing for Perform is based on the number of users, accounts and usage, which is comprised of video streams. Should a customer's usage exceed the contractual entitlements, the contract will provide the rate at which the customer must pay for actual usage above the contractual entitlements.

Video Marketing Suite is offered to customers on a subscription basis. Customer arrangements are typically one-year contracts, which typically include a subscription to Video Cloud, the Video Cloud Live Module, Gallery, basic support and a pre-determined

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amount of video streams or plays, bandwidth and managed content or videos. We also generally offer gold support or platinum support to our Video Marketing Suite customers for an additional fee, which includes extended phone support. The pricing for Video Marketing Suite is based on the number of users, accounts and usage, which is comprised of video streams or plays, bandwidth and managed content or videos. Should a customer's usage exceed the contractual entitlements, the contract will provide the rate at which the customer must pay for actual usage above the contractual entitlements.

Lift is offered to customers on a subscription basis. Customer arrangements are typically one year contracts, which include a subscription to Lift, basic support and a pre-determined amount of video streams. We also offer gold support or platinum support to our Lift customers for an additional fee, which includes extended phone support. The pricing for Lift is based on the number of users, accounts and usage, which is comprised of video streams. Should a customer's usage exceed the contractual entitlements, the contract will provide the rate at which the customer must pay for actual usage above the contractual entitlements.

All Once, Gallery, Perform, Video Marketing Suite and Lift customers are considered premium 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.

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, or CDN, 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 the first nine months of 2015 to the first nine months of 2016. 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.

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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 support the growth of our business. 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 incurred as part of the acquisition of substantially all of the assets of Unicorn Media, Inc. and certain of its subsidiaries, or Unicorn, as well as costs associated with the retention of key employees of Unicorn. Approximately \$1.5 million was required to be paid to retain certain key employees from the Unicorn acquisition. The period in which these services were performed varies by employee. Given that the retention amount was related to a future service requirement, the related expense was recorded as merger-related compensation expense in the consolidated statements 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.

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 September 30, 2016, 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 three months ended September 30, 2016 and 2015, we recorded \$1.7 million and \$1.5 million, respectively, of stock-based compensation expense. For the nine months ended September 30, 2016 and 2015, we recorded \$4.3 million and \$4.3 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 Japanese yen. For the three months ended September 30, 2016 and 2015, 43% and 39%, respectively, of our revenue was generated in locations outside the United States. For the nine months ended September 30, 2016 and 2015, 42% and 40%, respectively, of our revenue was generated in locations outside the United States. During the three months ended September 30, 2016 and 2015, 29% and 25%, respectively, of our revenue was in currencies other than

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the U.S. dollar, as were some of the associated expenses. During the nine months ended September 30, 2016 and 2015, 28% and 27%, 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 consider the assumptions and estimates associated with revenue recognition, allowance for doubtful accounts, software development costs, income taxes, business combinations, intangible assets, goodwill and stock-based compensation to be our critical accounting policies and estimates. There have been no material changes to our critical accounting policies since December 31, 2015.

For a detailed explanation of the judgments made in these areas, refer to Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2015, which we filed with the Securities and Exchange Commission on February 26, 2016.

We believe that our significant accounting policies, which are more fully described in the notes to our unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q, have not materially changed from those described in the notes to our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2015.

Table of Contents**Results of Operations**

The following tables set forth our results of operations for the periods presented. The data has been derived from the unaudited condensed consolidated financial statements contained in this Quarterly Report on Form 10-Q which, in the opinion of our management, reflect all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial position and results of operations for the interim periods presented. The period-to-period comparison of financial results is not necessarily indicative of future results. This information should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2015.

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
(in thousands, except share and per share data)				
Revenue:				
Subscription and support revenue	\$ 36,203	\$ 33,184	\$ 105,936	\$ 96,912
Professional services and other revenue	2,186	653	5,705	2,658
Total revenue	38,389	33,837	111,641	99,570
Cost of revenue:				
Cost of subscription and support revenue	11,691	10,314	35,041	31,017
Cost of professional services and other revenue	2,086	1,198	5,453	3,645
Total cost of revenue	13,777	11,512	40,494	34,662
Gross profit	24,612	22,325	71,147	64,908
Operating expenses:				
Research and development	7,704	7,233	22,385	22,320
Sales and marketing	13,334	11,664	39,845	34,406
General and administrative	5,126	4,391	14,190	14,761
Merger-related		62	21	138
Total operating expenses	26,164	23,350	76,441	71,625
Loss from operations	(1,552)	(1,025)	(5,294)	(6,717)
Other expense, net	(5)	(127)	(127)	(780)
Loss before income taxes	(1,557)	(1,152)	(5,421)	(7,497)
Provision for income taxes	61	123	202	255
Net loss	\$ (1,618)	\$ (1,275)	\$ (5,623)	\$ (7,752)
Net loss per share - basic and diluted	\$ (0.05)	\$ (0.04)	\$ (0.17)	\$ (0.24)
	33,345,161	32,636,084	32,956,186	32,560,478

Weighted-average number of common shares
used in computing net loss per share

Overview of Results of Operations for the Three Months Ended September 30, 2016 and 2015

