BRIGHTCOVE INC
Form 10-Q
November 03, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2014

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	**20-1579162**
(State or other jurisdiction of	**(I.R.S. Employer**

incorporation or organization) **Identification No.)**

290 Congress Street

Boston, MA 02210

(Address of principal executive offices)

(888) 882-1880

(Registrant's telephone number, including area code)

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

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

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

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

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

As of October 31, 2014 there were 32,272,718 shares of the registrant's common stock, $0.001 par value per share, issued and outstanding.

BRIGHTCOVE INC.

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Brightcove Inc.

Condensed Consolidated Balance Sheets

(unaudited)

(in thousands, except share and per share data)

	September 30, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$ 21,705	$ 33,047
Short-term investments	—	3,061
Restricted cash	8	121
Accounts receivable, net of allowance of $471 and $461, respectively	19,564	21,560
Prepaid expenses and other current assets	4,826	4,011
Deferred tax asset	120	125
Total current assets	46,223	61,925
Property and equipment, net	10,384	8,795
Intangible assets, net	17,687	8,668
Goodwill	51,099	22,018
Restricted cash, net of current portion	201	201
Other assets	668	1,519
Total assets	$ 126,262	$ 103,126
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 734	$ 3,067
Accrued expenses	9,624	14,528
Capital lease liability	1,358	—
Deferred revenue	28,578	23,571
Total current liabilities	40,294	41,166
Deferred revenue, net of current portion	35	247
Other liabilities	2,591	1,333
Total liabilities	42,920	42,746
Commitments and contingencies *(Note 11)*		
Stockholders' equity:		
Undesignated preferred stock, $0.001 par value; 5,000,000 shares authorized; 0 shares issued	—	—

Common stock, $0.001 par value; 100,000,000 shares authorized; 32,268,080 and 29,034,919 shares issued and outstanding, respectively	32	29
Additional paid-in capital	212,898	176,928
Accumulated other comprehensive loss	(495)	(453)
Accumulated deficit	(129,093)	(116,124)
Total stockholders’ equity	83,342	60,380
Total liabilities and stockholders’ equity	$ 126,262	$ 103,126

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

3

Brightcove Inc.

Condensed Consolidated Statements of Operations

(unaudited)

(in thousands, except share and per share data)

	Three Months Ended September 30, 2014	2013	Nine Months Ended September 30, 2014	2013
Revenue:				
Subscription and support revenue	$ 30,450	$ 26,535	$ 89,754	$ 75,887
Professional services and other revenue	1,077	1,992	3,881	4,262
Total revenue	31,527	28,527	93,635	80,149
Cost of revenue: (1) (2)				
Cost of subscription and support revenue	9,467	7,047	28,096	21,441
Cost of professional services and other revenue	1,352	2,201	4,414	5,393
Total cost of revenue	10,819	9,248	32,510	26,834
Gross profit	20,708	19,279	61,125	53,315
Operating expenses: (1) (2)				
Research and development	7,187	5,607	20,548	15,650
Sales and marketing	11,273	10,159	34,714	30,855
General and administrative	4,735	4,460	14,597	13,840
Merger-related	623	370	3,011	1,461
Total operating expenses	23,818	20,596	72,870	61,806
Loss from operations	(3,110)	(1,317)	(11,745)	(8,491)
Other (expense) income, net	(614)	104	(1,020)	(359)
Loss before income taxes and non-controlling interest in consolidated subsidiary	(3,724)	(1,213)	(12,765)	(8,850)
Provision for income taxes	81	55	204	149
Consolidated net loss	(3,805)	(1,268)	(12,969)	(8,999)
Net income attributable to non-controlling interest in consolidated subsidiary	—	—	—	(20)
Net loss attributable to Brightcove Inc.	$ (3,805)	$ (1,268)	$ (12,969)	$ (9,019)
Net loss per share - basic and diluted	$ (0.12)	$ (0.04)	$ (0.41)	$ (0.32)

Weighted-average number of common shares used in computing net loss per share	32,247,453	28,345,519	31,814,570	28,184,533
(1) Stock-based compensation included in above line items:				
Cost of subscription and support revenue	$ 37	$ 60	$ 147	$ 185
Cost of professional services and other revenue	53	53	121	117
Research and development	376	354	950	902
Sales and marketing	533	557	1,678	1,641
General and administrative	527	561	1,877	1,891
(2) Amortization of acquired intangible assets included in above line items:				
Cost of subscription and support revenue	$ 509	$ 253	$ 1,439	$ 759
Research and development	36	9	108	29
Sales and marketing	282	166	863	500

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

Brightcove Inc.

Condensed Consolidated Statements of Comprehensive Loss

(unaudited)

(in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Consolidated net loss	$ (3,805)	$ (1,268)	$ (12,969)	$ (8,999)
Other comprehensive income (loss):				
Foreign currency translation adjustments	(239)	34	(42)	(779)
Comprehensive loss	(4,044)	(1,234)	(13,011)	(9,778)
Net income attributable to non-controlling interest in consolidated subsidiary	—	—	—	(20)
Comprehensive loss attributable to Brightcove Inc.	$ (4,044)	$ (1,234)	$ (13,011)	$ (9,798)

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

5

Brightcove Inc.

Condensed Consolidated Statements of Cash Flows

(unaudited)

(in thousands)

	Nine Months Ended September 30,	
	2014	2013
Operating activities		
Net loss	$ (12,969)	$ (8,999)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	6,114	4,562
Stock-based compensation	4,773	4,736
Provision for reserves on accounts receivable	122	351
Amortization of premium on investments	1	69
Loss on disposal of equipment	92	—
Changes in assets and liabilities, net of effect of acquisition:		
Accounts receivable	2,399	(1,795)
Prepaid expenses and other current assets	(1,005)	(1,285)
Other assets	1,185	(11)
Accounts payable	(3,097)	902
Accrued expenses	(4,126)	481
Deferred revenue	4,861	5,790
Net cash (used in) provided by operating activities	(1,650)	4,801
Investing activities		
Cash paid for acquisition, net of cash acquired	(9,100)	—
Maturities of investments	3,060	7,260
Purchases of property and equipment	(2,500)	(1,926)
Capitalized internal-use software costs	(927)	(426)
Decrease (increase) in restricted cash	113	(61)
Net cash (used in) provided by investing activities	(9,354)	4,847
Financing activities		
Proceeds from exercise of stock options	584	585
Purchase of non-controlling interest in consolidated subsidiary	—	(1,084)
Payments under capital lease obligation	(860)	—
Net cash used in financing activities	(276)	(499)
Effect of exchange rate changes on cash	(62)	(758)
Net decrease (increase) in cash and cash equivalents	(11,342)	8,391
Cash and cash equivalents at beginning of period	33,047	21,708
Cash and cash equivalents at end of period	$ 21,705	$ 30,099
Supplemental disclosure of non-cash investing activities		
Fair value of shares issued for acquisition of a business	$ 30,615	$ —
Supplemental disclosure of non-cash financing activities		
Vesting of restricted stock	$ —	$ 8

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

Brightcove Inc.

Condensed Consolidated Statements of Cash Flows – (continued)

(unaudited)

(in thousands)

	Nine Months Ended September 30, 2014	
Supplemental disclosure of cash flow related to asset purchase agreement		
In connection with the asset purchase agreement with Unicorn Media, Inc. on January 31, 2014, the following transactions occurred:		
Fair value of assets acquired	$ 44,345	
Liabilities assumed related to acquisition	(4,617	)
Total purchase price	39,728	
Less fair value of common stock issued in connection with acquisition	(30,615	)
Less cash and cash equivalents acquired	(13	)
Cash paid for acquisition, net of cash acquired	$ 9,100	

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 September 30, 2014, the Company had nine wholly-owned subsidiaries: Brightcove UK Ltd, Brightcove Singapore Pte. Ltd., Brightcove Korea, Brightcove Australia Pty Ltd, Brightcove Holdings, Inc., Brightcove Kabushiki Kaisha (Brightcove KK), Zencoder Inc. (Zencoder), Brightcove FZ-LLC and Cacti Acquisition LLC.

On January 31, 2014, the Company acquired substantially all of the assets of Unicorn Media, Inc. and certain of its subsidiaries pursuant to an Asset Purchase Agreement and Plan of Reorganization (the Purchase Agreement). Unicorn Media, Inc. is a privately-held company located in Tempe, Arizona and a provider of cloud video ad insertion technology. See Note 2 for further discussion.

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, 2013.

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the unaudited condensed consolidated financial statements and notes have been prepared on the same basis as the audited consolidated financial statements for the year ended December 31, 2013 contained in the Company's Annual Report on Form 10-K and include all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the Company's financial position for the three and nine months ended September 30, 2014 and 2013. These interim periods are not necessarily indicative of the results to be expected for any other interim period or the full year.

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

The accompanying condensed consolidated financial statements reflect the application of certain significant accounting policies as described below and elsewhere in these notes to the condensed consolidated financial statements. As of September 30, 2014, 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, 2013, have not changed.

2. Business Combination

On January 31, 2014, pursuant to the Purchase Agreement dated as of January 6, 2014, by and among the Company, Cacti Acquisition LLC, a Delaware limited liability company and wholly-owned subsidiary of the Company, Unicorn Media, Inc. (“Unicorn Media”), Unicorn Media of Arizona, Inc., an Arizona corporation (“Unicorn Arizona Sub”), U Media Limited, a private limited company registered in England and Wales (“Unicorn UK Sub” and, together with Unicorn Media and Unicorn Arizona Sub, “Unicorn”), and the Securityholders’ Representative named therein, the Company completed its acquisition of substantially all of Unicorn’s assets in exchange for common stock of the Company and the assumption by the Company of certain liabilities of Unicorn (the “Acquisition”). The Company issued 2,850,547 unregistered shares of common stock of the Company and paid approximately $9,100 in cash to cover transaction-related expenses of Unicorn, bonus expenses payable by Unicorn, the assumption of Unicorn’s liability to cash out all vested non-qualified stock options and compensatory warrants to purchase the common stock of Unicorn outstanding immediately prior to the closing (including all Unicorn withholding obligations in connection therewith) and certain other liabilities of Unicorn. Based on a $10.74 price per share of the Company’s common stock at the date of closing, the transaction is valued at approximately $39,728. Pursuant to the Purchase Agreement, 1,285,715 shares were placed into an escrow account to settle certain claims for indemnification for breaches or inaccuracies in Unicorn’s representations and warranties, covenants and agreements. The Company acquired substantially all of Unicorn’s assets to enhance and extend the Company’s existing offerings with Unicorn’s cloud video ad insertion technology. The Company believes that the unification of Unicorn’s cloud video ad insertion technology with the Company’s existing offerings will enable new and improved scalable services.

