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

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**FORM 10-Q**

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(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2020

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

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**BRIGHTCOVE INC.**

(Exact name of registrant as specified in its charter)

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**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)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.001 per share	BCOV	The NASDAQ Global Market

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 every Interactive Data File required to be submitted 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 such files). Yes  No

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 April 24, 2020 there were 38,977,133 shares of the registrant's common stock, \$0.001 par value per share, outstanding.

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**BRIGHTCOVE INC.**

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## SPECIAL NOTE REGARDING 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 potential benefits of acquisitions; 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 I of this Quarterly Report on Form 10-Q, and the risks discussed in our other Securities and Exchange Commission, or SEC, filings. Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements. Forward-looking statements in this Quarterly Report on Form 10-Q may include statements about:

- our ability to achieve profitability;
- our competitive position and the effect of competition in our industry;
- our ability to retain and attract new customers;
- our ability to penetrate existing markets and develop new markets for our services;
- our ability to retain or hire qualified accounting and other personnel;
- our ability to successfully integrate acquired businesses, including the online video platform assets of Ooyala, Inc. and certain of its subsidiaries that we acquired during 2019;
- our ability to protect our intellectual property and operate our business without infringing upon the intellectual property rights of others;
- our ability to maintain the security and reliability of our systems;
- our estimates with regard to our future performance and total potential market opportunity;
- our expectations regarding the potential impact of the COVID-19 pandemic on our business, operations, and the markets in which we and our partners and customers operate;
- our estimates regarding our anticipated results of operations, future revenue, bookings growth, capital requirements and our needs for additional financing; and
- our goals and strategies, including those related to revenue and bookings growth.

## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

Brightcove Inc.  
Condensed Consolidated Balance Sheets  
(unaudited)

	March 31, 2020	December 31, 2019
	(in thousands, except share and per share data)	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 32,089	\$ 22,759
Accounts receivable, net of allowance of \$693 and \$904 at March 31, 2020 and December 31, 2019, respectively	27,334	31,181
Prepaid expenses	7,565	5,171
Other current assets	7,311	6,713
Total current assets	74,299	65,824
Property and equipment, net	13,383	12,086
Operating lease right-of-use asset	14,900	16,912
Intangible assets, net	12,903	13,875
Goodwill	60,902	60,902
Other assets	2,984	3,268
Total assets	<u>\$ 179,371</u>	<u>\$ 172,867</u>
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable	\$ 12,428	\$ 9,917
Accrued expenses	19,661	20,925
Operating lease liability	5,875	6,174
Deferred revenue	52,356	49,260
Total current liabilities	90,320	86,276
Operating lease liability, net of current portion	9,953	11,701
Debt	10,000	□
Other liabilities	538	767
Total liabilities	110,811	98,744
Commitments and contingencies (Note 10)		
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; 39,105,853 and 39,042,787 shares issued at March 31, 2020 and December 31, 2019, respectively	39	39
Additional paid-in capital	279,114	276,365
Treasury stock, at cost; 135,000 shares	(871)	(871)
Accumulated other comprehensive loss	(1,244)	(785)
Accumulated deficit	(208,478)	(200,625)
Total stockholders' equity	68,560	74,123
Total liabilities and stockholders' equity	<u>\$ 179,371</u>	<u>\$ 172,867</u>

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

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

	<b>Three Months Ended March 31,</b>	
	<b>2020</b>	<b>2019</b>
	<b>(in thousands, except share and per share data)</b>	
Revenue:		
Subscription and support revenue	\$ 44,658	\$ 38,877
Professional services and other revenue	1,995	2,959
Total revenue	46,653	41,836
Cost of revenue:		
Cost of subscription and support revenue	16,748	14,170
Cost of professional services and other revenue	1,894	2,576
Total cost of revenue	18,642	16,746
Gross profit	28,011	25,090
Operating expenses:		
Research and development	8,853	7,394
Sales and marketing	14,174	14,256
General and administrative	6,532	5,261
Merger-related	5,509	2,932
Total operating expenses	35,068	29,843
Loss from operations	(7,057)	(4,753)
Other income (expense), net	(468)	(55)
Loss before income taxes	(7,525)	(4,808)
Provision for income taxes	328	175
Net loss	\$ (7,853)	\$ (4,983)
Net loss per share - basic and diluted	\$ (0.20)	\$ (0.14)
Weighted-average number of common shares used in computing net loss per share	38,981,140	36,677,046

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

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

	<u>Three Months Ended March 31,</u>	
	<u>2020</u>	<u>2019</u>
	<u>(in thousands)</u>	
Net loss	\$ (7,853)	\$ (4,983)
Other comprehensive income:		
Foreign currency translation adjustments	(459)	21
Comprehensive loss	<u>\$ (8,312)</u>	<u>\$ (4,962)</u>

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

**Brightcove Inc.**  
**Condensed Consolidated Statements of Stockholders' Equity**  
**(unaudited)**

	<b>Three Months Ended March 31,</b>	
	<b>2020</b>	<b>2019</b>
	<b>(in thousands, except share data)</b>	
<b>Shares of common stock issued</b>		
Balance, beginning of period	39,042,787	36,752,469
Issuance of common stock upon exercise of stock options and pursuant to restricted stock units	63,066	155,582
Balance, end of period	<u>39,105,853</u>	<u>36,908,051</u>
<b>Shares of treasury stock</b>		
Balance, beginning of period	(135,000)	(135,000)
Balance, end of period	<u>(135,000)</u>	<u>(135,000)</u>
<b>Par value of common stock issued</b>		
Balance, beginning of period	\$ 39	\$ 37
Issuance of common stock upon exercise of stock options and pursuant to restricted stock units	□	□
Balance, end of period	<u>\$ 39</u>	<u>\$ 37</u>
<b>Value of treasury stock</b>		
Balance, beginning of period	\$ (871)	\$ (871)
Balance, end of period	<u>\$ (871)</u>	<u>\$ (871)</u>
<b>Additional paid-in capital</b>		
Balance, beginning of period	\$ 276,365	\$ 251,122
Issuance of common stock upon exercise of stock options and pursuant to restricted stock units	36	625
Stock-based compensation expense	2,713	1,497
Balance, end of period	<u>\$ 279,114</u>	<u>\$ 253,244</u>
<b>Accumulated deficit</b>		
Balance, beginning of period	\$ (200,625)	\$ (178,722)
Net loss	(7,853)	(4,983)
Balance, end of period	<u>\$ (208,478)</u>	<u>\$ (183,705)</u>
<b>Accumulated other comprehensive loss</b>		
Balance, beginning of period	\$ (785)	\$ (952)
Foreign currency translation adjustment	(459)	21
Balance, end of period	<u>\$ (1,244)</u>	<u>\$ (931)</u>
<b>Total stockholders' equity</b>	<u>\$ 68,560</u>	<u>\$ 67,774</u>