Total revenue increased by 13%, or \$4.6 million, in the three months ended September 30, 2016 compared to the three months ended September 30, 2015 due to an increase in subscription and support revenue of 9%, or \$3.0 million. The increase in professional services and other revenue of 235%, or \$1.5 million primarily related to the size and number of professional services engagements during the three months ended September 30, 2016 compared to the corresponding quarter in the prior year. The increase in subscription and support revenue resulted primarily from an increase in revenue from new and existing customers. In addition, our revenue from premium offerings grew by \$4.8 million, or 15%, in the three months ended September 30, 2016 compared to the three months ended September 30, 2015. 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 \$2.3 million, or 10%, in the three months ended September 30, 2016 compared to the three months ended September 30, 2015, primarily due to an increase in revenue. Our ability to continue to maintain our overall gross profit will depend primarily on our ability to continue controlling our costs of delivery. Loss from operations was \$1.6 million in the three months ended September 30, 2016 compared to \$1.0 million in the three months ended September 30, 2015. Loss from operations in the three months ended September 30, 2016 included stock-based compensation expense and amortization of acquired intangible assets of \$1.7 million and \$784,000, respectively. Loss from operations in the three months ended September 30, 2015 included stock-based compensation expense and amortization of acquired intangible assets of \$1.5 million and \$774,000, respectively. 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.

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As of September 30, 2016, we had \$35.2 million of unrestricted cash and cash equivalents, an increase of \$7.6 million from \$27.6 million at December 31, 2015, due primarily to \$7.6 million of cash provided by operating activities, \$4.4 million in proceeds from exercises of stock options and \$604,000 in proceeds from an equipment financing. These increases were offset in part by \$2.9 million in capitalization of internal-use software costs, \$1.2 million in capital expenditures and \$682,000 in payments under capital lease obligations.

Revenue

Revenue by Product Line	2016		2015		Change	
	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	%
(in thousands, except percentages)						
Premium	\$ 36,518	95%	\$ 31,688	94%	\$ 4,830	15%
Volume	1,871	5	2,149	6	(278)	(13)
Total	\$ 38,389	100%	\$ 33,837	100%	\$ 4,552	13%

During the three months ended September 30, 2016, revenue increased by \$4.6 million, or 13%, compared to the three months ended September 30, 2015, 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 \$4.8 million, or 15%, is partially the result of a 7% increase in the number of premium customers from 1,852 at September 30, 2015 to 1,981 at September 30, 2016 and a 5% increase in the average annual subscription revenue per premium customer during the three months ended September 30, 2016. In the three months ended September 30, 2016, volume revenue decreased by \$278,000, or 13%, compared to the three months ended September 30, 2015, as we continue to focus on the market for our premium solutions.

Revenue by Type	2016		2015		Change	
	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	%
(in thousands, except percentages)						
Subscription and support	\$ 36,203	94%	\$ 33,184	98%	\$ 3,019	9%
Professional services and other	2,186	6	653	2	1,533	235
Total	\$ 38,389	100%	\$ 33,837	100%	\$ 4,552	13%

In the three months ended September 30, 2016, subscription and support revenue increased by \$3.0 million, or 9%, compared to the three months ended September 30, 2015. 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 and a 5% increase in the average annual subscription revenue per premium customer during the three months ended September 30, 2016. In addition, professional services and other revenue increased by \$1.5 million, or 235%, primarily related to the size and number of professional services engagements during the three months ended September 30, 2016 compared to the corresponding quarter in the prior year. 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	Three Months Ended September 30,				Change	
	2016 Amount	Percentage of Revenue	2015 Amount	Percentage of Revenue	Amount	%
	(in thousands, except percentages)					
North America	\$ 23,246	61%	\$ 22,118	65%	\$ 1,128	5%
Europe	6,412	16	6,049	18	363	6
Japan	4,243	11	2,249	7	1,994	89
Asia Pacific	4,136	11	3,035	9	1,101	36
Other	352	1	386	1	(34)	(9)
International subtotal	15,143	39	11,719	35	3,424	29
Total	\$ 38,389	100%	\$ 33,837	100%	\$ 4,552	13%

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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.

In the three months ended September 30, 2016, total revenue for North America increased \$1.1 million, or 5%, compared to the three months ended September 30, 2015. The increase in revenue for North America resulted primarily from an increase in subscription and support revenue from our premium offerings. In the three months ended September 30, 2016, total revenue outside of North America increased \$3.4 million, or 29%, compared to the three months ended September 30, 2015. The increase in revenue from international regions is primarily related to an increase in revenue in Japan and Asia Pacific. This increase is offset by a reduction in revenue due to changes in foreign exchange rates compared to the exchange rates that were in effect during the three months ended September 30, 2015.

Cost of Revenue

Cost of Revenue	Three Months Ended September 30,		2015		Change	
	2016	Percentage of	2015	Percentage of	Amount	%
	Amount	Related	Amount	Related		
		Revenue		Revenue		
		(in thousands, except percentages)				
Subscription and support	\$ 11,691	32%	\$ 10,314	31%	\$ 1,377	13%
Professional services and other	2,086	95	1,198	183	888	74
Total	\$ 13,777	36%	\$ 11,512	34%	\$ 2,265	20%

In the three months ended September 30, 2016, cost of subscription and support revenue increased \$1.4 million, or 13%, compared to the three months ended September 30, 2015. The increase resulted primarily from increases in content delivery network expenses, network hosting services and employee-related expenses of \$1.1 million, \$526,000 and \$135,000, respectively. These increases were partially offset by a decrease in depreciation expense of \$276,000.

In the three months ended September 30, 2016, cost of professional services and other revenue increased \$888,000, or 74%, compared to the three months ended September 30, 2015. The increase resulted primarily from increases in contractor and employee-related expenses of \$640,000 and \$228,000, respectively.