The Acquisition was accounted for using the purchase method of accounting in accordance with Accounting Standards Codification 805 — *Business Combinations*. Accordingly, the results of operations of Unicorn have been included in the accompanying condensed consolidated financial statements since the date of acquisition. The purchase price has been allocated to the tangible and intangible assets acquired and liabilities assumed based upon the respective estimates of fair value as of the date of the Acquisition, which remain preliminary as of September 30, 2014, and using assumptions that the Company’s management believes are reasonable given the information currently available. The Company is in the process of completing its valuation of certain intangible assets and the valuation of the acquired deferred tax assets and liabilities. The final allocations of the purchase price to intangible assets, goodwill and deferred tax assets and liabilities may differ materially from the information presented in these unaudited condensed consolidated financial statements.

The process for estimating the fair values of identifiable intangible assets and certain tangible assets requires the use of significant estimates and assumptions, including estimating future cash flows and developing appropriate discount rates. Definitive allocations are being performed and finalized based on certain valuations and other studies performed by the Company with the services of outside valuation specialists.

During the three and nine months ended September 30, 2014, the Company incurred merger-related costs related to the Acquisition of $728 and $2,935, respectively. Included in merger-related expenses are costs incurred in connection with closing the Acquisition in addition to costs associated with the retention of key employees. In addition to the

$39,728 purchase price, pursuant to the Purchase Agreement, approximately $1,750 will be paid to retain certain key employees over periods ranging from one to two years as services are performed. Given that the retention amount is related to a future service requirement, the related expense is being recorded as compensation expense in the condensed consolidated statements of operations over the expected service period, and was $627 and $1,192, respectively, during the three and nine months ended September 30, 2014. The excess of the purchase price over the estimated amount of net assets as of the effective date of the Acquisition was allocated to goodwill in accordance with the accounting guidance. The factors contributing to the recognition of the amount of goodwill are based on several strategic and synergistic benefits that are expected to be realized from the Acquisition. These benefits include the expectation that the combined company's complementary products will significantly broaden the Company's offerings in cloud video ad insertion. The combined company will benefit from a broader global presence, and with the Company's direct sales force and larger channel coverage, the combined company anticipates significant cross-selling opportunities. None of the goodwill is expected to be currently deductible for tax purposes.

The total purchase price for Unicorn has been preliminarily allocated as follows:

Cash and cash equivalents	$13
Other tangible assets	3,822
Identifiable intangible assets	11,429
Goodwill	29,081
Liabilities assumed	(4,617)
Total estimated purchase price	$39,728

The following are the identifiable intangible assets acquired and their respective useful lives, as determined based on preliminary valuations:

	Amount	Useful Life
Developed technology	$8,149	8
Customer relationships	1,964	7
Non-compete agreements	1,316	3
Total	$11,429	

The preliminary fair value of the intangible assets has been estimated using the income approach in which the after-tax cash flows are discounted to present value. The cash flows are based on estimates used to price the transaction, and the discount rates applied were benchmarked with reference to the implied rate of return from the transaction model as well as the weighted-average cost of capital.

The estimated remaining amortization expense for the remainder of 2014 and for each of the five succeeding years and thereafter is as follows:

Year	Amount
Remainder of 2014	$434
2015	1,738
2016	1,738
2017	1,336
2018	1,299
2019 and thereafter	3,725
Total	$10,270

Pro Forma Financial Information

The unaudited financial information in the table below summarizes the combined results of operations of the Company and Unicorn, on a pro forma basis, as though the Company had acquired Unicorn on January 1, 2013. The pro forma information for all periods presented also includes the effects of business combination accounting resulting from the acquisition, including amortization charges from acquired intangibles assets and the compensation expense recorded to retain certain key employees.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Total revenue	$ 31,527	$ 29,989	$ 94,176	$ 84,362
Net loss	$ (3,246)	$ (4,066)	$ (11,270)	$ (17,172)
Earnings per share – basic and diluted	$ (0.10)	$ (0.13)	$ (0.35)	$ (0.55)

3. Non-controlling Interest

On January 8, 2013, the Company acquired the remaining 37% interest of its majority-owned subsidiary, Brightcove KK, a Japanese joint venture which was formed on July 18, 2008. Given that the Company now owns 100% of Brightcove KK, the Company will continue to consolidate Brightcove KK for financial reporting purposes, however, commencing on January 8, 2013, the Company no longer records a non-controlling interest in the condensed consolidated statements of operations.

4. Concentration of Credit Risk

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

At September 30, 2014 and December 31, 2013, no individual customer accounted for 10% or more of net accounts receivable. For the three and nine months ended September 30, 2014 and 2013, no individual customer accounted for 10% or more of total revenue.

5. 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.

6. Cash, Cash Equivalents and Investments

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. Investments not classified as cash equivalents with maturities less than one year from the balance sheet date are classified as short-term investments, while investments with maturities in excess of one year from the balance sheet date are classified as long-term investments. Management determines the appropriate classification of investments at the time of purchase, and re-evaluates such determination at each balance sheet date.

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. Investments primarily consist of certificates of deposit and corporate debentures. At September 30, 2014, the Company did not have any investments. At December 31, 2013, the Company classified its investments as held-to-maturity as it was the Company’s intention to hold such investments until they matured. As such, investments were recorded at amortized cost at December 31, 2013.

Cash and cash equivalents as of September 30, 2014 consist of the following:

	September 30, 2014			
Description	Contracted Maturity	Amortized Cost	Fair Market Value	Balance Per Balance Sheet
Cash	Demand	$ 17,132	$ 17,132	$ 17,132
Money market funds	Demand	4,573	4,573	4,573
Total cash and cash equivalents		$ 21,705	$ 21,705	$ 21,705

Cash, cash equivalents and investments as of December 31, 2013 consist of the following:

	December 31, 2013			
Description	Contracted Maturity	Amortized Cost	Fair Market Value	Balance Per Balance Sheet
Cash	Demand	$ 19,250	$ 19,250	$ 19,250
Money market funds	Demand	13,797	13,797	13,797
Total cash and cash equivalents		$ 33,047	$ 33,047	$ 33,047
Certificates of deposit	110 – 163 days	$ 960	$ 961	$ 960
Corporate debentures	23 – 96 days	2,101	2,102	2,101
Total short-term investments		$ 3,061	$ 3,063	$ 3,061

7. Net Loss per Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Options outstanding	3,758	3,563	3,731	3,380
Restricted stock units outstanding	1,093	1,371	1,010	1,434
Warrants	28	28	28	28
Total	4,879	4,962	4,769	4,842

11

8. 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 September 30, 2014 and December 31, 2013:

	September 30, 2014			
	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	$4,573	$ —	$ —	$4,573
Restricted cash	—	209	—	209
Total assets	$4,573	$ 209	$ —	$4,782

	December 31, 2013			
	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	$13,797	$ —	$ —	$13,797
Restricted cash	—	322	—	322
Total assets	$13,797	$ 322	$ —	$14,119

9. Stock-based Compensation

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Expected life in years	6.3	6.3	6.2	6.2
Risk-free interest rate	2.19 %	2.04 %	2.18 %	1.79 %
Volatility	51 %	54 %	53 %	54 %
Dividend yield	—	—	—	—
Weighted-average fair value of stock options granted	$ 3.06	$ 5.64	$ 4.41	$ 5.08

The Company recorded stock-based compensation expense of $1,526 and $1,585 for the three months ended September 30, 2014 and 2013, respectively, and $4,773 and $4,736 for the nine months ended September 30, 2014 and 2013, respectively. As of September 30, 2014, there was $11,856 of unrecognized stock-based compensation expense related to stock-based awards that is expected to be recognized over a weighted-average period of 3.21 years. The following is a summary of the status of the Company's stock options as of September 30, 2014 and the stock option activity during the nine months ended September 30, 2014.

	Number of Shares	Exercise Price Per Share	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term (Years)	**Aggregate Intrinsic Value** [(1)]
Outstanding at December 31, 2013	3,060,583	$ 0.31 – 16.88	$ 6.76		
Granted	1,748,648	5.97 – 10.74	8.40		
Exercised	(199,050)	0.31 – 11.00	2.94		$ 1,433
Canceled	(626,686)	5.97 – 16.88	9.85		
Outstanding at September 30, 2014	3,983,495	$ 0.31 – 16.88	$ 7.19	7.13	$ 4,439
Exercisable at September 30, 2014	2,080,743	$ 0.31 – 16.88	$ 5.56	5.19	$ 4,439
Vested or expected to vest at September 30, 2014 [(2)]	3,418,562	$ 0.31 – 16.88	$ 6.95	6.76	$ 4,439

(1) The aggregate intrinsic value was calculated based on the positive difference between the fair value of the Company's common stock on September 30, 2014 of $5.58 per share, or the date of exercise, as appropriate, and the exercise price of the underlying options.

(2) This represents the number of vested options as of September 30, 2014 plus the number of unvested options expected to vest as of September 30, 2014 based on the unvested options outstanding at September 30, 2014 adjusted for an estimated forfeiture rate.

The following table summarizes the restricted stock unit award activity during the nine months ended September 30, 2014:

	Shares	Weighted Average Grant Date Fair Value
Unvested by December 31, 2013	1,177,716	$ 10.26
Granted	221,000	6.00
Vested and issued	(183,564)	8.69
Canceled	(248,917)	10.01
Unvested by September 30, 2014	966,235	$ 9.13

10. Income Taxes

For the three months ended September 30, 2014 and 2013, the Company recorded income tax expense of $81 and $55, respectively, and for the nine months ended September 30, 2014 and 2013, the Company recorded income tax expense of $204 and $149, respectively. The income tax expense relates principally to the Company's foreign operations.