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

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

	<b>Three Months Ended March 31,</b>	
	<b>2020</b>	<b>2019</b>
	<b>(in thousands)</b>	
<b>Operating activities</b>		
Net loss	\$ (7,853)	\$ (4,983)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	2,408	1,713
Stock-based compensation	2,618	1,424
Provision for reserves on accounts receivable	275	70
Changes in assets and liabilities:		
Accounts receivable	3,607	(2,033)
Prepaid expenses and other current assets	(1,843)	(803)
Other assets	195	92
Accounts payable	2,364	715
Accrued expenses	(2,264)	353
Operating leases	(34)	(68)
Deferred revenue	2,968	3,783
Net cash provided by operating activities	2,441	263
<b>Investing activities</b>		
Purchases of property and equipment	(720)	(244)
Capitalized internal-use software costs	(1,973)	(946)
Net cash used in investing activities	(2,693)	(1,190)
<b>Financing activities</b>		
Proceeds from exercise of stock options	36	625
Proceeds from debt	10,000	□
Other financing activities	(26)	(58)
Net cash provided by financing activities	10,010	567
Effect of exchange rate changes on cash and cash equivalents	(428)	2
Net increase (decrease) in cash and cash equivalents	9,330	(358)
Cash and cash equivalents at beginning of period	22,759	29,306
Cash and cash equivalents at end of period	<u>\$ 32,089</u>	<u>\$ 28,948</u>
<b>Supplemental disclosure of cash flow information</b>		
Cash paid for operating lease liabilities	<u>\$ 1,824</u>	<u>\$ 1,904</u>

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

**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.

**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, 2019.

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, other than the changes to accounting for credit losses as described in Note 14, 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, 2019 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 months ended March 31, 2020 and 2019. 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.

As described in Note 14, the Company implemented a significant accounting policy upon the adoption of Accounting Standards Update (ASU) 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (ASC 326). As of March 31, 2020, other than the changes to the accounting for credit losses, 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, 2019, have not changed.

**2. Revenue from Contracts with Customers**

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

The following summarizes the opening and closing balances of receivables, contract assets and contract liabilities from contracts with customers.

	Accounts Receivable, net	Contract Assets (current)	Deferred Revenue (current)	Deferred Revenue (non- current)	Total Deferred Revenue
Balance at December 31, 2019	\$ 31,181	\$ 1,871	\$49,260	\$ 299	\$ 49,559
Balance at March 31, 2020	27,334	1,909	52,356	162	52,518

Revenue recognized during the three months ended March 31, 2020 from amounts included in deferred revenue at the beginning of the period was approximately \$25.2 million. During the three months ended March 31, 2020, the Company did not recognize a material amount of revenue from performance obligations satisfied or partially satisfied in previous periods.

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The assets recognized for costs to obtain a contract were \$6.2 million as of March 31, 2020 and \$5.9 million as of December 31, 2019. Amortization expense recognized during the three months ended March 31, 2020 and 2019 related to costs to obtain a contract was \$1.6 million and \$1.8 million, respectively.

### **Transaction Price Allocated to Future Performance Obligations**

As of March 31, 2020, the total aggregate transaction price allocated to the unsatisfied performance obligations for subscription and support contracts was approximately \$125.5 million, of which approximately \$100.5 million is expected to be recognized over the next 12 months. The Company expects to recognize substantially all of the remaining unsatisfied performance obligations by December 2024.

### **3. 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, trade accounts receivable and unbilled 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 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. Please see Note 14 for more detail on how the Company assesses credit risk for trade accounts receivable and unbilled trade accounts receivable under ASC 326.

### **4. 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.

### **5. 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 March 31, 2020 or December 31, 2019. The increase in cash and cash equivalents is primarily the result of the Company's borrowing \$10.0 million under an existing line of credit, as described in Note 11.

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 March 31, 2020 consist of the following:

<u>Description</u>	<b>March 31, 2020</b>			
	<u>Contracted Maturity</u>	<u>Cost</u>	<u>Fair Market Value</u>	<u>Balance Per Balance Sheet</u>
Cash	Demand	\$32,048	\$ 32,048	\$ 32,048
Money market funds	Demand	41	41	41
Total cash and cash equivalents		<u>\$32,089</u>	<u>\$ 32,089</u>	<u>\$ 32,089</u>

Cash and cash equivalents as of December 31, 2019 consist of the following:

<u>Description</u>	<b>December 31, 2019</b>			
	<u>Contracted Maturity</u>	<u>Cost</u>	<u>Fair Market Value</u>	<u>Balance Per Balance Sheet</u>
Cash	Demand	\$22,718	\$ 22,718	\$ 22,718
Money market funds	Demand	41	41	41
Total cash and cash equivalents		<u>\$22,759</u>	<u>\$ 22,759</u>	<u>\$ 22,759</u>

## 6. Net Loss per Share

The Company calculates basic and diluted net loss per common share by dividing the net loss by the number of common shares outstanding during the period. The Company has excluded other potentially dilutive shares, which include warrants to purchase common stock and outstanding common stock options and unvested restricted stock units, from the number of common shares outstanding as their inclusion in the computation for all periods would be anti-dilutive due to net losses incurred. The following outstanding common shares have been excluded from the computation of dilutive net loss per share as of March 31, 2020 and 2019.

	Three Months Ended March 31,	
	2020	2019
Options outstanding	2,487	2,479
Restricted stock units outstanding	3,726	3,626

## 7. Fair Value of Financial Instruments

The Company's financial instruments carried at fair value were less than \$0.1 million as of March 31, 2020 and December 31, 2019.

## 8. Stock-based Compensation

The weighted-average fair value of options granted during the three months ended March 31, 2020 and 2019 was \$3.37 and \$3.82 per share, respectively. The weighted-average assumptions utilized to determine such values are presented in the following table:

	Three Months Ended March 31,	
	2020	2019
Expected life in years	6.2	6.3
Risk-free interest rate	1.20%	2.55%
Volatility	44%	43%
Dividend yield	□	□

The Company recorded stock-based compensation expense of \$2.6 million and \$1.4 million for the three months ended March 31, 2020 and 2019, respectively. As of March 31, 2020, there was \$21 million of unrecognized stock-based compensation expense related to stock-based awards that is expected to be recognized over a weighted-average period of 2.10 years. The following table summarizes stock-based compensation expense as included in the consolidated statement of operations for the three months ended March 31, 2020 and 2019:

	Three Months Ended March 31,	
	2020	2019
Stock-based compensation:		
Cost of subscription and support revenue	\$ 190	\$ 119
Cost of professional services and other revenue	80	84
Research and development	440	263
Sales and marketing	911	458
General and administrative	997	500
	<u>\$ 2,618</u>	<u>\$ 1,424</u>

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The following is a summary of the stock option activity during the three months ended March 31, 2020.

	<u>Number of Shares</u>	<u>Weighted-Average Exercise Price</u>	<u>Weighted-Average Remaining Contractual Term (In Years)</u>	<u>Aggregate Intrinsic Value (1)</u>
Outstanding at December 31, 2019	2,479,423	\$ 8.96		
Granted	56,000	7.60		
Exercised	(4,804)	7.81		\$ 5
Canceled	(43,467)	9.05		
Outstanding at March 31, 2020	<u>2,487,152</u>	\$ 8.93	7.08	\$ 406
Exercisable at March 31, 2020	<u>1,156,257</u>	\$ 8.30	5.26	\$ 376

- (1) The aggregate intrinsic value was calculated based on the positive difference between the fair value of the Company's common stock on March 31, 2020 of \$6.97 per share, or the date of exercise, as appropriate, and the exercise price of the underlying options.

