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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2019

OR

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

For the transition period from _____ to _____

Commission File Number: 001-35429

BRIGHTCOVE INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

290 Congress Street
Boston, MA 02210
(Address of principal executive offices)

(888) 882-1880
(Registrant's telephone number, including area code)

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

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
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 19, 2019 there were 37,839,906 shares of the registrant's common stock, \$0.001 par value per share, outstanding.

BRIGHTCOVE INC.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Brightcove Inc.
Condensed Consolidated Balance Sheets
(unaudited)March 31, 2019 December 31, 2018
(in thousands, except share
and per share data)

Assets	March 31, 2019	December 31, 2018
Current assets:		
Cash and cash equivalents	\$ 28,948	\$ 29,306
Accounts receivable, net of allowance of \$219 and \$190 at March 31, 2019 and December 31, 2018, respectively	25,188	23,264
Prepaid expenses	5,865	4,866
Other current assets	7,068	7,070
Total current assets	67,069	64,506
Property and equipment, net	9,557	9,703
Operating lease right-of-use asset	18,073	—
Intangible assets, net	5,504	5,919
Goodwill	50,776	50,776
Other assets	2,360	2,452
Total assets	\$ 153,339	\$ 133,356
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 7,839	\$ 7,712
Accrued expenses	14,515	13,982
Operating lease liability	6,285	—
Deferred revenue	43,654	39,846
Total current liabilities	72,293	61,540
Operating lease liability, net of current portion	12,983	—
Other liabilities	289	1,202
Total liabilities	85,565	62,742
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; 36,908,051 and 36,752,469 shares issued at March 31, 2019 and December 31, 2018, respectively	37	37
Additional paid-in capital	253,244	251,122
Treasury stock, at cost; 135,000 shares	(871)	(871)
Accumulated other comprehensive loss	(931)	(952)
Accumulated deficit	(183,705)	(178,722)
Total stockholders' equity	67,774	70,614
Total liabilities and stockholders' equity	\$ 153,339	\$ 133,356

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

Brightcove Inc.
Condensed Consolidated Statements of Operations
(unaudited)

	Three Months Ended March 31,	
	2019	2018
	(in thousands, except share and per share data)	
Revenue:		
Subscription and support revenue	\$ 38,877	\$ 37,867
Professional services and other revenue	2,959	3,327
Total revenue	41,836	41,194
Cost of revenue:		
Cost of subscription and support revenue	14,170	13,456
Cost of professional services and other revenue	2,576	3,755
Total cost of revenue	16,746	17,211
Gross profit	25,090	23,983
Operating expenses:		
Research and development	7,394	7,775
Sales and marketing	14,256	13,234
General and administrative	5,261	5,390
Merger-related	2,932	—
Total operating expenses	29,843	26,399
Loss from operations	(4,753)	(2,416)
Other (loss) income, net	(55)	271
Loss before income taxes	(4,808)	(2,145)
Provision for income taxes	175	112
Net loss	\$ (4,983)	\$ (2,257)
Net loss per share—basic and diluted	\$ (0.14)	\$ (0.06)
Weighted-average number of common shares used in computing net loss per share	36,677,046	34,923,215

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>2019</u>	<u>2018</u>
	(in thousands)	
Net loss	\$ (4,983)	\$ (2,257)
Other comprehensive income:		
Foreign currency translation adjustments	21	247
Comprehensive loss	<u>\$ (4,962)</u>	<u>\$ (2,010)</u>

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

Brightcove Inc.
Condensed Consolidated Statements of Stockholders' Equity
(unaudited)
(in thousands, except share data)

	Common Stock		Additional Paid-in Capital	Treasury Stock		Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
	Shares	Par Value		Shares	Value			
	Balance at December 31, 2018	36,752,469	\$ 37	\$251,122	(135,000)	\$(871)	\$ (952)	\$ (178,722)
Issuance of common stock upon exercise of stock options and pursuant to restricted stock units	155,582	—	625	—	—	—	—	625
Stock-based compensation expense	—	—	1,497	—	—	—	—	1,497
Foreign currency translation adjustment	—	—	—	—	—	21	—	21
Net loss	—	—	—	—	—	—	(4,983)	(4,983)
Balance at March 31, 2019	36,908,051	\$ 37	\$253,244	(135,000)	\$(871)	\$ (931)	\$ (183,705)	\$ 67,774

	Common Stock		Additional Paid-in Capital	Treasury Stock		Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
	Shares	Par Value		Shares	Value			
	Balance at December 31, 2017	34,933,408	\$ 35	\$238,700	(135,000)	\$(871)	\$ (809)	\$ (170,299)
Issuance of common stock upon exercise of stock options and pursuant to restricted stock units	184,641	—	677	—	—	—	—	677
Stock-based compensation expense	—	—	1,732	—	—	—	—	1,732
Impact of adoption of ASU 2014-09 as of January 1, 2018	—	—	—	—	—	—	5,605	5,605
Foreign currency translation adjustment	—	—	—	—	—	247	—	247
Net loss	—	—	—	—	—	—	(2,257)	(2,257)
Balance at March 31, 2018	35,118,049	\$ 35	\$241,109	(135,000)	\$(871)	\$ (562)	\$ (166,951)	\$ 72,760

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

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

	Three Months Ended March 31,	
	2019	2018
	(in thousands)	
Operating activities		
Net loss	\$ (4,983)	\$ (2,257)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	1,713	1,644
Stock-based compensation	1,424	1,668
Provision for reserves on accounts receivable	70	13
Changes in assets and liabilities:		
Accounts receivable	(2,033)	(2,038)
Prepaid expenses and other current assets	(803)	(616)
Other assets	92	(179)
Accounts payable	715	(128)
Accrued expenses	353	(80)
Operating leases	(68)	—
Deferred revenue	3,783	2,908
Net cash provided by operating activities	<u>263</u>	<u>935</u>
Investing activities		
Purchases of property and equipment	(244)	(538)
Capitalized internal-use software costs	(946)	(1,001)
Net cash used in investing activities	<u>(1,190)</u>	<u>(1,539)</u>
Financing activities		
Proceeds from exercise of stock options	625	683
Other financing activities	(58)	(139)
Net cash provided by financing activities	<u>567</u>	<u>544</u>
Effect of exchange rate changes on cash and cash equivalents	<u>2</u>	<u>347</u>
Net (decrease) increase in cash and cash equivalents	(358)	287
Cash and cash equivalents at beginning of period	29,306	26,132
Cash and cash equivalents at end of period	<u>\$ 28,948</u>	<u>\$ 26,419</u>
Supplemental disclosure of cash flow information		
Cash paid for operating lease liabilities	<u>\$ 1,904</u>	<u>\$ —</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.