The Company has evaluated the positive and negative evidence bearing upon the realizability of its U.S. net deferred tax assets. As required by the provisions of ASC 740, *Income Taxes*, management has determined that it is more-likely-than-not that the Company will not utilize the benefits of federal and state U.S. net deferred tax assets for financial reporting purposes. Accordingly, the net deferred tax assets are subject to a valuation allowance at September 30, 2014 and December 31, 2013. The Company's income tax return reporting periods since December 31, 2010 are open to income tax audit examination by the federal and state tax authorities. In addition, because the Company has net operating loss carryforwards, the Internal Revenue Service is permitted to audit earlier years and propose adjustments up to the amount of net operating losses generated in those years. There are currently no federal, state or foreign audits in progress.

11. Commitments and Contingencies

Leases

In connection with the Purchase Agreement, the Company assumed various capital lease arrangements for computer equipment for a total obligation of $2,871 as of the closing of the transaction. The lease arrangements expire at various dates through May 2017. Future minimum rental commitments under capital leases at September 30, 2014 are as follows:

Year Ending December 31	Capital Lease Commitments
2014	$ 354
2015	1,358
2016	349
2017	17
Less – interest on capital leases	67
	$ 2,011

At September 30, 2014, total assets under capital leases were $3,292 and related accumulated amortization was $1,588.

The Company assumed non-cancelable operating lease agreements for office space in connection with the Purchase Agreement. As of September 30, 2014, these operating leases have non-cancelable commitments through December 2016 of $1,441.

Legal Matters

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

On August 27, 2012, a complaint was filed by Blue Spike, LLC naming the Company in a patent infringement case (Blue Spike, LLC v. Audible Magic Corporation, et al., United States District Court for the Eastern District of Texas). The complaint alleges that the Company has infringed U.S. Patent No. 7,346,472 with a listed issue date of March 18, 2008, entitled “Method and Device for Monitoring and Analyzing Signals,” U.S. Patent No. 7,660,700 with a listed issue date of February 9, 2010, entitled “Method and Device for Monitoring and Analyzing Signals,” U.S. Patent No. 7,949,494 with a listed issue date of May 24, 2011, entitled “Method and Device for Monitoring and Analyzing Signals” and U.S. Patent No. 8,214,175 with a listed issue date of July 3, 2012, entitled “Method and Device for Monitoring and Analyzing Signals.” The complaint seeks an injunction enjoining infringement, damages and pre- and post-judgment costs and interest. The Company answered and filed counterclaims against Blue Spike on December 3, 2012. The Company amended its answer and counterclaims on July 15, 2013. This complaint is subject to indemnification by one of the Company’s vendors. 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.

On September 10, 2013, a complaint was filed by Cinsay Inc. naming the Company in a patent infringement case (Cinsay Inc. v. Brightcove Inc. and Joyus Inc., United States District Court for the Northern District of Texas). The complaint alleged that the Company has infringed U.S. Patent No. 8,312,486 with a listed issue date of November 13, 2012, entitled “Interactive Product Placement and Method Therefor” and U.S. Patent No. 8,533,753 with a listed issue date of September 10, 2013, entitled “Interactive Product Placement and Method Therefor.” On October 1, 2013, Cinsay filed an amended complaint against the Company in which it reasserted the allegations of infringement of U.S. Patent No. 8,312,486 and U.S. Patent No. 8,533,753 and added allegations that the Company infringed U.S. Patent No. 8,549,555 with a listed issue date of October 1, 2013, entitled “Interactive Product Placement and Method Therefor.” The amended complaint sought an injunction enjoining infringement, damages and pre- and post-judgment costs and interest. The Company answered the amended complaint on November 12, 2013. The Company settled the matter on July 15, 2014 for an amount that is not material and, pursuant to the settlement, all claims against the Company were dismissed with prejudice on August 14, 2014. The Company recorded the impact of the settlement as a charge to operations in the accompanying unaudited condensed consolidated statements of operations for the nine months ended September 30, 2014.

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 subscribed for the Company’s service, the maximum potential amount of future payments the Company could be required to make under certain of these indemnification agreements is unlimited, however, more recently the Company has typically limited the maximum potential value of such potential future payments in relation to the value of the contract. Based on historical experience and information known as of September 30, 2014, 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 its customers 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.

Beginning on September 18, 2014, the Company suffered a service disruption resulting from a distributed denial-of-service attack at third-party data center facilities used by the Company. By September 20, 2014, the Company had restored the services impacted by the attack. While this matter has resulted in the issuance of service credits by the Company to some customers, and may result in remediation expenses, litigation and other liabilities, this incident did not have a material impact on the Company's financial position, results of operations or cash flows as of and for the nine months ended September 30, 2014. In addition, the Company does not believe this incident will have a material adverse effect on its financial results in any future period.

12. Debt

On March 31, 2011, the Company entered into a loan and security agreement with a lender (the "Loan Agreement") providing for an asset based line of credit (the "Line of Credit"). Under the Line of Credit, the Company can borrow up to the lesser of (i) $8.0 million or (ii) 80% of the Company's eligible accounts receivable. Borrowing availability under the Line of Credit changes based upon the amount of eligible receivables, concentration of eligible receivables and other factors. The Company has the ability to obtain letters of credit. Borrowings under the Line of Credit are secured by substantially all of the Company's assets. Outstanding amounts under the Line of Credit accrue interest at a rate equal to the prime rate plus 1.5%. Advances under the Line of Credit were due on March 31, 2013, and interest and related finance charges are payable monthly. On April 29, 2013, the Company amended the Line of Credit to increase the aggregate amount of borrowings that may be outstanding under the Company's asset-based line of credit from $8.0 million to $10.0 million and to extend the maturity date to March 30, 2015. At September 30, 2014 and December 31, 2013, the Company had no amounts outstanding under the Line of Credit.

On October 3, 2014, the Company amended the Line of Credit and entered into the Third Loan Modification Agreement (the "Modification Agreement") to (i) increase the aggregate amount of borrowings that may be outstanding under the Company's Line of Credit from $10.0 million to $20.0 million, (ii) increase the aggregate Facility Amount (as defined in the Loan Agreement) available pursuant to the Loan Agreement from $12.5 million to $25.0 million, (iii) provide for an unused line fee of 0.25% of the average unused portion of the Maximum Availability Amount (as defined in the Loan Agreement) per year and (iv) extend the maturity date to October 3, 2016. The interest rate decreased from the prime rate plus 1.5% to the prime rate plus 0.75%. Under the Modification Agreement, the Company must comply with certain financial covenants, including maintaining a minimum asset coverage ratio, a minimum net income threshold based on non-GAAP operating measures and a minimum net cash balance at certain points throughout the year. The interest rate will increase to the prime rate plus 2.25% if the Company is not able to meet the minimum asset coverage ratio.

13. Segment Information

Geographic Data

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenue:				
North America	$ 19,254	$ 17,026	$ 55,749	$ 48,234
Europe	7,451	7,071	23,808	18,959
Japan	2,181	1,714	6,114	4,685
Asia Pacific	2,383	2,508	7,259	7,710
Other	258	208	705	561
Total revenue	$ 31,527	$ 28,527	$ 93,635	$ 80,149

North America is comprised of revenue from the United States, Canada and Mexico. During the three months ended September 30, 2014 and 2013, revenue from customers located in the United States was $17,797 and $15,739, respectively, and $51,533 and $44,597, respectively, during the nine months ended September 30, 2014 and 2013. During the three and nine months ended September 30, 2014 and 2013, no other country contributed more than 10% of the Company’s total revenue.

As of September 30, 2014 and December 31, 2013, property and equipment at locations outside the U.S. was not material.

14. Recently Issued and Adopted Accounting Standards

In March 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2013-05, *Foreign Currency Matters,* which permits an entity to release cumulative translation adjustments into net income when a reporting entity (parent) ceases to have a controlling financial interest in a subsidiary or group of assets that is a business within a foreign entity. Accordingly, the cumulative translation adjustment should be released into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided, or, if a controlling financial interest is no longer held. The revised standard was effective beginning after December 15, 2013. The Company adopted this guidance effective

January 1, 2014. The adoption of ASU 2013-05 did not have a significant impact on the Company's consolidated financial statements.

In July 2013, the FASB issued ASU 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists* (Topic 740). ASU 2013-11 requires that unrecognized tax benefits be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except in certain circumstances. When those circumstances exist, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The Company adopted this guidance effective January 1, 2014. The adoption of ASU 2013-11 did not have a significant impact on the Company's consolidated financial statements.

In May 2014, the FASB and the International Accounting Standards Board jointly issued ASU No. 2014-9, *Revenue from Contracts with Customers*, which clarifies the principles for recognizing revenue and develops a common revenue standard for GAAP and International Financial Reporting Standards. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The ASU is effective for public entities for annual and interim periods beginning after December 15, 2016. Early adoption is not permitted under GAAP and retrospective application is permitted but not required. The Company is currently evaluating the impact of adopting this guidance on its financial position and results of operations.

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, 2013.

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains "forward-looking statements" that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. The statements contained in this Quarterly Report on Form 10-Q that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or Exchange Act. Such forward-looking statements include any expectation of earnings, revenue or other financial items; any statements of the plans, strategies and objectives of management for future operations; factors that may affect our operating results; statements related to adding employees; statements related to potential benefits of the acquisition of substantially all of the assets of Unicorn Media, Inc. and certain of its subsidiaries; statements related to the impact of the distributed denial-of-service attack on our financial results in future periods; 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, 2013 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 services for video. Brightcove Video Cloud, or Video Cloud, our flagship product released in 2006, is the world's leading online video platform. As of September 30, 2014, we had 5,899 customers in over 70 countries, including many of the world's leading media, retail, technology and financial services companies, as well as governments, educational institutions and non-profit organizations. In the nine months ended September 30, 2014, our customers used Video Cloud to deliver an average of approximately 1.5 billion video streams per month, which we believe is more video streams per month than any other professional solution.