Gross Profit

Gross Profit	Three Months Ended September 30,		2015		Change	
	2016	Percentage of	2015	Percentage of	Amount	%
	Amount	Related	Amount	Related		
		Revenue		Revenue		
		(in thousands, except percentages)				

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Subscription and support	\$ 24,512	68%	\$ 22,870	69%	\$ 1,642	7%
Professional services and other	100	5	(545)	(83)	645	(118)
Total	\$ 24,612	64%	\$ 22,325	66%	\$ 2,287	10%

The overall gross profit percentage was 64% and 66% for the three months ended September 30, 2016 and 2015, respectively. Subscription and support gross profit increased \$1.6 million, or 7%, compared to the three months ended September 30, 2015. Professional services and other gross profit increased \$645,000, or 118% compared to the three months ended September 30, 2015. The increase in the number of professional service engagements has allowed for greater leverage of fixed costs. 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.

Table of Contents**Operating Expenses**

Operating Expenses	2016		2015		Change	
	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	%
(in thousands, except percentages)						
Research and development	\$ 7,704	20%	\$ 7,233	21%	\$ 471	7%
Sales and marketing	13,334	35	11,664	34	1,670	14
General and administrative	5,126	13	4,391	13	735	17
Merger-related			62		(62)	(100)
Total	\$ 26,164	68%	\$ 23,350	69%	\$ 2,814	12%

Research and Development. In the three months ended September 30, 2016, research and development expense increased by \$471,000, or 7%, compared to the three months ended September 30, 2015 primarily due to increases in employee-related and contractor expenses of \$490,000 and \$110,000 respectively. In future periods, we expect that our research and development expense will 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. In the three months ended September 30, 2016, sales and marketing expense increased by \$1.7 million, or 14%, compared to the three months ended September 30, 2015 primarily due to employee-related expenses, commission expenses and marketing programs of \$830,000, \$560,000 and \$267,000 respectively. There were also increases in recruiting and computer maintenance and support expenses of \$209,000, and \$94,000, respectively. These increases were partially offset by decreases in stock-based compensation and contractor expenses of \$192,000 and \$181,000, respectively. We expect that our sales and marketing expense will 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. In the three months ended September 30, 2016, general and administrative expense increased by 735,000, or 17%, compared to the three months ended September 30, 2015 primarily due to increases in stock-based compensation, employee-related, and recruiting expenses of \$324,000, \$243,000 and \$218,000, respectively. These increases were offset by a decrease in outside accounting and legal fees of \$145,000. In future periods, we expect general and administrative expense will increase in absolute dollars as we add personnel and incur additional costs related to the growth of our business and operations.

Merger-related. In the three months ended September 30, 2016, merger-related expenses decreased \$62,000, or 100% when compared to the three months ended September 30, 2015 due to a \$62,000 decrease in costs associated with the retention of certain employees of Unicorn.

Other Expense, Net

Other Expense	Three Months Ended September 30, 2016		2015		Change	
	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	%
	(in thousands, except percentages)					
Interest income, net	\$ 24	%	\$ 2	%	\$ 22	nm%
Interest expense	(15)		(31)		16	(52)
Other expense, net	(14)		(98)		84	(86)
Total	\$ (5)	%	\$ (127)	0%	\$ 122	(96)%

nm not meaningful

In the three months ended September 30, 2016, interest income, net, increased by \$22,000 compared to the corresponding period of the prior year. The increase is primarily due to a higher average cash balance as interest income is generated from the investment of our cash balances, less related bank fees.

The interest expense during the three months ended September 30, 2016 is primarily comprised of interest paid on capital leases and an equipment financing. The increase in other expense, net during the three months ended September 30, 2016 was primarily due to a decrease in foreign currency exchange losses upon collection of foreign denominated receivables of \$83,000.

Table of Contents**Provision for Income Taxes**

Provision for Income Taxes	Three Months Ended September 30,				Change	
	2016	2015	2016	2015	Amount	%
	Percentage of	Percentage of	Amount	Revenue	Amount	%
	Amount	Revenue	Amount	Revenue	(in thousands, except percentages)	
Provision for income taxes	\$ 61	%	\$ 123	%	\$ (62)	(50)%

In the three months ended September 30, 2016 and 2015, the provision for income taxes was primarily comprised of income tax expenses related to foreign jurisdictions.

Overview of Results of Operations for the Nine Months Ended September 30, 2016 and 2015

Total revenue increased by 12%, or \$12.1 million, in the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 due to an increase in subscription and support revenue of 9%, or \$9.0 million, and an increase in professional services and other revenue of 115%, or \$3.0 million. The increase in subscription and support revenue resulted primarily from an increase in revenue from new and existing customers. In addition, our revenue from premium offerings grew by \$13.2 million, or 14%, in the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015. These increases are offset in part by a \$665,000 reduction in revenue due to changes in foreign exchange rates compared to the exchange rates that were in effect during the nine months ended September 30, 2015. 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 \$6.2 million, or 10%, in the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015, primarily due to an increase in revenue. Our ability to continue to maintain our overall gross profit will depend primarily on our ability to continue controlling our costs of delivery. Loss from operations was \$5.3 million in the nine months ended September 30, 2016 compared to \$6.7 million in the nine months ended September 30, 2015. Loss from operations in the nine months ended September 30, 2016 included stock-based compensation expense and amortization of acquired intangible assets of \$4.3 million and \$2.3 million, respectively. Loss from operations in the nine months ended September 30, 2015 included stock-based compensation expense and amortization of acquired intangible assets of \$4.3 million and \$2.4 million, respectively. 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.

