BRIGHTCOVE INC
Form 10-Q
November 01, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2018

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 incorporation or organization)	**(I.R.S. Employer Identification No.)**

290 Congress Street

Boston, MA 02210

(Address of principal executive offices)

(888) 882-1880

(Registrant s telephone number, including area code)

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

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

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
Emerging growth company	

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

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

As of October 29, 2018 there were 36,483,515 shares of the registrant s common stock, $0.001 par value per share, outstanding.

BRIGHTCOVE INC.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Brightcove Inc.

Condensed Consolidated Balance Sheets

(unaudited)

	September 30, 2018	December 31, 2017
	(in thousands, except share and per share data)	
Assets		
Current assets:		
Cash and cash equivalents	$ 26,855	$ 26,132
Accounts receivable, net of allowance of $153 and $146 at September 30, 2018 and December 31, 2017, respectively	24,040	25,236
Prepaid expenses	4,483	3,991
Other current assets	7,388	3,045
Total current assets	62,766	58,404
Property and equipment, net	10,153	9,143
Intangible assets, net	6,340	8,236
Goodwill	50,776	50,776
Deferred tax asset	87	87
Other assets	2,288	969
Total assets	$ 132,410	$ 127,615
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 5,041	$ 6,142
Accrued expenses	15,065	13,621
Capital lease liability	154	228
Equipment financing		26
Deferred revenue	39,516	39,370
Total current liabilities	59,776	59,387
Deferred revenue, net of current portion	278	244
Other liabilities	1,117	1,228
Total liabilities	61,171	60,859
Commitments and contingencies *(Note 10)*		

Stockholders equity:		
Undesignated preferred stock, $0.001 par value; 5,000,000 shares authorized; no shares issued		
Common stock, $0.001 par value; 100,000,000 shares authorized; 36,603,500 and 34,933,408 shares issued at September 30, 2018 and December 31, 2017, respectively	37	35
Additional paid-in capital	249,176	238,700
Treasury stock, at cost; 135,000 shares	(871)	(871)
Accumulated other comprehensive loss	(998)	(809)
Accumulated deficit	(176,105)	(170,299)
Total stockholders equity	71,239	66,756
Total liabilities and stockholders equity	$ 132,410	$ 127,615

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

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Brightcove Inc.

Condensed Consolidated Statements of Operations

(unaudited)

	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
	(in thousands, except share and per share data)			
Revenue:				
Subscription and support revenue	$ 37,442	$ 36,496	$ 113,176	$ 106,266
Professional services and other revenue	3,679	2,991	10,793	9,546
Total revenue	41,121	39,487	123,969	115,812
Cost of revenue: (1) (2)				
Cost of subscription and support revenue	13,142	12,924	39,723	38,180
Cost of professional services and other revenue	3,176	3,580	10,424	10,120
Total cost of revenue	16,318	16,504	50,147	48,300
Gross profit	24,803	22,983	73,822	67,512
Operating expenses: (1) (2)				
Research and development	8,314	7,820	23,832	24,293
Sales and marketing	14,009	14,551	42,508	44,356
General and administrative	5,621	5,961	18,056	17,228
Total operating expenses	27,944	28,332	84,396	85,877
Loss from operations	(3,141)	(5,349)	(10,574)	(18,365)
Other (expense) income, net	(217)	71	(427)	523
Loss before income taxes	(3,358)	(5,278)	(11,001)	(17,842)
Provision for income taxes	144	118	410	305
Net loss	$ (3,502)	$ (5,396)	$ (11,411)	$ (18,147)
Net loss per share - basic and diluted	$ (0.10)	$ (0.16)	$ (0.32)	$ (0.53)
Weighted-average number of common shares used in computing net loss per share	36,212,246	34,500,868	35,564,311	34,269,639
(1) Stock-based compensation included in above line items:				
Cost of subscription and support revenue	$ 140	$ 117	$ 373	$ 308
Cost of professional services and other revenue	69	70	155	189

Research and development	283	384	932	1,132
Sales and marketing	437	690	1,885	1,953
General and administrative	593	557	1,677	1,712
(2) Amortization of acquired intangible assets included in above line items:				
Cost of subscription and support revenue	$ 382	$ 508	$ 1,397	$ 1,523
Research and development				11
Sales and marketing	166	166	499	525

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

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Brightcove Inc.

Condensed Consolidated Statements of Comprehensive Loss

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	**2017**	**2018**	**2017**
	(in thousands)			
Net loss	$ (3,502)	$ (5,396)	$ (11,411)	$ (18,147)
Other comprehensive income:				
Foreign currency translation adjustments	(116)	72	(189)	329
Comprehensive loss	$ (3,618)	$ (5,324)	$ (11,600)	$ (17,818)

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

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Brightcove Inc.

Condensed Consolidated Statements of Cash Flows

(unaudited)

	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
	(in thousands)	
Operating activities		
Net loss	$ (11,411)	$ (18,147)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	5,164	5,607
Stock-based compensation	5,022	5,294
Provision for reserves on accounts receivable	99	152
Changes in assets and liabilities:		
Accounts receivable	1,998	(4,816)
Prepaid expenses and other current assets	(118)	(1,660)
Other assets	(355)	94
Accounts payable	(1,262)	2,021
Accrued expenses	1,964	(2,874)
Deferred revenue	(1,335)	2,677
Net cash used in operating activities	(234)	(11,652)
Investing activities		
Purchases of property and equipment	(1,322)	(990)
Capitalized internal-use software costs	(2,527)	(2,091)
Net cash used in investing activities	(3,849)	(3,081)
Financing activities		
Proceeds from exercise of stock options	5,440	379
Payments of withholding tax on RSU vesting	(142)	(175)
Payments on equipment financing	(26)	(229)
Payments under capital lease obligation	(260)	(383)
Net cash provided by (used in) financing activities	5,012	(408)
Effect of exchange rate changes on cash and cash equivalents	(206)	384
Net increase (decrease) in cash and cash equivalents	723	(14,757)
Cash and cash equivalents at beginning of period	26,132	36,813
Cash and cash equivalents at end of period	$ 26,855	$ 22,056

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

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Brightcove Inc.

Notes to Condensed Consolidated Financial Statements

(unaudited)

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

1. Business Description and Basis of Presentation

Business Description

Brightcove Inc. (the Company) is a 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, 2018, the Company had ten wholly-owned subsidiaries: Brightcove UK Ltd, Brightcove Singapore Pte. Ltd., Brightcove Korea, Brightcove Australia Pty Ltd, Brightcove Holdings, Inc., Brightcove Kabushiki Kaisha (Brightcove KK), Zencoder Inc. (Zencoder), Brightcove FZ-LLC, Cacti Acquisition LLC and Brightcove India Pte. Ltd.

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, 2017.

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, other than the changes resulting from adopting new revenue recognition guidance which also impacted the accounting for the costs to obtain a contract as described in Note 2, 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, 2017 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, 2018 and 2017. 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, 2018, other than the changes to revenue recognition as described in Note 2, 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, 2017, have not changed.

2. Revenue from Contracts with Customers

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

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which modifies how all entities recognize revenue, and consolidates revenue recognition guidance into one ASC Topic (ASC Topic 606, *Revenue from Contracts with Customers*) (ASC 606). The Company adopted ASC 606 on January 1, 2018 and applied the modified retrospective method of adoption with a cumulative catch-up adjustment to the opening balance of retained earnings at January 1, 2018. Under this method, the Company applied the revised guidance for the year of adoption and applied ASC Topic 605, *Revenue Recognition* (ASC 605), in the prior years. As a result, the Company applied ASC 606 only to contracts that were not yet completed as of January 1, 2018. The Company recognized a cumulative catch-up adjustment to the opening balance of retained earnings at the effective date for contracts that still require performance by the entity at the date of adoption. ASC 606 outlines a comprehensive five-step revenue recognition model based on the principle 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 or services.

1) Identify the contract with a customer

2) Identify the performance obligations in the contract

3) Determine the transaction price

4) Allocate the transaction price to performance obligations in the contract

5) Recognize revenue when or as the Company satisfies a performance obligation

The Company satisfies performance obligations as discussed in further detail below. Revenue is recognized at the time the related performance obligation is satisfied by transferring a promised service to a customer.

Disaggregation of Revenue

The Company classifies its customers by including them in either premium or volume offerings. For premium offerings, the Company organizes its go-to-market approach by focusing its sales and marketing teams on selling primarily to (i) media companies, who generally want to distribute video content to a broad audience and (ii) digital marketers in a wide range of enterprises and organizations, who generally use video for marketing or enterprise communication purposes.

The following table summarizes revenue from contracts with customers by business unit for the three and nine months ended September 30, 2018.