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

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

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

As of September 30, 2013, we had 346 employees and 6,374 customers across our service offerings, of which 4,615 used our volume offerings and 1,759 used our premium offerings. As of September 30, 2014, we had 408 employees and 5,899 customers, of which 4,052 used our volume offerings and 1,847 used our premium offerings.

We have primarily generated our revenue to date by offering our Video Cloud product to customers on a subscription-based, software-as-a-service, or SaaS, model. Our revenue grew from $80.1 million in the nine months ended September 30, 2013 to $93.6 million in the nine months ended September 30, 2014. Our consolidated net loss was $13.0 million and $9.0 million for the nine months ended September 30, 2014 and 2013, respectively. Included in consolidated net loss for the nine months ended September 30, 2014 was stock-based compensation expense, merger-related expenses and amortization of acquired intangible assets of $4.8 million, $3.0 million and $2.4 million, respectively. Included in consolidated net loss for the nine months ended September 30, 2013 was stock-based compensation expense, merger-related expenses and amortization of acquired intangible assets of $4.7 million, $1.5 million and $1.3 million, respectively.

For the nine months ended September 30, 2014 and 2013, our revenue derived from customers located outside North America was 41% and 40%, respectively. We expect the percentage of total net revenue derived from outside North America to increase in future periods as we continue to expand our international operations.

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

Acquisitions

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

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

On January 31, 2014, we acquired substantially all of the assets of Unicorn for total consideration of approximately $39.7 million, which was funded by cash on hand of $9.1 million and 2,850,547 unregistered shares of our common stock. The results of operations of Unicorn are consolidated with our results of operations beginning on January 31, 2014, the closing date of the transaction.

Key Metrics

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

- *Number of Customers*. We define our number of customers at the end of a particular quarter as the number of customers generating subscription revenue at the end of the quarter. We believe the number of customers is a key indicator of our market penetration, the productivity of our sales organization and the value that our products bring to both large and small organizations. We classify our customers by including them in either premium or volume offerings. Our premium offerings include our premium Video Cloud customers (Enterprise and Pro editions), Once customers and our Zencoder customers who are on annual contracts. Our volume offerings include our Video Cloud Express customers and our Zencoder customers on month-to-month and pay-as-you-go contracts. The number of customers subscribing to our premium offerings is particularly important to monitor given that we expect revenue from premium offerings to continue to represent a significant portion of our total revenue, and we are investing significantly to support sales in a new and rapidly evolving market.

As of September 30, 2014, we had 5,899 customers, of which 4,052 used our volume offerings and 1,847 used our premium offerings. As of September 30, 2013, we had 6,374 customers, of which 4,615 used our volume offerings and 1,759 used our premium offerings. The number of volume customers decreased during the nine months ended September 30, 2014 primarily due to our discontinuation of entry-level Video Cloud Express offerings. As a result, we experienced attrition of this base level offering without a corresponding addition of customers. We expect customers using our volume offerings to continue to decrease during the remainder of 2014 given that certain of the Video Cloud Express price levels were discontinued.

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

17

During the nine months ended September 30, 2014, the average number of monthly streams was approximately 1.5 billion, an increase of 63% from approximately 921 million during the nine months ended September 30, 2013. During the nine months ended September 30, 2014, the average number of monthly streams included those streams from Once, as the purchase of substantially all of the assets of Unicorn occurred during the first quarter of 2014.

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

In the nine months ended September 30, 2014, the recurring dollar retention rate was 91% compared with 97% for the nine months ended September 30, 2013. The decrease in our recurring dollar retention rate in the nine months ended September 30, 2014 was driven by a decrease in sales of additional products and services to our existing customer base.

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

	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Customers (at period end)		
Volume	4,052	4,615
Premium	1,847	1,759
Total customers (at period end)	5,899	6,374
Average monthly year-to-date streams (in thousands)	1,500,937	921,363
Recurring dollar retention rate	91 %	97 %

Components of Consolidated Statements of Operations

Revenue

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

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

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

Once is an innovative, cloud-based ad insertion and video stitching service which addresses the limitations of traditional online video ad insertion technology. There are currently three Once offerings. OnceVOD includes dynamic delivery and monetization for premium video-on-demand content. OnceLIVE includes dynamic delivery, linear ad replacement and ad insertion for live broadcasts, events and 24/7 linear channels. OnceUX includes dynamic ad insertion, with associated rich client and interactive ad capabilities delivered via an API method. Once is offered to customers on a subscription basis, with varying levels of functionality, usage entitlements and support based on the size and complexity of a customer's needs.

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 expenses, allocated overhead, depreciation expense and amortization of capitalized internal-use software development costs and acquired intangible assets. We allocate overhead costs such as rent, utilities and supplies to all departments based on relative headcount. As such, general overhead expenses are reflected in cost of revenue in addition to each operating expense category.

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

Cost of revenue increased in absolute dollars from the first nine months of 2013 to the first nine months of 2014. In future periods we expect our cost of revenue will increase in absolute dollars as our revenue increases. We also expect that cost of revenue as a percentage of revenue will decrease over time as we are able to achieve economies of scale in our business. However, cost of revenue as a percentage of revenue could fluctuate from period to period depending on the growth of our professional services business and any associated costs relating to the delivery of subscription services and the timing of significant expenditures. To the extent that our customer base grows, we intend to continue to invest additional resources in expanding the delivery capability of our products and other services. The timing of these additional expenses could affect our cost of revenue, both in terms of absolute dollars and as a percentage of revenue, in any particular quarterly or annual period.

Operating Expenses

We classify our operating expenses as follows:

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

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

General and Administrative. General and administrative expenses consist primarily of personnel and related expenses for executive, legal, finance, information technology and human resources functions, including salaries, benefits, incentive compensation and stock-based compensation, in addition to the costs associated with professional fees, insurance premiums, other corporate expenses and allocated overhead. In future periods we expect general and administrative expenses to increase in absolute dollars as we continue to incur additional personnel and professional services costs related to the growth of our business and operations. Over the long term, we believe that general and administrative expenses as a percentage of revenue will decrease.

Merger-related. Merger-related costs consisted of transaction expenses incurred as part of the Unicorn acquisition as well as costs associated with the retention of key employees of Unicorn and Zencoder. Approximately $1.8 million is required to be paid to retain certain key employees from the Unicorn acquisition. The period in which these services are to be performed varies by employee. Additionally, approximately $2.7 million was required to be paid to retain certain key employees from the Zencoder acquisition over a two-year period from the date of acquisition of Zencoder as services were performed. Given that the retention amount is related to a future service requirement, the related expense is being recorded as merger-related compensation expense in the consolidated statement of operations over the expected service period.

Other Expense

Other expense consists primarily of interest income earned on our cash, cash equivalents and investments, foreign exchange gains and losses and interest expense payable on our debt.

Non-controlling Interest

On January 8, 2013, we acquired the remaining 37% interest in Brightcove KK for a purchase price of approximately $1.1 million. As a result of the transaction, we own 100% of Brightcove KK and continue to consolidate Brightcove KK for financial reporting purposes, however, commencing on January 8, 2013, we ceased recording a non-controlling interest in the consolidated statements of operations.

Income Taxes

As part of the process of preparing our consolidated financial statements, we are required to estimate our taxes in each of the jurisdictions in which we operate. We account for income taxes in accordance with the asset and liability method. Under this method, deferred tax assets and liabilities are recognized based on temporary differences between the financial reporting and income tax bases of assets and liabilities using statutory rates. In addition, this method requires a valuation allowance against net deferred tax assets if, based upon the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. We have provided a valuation allowance against our existing net deferred tax assets at September 30, 2014, with the exception of the deferred tax assets related to Brightcove KK.

Stock-Based Compensation Expense

Our cost of revenue, research and development, sales and marketing, and general and administrative expenses include stock-based compensation expense. Stock-based compensation expense represents the fair value of outstanding stock options and restricted stock awards, which are recognized over the respective stock option and restricted stock award service periods. We recorded stock-based compensation expense of $1.5 million and $1.6 million for the three months ended September 30, 2014 and 2013, respectively, and $4.8 million and $4.7 million for the nine months ended September 30, 2014 and 2013, respectively. We expect stock-based compensation expense to increase in absolute dollars in future periods.

Foreign Currency Translation

With regard to our international operations, we frequently enter into transactions in currencies other than the U.S. dollar. As a result, our revenue, expenses and cash flows are subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the euro, British pound, Australian dollar, and Japanese yen. For the three months ended September 30, 2014 and 2013, 44% and 45%, respectively, of our revenue was generated in locations outside the United States. For the nine months ended September 30, 2014 and 2013, 45% and 44%, respectively, of our revenue was generated in locations outside the United States. During the three months ended September 30, 2014 and 2013, 30% and 31%, respectively, of our revenue was in currencies other than the U.S. dollar, as were some of the associated expenses. During the nine months ended September 30, 2014 and 2013, 32% and 30%, respectively, of our revenue was in currencies other than the U.S. dollar, as were some of the associated expenses. In periods when the U.S. dollar declines in value as compared to the foreign currencies in which we conduct business, our foreign currency-based revenues and expenses generally increase in value when translated into U.S. dollars. We expect our foreign currency-based revenue to increase in absolute dollars and as a percentage of total revenue.

Critical Accounting Policies and Estimates

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

We consider the assumptions and estimates associated with revenue recognition, allowance for doubtful accounts, software development costs, income taxes, business combinations, intangible assets, goodwill and stock-based compensation to be our critical accounting policies and estimates. There have been no material changes to our critical accounting policies since December 31, 2013.

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, 2013, which we filed with the Securities and Exchange Commission on March 11, 2014.

We believe that our significant accounting policies, which are more fully described in the notes to our unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q, have not materially changed from those described in the notes to our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2013.