The following table summarizes the restricted stock unit activity during the three months ended March 31, 2020:

	<u>Shares</u>	<u>Weighted Average Grant Date Fair Value</u>
Unvested at December 31, 2019	3,626,364	\$ 9.03
Granted	340,750	8.05
Vested and issued	(58,262)	7.81
Canceled	(182,439)	8.08
Unvested at March 31, 2020	<u>3,726,413</u>	<u>\$ 8.95</u>

The aggregate fair value of vested and issued RSUs for the three months ended March 31, 2020 was \$0.5 million.

## 9. Income Taxes

For the three months ended March 31, 2020 and 2019, the Company recorded income tax expense of \$328 and \$175, respectively. The income tax expense relates principally to the Company's foreign operations.

The Company is required to compute income tax expense in each jurisdiction in which it operates. This process requires the Company to project its current tax liability and estimate its deferred tax assets and liabilities, including net operating loss (NOL) and tax credit carry-forwards. In assessing the ability to realize the net deferred tax assets, management considers whether it is more likely than not that some portion or all of the net deferred tax assets will not be realized.

The Company has provided a valuation allowance against its remaining U.S. net deferred tax assets as of March 31, 2020 and December 31, 2019, based upon the level of historical U.S. losses and future projections over the period in which the net deferred tax assets are deductible, at this time, management believes it is more likely than not that the Company will not realize the benefits of these deductible differences.

## 10. 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.

### 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 claims 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 March 31, 2020, 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.

## 11. Debt

On December 14, 2018, the Company entered into an amended and restated loan and security agreement with a lender (the "Loan Agreement") providing for up to a \$30.0 million asset based line of credit (the "Line of Credit"). Under the Line of Credit, the Company can borrow up to \$30.0 million. Borrowings under the Line of Credit are secured by substantially all of the Company's assets, excluding its intellectual property. Outstanding amounts under the Line of Credit accrue interest at a rate as follows: (i) for prime rate advances, the greater of (A) the prime rate and (B) 4%, and (ii) for LIBOR advances, the greater of (A) the LIBOR rate plus 225 basis points and (B) 4%. 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 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. The Company was in compliance with all covenants under the Line of Credit as of March 31, 2020.

In March 2020, the Company borrowed \$10.0 million on the Line of Credit in anticipation of any operating cash needs in light of COVID-19. The effective interest rate for the amounts borrowed on the Line of Credit was 4% for the three months ended March 31, 2020. The Line of Credit matures in December 2021. The fair value of these borrowings, which are classified as Level 2, approximates their carrying value at March 31, 2020, as the instrument carries a variable rate of interest which reflects current market rates.

## 12. Segment Information

### Geographic Data

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

Revenue:	Three Months Ended March 31,	
	2020	2019
North America	\$ 24,999	\$ 21,813
Europe	8,461	6,469
Japan	6,102	6,188
Asia Pacific	6,870	7,272
Other	221	94
Total revenue	<u>\$ 46,653</u>	<u>\$ 41,836</u>

North America is comprised of revenue from the United States, Canada and Mexico. Revenue from customers located in the United States was \$22,970 and \$20,406 during the three months ended March 31, 2020 and 2019, respectively. Other than the United States and Japan, no other country contributed more than 10% of the Company's total revenue during the three months ended March 31, 2020 and 2019.

As of March 31, 2020 and December 31, 2019, property and equipment at locations outside the U.S. was not material.

### 13. Recently Issued and Adopted Accounting Standards

In June 2016, the FASB issued ASU No. 2016-13, which requires measurement and recognition of expected credit losses for financial assets held. Effective January 1, 2019, the Company adopted ASC 326 using the transition method introduced by ASU 2016-13. The adoption of ASC 326 did not result in an adjustment to the estimated allowance as of December 31, 2019.

Under ASC 326, the Company changed its policy for assessing credit losses to include consideration of a broader range of information to estimate credit losses over the life of its financial assets. As of March 31, 2020 the financial assets of the Company within the scope of the assessment comprised trade accounts receivable (AR) and unbilled trade accounts receivable. Unbilled trade accounts receivable (UAR) is reflected in Other Current Assets on the Company's Condensed Consolidated Balance Sheets and was \$1.9 million as of March 31, 2020 and December 31, 2019.

The Company uses the aging method to estimate its expected credit losses on AR and UAR. In order to estimate expected credit losses, the Company assessed recent historical experience, current economic conditions and any reasonable and supportable forecasts to identify risk characteristics that are shared within the financial asset. These risk characteristics are then used to bifurcate the aging method into risk pools. Historical credit loss for each risk pool is then applied to the current period aging as presented in the identified risk pools to determine the needed reserve allowance. In the absence of current economic conditions and/or forecasts that may affect future credit losses, the Company has determined that recent historical experience provides the best basis for estimating credit losses. As of March 31, 2020 the Company estimates the life of its AR as 55-65 days. This estimate is based on the Company's historical experience for days sales outstanding (DSO).

The information obtained from assessing historical experience, current economic conditions and reasonable and supportable forecasts were used to identify risk characteristics that can affect future credit loss experience. The historical analysis yielded one material risk factor, the geographical location of the customer. Specifically, historical experience showed that AR that was due from customers in the Asia Pacific region had experienced more credit losses than the other geographic areas listed in footnote 12. Europe and Japan had significantly less credit loss experience when compared to Asia Pacific while North America's credit loss experience was commensurate with the proportion of total AR that North America's AR comprised. There were no other significant risk characteristics identified in the review of historical experience.

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The Company's assessment of current economic conditions and reasonable and supportable forecasts included an assessment of customer industries affected by COVID-19. Based on available information, the Company identified the following customer industries as being significantly affected by COVID-19, in no particular order: restaurants, hospitality, tourism, sports, travel and consumer goods. The Company assessed the relevant and supportable information available and estimated and recorded approximately \$0.2 million increase in the provision for credit losses due to COVID-19. The Company will continue to assess the COVID-19 risk to its AR for the duration of the pandemic.

The following details the changes in the Company's reserve allowance for estimated credit losses for AR for the period:

	<b>Allowance for Credit Losses</b>
	<b>(in thousands)</b>
Balance as of December 31, 2019	\$ 904
Current provision for credit losses	228
Write-offs against allowance	(439)
Recoveries	□
Balance as of March 31, 2020	<u>\$ 693</u>

Estimated credit losses for UAR were not material.

Estimating credit losses based on risk characteristics requires significant judgment by the Company. Significant judgments include, but are not limited to: assessing current economic conditions and the extent to which they would be relevant to the existing characteristics of the company's financial assets, the estimated life of financial assets, and the level of reliance on historical experience in light of economic conditions. The Company will have to continually review and update, when necessary, its historical risk characteristics that are meaningful to estimating credit losses, any new risk characteristics that arise in the natural course of business, and the estimated life of its financial assets.

## 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, 2019.*

### 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, 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 OTT Flow is a service for media companies and content owners to rapidly deploy high-quality, direct-to-consumer, live and on-demand video services across platforms. 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 Enterprise Video Suite, or Enterprise Video Suite, is an enterprise-class platform for internal communications, employee training, live streaming, marketing and ecommerce videos.