	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018
Revenue by Business Unit		
Media	$ 21,926	$ 67,300
Digital Marketing / Enterprise	18,110	53,171
Volume	1,085	3,498
Total	41,121	123,969

Subscription and Support

The Company s subscription arrangements provide customers the right to access its hosted software applications. Customers do not have the right to take possession of the Company s software during the hosting arrangement. Contracts for premium customers generally have a term of one year and are non-cancellable. These contracts generally provide the customer with a maximum annual level of entitlement, and provide the rate at which the customer must pay for actual usage above the annual entitlement allowance. These subscription arrangements are considered stand ready obligations that are providing a series of distinct services that are substantially the same and are transferred with the same pattern to the customer. As such, these subscription arrangements are treated as a single performance obligation and the related fees are recognized as revenue ratably over the term of the underlying arrangement.

Under ASC 605, if usage exceeded the annual allowance level for a particular customer arrangement, the associated revenue was recognized in the period that the additional usage occurred. Under ASC 606, when the transaction price includes a variable amount of consideration, an entity is required to estimate the consideration that is expected to be received for a particular customer arrangement. The Company evaluates variable consideration for usage-based fees at contract inception and re-evaluates quarterly over the course of the contract. Specifically, the Company estimates the revenue pertaining to a customer s usage that is expected to exceed the annual entitlement allowance and allocates such revenue to the distinct service within the related contract that gives rise to the variable payment. Estimates of variable consideration include analyzing customer usage against the applicable entitlement limit at the end of each reporting period and estimating the amount and timing of additional amounts to be invoiced in connection with projected usage. Estimates of variable consideration relating to customer usage do not include amounts for which it is probable that a significant reversal will occur. Determining the amount of variable consideration to recognize as revenue involves significant judgment on the part of management and it is possible that actual revenue will deviate from estimates over the course of a customer s committed contract term.

Contracts with customers that are month-to-month arrangements (volume customers) have a maximum monthly level of usage and provide the rate at which the customer must pay for actual usage above the monthly allowable usage. The monthly volume subscription and support and usage fees are recognized as revenue during the related period of performance. Contracts with customers that are invoiced on a pay-as-you-go basis, where there is no monthly or annual commitment for usage, provide the rate at which the customer must pay for actual usage for a particular period. Fees that are invoiced on a pay-as-you-go basis are recognized as revenue during the period of performance.

Professional Services and Other Revenue

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

Contracts with Multiple Performance Obligations

The Company periodically enters into multiple-element service arrangements that include platform subscription fees, support fees, and, in certain cases, other professional services. These contracts include multiple promises that the Company evaluates to determine if the promises are separate performance obligations. Performance obligations are identified based on services to be transferred to a customer that are both capable of being distinct and are distinct within the context of the contract. Once the Company determines the performance obligations, the Company determines the transaction price, which includes estimating the amount of variable consideration to be included in the transaction price, if any. The Company then allocates the transaction price to each performance obligation in the contract based on a relative stand-alone selling price method. The transaction price post allocation is recognized as revenue as the related performance obligation is satisfied.

Costs to Obtain a Contract

Commissions are paid to internal sales representatives as compensation for obtaining contracts. Under the new guidance, the Company capitalizes commissions that are incremental, as a result of costs incurred to obtain a customer contract, if those costs are not within the scope of another topic within the accounting literature and meet the specified criteria. Assets recognized for costs to obtain a contract are amortized over the period of performance for the underlying customer contracts. The commission expense on contracts with new customers was previously recorded over the respective contract term. Under the new guidance, the commission expense on contracts with new customers will be recorded over the average life of a customer given the commission amount associated with sales to new customers is not commensurate with the commission amount associated with the contract renewal for those same customers. The commission amount associated with the renewal of a contract in addition to any commission amount related to incremental sales was previously recorded as expense in the quarter the commission was earned; however, under ASC 606 these commission amounts are recorded as expense over the term of the renewed contract. These assets are periodically assessed for impairment.

Financial Statement Impact of Adoption ASC 606

The cumulative effect of applying the new guidance to all contracts with customers that were not completed as of January 1, 2018 was recorded as an adjustment to accumulated deficit as of the adoption date. As a result of applying the modified retrospective method to adopt the new revenue guidance, the following adjustments were made on the condensed consolidated balance sheet as of January 1, 2018.

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	As Reported December 31, 2017	Adjustments Subscription and Support Revenue	Adjustments Costs to Obtain a Contract	Adjusted January 1, 2018
Assets				
Current assets:				
Cash and cash equivalents	$ 26,132			$ 26,132
Accounts receivable, net	25,236	926		26,162
Prepaid expenses	3,991			3,991
Other current assets	3,045	1,861	3,384	8,290
Total current assets	58,404	2,787	3,384	64,575
Property and equipment, net	9,143			9,143
Intangible assets, net	8,236			8,236
Goodwill	50,776			50,776
Deferred tax asset	87			87
Other assets	969		978	1,947
Total assets	$ 127,615	$ 2,787	$ 4,362	$ 134,764
Liabilities and stockholders equity				
Current liabilities:				
Accounts payable	$ 6,142			$ 6,142
Accrued expenses	13,621			13,621
Capital lease liability	228			228
Equipment financing	26			26
Deferred revenue	39,370	1,429		40,799
Total current liabilities	59,387	1,429		60,816
Deferred revenue, net of current portion	244	115		359
Other liabilities	1,228			1,228
Total liabilities	60,859	1,544		62,403
Commitments and contingencies				
Stockholders equity:				
Undesignated preferred stock				
Common stock	35			35
Additional paid-in capital	238,700			238,700
Treasury stock	(871)			(871)
Accumulated other comprehensive loss	(809)			(809)
Accumulated deficit	(170,299)	1,243	4,362	(164,694)
Total stockholders equity	66,756	1,243	4,362	72,361
Total liabilities and stockholders equity	$ 127,615	$ 2,787	$ 4,362	$ 134,764

Subscription and Support

Under ASC 606, the Company estimates the variable consideration to be received and recognizes those amounts, subject to constraint, as the Company satisfies its performance obligation. In conjunction with the January 1, 2018 adoption of ASC 606, the Company reduced accumulated deficit by $1,243 reflecting the recognition of revenue primarily relating to variable consideration, for contracts that still require performance by the entity at the date of adoption.

Costs to Obtain a Contract

Under the new guidance, the commission expense on contracts with new customers will be recorded over the average life of a customer given the commission amount associated with sales to new customers is not commensurate with the commission amount associated with the contract renewal for those same customers. The commission amount associated with the renewal of a contract in addition to any related incremental sale is recorded as expense over the term of the renewed contract. The net impact of these changes resulted in a $4,362 reduction to accumulated deficit for contracts that still require performance by the Company at the date of adoption.

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Income Taxes

The adoption of ASC 606 primarily resulted in an acceleration of revenue and the reduction of expense as of December 31, 2017, which in turn generated additional deferred tax liabilities that ultimately reduced the Company s net deferred tax asset position. As the Company fully reserves its net deferred tax assets in the jurisdictions impacted by the adoption of ASC 606, this impact was offset by a corresponding reduction to the valuation allowance.

Impact of New Revenue Guidance on Financial Statement Line Items

The following tables compare the reported condensed consolidated balance sheet, statement of operations and cash flows, as of and for the three and nine months ended September 30, 2018, to the pro-forma amounts had the previous guidance been in effect.

	As of September 30, 2018	
Balance Sheet	**As reported**	**Pro forma as if the previous accounting guidance was in effect**
Assets		
Current assets:		
Cash and cash equivalents	$ 26,855	26,855
Accounts receivable, net	24,040	23,312
Prepaid expenses	4,483	4,483
Other current assets	7,388	2,497
Total current assets	62,766	57,147
Property and equipment, net	10,153	10,153
Intangible assets, net	6,340	6,340
Goodwill	50,776	50,776
Deferred tax asset	87	87
Other assets	2,288	928
Total assets	$ 132,410	$ 125,431
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 5,041	$ 5,041
Accrued expenses	15,065	15,065
Capital lease liability	154	154
Deferred revenue	39,516	38,412
Total current liabilities	59,776	58,672
Deferred revenue, net of current portion	278	280
Other liabilities	1,117	1,117
Total liabilities	61,171	60,069

Commitments and contingencies		
Stockholders equity:		
Undesignated preferred stock		
Common stock	37	37
Additional paid-in capital	249,176	249,176
Treasury stock	(871)	(871)
Accumulated other comprehensive loss	(998)	(998)
Accumulated deficit	(176,105)	(181,982)
Total stockholders equity	71,239	65,362
Total liabilities and stockholders equity	$ 132,410	$ 125,431

Total reported assets were $6,979 greater than the pro-forma balance sheet, which assumes the previous guidance remained in effect as of September 30, 2018. This was largely due to impacts of variable consideration and costs to obtain a contract.