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, 2013.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(in thousands, except percentages)			
Revenue:				
Subscription and support revenue	$30,450	$26,535	$ 89,754	$ 75,887
Professional services and other revenue	1,077	1,992	3,881	4,262
Total revenue	31,527	28,527	93,635	80,149
Cost of revenue:				
Cost of subscription and support revenue	9,467	7,047	28,096	21,441
Cost of professional services and other revenue	1,352	2,201	4,414	5,393
Total cost of revenue	10,819	9,248	32,510	26,834
Gross profit	20,708	19,279	61,125	53,315
Operating expenses:				
Research and development	7,187	5,607	20,548	15,650
Sales and marketing	11,273	10,159	34,714	30,855
General and administrative	4,735	4,460	14,597	13,840
Merger-related	623	370	3,011	1,461
Total operating expenses	23,818	20,596	72,870	61,806
Loss from operations	(3,110)	(1,317)	(11,745)	(8,491)
Other (expense) income, net	(614)	104	(1,020)	(359)
Loss before income taxes and non-controlling interest in consolidated subsidiary	(3,724)	(1,213)	(12,765)	(8,850)
Provision for income taxes	81	55	204	149

Consolidated net loss	(3,805)	(1,268)	(12,969)	(8,999)
Net income attributable to non-controlling interest in consolidated subsidiary	-	-	-	(20)
Net loss attributable to Brightcove Inc.	$(3,805)	$(1,268)	$ (12,969)	$ (9,019)
Net loss per share - basic and diluted	$(0.12)	$(0.04)	$ (0.41)	$ (0.32)
Weighted-average number of common shares used in computing net loss per share	32,247,453	28,345,519	31,814,570	28,184,533

Overview of Results of Operations for the Three Months Ended September 30, 2014 and 2013

Total revenue increased by 11%, or $3.0 million, in the three months ended September 30, 2014 compared to the three months ended September 30, 2013 due to an increase in subscription and support revenue of 15%, or $3.9 million, offset partially by a decrease in professional services and other revenue of 46%, or $915,000. The increase in subscription and support revenue resulted primarily from an increase in the number of our premium customers, which was 1,847 as of September 30, 2014, an increase of 5% from 1,759 customers as of September 30, 2013, as well as an increase in revenue from existing customers. In addition, our revenue from premium offerings grew by $3.1 million, or 12%, in the three months ended September 30, 2014 compared to the three months ended September 30, 2013. 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 $1.4 million, or 7%, in the three months ended September 30, 2014 compared to the three months ended September 30, 2013, primarily due to an increase in revenue. With the continued growth in our total revenue, our ability to maintain our overall gross profit will depend on our ability to continue controlling our costs of delivery. Loss from operations was $3.1 million in the three months ended September 30, 2014 compared to $1.3 million in the three months ended September 30, 2013. Loss from operations in the three months ended September 30, 2014 included stock-based compensation expense, amortization of acquired intangible assets and merger-related expenses of $1.5 million, $827,000 and $623,000, respectively. Loss from operations in the three months ended September 30, 2013 included stock-based compensation expense, amortization of acquired intangible assets and merger-related expenses of $1.6 million, $428,000 and $370,000, respectively. We expect operating income to improve from increased sales to both new and existing customers and from improved efficiencies throughout our organization as we continue to grow and scale our operations.

As of September 30, 2014, we had $21.7 million of unrestricted cash and cash equivalents, a decrease of $11.3 million from $33.0 million at December 31, 2013, due primarily to $9.1 million of net cash paid as part of the Unicorn acquisition, $1.7 million of cash used in operating activities and $2.5 million in capital expenditures offset by $3.1 million in maturities of investments.

Revenue

Revenue by Product Line	Three Months Ended September 30, 2014 Amount	Percentage of Revenue		2013 Amount	Percentage of Revenue		Change Amount	%
	(in thousands, except percentages)							
Premium	$28,950	92	%	$25,894	91	%	$3,056	12%
Volume	2,577	8		2,633	9		(56)	(2)
Total	$31,527	100	%	$28,527	100	%	$3,000	11%

21

During the three months ended September 30, 2014, revenue increased by $3.0 million, or 11%, compared to the three months ended September 30, 2013, primarily due to an increase in revenue from our premium offerings, which consist of subscription and support revenue, as well as professional services and other revenue. The increase in premium revenue of $3.1 million, or 12%, is partially the result of a 5% increase in the number of premium customers from 1,759 at September 30, 2013 to 1,847 at September 30, 2014. In the three months ended September 30, 2014, volume revenue decreased by $56,000, or 2%, compared to the three months ended September 30, 2013, due primarily to the discontinuation of entry-level Video Cloud Express offerings.

	Three Months Ended September 30,					
	2014		2013		Change	
Revenue by Type	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	%
	(in thousands, except percentages)					
Subscription and support	$30,450	97 %	$26,535	93 %	$3,915	15 %
Professional services and other	1,077	3	1,992	7	(915)	(46)
Total	$31,527	100 %	$28,527	100 %	$3,000	11 %

In the three months ended September 30, 2014, subscription and support revenue increased by $3.9 million, or 15%, compared to the three months ended September 30, 2013. The increase was primarily related to the continued growth of our customer base for our premium offerings including sales to both new and existing customers. Professional services and other revenue decreased by 46%, or $915,000, due to a decrease in the number of professional service engagements that were related to projects and implementations supporting subscription sales. Professional services and other revenue will vary from period to period depending on the number of implementations and other projects that are in process.

	Three Months Ended September 30,					
	2014		2013		Change	
Revenue by Geography	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	%
	(in thousands, except percentages)					
North America	$19,254	61 %	$17,026	60 %	$2,228	13%
Europe	7,451	23	7,071	24	380	5
Japan	2,181	7	1,714	6	467	27
Asia Pacific	2,383	8	2,508	9	(125)	(5)
Other	258	1	208	1	50	24
International subtotal	12,273	39	11,501	40	772	7
Total	$31,527	100 %	$28,527	100 %	$3,000	11%

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

In the three months ended September 30, 2014, total revenue for North America increased $2.2 million, or 13%, compared to the three months ended September 30, 2013. The increase in revenue for North America resulted primarily from an increase in subscription and support revenue from our premium offerings. In the three months ended September 30, 2014, total revenue outside of North America increased $772,000 million, or 7%, compared to the three months ended September 30, 2013. The increase in revenue internationally was the result of our increasing focus on marketing our services internationally.

Cost of Revenue

	Three Months Ended September 30,						
	2014			2013			Change	
Cost of Revenue	Amount	Percentage of Related Revenue		Amount	Percentage of Related Revenue		Amount	%
	(in thousands, except percentages)							
Subscription and support	$9,467	31	%	$7,047	27	%	$2,420	34 %
Professional services and other	1,352	126		2,201	110		(849)	(39)
Total	$10,819	34	%	$9,248	32	%	$1,571	17 %

In the three months ended September 30, 2014, cost of subscription and support revenue increased $2.4 million, or 34%, compared to the three months ended September 30, 2013. The increase resulted primarily from an increase in the cost of content delivery network, network hosting services, depreciation expense and employee-related expenses of $900,000, $500,000, $340,000 and $232,000, respectively. There was also an increase in amortization of acquired intangible assets and third-party software integrated with our service offering of $256,000 and $133,000, respectively.

In the three months ended September 30, 2014, cost of professional services and other revenue decreased $849,000, or 39%, compared to the three months ended September 30, 2013. The decrease resulted primarily from a decrease in contractor expenses of $740,000.

Gross Profit

	Three Months Ended September 30,				Change	
	2014		2013			
Gross Profit	Amount	Percentage of Related Revenue	Amount	Percentage of Related Revenue	Amount	%
	(in thousands, except percentages)					
Subscription and support	$20,983	69 %	$19,488	73 %	$1,495	8 %
Professional services and other	(275)	(26)	(209)	(10)	(66)	(32)
Total	$20,708	66 %	$19,279	68 %	$1,429	7 %

The overall gross profit percentage was 66% and 68% for the three months ended September 30, 2014 and 2013, respectively. Subscription and support gross profit increased $1.5 million, or 8%, compared to the three months ended September 30, 2013. Professional services and other gross profit decreased $66,000, or 32%, compared to the three months ended September 30, 2013. 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

	Three Months Ended September 30,				Change	
	2014		2013			
Operating Expenses	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	%
	(in thousands, except percentages)					
Research and development	$7,187	22 %	$5,607	19 %	$1,580	28%

Sales and marketing	11,273	36	10,159	36	1,114	11
General and administrative	4,735	15	4,460	16	275	6
Merger-related	623	2	370	1	253	68
Total	$23,818	75 %	$20,596	72 %	$3,222	16%

Research and Development. In the three months ended September 30, 2014, research and development expense increased by $1.6 million, or 28%, compared to the three months ended September 30, 2013 primarily due to increases in employee-related, travel, recruiting and rent expenses of $1.1 million, $125,000, $115,000 and $112,000, respectively. In future periods, we expect that our research and development expense will continue to increase in absolute dollars as we hire additional employees, develop new features and functionality for our products, introduce additional software solutions and expand our product and service offerings.

Sales and Marketing. In the three months ended September 30, 2014, sales and marketing expense increased $1.1 million, or 11%, compared to the three months ended September 30, 2013 primarily due to increases in employee-related expenses, travel expenses and amortization of acquired intangible asset expenses of $596,000, $223,000 and $116,000, respectively. We expect that our sales and marketing expense will continue to increase in absolute dollars along with our revenue, as we continue to expand sales coverage and build brand awareness through what we believe are cost-effective channels. We expect that such increases may fluctuate from period to period, however, due to the timing of marketing programs.

General and Administrative. In the three months ended September 30, 2014, general and administrative expense increased by $275,000, or 6%, compared to the three months ended September 30, 2013 primarily due to an increase in outside accounting and legal fees and contractor expenses of $358,000, and $130,000, respectively. These increases were offset by a decrease in depreciation expenses and employee-related expenses of $157,000 and $150,000, respectively. In future periods, we expect general and administrative expense will increase in absolute dollars as we add personnel and incur additional costs related to the growth of our business and operations.

Merger-related. In the three months ended September 30, 2014, merger-related expenses increased $253,000, or 68%, compared to the three months ended September 30, 2013 primary due to an increase in costs associated with the retention of certain employees of Unicorn and costs incurred in connection with closing the acquisition of substantially all of the assets of Unicorn of $627,000 and $104,000, respectively. These costs were partially offset by a decrease in costs associated with the retention of certain employees of Zencoder of $478,000.