We also have a number of modular solutions for customers, including Brightcove Zencoder, or Zencoder, which is a cloud-based video encoding service. Brightcove SSAI, or SSAI, is an innovative, cloud-based ad insertion and video stitching service that addresses the limitations of traditional online video ad insertion technology. Brightcove Player, or Player, is a cloud-based service for creating and managing video player experiences.

In September 2019, we released Brightcove Beacon, which is a purpose-built app that enables companies to deliver and launch premium OTT video experiences quickly and cost effectively across mobile, web, smart TVs and connected TVs, all with the flexibility of multiple monetization models. In January 2020, we released Brightcove Campaign, which is a purpose-built app that enables marketers to easily create video-driven marketing campaigns that yield insightful data with the ability to compare video performance to a variety of industry benchmarks.

Our philosophy for the next few years will continue to be to invest in our product strategy and development, sales, and go-to-market activities 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 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 March 31, 2020, we had 621 employees and 3,498 customers, of which 2,293 used our premium offerings and 1,205 used our volume offerings. As of March 31, 2019, we had 496 employees and 3,696 customers, of which 2,227 used our premium offerings and 1,469 used our volume offerings.

We generate revenue by offering our products to customers on a subscription-based, software as a service, or SaaS, model. Our revenue grew from \$41.8 million in the three months ended March 31, 2019 to \$46.7 million in the three months ended March 31, 2020, due to incremental revenue from the Ooyala acquisition. Our consolidated net loss was \$7.9 million and \$5 million for the three months ended March 31, 2020 and 2019, respectively. Included in the consolidated net loss for the three months ended March 31, 2020 was merger-related expense, stock-based compensation expense, and amortization of acquired intangible assets of \$5.5 million, \$2.6 million, and \$972,000, respectively. Included in consolidated net loss for the three months ended March 31, 2019 was merger-related expense, stock-based compensation expense, and amortization of acquired intangible assets of \$2.9 million, \$1.4 million, and \$416,000, respectively.

For the three months ended March 31, 2020 and 2019, our revenue derived from customers located outside North America was 46% and 48%, 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 Zencoder customers (other than Zencoder customers on month-to-month contracts and pay-as-you-go contracts), our SSAI customers, our Player customers, our OTT Flow customers, our Video Marketing Suite customers, our Enterprise Video Suite customers, our Brightcove Beacon customers and our Brightcove Campaign customers. Our volume offerings include our Video Cloud Express customers and our Zencoder customers on month-to-month contracts and pay-as-you-go contracts.

As of March 31, 2020, we had 3,498 customers, of which 2,293 used our premium offerings and 1,205 used our volume offerings. As of March 31, 2019, we had 3,696 customers, of which 2,227 used our premium offerings and 1,469 used our volume offerings.

Our go-to-market focus and growth strategy is to expand our premium customer base, as we believe our premium customers represent a greater opportunity for our solutions. Volume customers decreased in recent periods 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 2020 and beyond as we continue to focus on the market for our premium solutions.

- *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 three months ended March 31, 2020 and 2019, the recurring dollar retention rate was 88% and 95%, 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. As our Starter edition has a price point of \$199 or \$499 per month, we disclose the average annual subscription revenue per premium customer separately for Starter edition customers and all other premium customers.
- *Backlog.* We define backlog as the aggregate amount of transaction price that is allocated to performance obligations that have not yet been satisfied, excluding professional service engagements. We believe that this metric is important in understanding future business performance. As of March 31, 2020, the total backlog for subscription and support contracts was approximately \$125.5 million, of which approximately \$100.5 million is expected to be recognized over the next 12 months. As of March 31, 2019, the total backlog for subscription and support contracts was approximately \$107.7 million, of which approximately \$92.1 million was expected to be recognized over the next 12 months.

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

	<b>Three Months Ended March 31,</b>	
	<b>2020</b>	<b>2019</b>
Customers (at period end)		
Premium	2,293	2,227
Volume	1,205	1,469
Total customers (at period end)	3,498	3,696
Recurring dollar retention rate	88%	95%
Average annual subscription revenue per premium customer, excluding Starter edition customers (in thousands)	\$ 84.6	\$ 77.8
Average annual subscription revenue per premium customer for Starter edition customers only (in thousands)	\$ 4.5	\$ 4.6
Total backlog, excluding professional services engagements (in millions)	\$ 125.5	\$ 107.7
Total backlog to be recognized over next 12 months, excluding professional services engagements (in millions)	\$ 100.5	\$ 92.1

### **Recent Global Events and Company Impact**

While the implications of the COVID-19 pandemic remain uncertain, we plan to continue to make investments to support business growth. We believe that the growth of our business is dependent on many factors, including our ability to expand our customer base, increase adoption of our product offerings within existing customers, develop new products and applications to extend the functionality of our products and provide a high level of customer service. We expect to invest in sales and marketing to support customer growth. We also expect to invest in research and development as we continue to introduce new products and applications to extend the functionality of our products. We also intend to maintain a high level of customer service and support which we consider critical for our continued success. We also expect to continue to incur general and administrative expenses to support our business and to maintain the infrastructure required to be a public company. We expect to use our cash flow from operations and, if necessary, our credit facility to fund operations.

See the section titled [Risk Factors](#) included under Part II, Item 1A below for further discussion of the possible impact of the COVID-19 pandemic on our business.

### **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. All premium editions include functionality to publish and distribute video to Internet-connected devices, with higher levels of premium editions

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providing additional features and functionality. 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, transcoding and storage. 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 value of our software, as well as the number of users, accounts and usage, which is comprised of video streams, bandwidth, transcoding and storage. 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. Our volume editions target small and medium-sized businesses, or SMBs. The volume editions provide customers with the same basic functionality that is offered in our premium product editions but have been designed for customers who have lower usage requirements and do not typically require advanced features and functionality. We discontinued the lower level pricing options for the Express edition of our volume offering and expect the total number of customers using the Express edition to continue to decrease. Customers who purchase the volume editions generally enter into month-to-month agreements. Volume 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. Zencoder customers are considered premium customers other than Zencoder customers on month-to-month contracts or pay-as-you-go contracts, which are considered volume customers.

SSAI 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.

Player is offered to customers on a subscription basis. Customer arrangements are typically one-year contracts, which include a subscription to Player, basic support and a pre-determined amount of video streams. We also offer gold support or platinum support to our Player customers for an additional fee, which includes extended phone support. The pricing for Player 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.

OTT Flow, Brightcove Beacon and Brightcove Campaign are each 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. Customer arrangements are typically one-year contracts.

Video Marketing Suite and Enterprise Video Suite are offered to customers on a subscription basis in Starter, Pro and Enterprise editions. The Pro and Enterprise customer arrangements are typically one-year contracts, which typically include a subscription to Video Cloud, Gallery, Brightcove Social (for Video Marketing Suite customers) or Brightcove Live (for Enterprise Video Suite customers), basic support and a pre-determined amount of video streams or plays (for Video Marketing Suite customers), viewers (for Enterprise Video Suite customers), bandwidth and storage or videos. We also generally offer gold support or platinum support to these customers for an additional fee, which includes extended phone support. The pricing for our Pro and Enterprise editions is based on the number of users, accounts and usage, which is comprised of video streams or plays, viewers, bandwidth and storage 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, or will require the customer to upgrade its package upon renewal. The Starter edition provides customers with the same basic functionality that is offered in our Pro and Enterprise editions but has been designed for customers who have lower usage requirements and do not typically seek advanced features and functionality. Customers who purchase the Starter edition may enter into one-year agreements or month-to-month agreements. Starter customers with month-to-month agreements are generally billed on a monthly basis and pay via a credit card.