The Company is headquartered in Boston, Massachusetts and was incorporated in the state of Delaware on August 24, 2004. At March 31, 2019, the Company had twelve wholly-owned subsidiaries: Brightcove UK Ltd, Brightcove Singapore Pte. Ltd., Brightcove Korea, Brightcove Australia Pty Ltd, Brightcove Holdings, Inc., Brightcove Kabushiki Kaisha (Brightcove KK), Zencoder Inc. (Zencoder), Brightcove FZ-LLC, Cacti Acquisition LLC, Brightcove India Pte. Ltd, Brightcove S. de R.L. de C.V. and Othello Acquisition Corporation.

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, 2018.

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 leases as described in Note 13, 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, 2018 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, 2019 and 2018. These interim periods are not necessarily indicative of the results to be expected for any other interim period or the full year.

The Company considers events or transactions that occur after the balance sheet date but prior to the issuance of the financial statements to provide additional evidence for certain estimates or to identify matters that require additional disclosure. Subsequent events have been evaluated as required. The Company has evaluated all subsequent events and determined that there are no material recognized or unrecognized subsequent events requiring disclosure, other than those disclosed in this Report on Form 10-Q.

The accompanying condensed consolidated financial statements reflect the application of certain significant accounting policies as described below and elsewhere in these notes to the condensed consolidated financial statements. As described in Management's Discussion and Analysis, the Company implemented a significant accounting policy upon the adoption of Accounting Standards Update ("ASU") 2016-02, *Leases (Topic 842), Amendments to the FASB Accounting Standards Codification* ("ASC 842"). As of March 31, 2019, other than the changes to leases, 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, 2018, 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.

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	Accounts Receivable, net	Contract Assets (current)	Deferred Revenue (current)	Deferred Revenue (non- current)	Total Deferred Revenue
Balance at December 31, 2018	\$ 23,264	\$ 1,640	\$39,846	\$ 146	\$39,992
Balance at March 31, 2019	25,188	2,148	43,654	85	43,739

Revenue recognized during the three months ended March 31, 2019 from amounts included in deferred revenue at the beginning of the period was approximately \$19.6 million. During the three months ended March 31, 2019, the Company did not recognize revenue from performance obligations satisfied or partially satisfied in previous periods.

The assets recognized for costs to obtain a contract were \$5.4 million and \$5.9 million as of March 31, 2019 and December 31, 2018, respectively. Amortization expense recognized during each of the three months ended March 31, 2019 and 2018 related to costs to obtain a contract was \$1.8 million.

Transaction Price Allocated to Future Performance Obligations

As of March 31, 2019, the total aggregate transaction price allocated to the unsatisfied performance obligations for subscription and support contracts was approximately \$107.7 million, of which approximately \$92.1 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 March 2022.

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 and trade accounts receivable. The Company maintains its cash and cash equivalents principally with accredited financial institutions of high credit standing. Although the Company deposits its cash with multiple financial institutions, its deposits, at times, may exceed federally insured limits. The Company 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.

At March 31, 2019 and December 31, 2018, no individual customer accounted for 10% or more of accounts receivable, net. For the three months ended March 31, 2019 and 2018, no individual customer accounted for 10% or more of total revenue.

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, 2019 or December 31, 2018.

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, 2019 consist of the following:

Description	March 31, 2019			
	Contracted Maturity	Amortized Cost	Fair Market Value	Balance Per Balance Sheet
Cash	Demand	\$ 28,804	\$ 28,804	\$ 28,804
Money market funds	Demand	144	144	144
Total cash and cash equivalents		\$ 28,948	\$ 28,948	\$ 28,948

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Cash and cash equivalents as of December 31, 2018 consist of the following:

Description	December 31, 2018			
	Contracted Maturity	Amortized Cost	Fair Market Value	Balance Per Balance Sheet
Cash	Demand	\$ 21,007	\$ 21,007	\$ 21,007
Money market funds	Demand	8,299	8,299	8,299
Total cash and cash equivalents		<u>\$ 29,306</u>	<u>\$ 29,306</u>	<u>\$ 29,306</u>

6. Net Loss per Share

The Company calculates basic and diluted net loss per common share by dividing the net loss by the weighted-average 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 weighted-average 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, 2019 and 2018.

	Three Months Ended March 31,	
	2019	2018
Options outstanding	2,641	3,766
Restricted stock units outstanding	3,039	2,200

7. Fair Value of Financial Instruments

The following tables set forth the Company's financial instruments carried at fair value using the lowest level of input as of March 31, 2019 and December 31, 2018:

	March 31, 2019			
	Quoted Prices in Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
	Assets:			
Money market funds	\$ 144	\$ —	\$ —	\$144
Total assets	<u>\$ 144</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$144</u>

	December 31, 2018			
	Quoted Prices in Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
	Assets:			
Money market funds	\$ 8,299	\$ —	\$ —	\$8,299
Total assets	<u>\$ 8,299</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$8,299</u>

8. Stock-based Compensation

The weighted-average fair value of options granted during the three months ended March 31, 2019 and 2018 was \$3.82 and \$3.10 per share, respectively. The weighted-average assumptions utilized to determine such values are presented in the following table:

	Three Months Ended March 31,	
	2019	2018
Expected life in years	6.3	6.3
Risk-free interest rate	2.55%	2.51%
Volatility	43%	41%
Dividend yield	—	—

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The Company recorded stock-based compensation expense of \$1,424 and \$1,668 for the three months ended March 31, 2019 and 2018, respectively. As of March 31, 2019, there was \$15,009 of unrecognized stock-based compensation expense related to stock-based awards that is expected to be recognized over a weighted-average period of 2.72 years. The following table summarizes stock-based compensation expense as included in the consolidated statement of operations for the three months ended March 31, 2019 and 2018:

	Three Months Ended March 31,	
	2019	2018
Stock-based compensation included in above line items:		
Cost of subscription and support revenue	\$ 119	\$ 114
Cost of professional services and other revenue	84	40
Research and development	263	346
Sales and marketing	458	665
General and administrative	500	503
	<u>\$ 1,424</u>	<u>\$ 1,668</u>

The following is a summary of the stock option activity during the three months ended March 31, 2019.