Revenue

Revenue by Product Line	Nine Months Ended September 30,				Change	
	2016	2015	2016	2015	Amount	%
	Percentage of	Percentage of	Amount	Revenue	Amount	%
	Amount	Revenue	Amount	Revenue	(in thousands, except percentages)	
Premium	\$ 105,899	95%	\$ 92,677	93%	\$ 13,222	14%
Volume	5,742	5	6,893	7	(1,151)	(17)

Total	\$ 111,641	100%	\$ 99,570	100%	\$ 12,071	12%
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During the nine months ended September 30, 2016, revenue increased by \$12.1 million, or 12%, compared to the nine months ended September 30, 2015, 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 \$13.2 million, or 14%, is partially the result of a 7% increase in the number of premium customers from 1,852 at September 30, 2015 to 1,981 at September 30, 2016 and an 8% increase in the average annual subscription revenue per premium customer during the nine months ended September 30, 2016. These increases were partially offset by a \$665,000 reduction in revenue due to changes in foreign exchange rates compared to the exchange rates that were in effect during the nine months ended September 30, 2015. In the nine months ended September 30, 2016, volume revenue decreased by \$1.2 million, or 17%, compared to the nine months ended September 30, 2015, as we continue to focus on the market for our premium solutions.

Revenue by Type	2016		2015		Change	
	Amount	Percentage of	Amount	Percentage of	Amount	%
		Revenue		Revenue		
(in thousands, except percentages)						
Subscription and support	\$ 105,936	95%	\$ 96,912	97%	\$ 9,024	9%
Professional services and other	5,705	5	2,658	3	3,047	115
Total	\$ 111,641	100%	\$ 99,570	100%	\$ 12,071	12%

In the nine months ended September 30, 2016, subscription and support revenue increased by \$9.0 million, or 9%, compared to the nine months ended September 30, 2015. 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 and an 8% increase in the average annual subscription revenue per premium customer during the nine months ended September 30, 2016. These increases are offset in part by a \$665,000 reduction in revenue due to changes in foreign exchange rates compared to the exchange rates that were in effect during the nine months ended September 30, 2015. In addition, professional services and other revenue increased by \$3.0 million, or 115%, primarily related to the size and number of professional services engagements during the nine months ended September 30, 2016 compared to the corresponding period in the prior year. 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	2016		2015		Change	
	Amount	Percentage of	Amount	Percentage of	Amount	%
		Revenue		Revenue		
(in thousands, except percentages)						
North America	\$ 68,913	62%	\$ 63,636	65%	\$ 5,277	8%
Europe	18,843	17	19,235	19	(392)	(2)
Japan	11,447	10	6,294	6	5,153	82
Asia Pacific	11,495	10	9,144	9	2,351	26
Other	943	1	1,261	1	(318)	(25)

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International subtotal	42,728	38	35,934	35	6,794	19
Total	\$ 111,641	100%	\$ 99,570	100%	\$ 12,071	12%

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.

In the nine months ended September 30, 2016, total revenue for North America increased \$5.3 million, or 8%, compared to the nine months ended September 30, 2015. The increase in revenue for North America resulted primarily from an increase in subscription and support revenue from our premium offerings. In the nine months ended September 30, 2016, total revenue outside of North America increased \$6.8 million, or 19%, compared to the nine months ended September 30, 2015. The increase in revenue from international regions is primarily related to an increase in revenue in Japan and Asia Pacific. This increase is offset by a decrease in sales in Europe combined with a reduction in revenue due to changes in foreign exchange rates compared to the exchange rates that were in effect during the nine months ended September 30, 2015.

Table of Contents**Cost of Revenue**

Cost of Revenue	Nine Months Ended September 30,				Change	
	2016		2015		Amount	%
	Amount	Percentage of Related Revenue	Amount	Percentage of Related Revenue		
	(in thousands, except percentages)					
Subscription and support	\$ 35,041	33%	\$ 31,017	32%	\$ 4,024	13%
Professional services and other	5,453	96	3,645	137	1,808	50
Total	\$ 40,494	36%	\$ 34,662	35%	\$ 5,832	17%

In the nine months ended September 30, 2016, cost of subscription and support revenue increased \$4.0 million, or 13%, compared to the nine months ended September 30, 2015. The increase resulted primarily from increases in content delivery network expenses, network hosting services and employee-related expenses of \$3.1 million, \$1.9 million and \$415,000, respectively. There were also increases in bandwidth expenses and stock-based compensation of \$154,000 and \$103,000, respectively. These increases were offset in part by decreases in depreciation and maintenance expenses of \$1.1 million and \$141,000, respectively.

In the nine months ended September 30, 2016, cost of professional services and other revenue increased \$1.8 million, or 50%, compared to the nine months ended September 30, 2015. The increase resulted primarily from increases in contractor and employee-related expenses of \$1.5 million and \$280,000, respectively.