All Brightcove Beacon, Brightcove Campaign, SSAI, Player, OTT Flow, Video Marketing Suite and Enterprise Video Suite 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.

We expect the level of activity associated with our revenues described above to decline during the second quarter of 2020 due to the contraction of our customers' business as a result of the COVID-19 pandemic, especially as it relates to customers in significantly impacted industries. We have utilized our judgment in our estimates regarding customer engagement and cannot currently predict with confidence the full extent of the impact of COVID-19 on our revenue base.

### **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.

Cost of revenue increased in absolute dollars from the first three months of 2019 to the first three months of 2020. In future periods we expect our cost of revenue will increase in absolute dollars as our revenue increases. Cost of revenue as a percentage of revenue could fluctuate from period to period depending on the number of our professional services engagements and any associated costs relating to the delivery of subscription services and the timing of significant expenditures. To the extent that our customer base grows, we intend to continue to invest additional resources in expanding the delivery capability of our products and other services. The timing of these additional expenses could affect our cost of revenue, both in terms of absolute dollars and as a percentage of revenue, in any particular quarterly or annual period.

### **Operating Expenses**

We classify our operating expenses as follows:

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

**Sales and Marketing.** Sales and marketing expenses consist primarily of personnel and related expenses for our sales and marketing staff, including salaries, benefits, incentive compensation, commissions, stock-based compensation and travel costs, amortization of acquired intangible assets, in addition to costs associated with marketing and promotional events, corporate communications, advertising, other brand building and product marketing expenses and allocated overhead. Our sales and marketing expenses have increased in absolute dollars in each of the last three years. We intend to continue to invest in sales and marketing and expand the sale of our product offerings within our existing customer base, build brand awareness and sponsor additional marketing events. Accordingly, we expect sales and marketing expense to continue to be our most significant operating expense in future periods. 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. General and administrative expenses also include the costs associated with professional fees, insurance premiums, other corporate expenses and allocated overhead. Over the long term, we believe that general and administrative expenses as a percentage of revenue will decrease.

**Merger-related.** Merger-related costs consist of expenses related to mergers and acquisitions, integration costs and general corporate development activities.

### **Other Income (Expense), net**

Other income (expense) consists primarily of interest income earned on our cash, cash equivalents, and foreign exchange gains and losses.

### **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 U.S. net deferred tax assets at December 31, 2019.

### **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 grant date 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 March 31, 2020 and 2019, we recorded \$2.6 million and \$1.4 million, respectively, of stock-based compensation expense.

### **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. 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 the percentage of total net revenue derived from outside North America to increase in future periods as we continue to expand our international operations.

### **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, income taxes, business combinations, intangible assets and goodwill to be our critical accounting policies and estimates.

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, 2019, which we filed with the Securities and Exchange Commission on February 27, 2020.

## Results of Operations

As described above in [Recent Global Events and Company Impact], the ultimate extent of the impact of any epidemic, pandemic, outbreak or other public health crisis on our results of operations will depend on future developments, which are highly uncertain, including new information that may emerge concerning the severity of the current COVID-19 pandemic or other public health crisis and actions taken to contain or prevent the further spread, among others. Accordingly, we cannot fully predict the extent to which our business and results of operations will be affected; however we expect the COVID-19 pandemic to impact our operations in several ways. Our discussion of these risks is detailed in the section titled [Risk Factors] included under Part II, Item 1A below.

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, 2019.

	<b>Three Months Ended March 31,</b>	
	<b>2020</b>	<b>2019</b>
	<b>(in thousands, except share and per share data)</b>	
<b>Revenue:</b>		
Subscription and support revenue	\$ 44,658	\$ 38,877
Professional services and other revenue	1,995	2,959
<b>Total revenue</b>	<b>46,653</b>	<b>41,836</b>
<b>Cost of revenue:</b>		
Cost of subscription and support revenue	16,748	14,170
Cost of professional services and other revenue	1,894	2,576
<b>Total cost of revenue</b>	<b>18,642</b>	<b>16,746</b>
<b>Gross profit</b>	<b>28,011</b>	<b>25,090</b>
<b>Operating expenses:</b>		
Research and development	8,853	7,394
Sales and marketing	14,174	14,256
General and administrative	6,532	5,261
Merger-related	5,509	2,932
<b>Total operating expenses</b>	<b>35,068</b>	<b>29,843</b>
Loss from operations	(7,057)	(4,753)
Other income (expense), net	(468)	(55)
Loss before income taxes	(7,525)	(4,808)
Provision for income taxes	328	175
Net loss	\$ (7,853)	\$ (4,983)
Net loss per share - basic and diluted	\$ (0.20)	\$ (0.14)
Weighted-average number of common shares used in computing net loss per share	38,981,140	36,677,046

### Overview of Results of Operations for the Three Months Ended March 31, 2020 and 2019

Total revenue increased by 12%, or \$4.8 million, in the three months ended March 31, 2020 compared to the three months ended March 31, 2019 due to an increase in subscription and support revenue of 15%, or \$5.8 million, due to the acquired Ooyala customers. Substantially all of the revenue from the Ooyala acquisition is subscription and support revenue. This increase was offset by a decrease in professional services and other revenue of 33% or \$964,000. Professional services and other revenue will vary from period to period depending on the number of implementations and other projects that are in process. In addition, our revenue from premium offerings grew by \$4.9 million, or 12%, in the three months ended March 31, 2020 compared to the three months ended March 31, 2019. The increase in revenue from premium customers was also due to the Ooyala acquisition. Our ability to continue to provide the product functionality and performance that our customers require will be a major factor in our ability to continue to increase revenue.

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Our gross profit increased by \$2.9 million, or 12%, in the three months ended March 31, 2020 compared to the three months ended March 31, 2019, 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 \$7.1 million in the three months ended March 31, 2020 compared to \$4.8 million in the three months ended March 31, 2019. This is primarily due to an increase in merger-related expenses of \$2.6 million in the three months ended March 31, 2020 compared to the three months ended March 31, 2019, and incremental operating costs related to acquisitions that were completed after March 31, 2019.

As of March 31, 2020, we had \$32.1 million of unrestricted cash and cash equivalents, an increase of \$9.3 million from \$22.8 million at December 31, 2019, due primarily to \$2.4 million of cash provided by operating activities and \$10 million in proceeds from debt. These increases were offset by \$2.0 million in capitalized internal-use software costs, and \$720,000 in capital expenditures.