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (In Years)	Aggregate Intrinsic Value (1)
Outstanding at December 31, 2018	2,737,655	\$ 8.57		
Granted	130,000	8.37		
Exercised	(98,195)	6.37		\$ 177
Canceled	(270,242)	9.75		
Outstanding at March 31, 2019	<u>2,499,218</u>	\$ 8.52	7.16	\$ 1,809
Exercisable at March 31, 2019	<u>1,182,990</u>	\$ 8.15	5.22	\$ 1,303

- (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, 2019 of \$8.41 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, 2019:

	Shares	Weighted Average Grant Date Fair Value
Unvested by December 31, 2018	3,033,582	\$ 8.07
Granted	302,250	8.37
Vested and issued	(56,637)	7.19
Canceled	(204,681)	7.83
Unvested by March 31, 2019	<u>3,074,514</u>	<u>\$ 8.13</u>

9. Income Taxes

For the three months ended March 31, 2019 and 2018, the Company recorded income tax expense of \$175 and \$112, 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, 2019 and December 31, 2018, as 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. The Company maintains net deferred tax liabilities for temporary differences related to its foreign subsidiaries.

10. Commitments and Contingencies

Legal Matters

On January 30, 2019, Uniloc 2017 LLC filed a complaint against the Company and its subsidiary, Brightcove Holdings, Inc. in the United States District Court for the District of Delaware. The complaint alleges that Brightcove infringed four patents and seeks monetary damages and other relief. The Company filed an answer to the complaint on March 25, 2019 and Uniloc filed an amended complaint on April 9, 2019. The Company filed an answer to the amended complaint on April 23, 2019. The Company cannot yet determine whether it is probable that a loss will be incurred in connection with this complaint, nor can the Company reasonably estimate the potential loss, if any.

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, 2019, 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 (the "LIBOR rate margin") 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, 2019 and there are no borrowings outstanding as of March 31, 2019.

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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,	
	2019	2018
North America	\$ 21,813	\$ 22,678
Europe	6,469	6,313
Japan	6,188	5,387
Asia Pacific	7,272	6,711
Other	94	105
Total revenue	<u>\$ 41,836</u>	<u>\$ 41,194</u>

North America is comprised of revenue from the United States, Canada and Mexico. Revenue from customers located in the United States was \$20,406 and \$21,254 during the three months ended March 31, 2019 and 2018, 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, 2019 and 2018.

As of March 31, 2019 and December 31, 2018, property and equipment at locations outside the U.S. was not material.

13. Recently Issued and Adopted Accounting Standards

Effective January 1, 2019, the Company adopted ASC 842, which replaced the existing guidance for leases using the transition method introduced by ASU 2018-11, which adjusts the January 1, 2019 balance for the cumulative effects of the change in accounting.

Under ASC 842, a right-of-use asset and lease liability is recorded for all leases and the statement of operations reflects the lease expense for operating leases and amortization/interest expense for financing leases. The balance sheet amount recorded for existing leases at the date of adoption of ASC 842 is calculated using the applicable incremental borrowing rate at the date of adoption. The adoption of the new standard resulted in the recording of right-of-use assets and lease liabilities of \$19.6 million and \$20.9 million, respectively, as of January 1, 2019. Additionally, the Company reversed its deferred rent liability of \$1.3 million as a result of the adoption. The adoption of the lease standard did not result in a cumulative catch-up adjustment to the opening balance of retained earnings.

The new standard provided various practical expedients, which were assessed to determine the ultimate impact of the new standard upon adoption. The Company elected the package of practical expedients, which permits the Company to not reassess (1) whether any expired or existing contracts are or contain leases, (2) the lease classification for any expired or existing leases and (3) any initial direct costs for any existing leases as of the effective date. The Company also elected the practical expedients to not apply the recognition requirements in the standard to a lease that at commencement date has a lease term of twelve months or less and does not contain a purchase option that it is reasonably certain to exercise and to not separate lease and related non-lease components.

The Company leases its facilities under non-cancelable operating leases. Right-of-use assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. As most of the Company's leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. Many of the Company's lessee agreements include options to extend the lease, which are not included in the minimum lease terms unless they are reasonably certain to be exercised.

The Company's operating lease expense was \$1,907 and \$2,003 for the three months ended March 31, 2019 and 2018, respectively.

The weighted-average remaining non-cancelable lease term for our operating leases was three years at March 31, 2019. The weighted-average discount rate was 4.0% at March 31, 2019.

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The Company's operating leases expire at various dates through 2024. The following shows the undiscounted cash flows for the remainder of 2019 and remaining years under operating leases at March 31, 2019:

<u>Year Ending December 31,</u>	<u>Operating Lease Commitments</u>
2019	\$ 5,268
2020	5,867
2021	5,145
2022	2,215
2023	1,131
2024 and thereafter	1,010
	<u>\$ 20,636</u>

14. Subsequent Events

On April 1, 2019, pursuant to an Asset Purchase and Sale Agreement (the "Purchase Agreement"), the Company completed its acquisition of the online video platform assets of Ooyala, Inc. and certain of its subsidiaries ("Ooyala"), a provider of cloud video technology, in exchange for common stock of the Company and cash (the "Acquisition"). At the closing, the Company issued 1,056,763 unregistered shares of common stock of the Company valued at \$8.9 million and paid approximately \$5.91 million in cash. Pursuant to the Purchase Agreement, approximately \$2.65 million of the cash consideration was placed into an escrow account to secure payment of any claims of indemnification for breaches or inaccuracies in the Sellers' representations and warranties, covenants and agreements. The acquisition will be accounted for as a purchase transaction, and as such the results of operations from the acquired assets will be consolidated with the Company beginning on the closing date of the acquisition. In connection with the Acquisition, the Company incurred \$2.9 million of merger-related costs during the three months ended March 31, 2019.

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, 2018.