Gross Profit

Gross Profit	Nine Months Ended September 30,				Change	
	2016		2015		Amount	%
	Amount	Percentage of Related Revenue	Amount	Percentage of Related Revenue		
	(in thousands, except percentages)					
Subscription and support	\$ 70,895	67%	\$ 65,895	68%	\$ 5,000	8%
Professional services and other	252	4	(987)	(37)	1,239	(126)
Total	\$ 71,147	64%	\$ 64,908	65%	\$ 6,239	10%

The overall gross profit percentage was 64% and 65% for the nine months ended September 30, 2016 and 2015, respectively. Subscription and support gross profit increased \$5.0 million, or 8%, compared to the nine months ended September 30, 2015. Professional services and other gross profit increased \$1.2 million, or 126%, compared to the nine months ended September 30, 2015. The increase in the number of professional service engagements has allowed for greater leverage of fixed costs. 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	2016		2015		Change	
	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	%
	(in thousands, except percentages)					
Research and development	\$ 22,385	20%	\$ 22,320	22%	\$ 65	0%
Sales and marketing	39,845	36	34,406	35	5,439	16
General and administrative	14,190	13	14,761	15	(571)	(4)
Merger-related	21		138		(117)	(85)
Total	\$ 76,441	68%	\$ 71,625	72%	\$ 4,816	7%

Research and Development. In the nine months ended September 30, 2016, research and development expense was relatively unchanged when compared to the nine months ended September 30, 2015. Research and development expense increased by \$415,000 for employee-related expenses. This increase was partially offset by decreases in travel and entertainment, rent and utilities and stock-based compensation expense of \$192,000, \$151,000 and \$118,000, respectively.

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Sales and Marketing. In the nine months ended September 30, 2016, sales and marketing expense increased by \$5.4 million, or 16%, compared to the nine months ended September 30, 2015 primarily due to increases in employee-related expense, commission expense, marketing programs, and travel expense of \$3.0 million, \$1.7 million, \$383,000 and \$224,000, respectively. There were also increases in computer maintenance and support and recruiting expenses of \$239,000 and \$112,000, respectively. These increases were partially offset by decreases in contractor and stock-based compensation expenses of \$155,000 and \$134,000, respectively.

General and Administrative. In the nine months ended September 30, 2016, general and administrative expense decreased by \$571,000 million, or 4%, compared to the nine months ended September 30, 2015 primarily due to a decrease in outside accounting and legal fees of \$959,000. This decrease was partially offset by increases in recruiting and computer maintenance and support of \$300,000 and \$103,000, respectively.

Merger-related. In the nine months ended September 30, 2016, merger-related expenses merger-related expenses decreased \$117,000 or 85%, when compared to the nine months ended September 30, 2015 primarily due to a \$117,000 decrease in costs associated with the retention of certain employees of Unicorn.

Other Expense, Net

	Nine Months Ended September 30,		2015		Change	
	2016	2015	2015	2015	Amount	%
Other Expense	Amount	Percentage of Revenue	Amount	Percentage of Revenue		
	(in thousands, except percentages)					
Interest income, net	\$ 74	%	\$ 4	%	\$ 70	nm%
Interest expense	(51)		(71)		20	(28)
Other expense, net	(150)		(713)	(1)	563	(79)
Total	\$ (127)	%	\$ (780)	(1)%	\$ 653	(84)%

nm not meaningful

In the nine months ended September 30, 2016, interest income, net, increased by 70,000 compared to the corresponding period of the prior year. The increase is primarily due to a higher average cash balance as interest income is generated from the investment of our cash balances, less related bank fees.

The interest expense during the nine months ended September 30, 2016 is primarily comprised of interest paid on capital leases and an equipment financing. The increase in other expense, net during the nine months ended September 30, 2016 was primarily due to a decrease in foreign currency exchange losses upon collection of foreign denominated accounts receivables of \$567,000.

Provision for Income Taxes

	Nine Months Ended September 30,		Change
	2016	2015	

Provision for Income Taxes	Percentage of		Percentage of		Amount	%
	Amount	Revenue	Amount	Revenue		
	(in thousands, except percentages)					
Provision for income taxes	\$ 202	%	\$ 255	%	\$ (53)	(21)%

In the nine months ended September 30, 2016 and 2015, the provision for income taxes was primarily comprised of income tax expenses related to foreign jurisdictions.

Table of Contents**Liquidity and Capital Resources**

In connection with our initial public offering in February 2012, we received aggregate proceeds of approximately \$58.8 million, including the proceeds from the underwriters' exercise of their overallotment option, net of underwriters discounts and commissions, but before deducting offering expenses of approximately \$4.3 million. Prior to our initial public offering, we funded our operations primarily through private placements of preferred and common stock, as well as through borrowings of \$7.0 million under our bank credit facilities. In February 2012, we repaid the \$7.0 million balance under our bank credit facilities. All of the preferred stock was converted into shares of our common stock in connection with our initial public offering.

Condensed Consolidated Statements of Cash Flow Data	Nine Months Ended September 30,	
	2016	2015
	(in thousands)	
Purchases of property and equipment	\$ (1,194)	\$ (2,479)
Depreciation and amortization	5,901	6,898
Cash flows provided by operating activities	7,629	4,249
Cash flows used in investing activities	(4,434)	(3,499)
Cash flows provided by financing activities	3,902	164

Cash and cash equivalents.

Our cash and cash equivalents at September 30, 2016 were held for working capital purposes and were invested primarily in money market funds. We do not enter into investments for trading or speculative purposes. At September 30, 2016 and December 31, 2015, restricted cash was \$201,000 and was held in certificates of deposit as collateral for letters of credit related to the contractual provisions of our corporate credit cards and the contractual provisions with a customer. At September 30, 2016 and December 31, 2015, we had \$5.7 million and \$5.2 million, respectively, of cash and cash equivalents held by subsidiaries in international locations, including subsidiaries located in Japan and the United Kingdom. It is our current intention to permanently reinvest unremitted earnings in such subsidiaries or to repatriate the earnings only when tax effective. We believe that 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.