### Revenue

Revenue by Product Line	Three Months Ended March 31,				Change	
	2020		2019		Amount	%
	Amount	Percentage of Revenue	Amount	Percentage of Revenue		
	(in thousands, except percentages)					
Premium	\$45,787	98%	\$40,882	98%	\$4,905	12%
Volume	866	2	954	2	(88)	(9)
Total	\$46,653	100%	\$41,836	100%	\$4,817	12%

During the three months ended March 31, 2020, revenue increased by \$4.8 million, or 12%, compared to the three months ended March 31, 2019, primarily due to an increase in revenue from our premium offerings, which consists of subscription and support revenue as well as professional services and other revenue driven by customers obtained as part of the Ooyala acquisition. The increase in premium revenue of \$4.9 million, or 12%, is primarily the result of a 3% increase in the number of premium customers. Premium customers increased from 2,227 at March 31, 2019 to 2,293 at March 31, 2020. In the three months ended March 31, 2020, volume revenue decreased by \$88,000, or 9%, compared to the three months ended March 31, 2019, as we continue to focus on the market for our premium solutions.

Revenue by Type	Three Months Ended March 31,				Change	
	2020		2019		Amount	%
	Amount	Percentage of Revenue	Amount	Percentage of Revenue		
	(in thousands, except percentages)					
Subscription and support	\$44,658	96%	\$38,877	93%	\$5,781	15%
Professional services and other	1,995	4	2,959	7	(964)	(33)
Total	\$46,653	100%	\$41,836	100%	\$4,817	12%

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During the three months ended March 31, 2020, subscription and support revenue increased by \$5.8 million, or 15%, compared to the three months ended March 31, 2019. The increase was primarily related to the 3% increase in the number of premium customers. Premium customers increased from 2,227 at March 31, 2019 to 2,293 at March 31, 2020 and the average annual subscription revenue per premium customer during the three months ended March 31, 2020 increased 9% compared the three months ended March 31, 2019 due to customers obtained as part of the Ooyala acquisition. In addition, professional services and other revenue decreased by \$964,000 million, or 33%, 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.

<u>Revenue by Geography</u>	<u>Three Months Ended March 31,</u>				<u>Change</u>	
	<u>2020</u>		<u>2019</u>		<u>Amount</u>	<u>%</u>
	<u>Amount</u>	<u>Percentage of Revenue</u>	<u>Amount</u>	<u>Percentage of Revenue</u>		
	(in thousands, except percentages)					
North America	\$24,999	54%	\$21,813	52%	\$3,186	15%
Europe	8,461	18	6,469	15	1,992	31
Japan	6,102	13	6,188	16	(86)	(1)
Asia Pacific	6,870	15	7,272	17	(402)	(6)
Other	221	□	94	□	127	135
International subtotal	21,654	46	20,023	48	1,631	8
Total	\$46,653	100%	\$41,836	100%	\$4,817	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.

During the three months ended March 31, 2020, total revenue for North America increased \$3.2 million, or 15%, compared to the three months ended March 31, 2019, due to the Ooyala acquisition. In the three months ended March 31, 2020, total revenue outside of North America increased \$1.6 million, or 8%, compared to the three months ended March 31, 2019. The increase in revenue from international regions is primarily related to increases in revenue in Europe.

### **Cost of Revenue**

<u>Cost of Revenue</u>	<u>Three Months Ended March 31,</u>				<u>Change</u>	
	<u>2020</u>		<u>2019</u>		<u>Amount</u>	<u>%</u>
	<u>Amount</u>	<u>Percentage of Related Revenue</u>	<u>Amount</u>	<u>Percentage of Related Revenue</u>		
	(in thousands, except percentages)					
Subscription and support	\$16,748	38%	\$14,170	36%	\$2,578	18%
Professional services and other	1,894	95	2,576	87	(682)	(26)
Total	\$18,642	40%	\$16,746	40%	\$1,896	11%

In the three months ended March 31, 2020, cost of subscription and support revenue increased \$2.6 million, or 18%, compared to the three months ended March 31, 2019. The increase resulted primarily from incremental costs from the acquisition of Ooyala.

In the three months ended March 31, 2020, cost of professional services and other revenue decreased \$682,000 million, or 26%, compared to the three months ended March 31, 2019. This decrease corresponds to decreases in contractor and employee-related expenses of \$399,000 and \$285,000, respectively, due to lower levels of implementation and professional services.

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### Gross Profit

Gross Profit	Three Months Ended March 31,				Change	
	2020		2019		Amount	%
	Amount	Percentage of Related Revenue	Amount	Percentage of Related Revenue		
	(in thousands, except percentages)					
Subscription and support	\$27,910	62%	\$24,707	64%	\$3,203	13%
Professional services and other	101	5	383	13	(282)	(74)%
Total	\$28,011	60%	\$25,090	60%	\$2,921	12%

The overall gross profit percentage was 60% for the three months ended March 31, 2020 and 2019. Subscription and support gross profit increased \$3.2 million, or 13%, compared to the three months ended March 31, 2019. The increase in gross profit dollars for subscription and support revenue was due to the Ooyala acquisition.

### Operating Expenses

Operating Expenses	Three Months Ended March 31,				Change	
	2020		2019		Amount	%
	Amount	Percentage of Related Revenue	Amount	Percentage of Related Revenue		
	(in thousands, except percentages)					
Research and development	\$ 8,853	19%	\$ 7,394	18%	\$ 1,459	20%
Sales and marketing	14,174	30	14,256	34	(82)	(1)
General and administrative	6,532	14	5,261	13	1,271	24
Merger-related	5,509	12	2,932	7	2,577	88
Total	\$35,068	75%	\$29,843	71%	\$5,225	18%

**Research and Development.** In the three months ended March 31, 2020, research and development expense increased by \$1.5, or 20%, compared to the three months ended March 31, 2019 primarily due to an increase in employee-related expense of \$879,000 and to a lesser extent, various other expenses that, in the aggregate, increased approximately \$580,000. We expect our research and development expense as a percentage of revenue to remain relatively unchanged.

**Sales and Marketing.** In the three months ended March 31, 2020, sales and marketing expense decreased by \$82,000, or 1%, compared to the three months ended March 31, 2019. We expect that our sales and marketing expense will decrease in absolute dollars for the first half of 2020 as compared to the prior period as our annual customer conference, which is normally held in May, will be held virtually in May 2020 due to COVID-19 as we will not be incurring travel and location costs.

**General and Administrative.** In the three months ended March 31, 2020, general and administrative expense increased by \$1.3 million, or 24%, compared to the three months ended March 31, 2019 primarily due to increases in employee-related, stock-based compensation, and bad debt expenses of \$458,000, \$498,000, \$205,000 respectively. The remaining increase was spread over various other general and administrative expenses. In future periods, we expect general and administrative expense to remain relatively unchanged.

**Merger-Related.** In the three months ended March 31, 2020, merger-related expenses increased by \$2.6 million primarily due to costs incurred in connection with general merger and related activities.

### Liquidity and Capital Resources

#### *Cash and cash equivalents.*

Our cash and cash equivalents at March 31, 2020 were held for working capital purposes and were invested primarily in cash. We do not enter into investments for trading or speculative purposes. At March 31, 2020 and December 31, 2019, we had \$13.8 million and \$14.0 million, respectively, of cash and cash equivalents held by subsidiaries in international locations, including subsidiaries located in Japan and the United Kingdom. These earnings can be repatriated to the United States tax-free but could still be subject to foreign withholding taxes.