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains "forward-looking statements" that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. The statements contained in this Quarterly Report on Form 10-Q that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or Exchange Act. Such forward-looking statements include any expectation of earnings, revenue or other financial items; any statements of the plans, strategies and objectives of management for future operations; factors that may affect our operating results; statements related to adding employees; statements related to future capital expenditures; statements related to future economic conditions or performance; statements as to industry trends and other matters that do not relate strictly to historical facts or statements of assumptions underlying any of the foregoing. Forward-looking statements are often identified by the use of words such as, but not limited to, "anticipate," "believe," "can," "continue," "could," "estimate," "expect," "intend," "may," "will," "plan," "project," "seek," "should," "target," "will," "would," and similar expressions or variations intended to identify forward-looking statements. These statements are based on the beliefs and assumptions of our management based on information currently available to management. Such forward-looking statements are subject to risks, uncertainties and other important factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled "Risk Factors" included in Item 1A of Part II of this Quarterly Report on Form 10-Q, our Annual Report on Form 10-K for the year ended December 31, 2018 and the risks discussed in our other SEC filings. Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

Company Overview

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

Brightcove Video Cloud, or Video Cloud, our flagship product released in 2006, is the world's leading online video platform. Video Cloud enables our customers to publish and distribute video to Internet-connected devices quickly, easily and in a cost-effective and high-quality manner. Brightcove Zencoder, or Zencoder, is a cloud-based video encoding service. Brightcove 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. Brightcove OTT Flow, or 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.

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.

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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. As of March 31, 2018, we had 494 employees and 4,033 customers, of which 2,180 used our premium offerings and 1,853 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 \$41.2 million in the three months ended March 31, 2018 to \$41.8 million in the three months ended March 31, 2019, primarily related to an increase in sales of Video Cloud to both new and existing customers. Our consolidated net loss was \$5.0 million and \$2.3 million for the three months ended March 31, 2019 and 2018, respectively. Included in consolidated net loss for the three months ended March 31, 2019 was stock-based compensation expense, amortization of acquired intangible assets and merger-related expense of \$1.4 million, \$416,000 and \$2.9 million, respectively. Included in consolidated net loss for the three months ended March 31, 2018 was stock-based compensation expense and amortization of acquired intangible assets of \$1.7 million and \$674,000, respectively.

For the three months ended March 31, 2019 and 2018, our revenue derived from customers located outside North America was 48% and 45%, 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 and our Enterprise Video Suite 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, 2019, we had 3,696 customers, of which 2,227 used our premium offerings and 1,469 used our volume offerings. As of March 31, 2018, we had 4,033 customers, of which 2,180 used our premium offerings and 1,853 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 2019 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, 2019 and 2018, the recurring dollar retention rate was 95% and 103%, 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 the 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, 2019, the total backlog for subscription and support contracts was approximately \$107.7 million, of which approximately \$92.1 million is expected to be recognized over the next 12 months. As of March 31, 2018, the total backlog for subscription and support contracts was approximately \$109.9 million, of which approximately \$86.6 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:

	Three Months Ended March 31,	
	2019	2018
Customers (at period end)		
Premium	2,227	2,180
Volume	1,469	1,853
Total customers (at period end)	3,696	4,033
Recurring dollar retention rate	95%	103%
Average annual subscription revenue per premium customer, excluding Starter edition customers (in thousands)	\$ 77.8	\$ 74.6
Average annual subscription revenue per premium customer for Starter edition customers only (in thousands)	\$ 4.6	\$ 5.1
Total backlog, excluding professional services engagements	\$ 107.7	\$ 109.9
Total backlog to be recognized over next 12 months, excluding professional services engagements	\$ 92.1	\$ 86.6

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 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 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. Customer arrangements are typically one-year contracts.

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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 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.

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 2018 to the first three months of 2019. 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

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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 consisted of expenses of \$2.9 million incurred during the three months ended March 31, 2019 as part of the acquisition of the online video platform assets of Ooyala Inc. and certain of its subsidiaries, or Ooyala.

Other Income (Expense), net

Other 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, 2018. We maintain net deferred tax liabilities for temporary differences related to our foreign subsidiaries.

Stock-Based Compensation Expense

Our cost of revenue, research and development, sales and marketing, and general and administrative expenses include stock-based compensation expense. Stock-based compensation expense represents the fair value of outstanding stock options and restricted stock awards, which is recognized as expense over the respective stock option and restricted stock award service periods. For the three months ended March 31, 2019 and 2018, we recorded \$1.4 million and \$1.7 million, respectively, of stock-based compensation expense. We expect stock-based compensation expense to increase in absolute dollars in future periods.

Foreign Currency Translation

With regard to our international operations, we frequently enter into transactions in currencies other than the U.S. dollar. As a result, our revenue, expenses and cash flows are subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the euro, British pound, Australian dollar, and Japanese yen. 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, leases, income taxes, business combinations, intangible assets and goodwill to be our critical accounting policies and estimates.

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We adopted ASC 842 on January 1, 2019. Refer to Note 13 for further information on our critical accounting policy relating to leases.

Other than the adoption of the new leases standard, there have been no material changes to our critical accounting policies since December 31, 2018.

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, 2018, which we filed with the Securities and Exchange Commission on February 21, 2019.

Other than the changes to the accounting for leases under ASC 842, we believe that our significant accounting policies have not materially changed from those described in the notes to our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2018.

Results of Operations

The following tables set forth our results of operations for the periods presented. The data has been derived from the unaudited condensed consolidated financial statements contained in this Quarterly Report on Form 10-Q which, in the opinion of our management, reflect all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial position and results of operations for the interim periods presented. The period-to-period comparison of financial results is not necessarily indicative of future results. This information should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2018.

	Three Months Ended March 31,	
	2019	2018
	(in thousands, except share and per share data)	
Revenue:		
Subscription and support revenue	\$ 38,877	\$ 37,867
Professional services and other revenue	2,959	3,327
Total revenue	41,836	41,194
Cost of revenue:		
Cost of subscription and support revenue	14,170	13,456
Cost of professional services and other revenue	2,576	3,755
Total cost of revenue	16,746	17,211
Gross profit	25,090	23,983
Operating expenses:		
Research and development	7,394	7,775
Sales and marketing	14,256	13,234
General and administrative	5,261	5,390
Merger-related	2,932	—
Total operating expenses	29,843	26,399
Loss from operations	(4,753)	(2,416)
Other (loss) income, net	(55)	271
Loss before income taxes	(4,808)	(2,145)
Provision for income taxes	175	112
Net loss	\$ (4,983)	\$ (2,257)
Net loss per share—basic and diluted	\$ (0.14)	\$ (0.06)
Weighted-average number of common shares used in computing net loss per share	36,677,046	34,923,215

Overview of Results of Operations for the Three Months Ended March 31, 2019 and 2018

Total revenue increased by 2%, or \$642,000, in the three months ended March 31, 2019 compared to the three months ended March 31, 2018 due to an increase in subscription and support revenue of 3%, or \$1.0 million, primarily related to the continued growth of our customer base for our premium offerings including sales to both new and existing customers. This increase was offset

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by a decrease in professional services and other revenue of 11% or \$368,000. 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 \$930,000, or 2%, in the three months ended March 31, 2019 compared to the three months ended March 31, 2018. Our ability to continue to provide the product functionality and performance that our customers require will be a major factor in our ability to continue to increase revenue.