Total reported liabilities were $1,102 greater than the pro-forma balance sheet, which assumes the previous guidance remained in effect as of September 30, 2018. This was largely due to the impact of variable consideration.

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The following summarizes the significant changes on the Company s condensed consolidated statement of operations for the three and nine months ended September 30, 2018 as a result of the adoption of ASC 606 on January 1, 2018 compared to if the Company had continued to recognize revenues under ASC 605.

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018	
Statement of Operations	**As reported**	**Pro forma as if the previous accounting guidance was in effect**	**As reported**	**Pro forma as if the previous accounting guidance was in effect**
Revenue:				
Subscription and support revenue	$ 37,442	$ 37,478	$ 113,176	$ 113,200
Professional services and other revenue	3,679	3,679	10,793	10,793
Total revenue	41,121	41,157	123,969	123,993
Cost of revenue:				
Cost of subscription and support revenue	13,142	13,142	39,723	39,723
Cost of professional services and other revenue	3,176	3,176	10,424	10,424
Total cost of revenue	16,318	16,318	50,147	50,147
Gross profit	24,803	24,839	73,822	73,846
Operating expenses:				
Research and development	8,314	8,314	23,832	23,832
Sales and marketing	14,009	13,898	42,508	42,804
General and administrative	5,621	5,621	18,056	18,056
Total operating expenses	27,944	27,833	84,396	84,692
Loss from operations	(3,141)	(2,994)	(10,574)	(10,846)
Other income (expense), net	(217)	(217)	(427)	(427)
Loss before income taxes	(3,358)	(3,211)	(11,001)	(11,273)
Provision for income taxes	144	144	410	410
Net loss	$ (3,502)	$ (3,355)	$ (11,411)	$ (11,683)
Net loss per share - basic and diluted	$ (0.10)	$ (0.09)	$ (0.32)	$ (0.33)

Weighted-average number of common shares used in computing net loss per share	36,212,246	36,212,246	35,564,311	35,564,311

The primary difference in subscription and support revenue relates to the impacts of applying the variable consideration guidance under ASC 606. Under the previous guidance, subscription and support revenue would have been approximately $36 and $24 higher, respectively, for the three and nine months ended September 30, 2018 as revenue for usage based fees, for contracts with annual entitlement allowances, was recognized in the month of such usage. Under ASC 606, usage based fees, for contracts with annual entitlement allowances, are recognized as revenue over the term of the underlying arrangement.

Sales and marketing expense, under the previous guidance, would have decreased by approximately $111 for the three months ended September 30, 2018. Sales and marketing expense would have increased by $296 for the nine months ended September 30, 2018, due to a portion of the commission payments being recorded immediately to expense at the time a liability was recorded. In addition, certain commission amounts that were amortized to expense over the underlying term of the arrangement are now amortized over the average customer life under ASC 606.

The net impact of accounting for revenue under the new guidance increased net loss per share by $0.01 per basic and diluted share for the three months ended September 30, 2018, and decreased net loss per share by $0.01 per basic and diluted share for the nine months ended September 30, 2018.

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Statement of Cash Flows	Nine Months Ended September 30, 2018 As reported	Pro forma as if the previous accounting guidance was in effect
Operating activities		
Net loss	$ (11,411)	$ (11,683)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	5,164	5,164
Stock-based compensation	5,022	5,022
Provision for reserves on accounts receivable	99	99
Changes in assets and liabilities:		
Accounts receivable	1,998	1,799
Prepaid expenses and other current assets	(118)	(472)
Other assets	(355)	28
Accounts payable	(1,262)	(1,262)
Accrued expenses	1,964	1,964
Deferred revenue	(1,335)	(893)
Net cash provided by operating activities	$ (234)	$ (234)

The adoption of ASC 606 had no impact on the Company s cash flows from operations. The aforementioned impacts resulted in offsetting shifts in cash flows between net loss and various working capital balances.

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

	Accounts Receivable, net	Contract Assets (current)	Deferred Revenue (current)	Deferred Revenue (non-current)	Total Deferred Revenue
Balance at January 1, 2018	$ 26,162	$ 3,124	$ 40,799	$ 359	$ 41,158
Balance at September 30, 2018	24,040	2,032	39,516	278	39,794

Revenue recognized during the nine months ended September 30, 2018 from amounts included in deferred revenue at the beginning of the period was approximately $38.1 million. During the nine months ended September 30, 2018, the Company did not recognize revenue from performance obligations satisfied or partially satisfied in previous periods.

The assets recognized for costs to obtain a contract were $5.5 million and $5.4 million as of September 30, 2018 and January 1, 2018, respectively. Amortization expense recognized during the three and nine months ended September 30, 2018 related to costs to obtain a contract was $1.9 million and $5.7 million, respectively.

Transaction Price Allocated to Future Performance Obligations

ASC 606 requires that the Company disclose the aggregate amount of transaction price that is allocated to performance obligations that have not yet been satisfied as September 30, 2018. ASC 606 provides certain practical expedients that limit the requirement to disclose the aggregate amount of transaction price allocated to unsatisfied performance obligations.

Subscription and Support Revenue

As of September 30, 2018, the total aggregate transaction price allocated to the unsatisfied performance obligations for subscription and support contracts was approximately $108.0 million, of which approximately $86.0 million is expected to be recognized over the next 12 months. The Company expects to recognize substantially all of the remaining unsatisfied performance obligations by the end of 2020. The Company applied the practical expedient to not disclose the amount of transaction price allocated to unsatisfied performance obligations for variable consideration that the Company is able to allocate to one or more of the performance obligations in its contracts.

Professional Services

The Company applied the practical expedient to not disclose the amount of transaction price allocated to unsatisfied performance obligations when the performance obligation is part of a contract that has an original expected duration of one year or less. The Company does not have material future obligations associated with professional services that extend beyond one year.

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3. Concentration of Credit Risk

The Company has no significant off-balance sheet risk, such as foreign exchange contracts, option contracts, or other foreign hedging arrangements. Financial instruments that potentially expose the Company to concentrations of credit risk consist primarily of cash, cash equivalents and trade accounts receivable. The Company maintains its cash and cash equivalents principally with accredited financial institutions of high credit standing. Although the Company deposits its cash with multiple financial institutions, its deposits, at times, may exceed federally insured limits. The Company 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, 2018 and December 31, 2017, no individual customer accounted for 10% or more of accounts receivable, net. For the three and nine months ended September 30, 2018 and 2017, no individual customer accounted for 10% or more of total revenue.

4. Concentration of Other Risks

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

5. Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less at the date of purchase to be cash equivalents. Management determines the appropriate classification of investments at the time of purchase, and re-evaluates such determination at each balance sheet date. The Company did not have any short-term or long-term investments at September 30, 2018 or December 31, 2017.

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

Cash and cash equivalents as of September 30, 2018 consist of the following:

		September 30, 2018		
Description	**Contracted Maturity**	**Amortized Cost**	**Fair Market Value**	**Balance Per Balance Sheet**
Cash	Demand	$ 18,599	$ 18,599	$ 18,599
Money market funds	Demand	8,256	8,256	8,256
Total cash and cash equivalents		$ 26,855	$ 26,855	$ 26,855

Cash and cash equivalents as of December 31, 2017 consist of the following:

		December 31, 2017		
Description	Contracted Maturity	Amortized Cost	Fair Market Value	Balance Per Balance Sheet
Cash	Demand	$ 17,972	$ 17,972	$ 17,972
Money market funds	Demand	8,160	8,160	8,160
Total cash and cash equivalents		$ 26,132	$ 26,132	$ 26,132

6. 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,	
	2018	2017	2018	2017
Options outstanding	3,394	4,106	3,870	4,134
Restricted stock units outstanding	2,640	2,111	2,297	1,945

7. Fair Value of Financial Instruments

The following tables set forth the Company s financial instruments carried at fair value using the lowest level of input as of September 30, 2018 and December 31, 2017:

	September 30, 2018			
	Quoted Prices in Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Money market funds	$ 8,256	$	$	$ 8,256
Total assets	$ 8,256	$	$	$ 8,256

	December 31, 2017			
	Quoted Prices in Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Money market funds	$ 8,160	$	$	$ 8,160
Total assets	$ 8,160	$	$	$ 8,160

8. 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,	
	2018	2017	2018	2017
Expected life in years	6.3	6.2	6.2	6.1
Risk-free interest rate	2.92%	2.11%	2.88%	2.08%
Volatility	42%	42%	43%	42%
Dividend yield				
Weighted-average fair value of stock options granted	$ 3.89	$ 3.03	$ 4.16	$ 3.07

The Company recorded stock-based compensation expense of $1,522 and $1,818 for the three months ended September 30, 2018 and 2017, respectively, and $5,022 and $5,294 for the nine months ended September 30, 2018 and 2017, respectively. As of September 30, 2018, there was $19,094 of unrecognized stock-based compensation expense related to stock-based awards that is expected to be recognized over a weighted-average period of 2.80 years.