<u>Condensed Consolidated Statements of Cash Flow Data</u>	<u>Three Months Ended March 31,</u>	
	<u>2020</u>	<u>2019</u>
	(in thousands)	
Cash flows provided by operating activities	2,441	263
Cash flows used in investing activities	(2,693)	(1,190)
Cash flows provided by financing activities	10,010	567

#### *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.

#### *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 three months ended March 31, 2020 was \$2.4 million. The cash flow provided by operating activities primarily resulted from net non-cash charges of \$5.3 million and changes in our operating assets and liabilities of \$5.0 million, partially offset by net losses of \$7.9 million. Net non-cash expenses consisted of \$2.4 million for depreciation and amortization, \$2.6 million for stock-based compensation, and \$275,000 for provision for reserves on accounts receivable. Cash provided from changes in our operating assets and liabilities consisted primarily of increases in deferred revenue of \$3.0 million and decreases in accounts receivable of \$3.6 million. These inflows were offset by increases in prepaid expenses and other current assets of \$1.8 million, respectively.

#### *Cash flows used in investing activities.*

Cash used in investing activities during the three months ended March 31, 2020 was \$2.7 million, consisting primarily of \$2.0 million for the capitalization of internal-use software costs and \$720,000 in capital expenditures to support the business.

#### *Cash flows provided by financing activities.*

Cash provided by financing activities for the three months ended March 31, 2020 was \$10.0 million, consisting of proceeds from debt.

#### *Credit facility availability.*

On December 14, 2018, we entered into an amended and restated loan and security agreement with a lender, or the "Loan Agreement", providing for up to a \$30.0 million asset based line of credit, or the "Line of Credit". 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 as follows; (i) for prime rate advances, the greater of (A) the prime rate and (B) 4%, and (ii) for LIBOR advances, the greater of (A) the LIBOR rate plus 225 basis points and (B) 4%. 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, we 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 March 31, 2020.

We assessed the effect we believe COVID-19 might have on our liquidity and believe that our existing cash and cash equivalents and the capital available under our credit facility will be sufficient to meet our anticipated working capital and capital expenditure needs over at least the next 12 months. On March 25, 2020, we borrowed \$10.0 million on our line of credit in anticipation of any operating cash needs in light of COVID-19. As of the date of this Quarterly Report on Form 10-Q we have not had to use any of the borrowings to fund operations. The effective interest rate for the amounts borrowed on the Line of Credit was 4% for the three months ended March 31, 2020. The Line of Credit matures in December 2021.

***Net operating loss carryforwards.***

As of December 31, 2019, we had federal and state net operating losses of approximately \$161.8 million and \$82.4 million, respectively, which are available to offset future taxable income, if any, through 2039. We had federal and state net operating losses of approximately \$23.9 million and \$1.7 million, respectively, which are available to offset future taxable income, if any, indefinitely. We had federal and state research and development tax credits of \$7.8 million and \$4.8 million, respectively, which expire in various amounts through 2039. 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.

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 March 31, 2020 and December 31, 2019.

**Contractual Obligations and Commitments**

Our principal commitments consist primarily of obligations under our leases for our office 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, 2019 are summarized in our Annual Report on Form 10-K for the year ended December 31, 2019.

**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 and credit facility 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, 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. Market volatility resulting from the COVID-19 coronavirus pandemic or other factors could also adversely impact our ability to access capital as and when needed.

**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.

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### *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 March 31,	
	2020	2019
Revenues generated in locations outside the United States	51%	52%
Revenues in currencies other than the United States dollar (1)	31%	33%
Expenses in currencies other than the United States dollar (1)	16%	16%

(1) Percentage of revenues and expenses denominated in foreign currency for the three months ended March 31, 2020 and 2019:

	Three Months Ended March 31, 2020		Three Months Ended March 31, 2019	
	Revenues	Expenses	Revenues	Expenses
Euro	8%	1%	6%	1%
British pound	6	6	7	6
Japanese Yen	13	2	15	5
Other	4	7	5	4
Total	31%	16%	33%	16%

As of March 31, 2020 and December 31, 2019, we had \$7.6 million and \$7.5 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 as a component of other comprehensive income (loss), as they are considered part of our net investment.

Currently, our largest foreign currency exposures are the euro and British pound primarily because our European operations have a higher proportion of our local currency denominated expenses, in addition to the Japanese Yen as result of our ongoing operations in Japan. Relative to foreign currency exposures existing at March 31, 2020, a 10% unfavorable movement in foreign currency exchange rates would expose us to losses in earnings or cash flows or significantly diminish the fair value of our foreign currency financial instruments. For the three months ended March 31, 2020, we estimated that a 10% unfavorable movement in foreign currency exchange rates would have decreased revenues by \$1.4 million, decreased expenses by \$886,000 and decreased operating income by \$561,000. 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 March 31, 2020.

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### *Interest rate risk*

We had cash and cash equivalents totaling \$32.1 million at March 31, 2020. Cash and cash equivalents were invested primarily in cash 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. While we continue to incur interest expense in connection with our capital leases, the interest expense is fixed and not subject to changes in market interest rates. Our effective interest rate on our Line of Credit was 4% and incurred approximately \$8,000 in interest expense for the three months ended March 31, 2020. An unfavorable movement of 10% in the interest rate on the Line of Credit would not have had a material effect on interest expense.

### *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 March 31, 2020, 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 March 31, 2020, 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**

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.

**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, 2019, 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 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.*

***The effects of the COVID-19 pandemic have materially affected how we and our customers are operating our businesses, and the duration and extent to which this will impact our future results of operations and overall financial performance remains uncertain.***

In December 2019, a novel coronavirus disease, or COVID-19, was reported and in January 2020, the World Health Organization, or WHO, declared it a Public Health Emergency of International Concern. On February 28, 2020, the WHO raised its assessment of the COVID-19 threat from high to very high at a global level due to the continued increase in the number of cases and affected countries, and on March 11, 2020, the WHO characterized COVID-19 as a pandemic. The COVID-19 pandemic, which has continued to spread, and the related adverse public health developments, including orders to shelter-in-place, travel restrictions, and mandated business closures, have adversely affected workforces, organizations, customers, economies, and financial markets globally, leading to an economic downturn and increased market volatility. It has also disrupted the normal operations of many businesses, including ours.

As a result of the COVID-19 pandemic, we have temporarily closed our global offices, including our corporate headquarters, and all employees globally are required to work remotely until further notice. We have also suspended all company-related travel. We have shifted our partner events to virtual-only experiences, and have cancelled other customer and industry events. We may deem it advisable to similarly alter, postpone or cancel entirely additional customer, employee or industry events in the future. All of these changes have disrupted or may disrupt the way we operate our business.

Moreover, the conditions caused by the COVID-19 pandemic can affect the rate of spending on software products and could adversely affect our customers' ability or willingness to attend our events or to purchase our offerings, delay prospective customers' purchasing decisions, increase pressure for pricing discounts, lengthen payment terms, reduce the value or duration of their subscription contracts, or increase customer attrition rates, all of which could adversely affect our future sales, operating results and overall financial performance.

Our operations have also begun to be negatively affected by a range of external factors related to the COVID-19 pandemic that are not within our control. For example, many cities, counties, states, and even countries have imposed or may impose a wide range of restrictions on the physical movement of our employees, partners and customers to limit the spread of COVID-19. If the COVID-19 pandemic has a substantial impact on the productivity of our employees and partners, or a continued substantial impact on the ability of our employees to execute responsibilities, or a continued and substantial impact on the ability of our customers to purchase our offerings, our results of operations and overall financial performance may be harmed.