Our gross profit increased by \$1.1 million, or 5%, in the three months ended March 31, 2019 compared to the three months ended March 31, 2018, 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 \$4.8 million in the three months ended March 31, 2019 compared to \$2.4 million in the three months ended March 31, 2018.

As of March 31, 2019, we had \$28.9 million of unrestricted cash and cash equivalents, a decrease of \$358,000 from \$29.3 million at December 31, 2018, due primarily to \$625,000 of proceeds from exercises of stock options and \$263,000 of cash provided by operating activities. These increases were offset by cash outflows of \$946,000 in capitalized internal-use software costs and \$244,000 in capital expenditures.

Revenue

Revenue by Product Line	Three Months Ended March 31,				Change	
	2019		2018		Amount	%
	Amount	Percentage of Revenue	Amount	Percentage of Revenue		
	(in thousands, except percentages)					
Premium	\$40,882	98%	\$39,952	97%	\$ 930	2%
Volume	954	2	1,242	3	(288)	(23)
Total	\$41,836	100%	\$41,194	100%	\$ 642	2%

During the three months ended March 31, 2019, revenue increased by \$642,000, or 2%, compared to the three months ended March 31, 2018, 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. The increase in premium revenue of \$930,000, or 2%, is partially the result of a 2% increase in the number of premium customers from 2,180 at March 31, 2018 to 2,227 at March 31, 2019. In the three months ended March 31, 2019, volume revenue decreased by \$288,000, or 23%, compared to the three months ended March 31, 2018, as we continue to focus on the market for our premium solutions.

Revenue by Type	Three Months Ended March 31,				Change	
	2019		2018		Amount	%
	Amount	Percentage of Revenue	Amount	Percentage of Revenue		
	(in thousands, except percentages)					
Subscription and support	\$38,877	93%	\$37,867	92%	\$ 1,010	3%
Professional services and other	2,959	7	3,327	8	(368)	(11)
Total	\$41,836	100%	\$41,194	100%	\$ 642	2%

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In the three months ended March 31, 2019, subscription and support revenue increased by \$1.0 million, or 3%, compared to the three months ended March 31, 2018. The increase was primarily related to a 2% increase in the number of premium customers from 2,180 at March 31, 2018 to 2,227 at March 31, 2019 and a 4% increase in the average annual subscription revenue per premium customer during the three months ended March 31, 2019. In addition, professional services and other revenue decreased by \$368,000 or 11%, compared to the corresponding quarter in the prior year. Professional services and other revenue will vary from period to period depending on the number of implementations and other projects that are in process.

Revenue by Geography	Three Months Ended March 31,				Change	
	2019		2018		Amount	%
	Amount	Percentage of Revenue	Amount	Percentage of Revenue		
(in thousands, except percentages)						
North America	\$21,813	52%	\$22,678	55%	\$ (865)	(4)%
Europe	6,469	15	6,313	15	156	2
Japan	6,188	16	5,387	14	801	15
Asia Pacific	7,272	17	6,711	16	561	8
Other	94	—	105	—	(11)	(10)
International subtotal	20,023	48	18,516	45	1,507	8
Total	\$41,836	100%	\$41,194	100%	\$ 642	2%

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

In the three months ended March 31, 2019, total revenue for North America decreased \$865,000, or 4%, compared to the three months ended March 31, 2018. In the three months ended March 31, 2019, total revenue outside of North America increased \$1.5 million, or 8%, compared to the three months ended March 31, 2018. The increase in revenue from international regions is primarily related to increases in revenue in Japan and Asia Pacific.

Cost of Revenue

Cost of Revenue	Three Months Ended March 31,				Change	
	2019		2018		Amount	%
	Amount	Percentage of Related Revenue	Amount	Percentage of Related Revenue		
(in thousands, except percentages)						
Subscription and support	\$14,170	36%	\$13,456	36%	\$ 714	5%
Professional services and other	2,576	87	3,755	113	(1,179)	(31)
Total	\$16,746	40%	\$17,211	42%	\$ (465)	(3)%

In the three months ended March 31, 2019, cost of subscription and support revenue increased \$714,000, or 5%, compared to the three months ended March 31, 2018. The increase resulted primarily from increases in amortization, third-party software integrated with our service offering, network hosting services, and partner commission expenses of \$460,000, \$409,000, \$356,000 and \$279,000 respectively. These increases were offset by decreases in content delivery network, intangible amortization, salary, and depreciation expenses of \$256,000, \$253,000, \$166,000 and \$78,000 respectively.

In the three months ended March 31, 2019, cost of professional services and other revenue decreased \$1.2 million, or 31%, compared to the three months ended March 31, 2018. This decrease corresponds to a decrease in consultant expense of \$1.2 million.

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Gross Profit

<u>Gross Profit</u>	Three Months Ended March 31,				Change	
	2019		2018		Amount	%
	Amount	Percentage of Related Revenue	Amount	Percentage of Related Revenue		
(in thousands, except percentages)						
Subscription and support	\$24,707	64%	\$24,411	64%	\$ 296	1%
Professional services and other	383	13	(428)	(13)	811	nm
Total	\$25,090	60%	\$23,983	58%	\$1,107	5%

nm – not meaningful

The overall gross profit percentage was 60% and 58% for the three months ended March 31, 2019 and 2018, respectively. Subscription and support gross profit increased \$296,000, or 1%, compared to the three months ended March 31, 2018. It is likely that gross profit, as a percentage of revenue, will fluctuate quarter by quarter due to the timing and mix of subscription and support revenue and professional services and other revenue, and the type, timing and duration of service required in delivering certain projects.