Effective April 11, 2018, the Company adopted the 2018 Inducement Plan (2018 Plan). The 2018 Plan provides for the issuance of stock options and restricted stock units to the Company s Chief Executive Officer (CEO). In connection with the approval of the 2018 Plan, the Company granted 440,000 stock options and 400,000 restricted stock units to the CEO.

During 2018, the Company granted an aggregate of 490,000 restricted stock units to certain key executives, which contain both performance-based and service-based vesting conditions. The Company measures compensation expense for these performance-based awards based upon a review of the Company s expected achievement against specified financial performance targets. Compensation cost is recognized on a ratable basis over the requisite service period for each series of grants to the extent management has deemed that such awards are probable of vesting based upon the expected achievement against the specified targets. On a periodic basis, management reviews the Company s expected performance and adjusts the compensation cost, if needed, at such time.

The following is a summary of the status of the Company s stock options as of September 30, 2018 and the stock option activity during the nine months ended September 30, 2018.

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	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (In Years)	Aggregate Intrinsic Value (1)
Outstanding at December 31, 2017	3,924,313	$ 7.33		
Granted	1,159,685	9.09		
Exercised	(1,121,591)	4.85		$ 4,826
Canceled	(883,049)	8.23		
Outstanding at September 30, 2018	3,079,358	$ 8.64	6.81	$ 2,306
Exercisable at September 30, 2018	1,575,950	$ 8.65	4.80	$ 1,442

(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, 2018 of $8.40 per share, or the date of exercise, as appropriate, and the exercise price of the underlying options.

The following table summarizes the restricted stock unit activity, including the restricted stock units with performance-based vesting, during the nine months ended September 30, 2018:

	Shares	Weighted Average Grant Date Fair Value
Unvested by December 31, 2017	2,218,704	$ 7.44
Granted	1,368,136	8.64
Vested and issued	(554,010)	7.34
Canceled	(556,101)	7.43
Unvested by September 30, 2018	2,476,729	$ 8.31

9. Income Taxes

For the three months ended September 30, 2018 and 2017, the Company recorded income tax expense of $144 and $118, respectively. For the nine months ended September 30, 2018 and 2017, the Company recorded income tax expense of $410 and $305 respectively. The income tax expense relates principally to the Company s foreign operations.

The Company has evaluated the positive and negative evidence bearing upon the realizability of its U.S. net deferred tax assets. As required by the provisions of Accounting Standards Codification (ASC) 740, *Income Taxes*, management has determined that it is more-likely-than-not that the Company will not utilize the benefits of federal and state U.S. net deferred tax assets for financial reporting purposes. Accordingly, the net deferred tax assets are subject to a valuation allowance at September 30, 2018 and December 31, 2017. Based on the level of historical income in Japan and future projections, the Company believes it is probable it will realize the benefits of its future deductible differences. As such, the Company has not recorded a valuation allowance against its net deferred tax assets in Japan as of September 30, 2018 and December 31, 2017. The Company s income tax return reporting periods since December 31, 2015 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.

On December 22, 2017, the Tax Cuts and Jobs Act (the Act) was enacted in the United States. The Act reduces the U.S. federal corporate tax rate from 34% to 21%, requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred and creates new taxes on certain foreign sourced earnings. In December 2017, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) 118, which directs taxpayers to consider the impact of the U.S. legislation as provisional when it does not have the necessary information available, prepared or analyzed (including computations) in reasonable detail to complete its accounting for the change in tax law.

As of September 30, 2018, the Company had not yet completed its accounting for all of the tax effects of the enactment of the Act; however, the Company has made a reasonable estimate of the effects on its existing deferred tax balances and the one-time transition tax. The Company will continue to refine its calculations as additional analysis is completed. The Company expects that any additional changes will be offset by an increase or decrease in the Company s valuation allowance as any transition tax will result in use of the net operating loss deferred tax asset, which is fully offset by a valuation allowance along with all other net deferred tax assets.

No additional U.S. income taxes or foreign withholding taxes have been provided for any additional outside basis differences inherent in the Company s foreign entities as these amounts continue to be indefinitely reinvested in foreign operations based on management s current intentions. Determining the amount of unrecognized deferred tax liability related to any remaining undistributed foreign earnings not subject to the transition tax and additional outside basis difference in these entities (i.e., basis difference in excess of that subject to the one-time transition tax) is not practicable. The Company is still in the process of analyzing the impact of the Act on its indefinite reinvestment assertion.

10. Commitments and Contingencies

Legal Matters

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

On May 22, 2017, a lawsuit was filed against Brightcove and two individuals by Ooyala, Inc. (Ooyala) and Ooyala Mexico S. de R.L. de C.V. (Ooyala Mexico). The lawsuit, which was filed in the United States District Court for the District of Massachusetts, concerned allegations that the two individuals, who are former employees of Ooyala Mexico, misappropriated customer information and other trade secrets and used that information in working for Brightcove. On October 19, 2018, the parties settled the matter for an immaterial amount, and the case was dismissed on October 24, 2018.

On October 26, 2017, Realtime Adaptive Streaming LLC filed a complaint against Brightcove and Brightcove s subsidiary Brightcove Holdings Inc. (collectively, in this paragraph, Brightcove) in the United States District Court for the District of Delaware. The complaint alleged that Brightcove infringed five patents related to file compression technology. On December 1, 2017 Realtime filed an amended complaint, adding two additional patents to its claims. On October 18, 2018, Brightcove, entered into a patent license agreement which provides Brightcove a license to the patents-in-suit (as well as additional patents and patent applications owned by Realtime) in exchange for a one-time payment, the amount of which is immaterial to the results of our operations. As a result of entering into the patent license agreement, the case was dismissed on October 31, 2018.

Guarantees and Indemnification Obligations

The Company typically enters into indemnification agreements in the ordinary course of business. Pursuant to these agreements, the Company indemnifies and agrees to reimburse the indemnified party for losses and costs incurred by the indemnified party, generally the Company s customers, in connection with patent, copyright, trade secret, or other intellectual property or personal right infringement claim by third parties with respect to the Company s technology. The term of these indemnification agreements is generally perpetual after execution of the agreement. Based on when customers first subscribe for the Company s service, the maximum potential amount of future payments the Company could be required to make under certain of these indemnification agreements is unlimited, however, more recently the Company has typically limited the maximum potential value of such potential future payments in relation to the value of the contract. Based on historical experience and information known as of September 30, 2018, the Company has not incurred any costs for the above guarantees and indemnities. The Company has received requests for indemnification from customers in connection with patent infringement suits brought against the customer by a third party. To date, the Company has not agreed that the requested indemnification is required by the Company s contract with any such customer.

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

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11. Debt

On November 19, 2015, the Company entered into an amended and restated loan and security agreement with a lender (the Loan Agreement) providing for up to a $20.0 million asset-based line of credit (the Line of Credit) with an expiration date of November 11, 2018. Under the Line of Credit, the Company can borrow up to $20.0 million. Borrowings under the Line of Credit are secured by substantially all of the Company s assets, excluding intellectual property. Outstanding amounts under the Line of Credit accrue interest at a rate equal to the prime rate or the LIBOR rate plus 2.5%. Under the Loan Agreement, the Company must comply with certain financial covenants, including maintaining a minimum asset coverage ratio. If the outstanding principal during any month is at least $15.0 million, the Company must also maintain a minimum net income threshold based on non-GAAP operating measures. Failure to comply with these covenants, or the occurrence of an event of default, could permit the lender under the Line of Credit to declare all amounts borrowed under the Line of Credit, together with accrued interest and fees, to be immediately due and payable. The Company was in compliance with all covenants under the Line of Credit as of September 30, 2018. As the Company has not drawn on the Line of Credit, there are no amounts outstanding as of September 30, 2018.