Other (Expense) Income, Net

	Three Months Ended September 30,					
	2014		2013		Change	
Other (Expense) Income	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	%
	(in thousands, except percentages)					
Interest income, net	$1	— %	$12	— %	$(11)	(92)%
Interest expense	(22)	—	—	—	(22)	nm
Other (expense) income, net	(593)	(2)	92	—	(685)	nm
Total	$(614)	(2)%	$104	— %	$(718)	nm %

nm — not meaningful

In the three months ended September 30, 2014, interest income, net, decreased by $11,000 compared to the corresponding period of the prior year. The decrease is primarily due to a lower average cash balance as interest income is generated from the investment of our cash balances, less related bank fees.

The interest expense during the three months ended September 30, 2014 is primarily comprised of interest paid on capital leases. The increase in other expense, net during the three months ended September 30, 2014 was primarily due to an increase in foreign currency exchange losses of $689,000 upon collection of foreign denominated accounts receivable.

Provision for Income Taxes

	Three Months Ended September 30,					
	2014		2013		Change	
Provision for Income Taxes	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	%

	(in thousands, except percentages)					
Provision for income taxes	$ 81	— %	$ 55	— %	$ 26	47 %

In the three months ended September 30, 2014, provision for income taxes was primarily comprised of income tax expenses related to foreign jurisdictions.

Overview of Results of Operations for the Nine Months Ended September 30, 2014 and 2013

Total revenue increased by 17%, or $13.5 million, in the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013 due to an increase in subscription and support revenue of 18%, or $13.9 million, offset partially by a decrease in professional services and other revenue of 9%, or $381,000. The increase in subscription and support revenue resulted primarily from an increase in the number of our premium customers, which was 1,847 as of September 30, 2014, an increase of 5% from 1,759 customers as of September 30, 2013, as well as an increase in revenue from existing customers. In addition, our revenue from premium offerings grew by $13.7 million, or 19%, in the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013.

Our gross profit increased by $7.8 million, or 15%, in the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013, primarily due to an increase in revenue. Our ability to continue to maintain our overall gross profit will depend on our ability to continue controlling our costs of delivery. Loss from operations was $11.7 million in the nine months ended September 30, 2014 compared to $8.5 million in the nine months ended September 30, 2013. Loss from operations in the nine months ended September 30, 2014 included stock-based compensation expense, merger-related expenses and amortization of acquired intangible assets of $4.8 million, $3.0 million and $2.4 million, respectively. Loss from operations in the nine months ended September 30, 2013 included stock-based compensation expense, merger-related expenses and amortization of acquired intangible assets of $4.7 million, $1.5 million and $1.3 million, respectively.

Revenue

	Nine Months Ended September 30,					
	2014		2013		Change	
Revenue by Product Line	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	%
	(in thousands, except percentages)					
Premium	$86,010	92 %	$72,302	90 %	$13,708	19%
Volume	7,625	8	7,847	10	(222)	(3)
Total	$93,635	100 %	$80,149	100 %	$13,486	17%

During the nine months ended September 30, 2014, revenue increased by $13.5 million, or 17%, compared to the nine months ended September 30, 2013, primarily due to an increase in revenue from our premium offerings, which consist of subscription and support revenue, as well as professional services and other revenue. The increase in premium revenue of $13.7 million, or 19%, is partially the result of a 5% increase in the number of premium customers from 1,759 at September 30, 2013 to 1,847 at September 30, 2014. In the nine months ended September 30, 2014, revenue from our volume offerings decreased by $222,000, or 3%, compared to the nine months ended September 30, 2013, due primarily to the discontinuation of entry-level Video Cloud Express offerings.

	Nine Months Ended September 30,					
	2014		2013		Change	
Revenue by Type	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	%
	(in thousands, except percentages)					
Subscription and support	$89,754	96 %	$75,887	95 %	$13,867	18%
Professional services and other	3,881	4	4,262	5	(381)	(9)
Total	$93,635	100 %	$80,149	100 %	$13,486	17%

In the nine months ended September 30, 2014, subscription and support revenue increased by $13.9 million, or 18%, compared to the nine months ended September 30, 2013. The increase was primarily related to the continued growth of our customer base for our premium offerings including sales to both new and existing customers. Professional services and other revenue decreased by 9%, or $381,000, due to a decrease in the number of professional service engagements that were related to projects and implementations supporting subscription sales.

	Nine Months Ended September 30,					
	2014		2013		Change	
Revenue by Geography	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	%
	(in thousands, except percentages)					
North America	$55,749	59 %	$48,234	60 %	$7,515	16%

Europe	23,808	25	18,959	24	4,849	26
Japan	6,114	7	4,685	6	1,429	31
Asia Pacific	7,259	8	7,710	9	(451)	(6)
Other	705	1	561	1	144	26
International subtotal	37,886	41	31,915	40	5,971	19
Total	$93,635	100 %	$80,149	100 %	$13,486	17%

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

In the nine months ended September 30, 2014, total revenue for North America increased $7.5 million, or 16%, compared to the nine months ended September 30, 2013. The increase in revenue for North America resulted primarily from an increase in subscription and support revenue from our premium offerings. In the nine months ended September 30, 2014, total revenue outside of North America increased $6.0 million, or 19%, compared to the nine months ended September 30, 2013. The increase in revenue internationally was the result of our increasing focus on marketing our services internationally.

Cost of Revenue

Cost of Revenue	Nine Months Ended September 30, 2014 Amount	Percentage of Related Revenue	2013 Amount	Percentage of Related Revenue	Change Amount	%
	(in thousands, except percentages)					
Subscription and support	$28,096	31 %	$21,441	28 %	$6,655	31 %
Professional services and other	4,414	114	5,393	127	(979)	(18)
Total	$32,510	35 %	$26,834	33 %	$5,676	21 %

In the nine months ended September 30, 2014, cost of subscription and support revenue increased $6.7 million, or 31%, compared to the nine months ended September 30, 2013. The increase resulted primarily from an increase in the cost of content delivery network, network hosting services, depreciation and employee-related expenses of $2.9 million, $1.7 million, $842,000 and $360,000, respectively. There was also an increase in amortization of acquired intangible assets of $680,000.

In the nine months ended September 30, 2014, cost of professional services and other revenue decreased $979,000, or 18%, compared to the nine months ended September 30, 2013. The decrease resulted primarily from a decrease in contractor expenses of $1.1 million, offset by an increase in employee-related expenses of $137,000.

Gross Profit

Gross Profit	Nine Months Ended September 30, 2014 Amount	Percentage of Related Revenue	2013 Amount	Percentage of Related Revenue	Change Amount	%
	(in thousands, except percentages)					
Subscription and support	$61,658	69 %	$54,446	72 %	$7,212	13%
Professional services and other	(533)	(14)	(1,131)	(27)	598	53
Total	$61,125	65 %	$53,315	67 %	$7,810	15%

For the nine months ended September 30, 2014, the overall gross profit percentage was 65% compared to 67% for the nine months ended September 30, 2013. Subscription and support gross profit increased $7.2 million, or 13%, compared to the nine months ended September 30, 2013. Professional services and other gross profit increased $598,000, or 53%, compared to the nine months ended September 30, 2013, as we have continued to build the professional services organization while better leveraging fixed costs with increased customer implementation and customization projects.

Operating Expenses

	Nine Months Ended September 30,									
	2014			2013			Change		
Operating Expenses	Amount	Percentage of Revenue		Amount	Percentage of Revenue		Amount	%	
	(in thousands, except percentages)								
Research and development	$20,548	22	%	$15,650	20	%	$4,898	31	%
Sales and marketing	34,714	37		30,855	38		3,859	13	
General and administrative	14,597	15		13,840	17		757	5	
Merger-related	3,011	3		1,461	2		1,550	106	
Total	$72,870	77	%	$61,806	77	%	$11,064	18	%

Research and Development. In the nine months ended September 30, 2014, research and development expense increased by $4.9 million, or 31%, compared to the nine months ended September 30, 2013 primarily due to increases in employee-related, travel and rent expenses of $3.5 million, $335,000, and $322,000, respectively. There was also an increase in expenses related to computer maintenance and support of $298,000.

Sales and Marketing. In the nine months ended September 30, 2014, sales and marketing expense increased $3.9 million, or 13%, compared to the nine months ended September 30, 2013 primarily due to increases in employee-related expenses, travel expenses and marketing programs of $1.9 million, $723,000 and $372,000, respectively. There was also an increase in amortization of acquired intangible assets of $363,000. These expenses were partially offset by a decrease in commission expense of $296,000.

General and Administrative. In the nine months ended September 30, 2014, general and administrative expense increased by $757,000, or 5%, compared to the nine months ended September 30, 2013 primarily due to an increase in outside accounting and legal fees, contractor expenses, and employee-related expenses of $659,000, $305,000 and $301,000, respectively. These expenses were offset in part by decreases in depreciation and bad debt expenses of $512,000 and $239,000, respectively.

Merger-related. In the nine months ended September 30, 2014, merger-related expenses increased $1.6 million, or 106%, compared to the nine months ended September 30, 2013 primary due to an increase in costs incurred in connection with closing the acquisition of substantially all of the assets of Unicorn and costs associated with the retention of certain employees of Unicorn of $1.8 million and $1.2 million, respectively. These costs were partially offset by a decrease in costs associated with the retention of certain employees of Zencoder of $1.4 million.

Other Expense, Net

	Nine Months Ended September 30,					
	2014		2013		Change	
Other Expense	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	%
	(in thousands, except percentages)					
Interest income, net	$10	— %	$48	— %	$(38)	(79)%
Interest expense	(67)	—	—	—	(67)	nm
Other expense, net	(963)	(1)%	(407)	(1)%	(556)	(137)
Total	$(1,020)	(1)%	$(359)	— %	$(661)	(184)%

nm — not meaningful

In the nine months ended September 30, 2014, interest income, net, decreased by $38,000 compared to the corresponding period of the prior year. The decrease is primarily due to lower average cash balances as interest income is generated from the investment of our cash balances, less related bank fees.

The interest expense during the nine months ended September 30, 2014 is primarily comprised of interest paid on capital leases. The increase in other expense, net during the nine months ended September 30, 2014 was primarily due to an increase in foreign currency exchange losses of $564,000 upon collection of foreign denominated accounts receivable.