Operating Expenses

<u>Operating Expenses</u>	Three Months Ended March 31,				Change	
	2019		2018		Amount	%
	Amount	Percentage of Related Revenue	Amount	Percentage of Related Revenue		
(in thousands, except percentages)						
Research and development	\$ 7,394	18%	\$ 7,775	19%	\$ (381)	(5)%
Sales and marketing	14,256	34	13,234	32	1,022	8
General and administrative	5,261	13	5,390	13	(129)	(2)
Merger-related	2,932	7	—	—	2,932	nm
Total	\$29,843	71%	\$26,399	64%	\$3,444	13%

Research and Development. In the three months ended March 31, 2019, research and development expense decreased by \$381,000, or 5%, compared to the three months ended March 31, 2018 primarily due to a decrease in salary expense of \$360,000. We expect our research and development expense to increase in future periods in connection with our recent acquisition of the online video platform assets of Ooyala.

Sales and Marketing. In the three months ended March 31, 2019, sales and marketing expense increased by \$1.0 million, or 8%, compared to the three months ended March 31, 2018 primarily due to increases in salary, conferences, and marketing programs expenses of \$447,000, \$234,000, and \$210,000. There were also increases in travel and commissions expenses of \$192,000 and \$107,000 respectively. These increases were offset in part by a decrease in stock based compensation expense of \$207,000. We expect that our sales and marketing expense will increase in absolute dollars along with our revenue, as we continue to expand sales coverage and build brand awareness through what we believe are cost-effective channels and in connection with our recent acquisition of the online video platform assets of Ooyala.

General and Administrative. In the three months ended March 31, 2019, general and administrative decreased by \$129,000 compared to the three months ended March 31, 2018 primarily due to decreases in legal and salary expenses of \$233,000 and \$166,000 respectively. These decreases were offset by increases in audit and travel expenses of \$145,000 and \$65,000 respectively. In future periods, we expect general and administrative expense to increase in connection with our recent acquisition of the online video platform assets of Ooyala.

Merger-Related. In the three months ended March 31, 2019, merger-related expenses increased by \$2.9 million primarily due to costs incurred in connection with the acquisition of the online video platform assets of Ooyala. In future periods, we expect merger-related expense to increase.

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Liquidity and Capital Resources

Cash and cash equivalents.

Our cash and cash equivalents at March 31, 2019 were held for working capital purposes and were invested primarily in money market funds. We do not enter into investments for trading or speculative purposes. At March 31, 2019 and December 31, 2018, we had \$10.3 million and \$9.9 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 will still be subject to foreign withholding taxes. On April 1, 2019, we completed the acquisition of the online video platform assets of Ooyala in exchange for 1,056,763 unregistered shares of common stock of Brightcove and \$5.91 million in cash. We believe that our existing cash and cash equivalents will be sufficient to meet our anticipated working capital and capital expenditure needs over at least the next 12 months.

<u>Condensed Consolidated Statements of Cash Flow Data</u>	<u>Three Months Ended March 31,</u>	
	<u>2019</u>	<u>2018</u>
	(in thousands)	
Cash flows provided by operating activities	263	935
Cash flows used in investing activities	(1,190)	(1,539)
Cash flows provided by financing activities	567	544

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, 2019 was \$263,000. The cash flows provided by operating activities resulted from net non-cash charges of \$3.2 million and changes in our operating assets and liabilities of \$2.0 million, partially offset by net losses of \$5.0 million. Net non-cash expenses consisted primarily of \$1.7 million for depreciation and amortization expense and \$1.4 million for stock-based compensation expense. Inflows of cash included an increase in deferred revenue, accounts payable and accrued expenses of \$3.8 million, \$715,000 and \$353,000 respectively. These inflows were offset in part by decreases of cash including increases in accounts receivable and prepaid expenses of \$2.0 million and \$803,000, respectively.

Cash flows used in investing activities.

Cash used in investing activities during the three months ended March 31, 2019 was \$1.2 million, consisting primarily of \$946,000 for the capitalization of internal-use software costs and \$244,000 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, 2019 was \$567,000, consisting of proceeds received on the exercise of common stock options of \$625,000, offset in part by payments under finance lease obligation financing of \$58,000.

Credit facility availability.

On December 14, 2018, we 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"). 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 (the "LIBOR rate margin") 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, the Company must also maintain a minimum net income threshold based on non-GAAP operating measures. Failure to comply with these covenants, or the occurrence of an event of default, could permit the Lenders under the Line of Credit to declare all amounts borrowed under the Line of Credit, together with accrued interest and fees, to be immediately due and payable. We were in compliance with all covenants under the Line of Credit as of March 31, 2019 and there are no borrowings outstanding as of March 31, 2019.

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Net operating loss carryforwards.

As of December 31, 2018, we had federal and state net operating losses of approximately \$161.8 million and \$76.8 million, respectively, which are available to offset future taxable income, if any, through 2038. We had federal and state net operating losses of approximately \$13.8 million and \$0.7 million, respectively, which are available to offset future taxable income, if any, indefinitely. We had federal and state research and development tax credits of \$6.9 million and \$4.4 million, respectively, which expire in various amounts through 2038. 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, 2019 and December 31, 2018.

Contractual Obligations and Commitments

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

Our contractual obligations as of December 31, 2018 are summarized in our Annual Report on Form 10-K for the year ended December 31, 2018.

Recent Accounting Pronouncements

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

Off-Balance Sheet Arrangements

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

Anticipated Cash Flows

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

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Quantitative and Qualitative Disclosures about Market Risk

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

Financial instruments

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

Foreign currency exchange risk

Our results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the euro, British pound, Australian dollar and Japanese yen. Except for revenue transactions in Japan, we enter into transactions directly with substantially all of our foreign customers.

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

	Three Months Ended March 31,	
	2019	2018
Revenues generated in locations outside the United States	52%	48%
Revenues in currencies other than the United States dollar (1)	33%	30%
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, 2019 and 2018:

	Three Months Ended March 31, 2019		Three Months Ended March 31, 2018	
	Revenues	Expenses	Revenues	Expenses
Euro	6%	1%	6%	1%
British pound	7	6	7	6
Japanese Yen	15	5	13	4
Other	5	4	4	5
Total	33%	16%	30%	16%

As of March 31, 2019 and December 31, 2018, we had \$7.3 million and \$7.2 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. Relative to foreign currency exposures existing at March 31, 2019, 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, 2019, we estimated that a 10% unfavorable movement in foreign currency exchange rates would have decreased revenues by \$1.3 million, decreased expenses by \$738,000 and decreased operating income by \$606,000. 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, 2019.

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Interest rate risk

We had cash and cash equivalents totaling \$28.9 million at March 31, 2019. Cash and cash equivalents were invested primarily in money market funds and are held for working capital purposes. We do not use derivative financial instruments in our investment portfolio. Declines in interest rates, however, would reduce future interest income. 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. In the event that we borrow under our line of credit, the related interest expense recorded would be subject to changes in the rate of interest.