Accounts receivable, net.

Our accounts receivable balance fluctuates from period to period, which affects our cash flow from operating activities. The fluctuations vary depending on the timing of our billing activity, cash collections, and changes to our allowance for doubtful accounts. In many instances we receive cash payment from a customer prior to the time we are able to recognize revenue on a transaction. We record these payments as deferred revenue, which has a positive effect on our accounts receivable balances. We use days sales outstanding, or DSO, calculated on a quarterly basis, as a measurement of the quality and status of our receivables. We define DSO as (a) accounts receivable, net of allowance for doubtful accounts, divided by total revenue for the most recent quarter, multiplied by (b) the number of days in that quarter. DSO was 54 days at September 30, 2016 and 56 days at December 31, 2015.

Cash flows provided by operating activities.

Cash provided by operating activities consists primarily of net loss adjusted for certain non-cash items including depreciation and amortization, stock-based compensation expense, the provision for bad debts and the effect of changes in working capital and other activities. Cash provided by operating activities during the nine months ended September 30, 2016 was \$7.6 million. The cash flow provided by operating activities resulted from net non-cash charges of \$10.4 million, cash provided by changes in our operating assets and liabilities of \$2.8 million, partially offset by net losses of \$5.6 million. Net non-cash expenses consisted primarily of \$5.9 million for depreciation and amortization expense and \$4.3 million for stock-based compensation expense. Cash provided by changes in our operating assets and liabilities consisted primarily of increases in deferred revenue and accrued expenses of \$4.3 million and \$2.0 million, respectively. These inflows were offset in part by increases in prepaid expenses and other current assets and accounts receivable of \$1.7 million and \$1.4 million, respectively.

Cash flows used in investing activities.

Cash used in investing activities during the nine months ended September 30, 2016 was \$4.4 million, consisting primarily of \$2.9 million for the capitalization of internal-use software costs, \$1.2 million in capital expenditures to support the business and \$300,000 in cash paid for the purchase of an intangible asset.

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Cash flows provided by financing activities.

Cash provided by financing activities for the nine months ended September 30, 2016 was \$3.9 million, consisting of proceeds received from the exercise of common stock options and equipment financing of \$4.4 million and \$604,000, respectively, offset partially by payments under capital lease obligation, withholding tax on RSU vesting and payments on equipment financing of \$682,000, \$216,000 and \$196,000, respectively.

Credit facility borrowings.

On November 19, 2015, we entered into an amended and restated loan and security agreement with a lender (the *Loan Agreement*) providing for up to a \$20.0 million asset based line of credit (the *Line of Credit*). Under the *Line of Credit*, we can borrow up to \$20.0 million. Borrowings under the *Line of Credit* are secured by substantially all of our assets, excluding our intellectual property. Outstanding amounts under the *Line of Credit* accrue interest at a rate equal to the prime rate or the LIBOR rate plus 2.5%. Under the *Loan Agreement*, we must comply with certain financial covenants, including maintaining a minimum asset coverage ratio. If the outstanding principal during any month is at least \$15.0 million, the Company must also maintain a minimum net income threshold based on non-GAAP operating measures. Failure to comply with these covenants, or the occurrence of an event of default, could permit the Lenders under the *Line of Credit* to declare all amounts borrowed under the *Line of Credit*, together with accrued interest and fees, to be immediately due and payable. We were in compliance with all covenants under the *Line of Credit* as of September 30, 2016.

On December 31, 2015, the Company entered into an equipment financing agreement with a lender (the *December 2015 Equipment Financing Agreement*) to finance the purchase of \$604,000 in computer equipment. In February 2016, the Company drew down \$604,000 under the *December 2015 Equipment Financing Agreement*, and the liability was recorded at fair value using a market interest rate. The Company is repaying its obligation over a two year period through January 2018, and the amount outstanding was \$408,000 as of September 30, 2016.

Net operating loss carryforwards.

As of December 31, 2015, we had federal and state net operating losses of approximately \$131.5 million and \$48.0 million, respectively, which are available to offset future taxable income, if any, through 2035. Included in the federal and state net operating losses are deductions attributable to excess tax benefits from the exercise of non-qualified stock options of \$12.3 million and \$7.8 million, respectively. The tax benefits attributable to these net operating losses are credited directly to additional paid-in capital when realized. The Company has not realized any such tax benefits through December 31, 2015. We had federal and state research and development tax credits of \$4.7 million and \$2.9 million, respectively, which expire in various amounts through 2035. Our net operating loss and tax credit amounts are subject to annual limitations under Section 382 change of ownership rules of the U.S. Internal Revenue Code of 1986, as amended. We completed an assessment to determine whether there may have been a Section 382 ownership change and determined that it is more likely than not that our net operating and tax credit amounts as disclosed are not subject to any material Section 382 limitations.

In assessing our ability to utilize our net deferred tax assets, we considered whether it is more likely than not that some portion or all of our net deferred tax assets will not be realized. Based upon the level of our historical U.S. losses and future projections over the period in which the net deferred tax assets are deductible, at this time, we believe it is more likely than not that we will not realize the benefits of these deductible differences. Accordingly, we have provided a valuation allowance against our U.S. deferred tax assets as of September 30, 2016 and December 31, 2015.