12. Segment Information

Geographic Data

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	**2017**	**2018**	**2017**
Revenue:				
North America	$ 21,834	$ 22,726	$ 67,351	$ 68,205
Europe	7,491	6,097	20,538	18,177
Japan	5,464	4,129	16,319	12,416
Asia Pacific	6,125	6,363	19,292	16,490
Other	207	172	469	524
Total revenue	$ 41,121	$ 39,487	$ 123,969	$ 115,812

North America is comprised of revenue from the United States, Canada and Mexico. Revenue from customers located in the United States was $20,521 and $21,131 during the three months ended September 30, 2018 and 2017, respectively, and $63,345 and $63,744 during the nine months ended September 30, 2018 and 2017, respectively. Other than the United States and Japan, no other country contributed more than 10% of the Company s total revenue during the three and nine months ended September 30, 2018 and 2017.

As of September 30, 2018 and December 31, 2017, property and equipment at locations outside the U.S. was not material.

13. Recently Issued and Adopted Accounting Standards

In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842), Amendments to the FASB Accounting Standards Codification*, which replaces the existing guidance for leases.
ASU 2016-02 requires the identification of arrangements that should be accounted for as leases by lessees. In general, lease arrangements exceeding a twelve month term must now be recognized as assets and liabilities on the balance sheet of the lessee. Under ASU 2016-02, a right-of-use asset and lease obligation will be recorded for all leases, whether operating or financing, while the income statement will reflect lease expense for operating leases and amortization/interest expense for financing leases. The balance sheet amount recorded for existing leases at the date of adoption of ASU 2016-02 must be calculated using the applicable incremental borrowing rate at the date of adoption. This guidance is effective for annual and interim periods beginning after December 15, 2018. In July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842), Targeted Improvements,* which provides an additional, optional transition method with which to adopt the new leases standard. This additional transition method allows for a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption, rather than in the earliest period presented in the financial statements, as originally required by ASU 2016-02. The Company currently expects to adopt the standard using the additional transition method introduced by ASU 2018-11. The Company is currently assessing the impact that adopting the new leases standard will have on its consolidated financial statements and related disclosures. While the Company is still in the process of determining the effect that the new standard will have on its financial position and results of operations, the Company expects to recognize additional assets and corresponding liabilities on its consolidated balance sheet, as a result of its existing operating lease portfolio.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230)*: *Classification of Certain Cash Receipts and Cash Payments,* which adds or clarifies guidance on the classification of certain cash receipts and payments in the statement of cash flows. The standard addresses eight specific cash flow issues with the objective of reducing diversity in practice. ASU 2016-15 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. The amendment requires the use of the retrospective transaction approach for adoption. The adoption of ASU 2016-15 did not have a material effect on the Company s consolidated financial statements or disclosures.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which requires an entity to reconcile and explain the period-over-period change in total cash, cash equivalents and restricted cash within its statement of cash flows. ASU 2016-18 is effective for annual and interim periods beginning after December 15, 2017. Early adoption is permitted. A reporting entity must apply the amendments in ASU 2016-18 using a full retrospective approach. The adoption of ASU 2016-18 did not have a material effect on the Company s consolidated financial statements or disclosures.

In January 2017, the FASB issued ASU 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*. The amendment changes the definition of a business to assist entities in evaluating when a set of transferred assets and activities constitutes a business. The ASU is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2017. The adoption of ASU 2017-01 did not have a material effect on the Company s consolidated financial statements or disclosures.

In January 2017, the FASB issued ASU 2017-04, *Intangibles Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. The updated guidance eliminates Step 2 of the impairment test, which requires entities to calculate the implied fair value of goodwill to measure a goodwill impairment charge. Instead, entities will record an impairment charge based on the excess of a reporting unit s carrying amount over its fair value, determined in Step 1. ASU 2017-04 is effective for annual and interim periods beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company early adopted ASU 2017-04 during the three months ended March 31, 2018, prior to its annual testing of goodwill impairment. The adoption of ASU 2017-04 did not have a material effect on the Company s consolidated financial statements or disclosures.

In May 2017 the FASB issued ASU 2017-09, *Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting*. ASU 2017-09 provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. ASU 2017-09 is effective for financial statements issued for annual reporting periods beginning after December 15, 2017 and interim periods within those years. Earlier application is permitted. The adoption of ASU 2017-09 did not have a material effect on the Company s consolidated financial statements and related disclosures.

On December 22, 2017, the Tax Cuts and Jobs Act (the Act) was enacted in the United States. The Act reduces the U.S. federal corporate tax rate from 34% to 21%, requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred and creates new taxes on certain foreign sourced earnings. In December 2017, the SEC issued guidance under SAB No. 118, *Income Tax Accounting Implications of the Tax Cuts and Jobs Act* directing taxpayers to consider the impact of the U.S. legislation as provisional when it does not have the necessary information available, prepared or analyzed (including computations) in reasonable detail to complete its accounting for the change in tax law. As of September 30, 2018, the Company had not yet completed its accounting for all of the tax effects of the enactment of the Act; however, the Company has made a reasonable estimate of the effects on our existing deferred tax balances and one-time transition tax. Refer to Note 9, *Income Taxes*, for additional information regarding this new tax legislation.

In addition to the reduction in the federal corporate tax rate and the one-time transition tax, which the Company has accounted for with provisional estimates at September 30, 2018, the Company continues to analyze the provisions of tax reform that become effective for the Company in 2018 including the provisions related to Global Intangible Low Taxed Income, Foreign Derived Intangible Income, Base Erosion Anti-Abuse Tax, as well as other provisions which would limit the deductibility of future expenses.

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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, 2017.

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. The statements contained in this Quarterly Report on Form 10-Q that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or Exchange Act. Such forward-looking statements include any expectation of earnings, revenue or other financial items; any statements of the plans, strategies and objectives of management for future operations; factors that may affect our operating results; statements related to adding employees; statements related to future capital expenditures; statements related to future economic conditions or performance; statements as to industry trends and other matters that do not relate strictly to historical facts or statements of assumptions underlying any of the foregoing. Forward-looking statements are often identified by the use of words such as, but not limited to, anticipate, believe, can, continue, could, estimate, expect, intend, may, will, plan, project, seek, should, target, will, would, and similar expressions or variations intended to identify forward-looking statements. These statements are based on the beliefs and assumptions of our management based on information currently available to management. Such forward-looking statements are subject to risks, uncertainties and other important factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled Risk Factors included in Item 1A of Part II of this Quarterly Report on Form 10-Q, our Annual Report on Form 10-K for the year ended December 31, 2017 and the risks discussed in our other SEC filings. Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

Company Overview

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

Brightcove Video Cloud, or Video Cloud, our flagship product released in 2006, is the world s leading online video platform. Video Cloud enables our customers to publish and distribute video to Internet-connected devices quickly, easily and in a cost-effective and high-quality manner. Brightcove Zencoder, or Zencoder, is a cloud-based video encoding service. Brightcove SSAI, or SSAI, is an innovative, cloud-based ad insertion and video stitching service that addresses the limitations of traditional online video ad insertion technology. Brightcove Player, or Player, is a cloud-based service for creating and managing video player experiences. Brightcove OTT Flow, powered by Accedo, or OTT Flow, is a service for media companies and content owners to rapidly deploy high-quality, direct-to-consumer, live and on-demand video services across platforms. Brightcove Video Marketing Suite, or Video Marketing Suite, is a comprehensive suite of video technologies designed to address the needs of marketers to drive awareness, engagement and conversion. Brightcove Enterprise Video Suite, or Enterprise Video

Suite, is an enterprise-class platform for internal communications, employee training, live streaming, marketing and ecommerce videos.

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

As of September 30, 2018, we had 495 employees and 3,867 customers, of which 1,640 used our volume offerings and 2,227 used our premium offerings. As of September 30, 2017, we had 506 employees and 4,210 customers, of which 2,097 used our volume offerings and 2,113 used our premium offerings.

We generate revenue by offering our products to customers on subscription-based, software as a service, or SaaS, model. Our revenue grew from $115.8 million in the nine months ended September 30, 2017 to $124.0 million in the nine months ended September 30, 2018, primarily related to an increase in sales of Video Cloud to both new and existing customers. Our consolidated net loss was $11.4 million and $18.1 million for the nine months ended September 30, 2018 and 2017, respectively. Included in consolidated net loss for the nine months ended September 30, 2018 was stock-based compensation expense and amortization of acquired intangible assets of $5.0 million and $1.9 million, respectively. Included in consolidated net loss for the nine months ended September 30, 2017 was stock-based compensation expense and amortization of acquired intangible assets of $5.3 million and $2.1 million, respectively.

For the nine months ended September 30, 2018 and 2017, our revenue derived from customers located outside North America was 46% and 41%, respectively. We expect the percentage of total net revenue derived from outside North America to increase in future periods as we continue to expand our international operations.