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, 2019, 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, 2019, 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

We implemented new internal controls to address all the impacts of the new leasing standard introduced by ASC 842 on our financial statements for its adoption on January 1, 2019 and going forward. These included the development of internal controls over new accounting policies and processes based on the new leasing model. There was no other change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On January 30, 2019, Uniloc 2017 LLC filed a complaint against us and our subsidiary, Brightcove Holdings, Inc. in the United States District Court for the District of Delaware. The complaint alleges that we infringed four patents and seeks monetary damages and other relief. We filed an answer to the complaint on March 25, 2019 and Uniloc filed an amended complaint on April 9, 2019. We filed an answer to the amended complaint on April 23, 2019. We cannot yet determine whether it is probable that a loss will be incurred in connection with this complaint, nor can we reasonably estimate the potential loss, if any.

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

ITEM 1A. RISK FACTORS

You should carefully consider the risks described in our annual report on Form 10-K for the fiscal year ended December 31, 2018, 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.

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

- 2.1 (1) [Asset Purchase and Sale Agreement, dated as of February 13, 2019, by and among Brightcove Inc., Othello Acquisition Corporation, Brightcove, S. de R.L. de C.V., Ooyala, Inc., Ooyala Global, Inc., and Ooyala México, S. de R.L. de C.V.](#)
- 3.1 (2) [Eleventh Amended and Restated Certificate of Incorporation.](#)
- 3.2 (3) [Amended and Restated By-Laws.](#)
- 4.1 (4) [Form of Common Stock certificate of the Registrant.](#)
- 10.1 [First Loan Modification Agreement, dated as of March 29, 2019, by and between Brightcove Inc. and Silicon Valley Bank.](#)
- 31.1 [Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 31.2 [Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 32.1[^] [Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 101.INS XBRL Instance Document.
- 101.SCH XBRL Taxonomy Extension Schema Document.
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document.
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document.
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document.
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.
- (1) Filed as Exhibit 2.1 to the Registrant’s Current Report on Form 8-K filed with the Securities and Exchange Commission on February 13, 2019, and incorporated herein by reference. Schedules, exhibits, and similar supporting attachments or agreements are omitted pursuant to Item 601(b) of Regulation S-K. The Registrant agrees to furnish a supplemental copy of any omitted schedule or similar attachment to the Securities and Exchange Commission upon request.
- (2) 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.
- (3) 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.
- (4) Filed as Exhibit 4.1 to Amendment No. 5 to Registrant’s Registration Statement on Form S-1 filed with the Securities and Exchange Commission on February 6, 2012, and incorporated herein by reference.
- [^] Furnished herewith.

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.

Date: April 24, 2019

BRIGHTCOVE INC.
(Registrant)

By: /s/ Jeff Ray

Jeff Ray
Chief Executive Officer
(Principal Executive Officer)

Date: April 24, 2019

By: /s/ Robert Noreck

Robert Noreck
Chief Financial Officer
(Principal Financial Officer)

FIRST LOAN MODIFICATION AGREEMENT

This First Loan Modification Agreement (this “**Loan Modification Agreement**”) is entered into as of March 29, 2019, by and between **SILICON VALLEY BANK**, a California corporation, with a loan production office located at 275 Grove Street, Suite 2-200, Newton, Massachusetts 02466 (“**Bank**”), and **BRIGHTCOVE INC.**, a Delaware corporation with its principal place of business located at 290 Congress Street, Boston, Massachusetts 02210 (“**Borrower**”).

1. DESCRIPTION OF EXISTING INDEBTEDNESS AND OBLIGATIONS. Among other indebtedness and obligations which may be owing by Borrower to Bank, Borrower is indebted to Bank pursuant to a loan arrangement dated as of December 14, 2018, evidenced by, among other documents, a certain Second Amended and Restated Loan and Security Agreement dated as of December 14, 2018, between Borrower and Bank (as may be amended, modified, restated, replaced or supplemented from time to time, the “**Loan Agreement**”). Capitalized terms used but not otherwise defined herein shall have the same meaning as in the Loan Agreement.
2. DESCRIPTION OF COLLATERAL. Repayment of the Obligations is secured by, among other property, the Collateral as defined in the Loan Agreement (together with any other collateral security granted to Bank, as amended, the “**Security Documents**”). Hereinafter, the Security Documents, together with all other documents evidencing or securing the Obligations shall be referred to as the “**Existing Loan Documents**”.
3. DESCRIPTION OF CHANGE IN TERMS.
 - A. Modifications to Loan Agreement.
 - 1 The Loan Agreement shall be amended by deleting the following text, appearing in Section 10 thereof:

“with a copy to: Riemer & Braunstein LLP
 One Center Plaza
 Boston, Massachusetts 02108
 Attn: David A. Ephraim, Esquire
 Fax: (617) 880-3456
 Email: DEphraim@riemerlaw.com”

and inserting in lieu thereof the following:

“with a copy to: Morrison & Foerster LLP
 200 Clarendon Street, Floor 20
 Boston, Massachusetts 02116
 Attn: David A. Ephraim, Esquire
 Fax: (617) 830-0142
 Email: DEphraim@mofo.com”
 - 2 The Loan Agreement shall be amended by deleting the following text, appearing in subsection (e) in the definition of “Permitted Investments” in Section 13.1 thereof:

“and (v) foreign Subsidiaries formed after the Effective Date for the ordinary and necessary current operating expenses of such foreign Subsidiaries in an aggregate amount (for all such Investments in all such Subsidiaries) not to exceed One Million Dollars (\$1,000,000.00) per calendar year.”

and inserting in lieu thereof the following:

“(v) Brightcove Mexico, Borrower’s Subsidiary organized under the laws of Mexico, for the ordinary and necessary current operating expenses of such Subsidiary, in an aggregate amount not to exceed Five Million Dollars (\$5,000,000.00) per calendar year and (vi) foreign Subsidiaries, other than Brightcove Mexico, formed after the Effective Date, for the ordinary and necessary current operating expenses of such foreign Subsidiaries in an aggregate amount (for all such Investments in all such Subsidiaries) not to exceed One Million Dollars (\$1,000,000.00) per calendar year.”