Provision for Income Taxes

	Nine Months Ended September 30,					
	2014		2013		Change	
Provision for Income Taxes	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	%
	(in thousands, except percentages)					
Provision for income taxes	$ 204	— %	$ 149	— %	$ 55	37 %

In the nine months ended September 30, 2014, provision for income taxes, increased by $55,000 compared to the corresponding period of the prior year, and was primarily comprised of income tax expenses related to foreign jurisdictions.

Non-Controlling Interest in Consolidated Subsidiary

Non-Controlling Interest in Consolidated Subsidiary	Nine Months Ended September 30, 2014		2013		Change	
	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	%
	(in thousands, except percentages)					
Net income attributable to non-controlling interest in consolidated subsidiary	$ —	—%	$ (20)	—%	$ 20	100 %

Non-controlling interest represents the minority stockholders' proportionate share (37%) of Brightcove KK. On January 8, 2013, we acquired the remaining 37% interest in Brightcove KK and, as a result, we now own 100% of Brightcove KK. We continue to consolidate Brightcove KK for financial reporting purposes, however, commencing on January 8, 2013, we ceased recording a non-controlling interest in the consolidated statements of operations. The $20,000 above represents the minority stockholders' proportionate share of the net income of Brightcove KK for the period from January 1, 2013 through January 7, 2013.

Liquidity and Capital Resources

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

Condensed Consolidated Statements of Cash Flow Data	Nine Months Ended September 30, 2014	2013
	(in thousands)	
Purchases of property and equipment	$ (2,500)	$ (1,926)
Depreciation and amortization	6,114	4,562
Cash flows (used in) provided by operating activities	(1,650)	4,801
Cash flows (used in) provided by investing activities	(9,354)	4,847
Cash flows used in financing activities	(276)	(499)

Cash, cash equivalents and investments.

Our cash and cash equivalents at September 30, 2014 were held for working capital purposes and were invested primarily in money market funds. We do not enter into investments for trading or speculative purposes. At September 30, 2014 and December 31, 2013, restricted cash was $209,000 and $322,000, respectively, and was held in certificates of deposit as collateral for letters of credit related to the contractual provisions of our corporate credit cards and the contractual provisions with a customer. Per the terms of the agreement, a portion of the collateral related to the contractual provisions with a customer was released in the nine months ended September 30, 2014. At September 30, 2014 and December 31, 2013, we had $3.8 million and $7.9 million, respectively, of cash and cash equivalents held by subsidiaries in international locations, including subsidiaries located in Japan and the United Kingdom. It is our current intention to permanently reinvest unremitted earnings in such subsidiaries or to repatriate the earnings only when tax effective. We believe that our existing cash and cash equivalents will be sufficient to meet our anticipated working capital and capital expenditure needs over at least the next 12 months.

Accounts receivable, net.

Our accounts receivable balance fluctuates from period to period, which affects our cash flow from operating activities. The fluctuations vary depending on the timing of our billing activity, cash collections, and changes to our allowance for doubtful accounts. In many instances we receive cash payment from a customer prior to the time we are able to recognize revenue on a transaction. We record these payments as deferred revenue, which has a positive effect on our accounts receivable balances. We use days' sales outstanding, or DSO, calculated on a quarterly basis, as a measurement of the quality and status of our receivables. We define DSO as (a) accounts receivable, net of allowance for doubtful accounts, divided by total revenue for the most recent quarter, multiplied by (b) the number of days in that quarter. DSO was 57 and 67 days at September 30, 2014 and December 31, 2013, respectively.

Operating activities.

Cash used 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. For the nine months ended September 30, 2014, cash used in operating activities was $1.7 million and consisted of $13.0 million of net loss offset in part by non-cash expenses of $6.1 million for depreciation and amortization expense and $4.8 million for stock-based compensation expense. Uses of cash included an increase in prepaid expenses and other current assets of $1.0 million and decreases in accrued expense and accounts payable of $4.1 million and $3.1 million, respectively. These outflows were offset in part by an increase in deferred revenue and a decrease in accounts receivable of $4.9 million and $2.4 million, respectively. Increases in deferred revenue primarily related to an increase in sales of our subscription and support services to both new and existing customers. In addition, for the nine months ended September 30, 2014, we experienced an increase in the number of sales of subscription and support services with the annual fee payable at the outset of the arrangement instead of in monthly installments.

Investing activities.

Cash used in investing activities for the nine months ended September 30, 2014 was $9.4 million, consisting primarily of $9.1 million for the acquisition of Unicorn, $2.5 million in capital expenditures to support the business and $927,000 for the capitalization of internal-use software costs. These outflows were offset in part by $3.1 million for the maturities of investments and $113,000 for the decrease in restricted cash.

Financing activities

Cash used in financing activities for the nine months ended September 30, 2014 was $276,000, consisting of payments under capital lease obligations of $860,000 offset in part by proceeds received from the exercise of common stock options of $584,000.

Credit facility borrowings.

On March 30, 2011, we entered into a loan and security agreement with Silicon Valley Bank, or SVB, providing for an asset-based line of credit. Under this loan and security agreement, we could borrow up to the lesser of (i) $8.0 million or (ii) 80% of our eligible accounts receivable. The amounts owed under the loan and security agreement are secured by substantially all of our assets, excluding our intellectual property. Outstanding amounts under the credit agreement accrue interest at a rate equal to the prime rate plus 1.5%. Amounts owed under the loan and security agreement were due on March 31, 2013, and interest and related finance charges are payable monthly.

On April 29, 2013, we amended our loan and security agreement with SVB to increase the aggregate amount of borrowings that may be outstanding under our asset-based line of credit from $8.0 million to $10.0 million and to extend the maturity date to March 30, 2015. We had no outstanding borrowings under this line of credit at September 30, 2014.

On October 3, 2014, we amended the Line of Credit and entered into the Third Loan Modification Agreement (the "Modification Agreement") to (i) increase the aggregate amount of borrowings that may be outstanding under our asset-based line of credit from $10.0 million to $20.0 million, (ii) increase the aggregate Facility Amount (as defined in the Loan Agreement) available pursuant to the Loan Agreement from $12.5 million to $25.0 million, (iii) provide for an unused line fee of 0.25% of the average unused portion of the Maximum Availability Amount (as defined in the Loan Agreement) per year and (iv) extend the maturity date to October 3, 2016. The interest rate decreased from the prime rate plus 1.5% to the prime rate plus 0.75%. Under the Modification Agreement, we must comply with certain financial covenants, including maintaining a minimum asset coverage ratio, a minimum net income threshold based on non-GAAP operating measures and a minimum net cash balance at certain points throughout the year. The interest rate will increase to the prime rate plus 2.25% if we are not able to meet the minimum asset coverage ratio.

Net operating loss carryforwards.

As of December 31, 2013, we had federal and state net operating losses of approximately $97.0 million and $43.4 million, respectively, which are available to offset future taxable income, if any, through 2033. We had research and development tax credits of $3.6 million and $2.5 million, respectively, which expire in various amounts through 2033. 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 2013 we completed an assessment to determine whether there may have been a Section 382 ownership change and determined that it is more likely than not that our net operating and tax credit amounts as disclosed are not subject to any material Section 382 limitations.

In assessing our ability to utilize our net deferred tax assets, we considered whether it is more likely than not that some portion or all of our net deferred tax assets will not be realized. Based upon the level of our historical U.S. losses and future projections over the period in which the net deferred tax assets are deductible, at this time, we believe it is more likely than not that we will not realize the benefits of these deductible differences. Accordingly, we have provided a valuation allowance against our net deferred tax assets as of September 30, 2014 and December 31, 2013.

We have historically provided a valuation allowance against our net deferred tax assets in Japan. Based upon the level of historical income in Japan and future projections, we determined in the fourth quarter of 2012 that it was probable that we will realize the benefits of our future deductible differences. As such, we released the valuation allowance related to the remaining deferred tax assets in Japan and recorded a $193,000 income tax benefit in our consolidated statement of operations for the year ended December 31, 2012. For the year ended December 31, 2013 a portion of our profits in Japan were offset by net operating losses in Japan. Accordingly, our deferred tax asset in Japan decreased during the year ended December 31, 2013.

Contractual Obligations and Commitments

Our principal commitments consist primarily of obligations under our leases for our office space and contractual commitments for 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, 2013 are summarized in our Annual Report on Form 10-K for the year ended December 31, 2013.

In connection with the Purchase Agreement, we assumed various capital lease arrangements for computer equipment for a total obligation of $2,871 as of the closing of the transaction. The lease arrangements expire at various dates through May 2017. As of September 30, 2014, the total remaining lease obligation was $2,011.

We also assumed non-cancelable operating lease agreements for office space in connection with the Purchase Agreement. As of September 30, 2014, these operating leases have non-cancelable commitments through December 2016 of $1,441.

Recent Accounting Pronouncements

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

Off-Balance Sheet Arrangements

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

Anticipated Cash Flows

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

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Quantitative and Qualitative Disclosures about Market Risk

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

Financial instruments

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

Foreign currency exchange risk

Our results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the euro, British pound, Australian dollar and Japanese yen. The volatility of exchange rates depends on many factors that we cannot forecast with reliable accuracy. We believe our operating activities act as a natural hedge for a substantial portion of our foreign currency exposure because we typically collect revenues and incur costs in the currency in the location in which we provide our application. Although we have experienced and will continue to experience fluctuations in our net income (loss) as a result of transaction gains (losses) related to transactions denominated in currencies other than the U.S. dollar, we believe that a 10% change in foreign exchange rates would not have a material impact on our results of operations. To date, we have not entered into any foreign currency hedging contracts but may consider entering into such contracts in the future. As our international operations grow, we will continue to reassess our approach to manage our risk relating to fluctuations in currency rates.

Interest rate risk

We had unrestricted cash and cash equivalents totaling $21.7 million at September 30, 2014. 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.