Contractual Obligations and Commitments

Our principal commitments consist primarily of obligations under our leases for our office space and contractual commitments for capital leases and equipment financing as well as content delivery network services, hosting and other support services. Other than these lease obligations and contractual commitments, we do not have commercial commitments under lines of credit, standby repurchase obligations or other such debt arrangements.

Our contractual obligations as of December 31, 2015 are summarized in our Annual Report on Form 10-K for the year ended December 31, 2015. In addition to the obligations outlined in our Annual Report on Form 10-K, we had \$408,000 of equipment financing obligations as of September 30, 2016. The obligation under the December 2015 Equipment Financing Agreement is being repaid over a two year period through January 2018. We also had non-cancelable commitments as of September 30, 2016, primarily for content delivery and network storage service, of \$4,075 for the remainder of 2016, \$9,537 for 2017, \$10,996 for 2018 and \$6,942 for 2019.

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Recent Accounting Pronouncements

For information on recent accounting pronouncements, see *Recently Issued and Adopted Accounting Standards* in the notes to the condensed consolidated financial statements appearing elsewhere in this Quarterly Report on Form 10-Q.

Off-Balance Sheet Arrangements

We do not have any special purpose entities or off-balance sheet arrangements.

Anticipated Cash Flows

We expect to incur significant operating costs, particularly related to services delivery costs, sales and marketing and research and development, for the foreseeable future in order to execute our business plan. We anticipate that such operating costs, as well as planned capital expenditures will constitute a material use of our cash resources. As a result, our net cash flows will depend heavily on the level of future sales, changes in deferred revenue and our ability to manage infrastructure costs.

We believe our existing cash and cash equivalents will be sufficient to meet our working capital and capital expenditures for at least the next 12 months. Our future working capital requirements will depend on many factors, including the rate of our revenue growth, our introduction of new products and enhancements, and our expansion of sales and marketing and product development activities. To the extent that our cash and cash equivalents, short and long-term investments and cash flow from operating activities are insufficient to fund our future activities, we may need to raise additional funds through bank credit arrangements or public or private equity or debt financings. We also may need to raise additional funds in the event we determine in the future to acquire businesses, technologies and products that will complement our existing operations. In the event funding is required, we may not be able to obtain bank credit arrangements or equity or debt financing on terms acceptable to us or at all.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Quantitative and Qualitative Disclosures about Market Risk

We have operations both within the United States and internationally, and we are exposed to market risks in the ordinary course of our business. These risks include primarily foreign exchange risks, interest rate and inflation.

Financial instruments

Financial instruments meeting fair value disclosure requirements consist of cash equivalents, accounts receivable and accounts payable. The fair value of these financial instruments approximates their carrying amount.

Foreign currency exchange risk

Our results of operations 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 Japanese yen. Except for revenue transactions in Japan, we enter into transactions directly with substantially all of our foreign customers.

Percentage of revenues and expenses in foreign currency is as follows:

	Three Months Ended September 30,	
	2016	2015
Revenues generated in locations outside the United States	43%	39%
Revenues in currencies other than the United States dollar (1)	29%	25%
Expenses in currencies other than the United States dollar (1)	17%	14%
	Nine Months Ended September 30,	
	2016	2015
Revenues generated in locations outside the United States	42%	40%
Revenues in currencies other than the United States dollar (1)	28%	27%
Expenses in currencies other than the United States dollar (1)	16%	14%

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- (1) Percentage of revenues and expenses denominated in foreign currency for the three and nine months ended September 30, 2016 and 2015:

	Three Months Ended		Three Months Ended	
	September 30, 2016		September 30, 2015	
	Revenues	Expenses	Revenues	Expenses
Euro	7%	2%	6%	3%
British pound	7	6	8	6
Japanese Yen	11	5	7	3
Other	4	4	4	2
Total	29%	17%	25%	14%
	Nine Months Ended		Nine Months Ended	
	September 30, 2016		September 30, 2015	
	Revenues	Expenses	Revenues	Expenses
Euro	7%	2%	7%	2%
British pound	7	6	9	6
Japanese Yen	10	4	6	3
Other	4	4	5	3
Total	28%	16%	27%	14%

As of September 30, 2016 and December 31, 2015, we had \$7.2 million and \$5.4 million, respectively, of receivables denominated in currencies other than the U.S. dollar. We also maintain cash accounts denominated in currencies other than the local currency, which exposes us to foreign exchange rate movements.

In addition, although our foreign subsidiaries have intercompany accounts that are eliminated upon consolidation, these accounts expose us to foreign currency exchange rate fluctuations. Exchange rate fluctuations on short-term intercompany accounts are recorded in our consolidated statements of operations under other income (expense), net, while exchange rate fluctuations on long-term intercompany accounts are recorded in our consolidated balance sheets under accumulated other comprehensive income in stockholders' equity, as they are considered part of our net investment and hence do not give rise to gains or losses.