- B. Consent to Subsidiary. Bank hereby consents to the formation of (a) Brightcove Mexico, Borrower’s Subsidiary organized under the laws of Mexico and (b) Othello Corporation, Borrower’s Subsidiary organized under the laws of the State of Delaware, and acknowledges and agrees that each such formation constitutes a “Permitted Investment” so long as no funds of Borrower are transferred to either of the above Subsidiaries in connection therewith (except as permitted by subsection (e) of the definition of Permitted Investments).
4. FEES AND EXPENSES. Borrower shall reimburse Bank for all legal fees and expenses incurred in connection with this amendment to the Existing Loan Documents.
5. RATIFICATION OF PERFECTION CERTIFICATE. Borrower hereby ratifies, confirms and reaffirms, all and singular, the terms and disclosures contained in a certain Perfection Certificate dated as of December 14, 2018 delivered by Borrower to Bank, and acknowledges, confirms and agrees that the disclosures and information Borrower provided to Bank in such Perfection Certificate have not changed, as of the date hereof.
6. CONSISTENT CHANGES. The Existing Loan Documents are hereby amended wherever necessary to reflect the changes described above.
7. RATIFICATION OF LOAN DOCUMENTS. Borrower hereby ratifies, confirms, and reaffirms all terms and conditions of all security or other collateral granted to Bank, and confirms that the indebtedness secured thereby includes, without limitation, the Obligations.
8. RELEASE BY BORROWER.
- A. FOR GOOD AND VALUABLE CONSIDERATION, Borrower hereby forever relieves, releases, and discharges Bank and its present or former employees, officers, directors, agents, representatives, attorneys, and each of them, from any and all claims, debts, liabilities, demands, obligations, promises, acts, agreements, costs and expenses, actions and causes of action, of every type, kind, nature, description or character whatsoever, whether known or unknown, suspected or unsuspected, absolute or contingent, arising out of or in any manner whatsoever connected with or related to facts, circumstances, issues, controversies or claims existing or arising from the beginning of time through and including the date of execution of this Loan Modification Agreement (collectively “Released Claims”). Without limiting the foregoing, the Released Claims shall include any and all liabilities or claims arising out of or in any manner whatsoever connected with or related to the Loan Documents, the recitals hereto, any instruments, agreements or documents executed in connection with any of the foregoing or the origination, negotiation, administration, servicing and/or enforcement of any of the foregoing.
- B. In furtherance of this release, Borrower expressly acknowledges and waives any and all rights under Section 1542 of the California Civil Code, which provides as follows:

“A **general release** does not extend to claims that the releasing party does not know or suspect to exist in his or her favor at the time of executing the release and that, if known by him or her, would have materially affected his or her settlement with the released party.” (Emphasis added.)

- C. By entering into this release, Borrower recognizes that no facts or representations are ever absolutely certain and it may hereafter discover facts in addition to or different from those which it presently knows or believes to be true, but that it is the intention of Borrower hereby to fully, finally and forever settle and release all matters, disputes and differences, known or unknown, suspected or unsuspected; accordingly, if Borrower should subsequently discover that any fact that it relied upon in entering into this release was untrue, or that any understanding of the facts was incorrect, Borrower shall not be entitled to set aside this release by reason thereof, regardless of any claim of mistake of fact or law or any other circumstances whatsoever. Borrower acknowledges that it is not relying upon and has not relied upon any representation or statement made by Bank with respect to the facts underlying this release or with regard to any of such party’s rights or asserted rights.
- D. This release may be pleaded as a full and complete defense and/or as a cross-complaint or counterclaim against any action, suit, or other proceeding that may be instituted, prosecuted or attempted in breach of this release. Borrower acknowledges that the release contained herein constitutes a material inducement to Bank to enter into this Loan Modification Agreement, and that Bank would not have done so but for Bank’s expectation that such release is valid and enforceable in all events.
- E. Borrower hereby represents and warrants to Bank, and Bank is relying thereon, as follows:
 - 1 Except as expressly stated in this Loan Modification Agreement, neither Bank nor any agent, employee or representative of Bank has made any statement or representation to Borrower regarding any fact relied upon by Borrower in entering into this Loan Modification Agreement.
 - 2 Borrower has made such investigation of the facts pertaining to this Loan Modification Agreement and all of the matters appertaining thereto, as it deems necessary.
 - 3 The terms of this Loan Modification Agreement are contractual and not a mere recital.
 - 4 This Loan Modification Agreement has been carefully read by Borrower, the contents hereof are known and understood by Borrower, and this Loan Modification Agreement is signed freely, and without duress, by Borrower.
 - 5 Borrower represents and warrants that it is the sole and lawful owner of all right, title and interest in and to every claim and every other matter which it releases herein, and that it has not heretofore assigned or transferred, or purported to assign or transfer, to any person, firm or entity any claims or other matters herein released. Borrower shall indemnify Bank, defend and hold it harmless from and against all claims based upon or arising in connection with prior assignments or purported assignments or transfers of any claims or matters released herein.

9. CONTINUING VALIDITY. Borrower understands and agrees that in modifying the existing Obligations, Bank is relying upon Borrower’s representations, warranties, and agreements, as set forth in the Existing Loan Documents. Except as expressly modified pursuant to this Loan Modification Agreement, the terms of the Existing Loan Documents remain unchanged and in full force and effect. Bank’s agreement to modifications to the existing

Obligations pursuant to this Loan Modification Agreement in no way shall obligate Bank to make any future modifications to the Obligations. Nothing in this Loan Modification Agreement shall constitute a satisfaction of the Obligations. It is the intention of Bank and Borrower to retain as liable parties all makers of Existing Loan Documents, unless the party is expressly released by Bank in writing. No maker will be released by virtue of this Loan Modification Agreement.

10. COUNTERSIGNATURE. This Loan Modification Agreement shall become effective only when it shall have been executed by Borrower and Bank.

[The remainder of this page is intentionally left blank]

IN WITNESS WHEREOF, the parties hereto have caused this Loan Modification Agreement to be executed as a sealed instrument under the laws of the Commonwealth of Massachusetts as of the date first written above.

BORROWER:

BRIGHTCOVE INC.

By: /s/ Robert Noreck
Name: Robert Noreck
Title: CEO

BANK:

SILICON VALLEY BANK

By: /s/ Christopher Michael
Name: Christopher Michael
Title: Vice President

**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 24, 2019

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 24, 2019

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, 2019 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 24, 2019

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, 2019 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 24, 2019

By: /s/ Robert Noreck

Robert Noreck
Chief Financial Officer
(Principal Financial Officer)