Inflation risk

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

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of September 30, 2014, our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2014, our disclosure controls and procedures were effective in ensuring that material information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, including ensuring that such material information is accumulated by and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On August 27, 2012, a complaint was filed by Blue Spike, LLC naming us in a patent infringement case (Blue Spike, LLC v. Audible Magic Corporation, et al., United States District Court for the Eastern District of Texas). The complaint alleges that we infringed U.S. Patent No. 7,346,472 with a listed issue date of March 18, 2008, entitled "Method and Device for Monitoring and Analyzing Signals," U.S. Patent No. 7,660,700 with a listed issue date of February 9, 2010, entitled "Method and Device for Monitoring and Analyzing Signals," U.S. Patent No. 7,949,494 with a listed issue date of May 24, 2011, entitled "Method and Device for Monitoring and Analyzing Signals" and U.S. Patent No. 8,214,175 with a listed issue date of July 3, 2012, entitled "Method and Device for Monitoring and Analyzing Signals." The complaint seeks an injunction enjoining infringement, damages and pre- and post-judgment costs and interest. We answered and filed counterclaims against Blue Spike on December 3, 2012. We amended our answer and counterclaims on July 15, 2013. This complaint is subject to indemnification by one of our vendors. We cannot yet determine whether it is probable that a loss will be incurred in connection with this complaint, nor can we reasonably estimate the potential loss, if any.

On September 10, 2013, a complaint was filed by Cinsay Inc. naming the Company in a patent infringement case (Cinsay Inc. v. Brightcove Inc. and Joyus Inc., United States District Court for the Northern District of Texas). The complaint alleged that the Company has infringed U.S. Patent No. 8,312,486 with a listed issue date of November 13, 2012, entitled "Interactive Product Placement and Method Therefor" and U.S. Patent No. 8,533,753 with a listed issue date of September 10, 2013, entitled "Interactive Product Placement and Method Therefor." On October 1, 2013, Cinsay filed an amended complaint against the Company in which it reasserted the allegations of infringement of U.S. Patent No. 8,312,486 and U.S. Patent No. 8,533,753 and added allegations that the Company infringed U.S. Patent No. 8,549,555 with a listed issue date of October 1, 2013, entitled "Interactive Product Placement and Method Therefor." The amended complaint sought an injunction enjoining infringement, damages and pre- and post-judgment costs and interest. The Company answered the amended complaint on November 12, 2013. The Company settled the matter on July 15, 2014 for an amount that is not material and, pursuant to the settlement, all claims against the Company were dismissed with prejudice on August 14, 2014. The Company recorded the impact of the settlement as a charge to operations in the accompanying unaudited condensed consolidated statements of operations for the nine months ended September 30, 2014.

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

In Part I-Item 1A ("Risk Factors") of our Annual Report on Form 10-K for the fiscal year ended December 31, 2013, which was filed with the Securities and Exchange Commission on March 11, 2014, we described risk factors related to the Company. The following risk factors update and replace those set forth in our Annual Report on Form 10-K for the year ended December 31, 2013. You should carefully review these risk factors and those described in other reports we file with the Securities and Exchange Commission in evaluating our business. Our business, prospects, financial condition, or operating results could be harmed by any of these risks, as well as other risks not currently known to us or that we currently consider immaterial. If any of such risks and uncertainties actually occurs, our business, financial condition or operating results could differ materially from the plans, projections and other forward-looking statements included in the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this report and in our other public filings. The trading price of our common stock could decline due to any of these risks, and, as a result, you may lose all or part of your investment.

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

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

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

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

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

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

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

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

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

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

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

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

- our ability to retain existing customers and attract new customers;
- the rates at which our customers renew;
- the mix of annual and monthly customers at any given time;

33

- the timing and amount of costs of new and existing marketing and advertising efforts;
- the timing and amount of operating costs and capital expenditures relating to expansion of our business, operations and infrastructure;
- the cost and timing of the development and introduction of new product and service offerings by us or our competitors; and
- system or service failures, security breaches or network downtime.

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

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

- market acceptance of our current and future products and services;
- customer renewal rates;
- our ability to compete with other companies that are currently in, or may in the future enter, the market for our products;
- our ability to successfully expand our business, especially internationally;
- our ability to control costs, including our operating expenses;
- the amount and timing of operating expenses, particularly sales and marketing expenses, related to the maintenance and expansion of our business, operations and infrastructure;
- network outages or security breaches and any associated expenses;

- foreign currency exchange rate fluctuations;
- write-downs, impairment charges or unforeseen liabilities in connection with acquisitions;
- our ability to successfully manage acquisitions; and
- general economic and political conditions in our domestic and international markets.

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

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

We currently maintain offices and have sales personnel in Australia, France, Japan, Singapore, South Korea, Spain, the United Arab Emirates and the United Kingdom, and we intend to expand our international operations. Any international expansion efforts that we may undertake may not be successful. In addition, conducting international operations subjects us to new risks that we have not generally faced in the United States. These risks include:

- unexpected costs and errors in the localization of our products, including translation into foreign languages and adaptation for local practices and regulatory requirements;

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

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

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

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

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

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

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

We compete with video sharing sites, in-house solutions, online video platforms, media processing services and certain niche technology providers, as well as larger companies that offer multiple services, including those that may be used as substitute services for our products. Competition is already intense in these markets and, with the introduction of new technologies and market entrants, we expect competition to further intensify in the future. In addition, some of our competitors may make acquisitions, be acquired, or enter into strategic relationships to offer a more comprehensive service than we do. These combinations may make it more difficult for us to compete effectively. We expect these trends to continue as competitors attempt to strengthen or maintain their market positions.

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

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

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

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

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

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

In addition, to manage the expected continued growth of our headcount, operations and geographic expansion, we will need to continue to improve our information technology infrastructure, operational, financial and management systems and procedures. Our expected additional headcount and capital investments will increase our costs, which will make it more difficult for us to address any future revenue shortfalls by reducing expenses in the short term. If we fail to successfully manage our growth we will be unable to successfully execute our business plan, which could have a negative impact on our business, financial condition or results of operations.

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

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

- difficulties in integrating the technologies, products, operations and existing contracts of a target company and realizing the anticipated benefits of the combined businesses;

36

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- fluctuations in our quarterly or annual financial results or the quarterly or annual financial results of companies perceived to be similar to us or relevant for our business;
- changes in estimates of our financial results or recommendations by securities analysts;
- failure of our products to achieve or maintain market acceptance;
- changes in market valuations of similar or relevant companies;
- success of competitive service offerings or technologies;
- changes in our capital structure, such as the issuance of securities or the incurrence of debt;
- announcements by us or by our competitors of significant services, contracts, acquisitions or strategic alliances;
- regulatory developments in the United States, foreign countries, or both;
- litigation;

- additions or departures of key personnel;
- investors’ general perceptions; and
- changes in general economic, industry or market conditions.

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

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

As a result of the expiration of the lock-up agreement entered into in connection with our acquisition of substantially all of the assets of Unicorn, which occurred on July 30, 2014, an aggregate of 1,536,261 shares are eligible for resale in compliance with Rule 144 and may be sold in the public market. These sales or the market perception that the holder or holders of a large number of shares intend to sell shares, could reduce the market price of our common stock.

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

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

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

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

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

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

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

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

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

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

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

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

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

•

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

- limiting the liability of, and providing indemnification to, our directors and officers;
- limiting the ability of our stockholders to call and bring business before special meetings and to take action by written consent in lieu of a meeting;
- requiring advance notice of stockholder proposals for business to be conducted at meetings of our stockholders and for nominations of candidates for election to our board of directors;
- controlling the procedures for the conduct and scheduling of board of directors and stockholder meetings;
- providing our board of directors with the express power to postpone previously scheduled annual meetings and to cancel previously scheduled special meetings;
- establishing a classified board of directors so that not all members of our board are selected at one time;
- limiting the determination of the number of directors on our board of directors and the filling of vacancies or newly created seats on the board to our board of directors then in office; and
- providing that directors may be removed by stockholders only for cause.

These provisions, alone or together, could delay hostile takeovers and changes in control of our company or changes in our management.

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

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

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

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(b) Use of Proceeds from Public Offering of Common Stock

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

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

We have used $7.0 million of the net proceeds from our initial public offering to repay certain indebtedness. None of such payments were direct or indirect payments to any of our directors or officers or their associates, to persons owning 10% or more of our common stock, or to any of our affiliates.

We also used approximately $27.4 million of the net proceeds from our initial public offering as consideration for the purchase of Zencoder, which closed on August 14, 2012. None of such consideration was for direct or indirect payments to any of our directors or officers or their associates, to persons owning 10% or more of our common stock, or to any of our affiliates.

In addition, we used approximately $9.1 million of the net proceeds from our initial public offering as consideration for the purchase of substantially all of Unicorn's assets, which closed on January 31, 2014. None of such consideration was for direct or indirect payments to any of our directors or officers or their associates, to persons owning 10% or more of our common stock, or to any of our affiliates.

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

ITEM 5. OTHER INFORMATION

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

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

ITEM 6. EXHIBITS

Exhibits

3.1 (1)	Eleventh Amended and Restated Certificate of Incorporation.
3.2 (2)	Amended and Restated By-Laws.
4.1 (3)	Form of Common Stock certificate of the Registrant.
10.1**	Letter Agreement between the Registrant and Christopher Menard related to Mr. Menard's resignation and separation from employment with the Registrant.
10.2**	Employment Agreement dated October 1, 2014 between the Registrant and Jon Corley.
10.3**	Employment Agreement dated October 1, 2014 between the Registrant and Paul Goetz.
31.1^	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2^	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1^	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS+	XBRL Instance Document.
101.SCH+	XBRL Taxonomy Extension Schema Document.
101.CAL+	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF+	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB+	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE+	XBRL Taxonomy Extension Presentation Linkbase Document.

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

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

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

^ Furnished herewith.

** Indicates a management contract or any compensatory plan, contract or arrangement.

+ In accordance with Rule 406T of Regulation S-T, these XBRL (eXtensible Business Reporting Language) documents are furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, or Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under these sections.

SIGNATURES

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

	BRIGHTCOVE INC. *(Registrant)*
Date: November 3, 2014	By: /s/ David Mendels David Mendels *Chief Executive Officer* *(Principal Executive Officer)*
Date: November 3, 2014	By: /s/ Christopher Stagno Christopher Stagno *Chief Financial Officer* *(Principal Financial Officer)*

47