The duration and extent of the impact from the COVID-19 pandemic depends on future developments that cannot be accurately predicted at this time, such as the severity and transmission rate of the virus, the extent and effectiveness of containment actions, the disruption caused by such actions, and the impact of these and other factors on our employees, customers, partners and vendors. If we are not able to respond to and manage the impact of such events effectively, our business will be harmed.

To the extent the COVID-19 pandemic adversely affects our business and financial results, it may also have the effect of heightening many of the other risks described in our annual report on Form 10-K for the fiscal year ended December 31, 2019, under the heading "Part I Item 1A. Risk Factors".

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

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

- our ability to retain existing customers and attract new customers;
- the rates at which our customers renew;
- the amount of revenue generated from our customers' use of our products or services in excess of their committed contractual entitlements;
- the timing and amount of costs of new and existing sales and marketing efforts;
- the timing and amount of operating costs and capital expenditures relating to expansion of our business, operations and infrastructure;
- the cost and timing of the development and introduction of new product and service offerings by us or our competitors;
- impacts on the national and global economies due to natural disasters, acts of terrorism, or public health emergencies, such as the COVID-19 pandemic;
- system or service failures, security breaches or network downtime.

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

We manage our services and serve all of our customers from cloud computing services facilities, such as AWS, as well as one physical data center facility. While we control the actual computer and storage systems upon which our software runs, and deploy them to these facilities, we do not control the operation or availability of these facilities.

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

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

These facilities are vulnerable to damage or service interruption resulting from human error, intentional bad acts, security breaches, earthquakes, hurricanes, floods, fires, war, terrorist attacks, power losses, hardware failures, systems failures, telecommunications failures, global health emergencies such as the COVID-19 pandemic, and similar events. For example, on September 18, 2014, we suffered a service disruption resulting from a distributed denial-of-service attack at third-party data center facilities used by us. By September 20, 2014, we had restored the services impacted by the attack. We contacted federal law enforcement authorities regarding the denial-of-service attack and cooperated with them. We also conducted an assessment of our internet service providers and data center providers, potential future vulnerability to malicious activity, and the sufficiency of our infrastructure to withstand and recover rapidly from such attacks. While this matter did not have a material adverse effect on our operating results, there can be no assurance that such incidents will not occur again, and they could occur more frequently and on a more significant scale. The occurrence of a natural disaster or an act of terrorism, or vandalism or other misconduct, or a decision to close the facilities without adequate notice or other unanticipated problems could result in lengthy interruptions in our services.

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

We currently have foreign sales denominated in Australian dollars, British pound sterling, Euros, Japanese yen and New Zealand dollars and may, in the future, have sales denominated in the currencies of additional countries in which we establish or have established sales offices. In addition, we incur a portion of our operating expenses in British pound sterling, Euros, Japanese yen and, to a lesser extent, other foreign currencies. Any fluctuation in the exchange rate of these foreign currencies may negatively impact our business, financial condition and operating results. Global economic events, such as the COVID-19 pandemic, have and may continue to significantly impact local economies and the foreign exchange markets, which may increase the risks associated with sales denominated in foreign currencies. We have not previously engaged in foreign currency hedging. If we decide to hedge our foreign currency exposure, we may not be able to hedge effectively due to lack of experience, unreasonable costs or illiquid markets.

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

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

- fluctuations in our quarterly or annual financial results or the quarterly or annual financial results of companies perceived to be similar to us or relevant for our business;
- changes in estimates of our financial results or recommendations by securities analysts;
- failure of our products to achieve or maintain market acceptance;
- changes in market valuations of similar or relevant companies;
- success of competitive service offerings or technologies;
- changes in our capital structure, such as the issuance of securities or the incurrence of debt;
- announcements by us or by our competitors of significant services, contracts, acquisitions or strategic alliances;
- regulatory developments in the United States, foreign countries, or both;
- market volatility resulting from the COVID-19 pandemic;
- litigation;
- additions or departures of key personnel;
- investors' general perceptions; and
- changes in general economic, industry or market conditions.

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

***Failure of our customers to pay the amounts owed to us, or to pay such amounts in a timely manner, may adversely affect our financial condition and operating results.***

If any of our significant customers have insufficient liquidity, we could encounter significant delays or defaults in payments owed to us by such customers, and we may need to extend our payment terms or restructure the receivables owed to us, which could have a significant adverse effect on our financial condition, including impacting the timing of revenue recognition. Any deterioration in the financial condition of our customers will increase the risk of uncollectible receivables. Global economic uncertainty, such as the economic instability and market volatility caused by the global COVID-19 pandemic, could also affect our customers' ability to pay our receivables in a timely manner or at all or result in customers going into bankruptcy or reorganization proceedings, which could also affect our ability to collect our receivables.

**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. 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)	<a href="#">Eleventh Amended and Restated Certificate of Incorporation.</a>
3.2 (2)	<a href="#">Amended and Restated By-Laws.</a>
4.1 (3)	<a href="#">Form of Common Stock certificate of the Registrant.</a>
31.1	<a href="#">Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
31.2	<a href="#">Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
32.1 <sup>^</sup>	<a href="#">Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
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.
- <sup>^</sup> Furnished herewith.

**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: April 29, 2020

By: /s/ Jeff Ray

Jeff Ray  
*Chief Executive Officer*  
*(Principal Executive Officer)*

Date: April 29, 2020

By: /s/ Robert Noreck

Robert Noreck  
*Chief Financial Officer*  
*(Principal Financial Officer)*

**CERTIFICATION PURSUANT TO RULE 13a-14(a) OR 15d-14(a)  
OF THE SECURITIES EXCHANGE ACT OF 1934,  
AS ADOPTED PURSUANT TO SECTION 302 OF  
THE SARBANES-OXLEY ACT OF 2002**

I, Jeff Ray, certify that:

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

Date: April 29, 2020

By: /s/ Jeff Ray

Jeff Ray  
Chief Executive Officer  
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO RULE 13a-14(a) OR 15d-14(a)  
OF THE SECURITIES EXCHANGE ACT OF 1934,  
AS ADOPTED PURSUANT TO SECTION 302 OF  
THE SARBANES-OXLEY ACT OF 2002**

I, Robert Noreck, certify that:

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

Date: April 29, 2020

By: /s/ Robert Noreck

Robert Noreck  
Chief Financial Officer  
(Principal Financial Officer)

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER  
PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Brightcove Inc. for the quarterly period ended March 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Jeff Ray, as Chief Executive Officer of Brightcove Inc., hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Brightcove Inc.

Date: April 29, 2020

By: /s/ Jeff Ray

Jeff Ray  
Chief Executive Officer  
(Principal Executive Officer)

In connection with the Quarterly Report on Form 10-Q of Brightcove Inc. for the quarterly period ended March 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Robert Noreck, as Chief Financial Officer of Brightcove Inc., hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Brightcove Inc.

Date: April 29, 2020

By: /s/ Robert Noreck

Robert Noreck  
Chief Financial Officer  
(Principal Financial Officer)