Currently, our largest foreign currency exposures are the Japanese yen, euro and British pound, primarily because our Japan and European operations have a higher proportion of our local currency denominated revenue and expenses. Relative to foreign currency exposures existing at September 30, 2016, a 10% unfavorable movement in foreign currency exchange rates would expose us to significant losses in earnings or cash flows or significantly diminish the fair value of our foreign currency financial instruments. For the nine months ended September 30, 2016, we estimated that a 10% unfavorable movement in foreign currency exchange rates would have decreased revenues by \$3.2 million, decreased expenses by \$1.8 million and decreased operating income by \$1.4 million. The estimates used assume that all currencies move in the same direction at the same time and the ratio of non-U.S. dollar denominated revenue and expenses to U.S. dollar denominated revenue and expenses does not change from current levels. Since a portion of our revenue is deferred revenue that is recorded at different foreign currency exchange rates, the impact to revenue of a change in foreign currency exchange rates is recognized over time, and the impact to expenses is more immediate, as expenses are recognized at the current foreign currency exchange rate in effect at the time the expense is incurred. All of the potential changes noted above are based on sensitivity analyses performed on our financial results as of

September 30, 2016 and 2015.

Interest rate risk

We had unrestricted cash and cash equivalents totaling \$35.2 million at September 30, 2016. Cash and cash equivalents were invested primarily in money market funds and are held for working capital purposes. We do not use derivative financial instruments in our investment portfolio. Declines in interest rates, however, would reduce future interest income. We incurred \$15,000 and \$51,000 of interest expense during the three and nine months ended September 30, 2016, respectively, related to interest paid on capital leases and an equipment financing. While we continue to incur interest expense in connection with our capital leases and equipment financing, the interest expense is fixed and not subject to changes in market interest rates. In the event that we borrow under our line of credit, which bears interest at the prime rate or the LIBOR rate plus the LIBOR rate margin, the related interest expense recorded would be subject to changes in the rate of interest.

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Inflation risk

We do not believe that inflation has had a material effect on our business, financial condition or results of operations. If our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could harm our business, financial condition and results of operations.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of September 30, 2016, our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2016, our disclosure controls and procedures were effective in ensuring that material information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, including ensuring that such material information is accumulated by and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On July 8, 2016, a complaint was filed by Brand Technologies, Inc. naming us, along with several others, as a defendant in a case alleging copyright infringement, violations of the Lanham Act, unfair competition and related claims (Brand Technologies, Inc. v. Cox Enterprises, Inc., et al., United States District Court for the Central District of California). The complaint alleges that Cox Media Group (CMG) engaged in the unlicensed provision of copyrighted videos owned by the plaintiff on CMG websites by using our technology. The complaint seeks actual and statutory damages, costs and injunctive relief. On September 22, 2016, the plaintiff filed an amended complaint. We have not yet answered the amended complaint or otherwise filed a responsive pleading. 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 July 30, 2016, a complaint was filed by Autumn Cloud LLC naming us as a defendant in a patent infringement case (Autumn Cloud LLC v. Brightcove Inc., United States District Court for the Eastern District of Texas). The complaint alleges that we have infringed U.S. Patent 7,606,843 with an issue date of October 20, 2009, entitled

System and Method for Customizing the Storage and Management of Device Data in a Networked Environment, and U.S. Patent 8,239,347 with an issue date of August 7, 2012, entitled System and Method for Customizing the Storage and Management of Device Data in a Networked Environment. The complaint seeks monetary damages and declarations of infringement. Autumn Cloud has not yet served the complaint on Brightcove. 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.

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 1A. RISK FACTORS

You should carefully consider the risks described in our annual report on Form 10-K for the fiscal year ended December 31, 2015, under the heading Part I Item 1A. Risk Factors, together with all of the other information in this Quarterly Report on Form 10-Q. 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

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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.

ITEM 5. OTHER INFORMATION

Our policy governing transactions in our securities by directors, officers and employees permits our officers, directors and certain other persons to enter into trading plans complying with Rule 10b5-1 under the Exchange Act. We have been advised that our Chief Executive Officer, David Mendels, and our President of International Operations, Andrew Feinberg, have each entered into a trading plan in accordance with Rule 10b5-1 and our policy governing transactions in our securities. Generally, under these trading plans, the individual relinquishes control over the transactions once the trading plan is put into place. Accordingly, sales under these plans may occur at any time, including possibly before, simultaneously with, or immediately after significant events involving our company.

We anticipate that, as permitted by Rule 10b5-1 and our policy governing transactions in our securities, some or all of our officers, directors and employees may establish trading plans in the future. We intend to disclose the names of executive officers and directors who establish a trading plan in compliance with Rule 10b5-1 and the requirements of our policy governing transactions in our securities in our future quarterly and annual reports on Form 10-Q and 10-K filed with the Securities and Exchange Commission. However, we undertake no obligation to update or revise the information provided herein, including for revision or termination of an established trading plan.

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ITEM 6. EXHIBITS

Exhibits

3.1 (1)	Eleventh Amended and Restated Certificate of Incorporation.
3.2 (2)	Amended and Restated By-Laws.
4.1 (3)	Form of Common Stock certificate of the Registrant.
31.1^	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2^	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1^	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

- (1) Filed as Exhibit 3.2 to Amendment No. 5 to Registrant's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on February 6, 2012, and incorporated herein by reference.
- (2) Filed as Exhibit 3.3 to Amendment No. 5 to Registrant's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on February 6, 2012, and incorporated herein by reference.
- (3) Filed as Exhibit 4.1 to Amendment No. 5 to Registrant's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on February 6, 2012, and incorporated herein by reference.
- ^ Furnished herewith.

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SIGNATURES

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

BRIGHTCOVE INC.
(Registrant)

Date: November 2, 2016

By:
/s/ David Mendels

David Mendels
Chief Executive Officer
(Principal Executive Officer)

Date: November 2, 2016

By:
/s/ Kevin R. Rhodes

Kevin R. Rhodes
Chief Financial Officer
(Principal Financial Officer)