Key Metrics

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

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

As of September 30, 2018, we had 3,867 customers, of which 1,640 used our volume offerings and 2,227 used our premium offerings. As of September 30, 2017, we had 4,210 customers, of which 2,097 used our volume offerings and 2,113 used our premium offerings. Our go-to-market focus and growth strategy is to expand our premium customer base, as we believe our premium customers represent a greater opportunity for our solutions. Volume customers decreased in recent periods primarily due to our discontinuation of the promotional Video Cloud Express offering. As a result, we have experienced attrition of this base level offering without a corresponding addition of customers. We expect customers using our volume offerings to continue to decrease in 2018 and beyond as we continue to focus on the market for our premium solutions.

Recurring Dollar Retention Rate. We assess our ability to retain customers using a metric we refer to as our recurring dollar retention rate. We calculate the recurring dollar retention rate by dividing the retained recurring value of subscription revenue for a period by the previous recurring value of subscription revenue for the same period. We define retained recurring value of subscription revenue as the committed subscription fees for all contracts that renew in a given period, including any increase or decrease in contract value. We define previous recurring value of subscription revenue as the recurring value from committed subscription fees for all contracts that expire in that same period. We typically calculate our recurring dollar retention rate on a monthly basis. Recurring dollar retention rate provides visibility into our ongoing revenue. During the nine months ended September 30, 2018 and 2017, the recurring dollar retention rate was 97% and 90%, respectively

Average Annual Subscription Revenue Per Premium Customer. We define average annual subscription revenue per premium customer as the total subscription revenue from premium customers for an annual period, excluding professional services revenue, divided by the average number of premium customers for that period. We believe that this metric is important in understanding subscription revenue for our premium offerings in addition to the relative size of premium customer arrangements. As our Starter edition has a price point of $199 or $499 per month, we disclose the average annual subscription revenue per premium customer separately for Starter edition customers and all other premium customers.

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

	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Customers (at period end)		
Volume	1,640	2,097
Premium	2,227	2,113
Total customers (at period end)	3,867	4,210
Recurring dollar retention rate	97%	90%
Average annual subscription revenue per premium customer, excluding Starter edition customers (in thousands)	$ 74.7	$ 70.0
Average annual subscription revenue per premium customer for Starter edition customers only (in thousands)	$ 4.8	$ 5.0

Components of Consolidated Statements of Operations

Revenue

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

Video Cloud is offered in two product lines. The first product line is comprised of our premium product editions. All premium editions include functionality to publish and distribute video to Internet-connected devices, with higher levels of premium editions providing additional features and functionality. Customer arrangements are typically one year contracts, which include a subscription to Video Cloud, basic support and a pre-determined amount of video streams, bandwidth, transcoding and storage. We also offer gold support or platinum support to our premium customers for an additional fee, which includes extended phone support. The pricing for our premium editions is based on the value of our software, as well as the number of users, accounts and usage, which is comprised of video streams, bandwidth, transcoding and storage. Should a customer s usage exceed the contractual entitlements, the contract will provide the rate at which the customer must pay for actual usage above the contractual entitlements. The second product line is comprised of our volume product edition. Our volume editions target small and medium-sized businesses, or SMBs. The volume editions provide customers with the same basic functionality that is offered in our premium product editions but have been designed for customers who have lower usage requirements and do not typically require advanced features and functionality. We discontinued the lower level pricing options for the Express edition of our volume offering and expect the total number of customers using the Express edition to continue to decrease. Customers who purchase the volume editions generally enter into month-to-month agreements. Volume customers are generally billed on a monthly basis and pay via a credit card.

Zencoder is offered to customers on a subscription basis, with either committed contracts or pay-as-you-go contracts. The pricing is based on usage, which is comprised of minutes of video processed. The committed contracts include a fixed number of minutes of video processed. Should a customer s usage exceed the contractual entitlements, the contract will provide the rate at which the customer must pay for actual usage above the contractual entitlements. Zencoder customers are considered premium customers other than Zencoder customers on month-to-month contracts or pay-as-you-go contracts, which are considered volume customers.

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

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

OTT Flow is offered to customers on a subscription basis, with varying levels of functionality, usage entitlements and support based on the size and complexity of a customer s needs. Customer arrangements are typically one-year contracts.

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

All SSAI, Player, OTT Flow, Video Marketing Suite and Enterprise Video Suite customers are considered premium customers.

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

Cost of Revenue

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

Cost of revenue increased in absolute dollars from the first nine months of 2017 to the first nine months of 2018. In future periods we expect our cost of revenue will increase in absolute dollars as our revenue increases. Cost of revenue as a percentage of revenue could fluctuate from period to period depending on the 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 intend to continue to periodically release new features and functionality, expand our product offerings, continue the localization of our products in various languages, upgrade and extend our service offerings and develop new technologies. Over the long term, we believe that research and development expenses as a percentage of revenue will decrease, but will vary depending upon the mix of revenue from new and existing products, features and functionality, as well as changes in the technology that our products must support, such as new operating systems or new Internet-connected devices.

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

General and Administrative. General and administrative expenses consist primarily of personnel and related expenses for executive, legal, finance, information technology and human resources functions, including salaries, benefits, incentive compensation and stock-based compensation, 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 expense to remain unchanged in future periods. Over the long term, we believe that general and administrative expenses as a percentage of revenue will decrease.

Other Expense

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

Income Taxes

As part of the process of preparing our consolidated financial statements, we are required to estimate our taxes in each of the jurisdictions in which we operate. We account for income taxes in accordance with the asset and liability method. Under this method, deferred tax assets and liabilities are recognized based on temporary differences between the financial reporting and income tax bases of assets and liabilities using statutory rates. In addition, this method requires a valuation allowance against net deferred tax assets if, based upon the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. We have provided a valuation allowance against our existing net deferred tax assets as of September 30, 2018 and as of December 31, 2017, with the exception of the deferred tax assets related to Brightcove KK.

On December 22, 2017, the Tax Cuts and Jobs Act was enacted in the United States. Refer to Note 9, *Income Taxes*, for additional information regarding this new tax legislation.

Stock-Based Compensation Expense

Our cost of revenue, research and development, sales and marketing, and general and administrative expenses include stock-based compensation expense. Stock-based compensation expense represents the fair value of outstanding stock options and restricted stock awards, which is recognized as expense over the respective stock option and restricted stock award service periods. For the nine months ended September 30, 2018 and 2017, we recorded $5.0 million and $5.3 million of stock-based compensation expense, 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, 2018 and 2017, 50% and 46%, respectively, of our revenue was generated in locations outside the United States. For the nine months ended September 30, 2018 and 2017, 49% and 45%, respectively, of our revenue was generated in locations outside the United States. During the three months ended September 30, 2018 and 2017, 31% and 28%, 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, 2018 and 2017, 31% and 28% respectively, of our revenue was in currencies other than the U.S. dollar, as were some of the associated expenses. In periods when the U.S. dollar declines in value as compared to the foreign currencies in which we conduct business, our foreign currency-based revenue and expenses generally increase in value when translated into U.S. dollars. We expect our foreign currency-based revenue to remain relatively unchanged in absolute dollars and as a percentage of total revenue.

Critical Accounting Policies and Estimates

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

We consider the assumptions and estimates associated with revenue recognition, allowance for doubtful accounts, software development costs, income taxes, business combinations, intangible assets, goodwill and stock-based compensation to be our critical accounting policies and estimates. Other than the changes to revenue recognition under ASC 606 as described in Note 2, there have been no material changes to our critical accounting policies since December 31, 2017.

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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, 2017, which we filed with the Securities and Exchange Commission on February 28, 2018.

Other than the changes to revenue recognition under ASC 606 as described in Note 2, we believe that our significant accounting policies, have not materially changed from those described in the notes to our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2017.

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, 2017.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in thousands, except share and per share data)			
Revenue:				
Subscription and support revenue	$ 37,442	$ 36,496	$ 113,176	$ 106,266
Professional services and other revenue	3,679	2,991	10,793	9,546
Total revenue	41,121	39,487	123,969	115,812
Cost of revenue:				
Cost of subscription and support revenue	13,142	12,924	39,723	38,180
Cost of professional services and other revenue	3,176	3,580	10,424	10,120
Total cost of revenue	16,318	16,504	50,147	48,300
Gross profit	24,803	22,983	73,822	67,512
Operating expenses:				
Research and development	8,314	7,820	23,832	24,293
Sales and marketing	14,009	14,551	42,508	44,356
General and administrative	5,621	5,961	18,056	17,228
Merger-related				
Total operating expenses	27,944	28,332	84,396	85,877
Loss from operations	(3,141)	(5,349)	(10,574)	(18,365)

Other (expense) income, net		(217)		71		(427)		523
Loss before income taxes		(3,358)		(5,278)		(11,001)		(17,842)
Provision for income taxes		144		118		410		305
Net loss	$	(3,502)	$	(5,396)	$	(11,411)	$	(18,147)
Net loss per share - basic and diluted	$	(0.10)	$	(0.16)	$	(0.32)	$	(0.53)
Weighted-average number of common shares used in computing net loss per share		36,212,246		34,500,868		35,564,311		34,269,639

Overview of Results of Operations for the Three Months Ended September 30, 2018 and 2017

Total revenue increased by $1.6 million, or 4%, in the three months ended September 30, 2018 compared to the three months ended September 30, 2017 due to an increase in subscription and support revenue of 3%, or $946,000, and an increase in professional services and other revenue of 23%, or $688,000. The increase in subscription and support revenue was primarily related to the continued growth of our customer base for our premium offerings including sales to both new and existing customers. The increase in professional services revenue was primarily related to the size and number of professional services engagements during the three months ended September 30, 2018, compared to the corresponding quarter in the prior year. In addition, our revenue from premium offerings grew by $1.9 million, or 5%, in the three months ended September 30, 2018, compared to the three months ended September 30, 2017. Our ability to continue to provide the product functionality and performance that our customers require will be a major factor in our ability to continue to increase revenue.

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Our gross profit increased by $1.8 million, or 8%, in the three months ended September 30, 2018 compared to the three months ended September 30, 2017, primarily due to an increase in revenue. Our ability to continue to maintain our overall gross profit will depend primarily on our ability to continue controlling our costs of delivery.

Loss from operations was $3.1 million in the three months ended September 30, 2018 compared to $5.3 million in the three months ended September 30, 2017. Loss from operations in the three months ended September 30, 2018 included stock-based compensation expense and amortization of acquired intangible assets of $1.5 million and $548,000, respectively. Loss from operations in the three months ended September 30, 2017 included stock-based compensation expense and amortization of acquired intangible assets of $1.8 million and $674,000, respectively. We expect our operating losses to decrease due to 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, 2018, we had $26.9 million of cash and cash equivalents, an increase of $723,000 from $26.1 million at December 31, 2017, due primarily to $5.4 million in proceeds from exercises of stock options. These increases were offset in part by $2.5 million in capitalization of internal-use software costs, $1.3 million in capital expenditures, $260,000 in payments under capital lease obligations, $234,000 of cash used in operating activities and $142,000 in payments of withholding tax on RSU vesting.

Revenue

	Three Months Ended September 30,					
	2018		2017		Change	
Revenue by Product Line	**Amount**	**Percentage of Revenue**	**Amount**	**Percentage of Revenue**	**Amount**	**%**
	(in thousands, except percentages)					
Premium	$ 40,036	97%	$ 38,149	97%	$ 1,887	5%
Volume	1,085	3	1,338	3	(253)	(19)
Total	$ 41,121	100%	$ 39,487	100%	$ 1,634	4%

During the three months ended September 30, 2018, revenue increased by $1.6 million, or 4%, compared to the three months ended September 30, 2017, primarily due to an increase in revenue from our premium offerings, which consists of subscription and support revenue. The increase in premium revenue of $1.9 million, or 5%, is partially the result of a 5% increase in the number of premium customers from 2,113 at September 30, 2017 to 2,227 at September 30, 2018 and a 7% increase in the average annual subscription revenue per premium customer during the three months ended September 30, 2018. In the three months ended September 30, 2018, volume revenue decreased by $253,000, or 19%, compared to the three months ended September 30, 2017, as we continue to focus on the market for our premium solutions.

	Three Months Ended September 30,					
	2018		2017		Change	
Revenue by Type	**Amount**	**Percentage of Revenue**	**Amount**	**Percentage of Revenue**	**Amount**	**%**
	(in thousands, except percentages)					

Subscription and support	$ 37,442	91%	$ 36,496	92%	$ 946	3%
Professional services and other	3,679	9	2,991	8	688	23
Total	$ 41,121	100%	$ 39,487	100%	$ 1,634	4%

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In the three months ended September 30, 2018, subscription and support revenue increased by $946,000, or 3%, compared to the three months ended September 30, 2017. The increase was primarily related to the continued growth of our customer base for our premium offerings including sales to both new and existing customers and a 7% increase in the average annual subscription revenue per premium customer during the three months ended September 30, 2018. In addition, professional services and other revenue increased by $688,000, or 23% compared to the three months ended September 30, 2017. 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,					
	2018		2017		Change	
Revenue by Geography	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	%
	(in thousands, except percentages)					
North America	$ 21,834	53%	$ 22,726	58%	$ (892)	(4)%
Europe	7,491	18	6,097	15	1,394	23
Japan	5,464	13	4,129	11	1,335	32
Asia Pacific	6,125	15	6,363	16	(238)	(4)
Other	207	1	172		35	20
International subtotal	19,287	47	16,761	42	2,526	15
Total	$ 41,121	100%	$ 39,487	100%	$ 1,634	4%

For purposes of this section, we designate revenue by geographic regions based upon the primary 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, 2018, total revenue for North America decreased $892,000, or 4%, compared to the three months ended September 30, 2017. In the three months ended September 30, 2018, total revenue outside of North America increased $2.5 million, or 15%, compared to the three months ended September 30, 2017.

Cost of Revenue

	Three Months Ended September 30,					
	2018		2017		Change	
Cost of Revenue	Amount	Percentage of Related Revenue	Amount	Percentage of Related Revenue	Amount	%
	(in thousands, except percentages)					
Subscription and support	$ 13,142	35%	$ 12,924	35%	$ 218	2%
Professional services and other	3,176	86	3,580	120	(404)	(11)

Total	$ 16,318	40%	$ 16,504	42%	$ (186)	(1)%

In the three months ended September 30, 2018, cost of subscription and support revenue increased $218,000 or 2%, compared to the three months ended September 30, 2017. The increase resulted primarily from increases in amortization expense, third-party software integrated with our service offering, and partner commission expense of $314,000, $237,000 and $224,000, respectively. There were also increases in employee-related and contractor expenses of $194,000 and $177,000, respectively. These increases were partially offset by decreases in content delivery network, depreciation, and intangible amortization expenses of $601,000, $338,000, and $126,000, respectively.

In the three months ended September 30, 2018, cost of professional services and other revenue decreased by $404,000, or 11%, compared to the three months ended September 30, 2017. There was a decrease in consultant expense of $809,000. This decrease was partially offset by an increase in employee-related expense of $234,000.

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Gross Profit

	Three Months Ended September 30,					
	2018		2017		Change	
Gross Profit	**Amount**	**Percentage of Related Revenue**	**Amount**	**Percentage of Related Revenue**	**Amount**	**%**
	(in thousands, except percentages)					
Subscription and support	$ 24,300	65%	$ 23,572	65%	$ 728	3%
Professional services and other	503	14	(589)	(20)	1,092	185
Total	$ 24,803	60%	$ 22,983	58%	$ 1,820	8%

The overall gross profit percentage was 60% and 58% for the three months ended September 30, 2018 and 2017, respectively. Subscription and support gross profit increased $728,000, or 3%, compared to the three months ended September 30, 2017. Professional services and other gross profit increased $1.1 million, or 185%, compared to the three months ended September 30, 2017. 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,					
	2018		2017		Change	
Operating Expenses	**Amount**	**Percentage of Revenue**	**Amount**	**Percentage of Revenue**	**Amount**	**%**
	(in thousands, except percentages)					
Research and development	$ 8,314	20%	$ 7,820	20%	$ 494	6%
Sales and marketing	14,009	34	14,551	37	(542)	(4)
General and administrative	5,621	14	5,961	15	(340)	(6)
Total	$ 27,944	68%	$ 28,332	72%	$ (388)	(1)%

Research and Development. In the three months ended September 30, 2018, research and development expense increased by $494,000, or 6%, compared to the three months ended September 30, 2017 primarily due to an increase in employee-related expense of $480,000. This increase was partially offset by a decrease in stock based compensation expense of $101,000. We expect our research and development expense to remain relatively unchanged in future periods.

Sales and Marketing. In the three months ended September 30, 2018, sales and marketing expense decreased by $542,000, or 4%, compared to the three months ended September 30, 2017 primarily due to decreases in employee-related, stock-based compensation, and travel expenses of $446,000, $253,000, and $151,000, respectively. These decreases were partially offset by increases in executive severance and rent expenses of $386,000 and $138,000 respectively. We expect sales and marketing expense to remain relatively unchanged in future periods.

***General and Administrative*.** In the three months ended September 30, 2018, general and administrative expense decreased by $340,000, or 6%, compared to the three months ended September 30, 2017 primarily due to a decrease in executive severance expense of $700,000. These decreases were partially offset by increases in consultant and employee-related expenses of $445,000 and $120,000 respectively. We expect general and administrative expense to remain relatively unchanged in future periods.

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Other (Expense) Income, Net

	Three Months Ended September 30,					
	2018		2017		Change	
Other (Expense) Income	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	%
	(in thousands, except percentages)					
Interest income, net	$ 53	%	$ 30	%	$ 23	77%
Interest expense	(2)		(6)		4	(67)
Other (expense) income, net	(268)	(1)	47		(315)	(670)
Total	$ (217)	(1)%	$ 71	%	$ (288)	(406)%

In the three months ended September 30, 2018, interest income, net, increased by $23,000, or 77%, compared to the corresponding period of the prior year.

The interest expense during the three months ended September 30, 2018 is primarily comprised of interest paid on capital leases. The increase in other (expense) income, net during the three months ended September 30, 2018 was primarily due to realized foreign currency exchange losses recorded during the three months ended September 30, 2018 compared to gains recorded in the corresponding period of the prior year.

Provision for Income Taxes

	Three Months Ended September 30,					
	2018		2017		Change	
Provision for Income Taxes	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	%
	(in thousands, except percentages)					
Provision for income taxes	$ 144	%	$ 118	%	$ 26	22%

In the three months ended September 30, 2018 and 2017, the provision for income taxes was primarily comprised of income tax expenses related to foreign jurisdictions.

Overview of Results of Operations for the Nine Months Ended September 30, 2018 and 2017

Total revenue increased by $8.2 million, or 7%, in the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 due largely to an increase in subscription and support revenue of $6.9 million, or 7%. The increase in subscription and support revenue was primarily related to continued growth of our customer base for our premium offerings including sales to both new and existing customers. Professional services and other revenue increased by $1.2 million, or 13%, during the nine months ended September 30, 2018, compared to the corresponding period in the prior year. The increase in professional services and other revenue was primarily related to the size and number of professional services engagements during the nine months ended September 30, 2018, compared to the corresponding period in the prior year. In addition, our revenue from premium offerings grew by $9.0 million, or 8%, in the nine months ended September 30, 2018, compared to the nine months ended September 30, 2017 primarily due to a 5% increase in the number of premium customers from 2,113 at September 30, 2017 to 2,227 at September 30, 2018.

Our gross profit increased by $6.3 million, or 9%, in the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017, primarily due to an increase in revenue.

Loss from operations was $10.6 million in the nine months ended September 30, 2018 compared to $18.4 million in the nine months ended September 30, 2017. Loss from operations in the nine months ended September 30, 2018 included stock-based compensation expense and amortization of acquired intangible assets of $5.0 million and $1.9 million, respectively. Loss from operations in the nine months ended September 30, 2017 included stock-based compensation expense and amortization of acquired intangible assets of $5.3 million and $2.1 million, respectively.

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Revenue

	Nine Months Ended September 30,					
	2018		2017		Change	
Revenue by Product Line	**Amount**	**Percentage of Revenue**	**Amount**	**Percentage of Revenue**	**Amount**	**%**
	(in thousands, except percentages)					
Premium	$ 120,471	97%	$ 111,505	96%	$ 8,966	8%
Volume	3,498	3	4,307	4	(809)	(19)
Total	$ 123,969	100%	$ 115,812	100%	$ 8,157	7%

During the nine months ended September 30, 2018, revenue increased by $8.2 million, or 7%, compared to the nine months ended September 30, 2017, primarily due to an increase in revenue from our premium offerings, which consists of subscription and support revenue, as well as professional services and other revenue. The increase in premium revenue of $9.0 million, or 8%, is partially the result of a 5% increase in the number of premium customers from 2,113 at September 30, 2017 to 2,227 at September 30, 2018, in addition to a $1.2 million, or 13%, increase in professional services revenue. In the nine months ended September 30, 2018, volume revenue decreased by $809,000, or 19%, compared to the nine months ended September 30, 2017, as we continue to focus on the market for our premium solutions.

	Nine Months Ended September 30,					
	2018		2017		Change	
Revenue by Type	**Amount**	**Percentage of Revenue**	**Amount**	**Percentage of Revenue**	**Amount**	**%**
	(in thousands, except percentages)					
Subscription and support	$ 113,176	91%	$ 106,266	92%	$ 6,910	7%
Professional services and other	10,793	9	9,546	8	1,247	13
Total	$ 123,969	100%	$ 115,812	100%	$ 8,157	7%

In the nine months ended September 30, 2018, subscription and support revenue increased by $6.9 million, or 7%, primarily related to the continued growth of our customer base for our premium offerings including sales to both new and existing customers and an 7% increase in the average annual subscription revenue per premium customer during the nine months ended September 30, 2018. In addition, professional services and other revenue increased by $1.2 million, or 13%, primarily related to the size and number of professional services engagements during the nine months ended September 30, 2018 compared to the corresponding time period in the prior year. Professional services and other revenue will vary from period to period depending on the number of implementations and other projects that are in process.

	Nine Months Ended September 30,		
	2018	2017	Change

Revenue by Geography	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	%
	(in thousands, except percentages)					
North America	$ 67,351	54%	$ 68,205	59%	$ (854)	(1)%
Europe	20,538	17	18,177	16	2,361	13
Japan	16,319	13	12,416	11	3,903	31
Asia Pacific	19,292	16	16,490	14	2,802	17
Other	469		524		(55)	(10)
International subtotal	56,618	46	47,607	41	9,011	19
Total	$ 123,969	100%	$ 115,812	100%	$ 8,157	7%

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.

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In the nine months ended September 30, 2018, total revenue for North America decreased by $854,000, or 1% compared to the nine months ended September 30, 2017. In the nine months ended September 30, 2018, total revenue outside of North America increased $9.0 million, or 19%, compared to the nine months ended September 30, 2017. The increase in revenue from international regions is primarily related to increases in revenue in Japan and Asia Pacific.

Cost of Revenue

Cost of Revenue	Nine Months Ended September 30, 2018 Amount	2018 Percentage of Related Revenue	2017 Amount	2017 Percentage of Related Revenue	Change Amount	Change %
	(in thousands, except percentages)					
Subscription and support	$ 39,723	35%	$ 38,180	36%	$ 1,543	4%
Professional services and other	10,424	97	10,120	106	304	3
Total	$ 50,147	40%	$ 48,300	42%	$ 1,847	4%

In the nine months ended September 30, 2018, cost of subscription and support revenue increased $1.5 million, or 4%, compared to the nine months ended September 30, 2017. The increase resulted primarily from increases in network hosting services, partner commission and employee-related expenses of $1.1 million, $804,000 and $744,000, respectively. There were also increases in amortization expense, third-party software integrated with our service offering, consultant expense, and rent expense of $737,000, $419,000, $255,000, and $227,000, respectively. These increases were partially offset by decreases in content delivery network, depreciation, intangible amortization, and maintenance expenses of $1.6 million, $838,000, $126,000 and $116,000, respectively.

In the nine months ended September 30, 2018, cost of professional services and other revenue increased $304,000, or 3%, compared to the nine months ended September 30, 2017. This increase resulted primarily from increases in employee-related and rent expenses of $564,000 and $113,000, respectively. These increases were offset in part by decreases in consultant and travel expenses of $410,000 and $122,000, respectively.

Gross Profit

Gross Profit	Nine Months Ended September 30, 2018 Amount	2018 Percentage of Related Revenue	2017 Amount	2017 Percentage of Related Revenue	Change Amount	Change %
	(in thousands, except percentages)					
Subscription and support	$ 73,453	65%	$ 68,086	64%	$ 5,367	8%
Professional services and other	369	3	(574)	(6)	943	nm
Total	$ 73,822	60%	$ 67,512	58%	$ 6,310	9%

nm not meaningful

The overall gross profit percentage was 60% and 58% for the nine months ended September 30, 2018 and 2017, respectively. Subscription and support gross profit increased $5.4 million, or 8%, compared to the nine months ended September 30, 2017. In addition, professional services and other gross profit increased $943,000 compared to the nine months ended September 30, 2017. 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.

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Operating Expenses

	Nine Months Ended September 30,					
	2018		2017		Change	
Operating Expenses	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	%
	(in thousands, except percentages)					
Research and development	$ 23,832	19%	$ 24,293	21%	$ (461)	(2)%
Sales and marketing	42,508	34	44,356	38	(1,848)	(4)
General and administrative	18,056	15	17,228	15	828	5
Total	$ 84,396	68%	$ 85,877	74%	$ (1,481)	(2)%

Research and Development. In the nine months ended September 30, 2018, research and development expense decreased by $461,000, or 2%, compared to the nine months ended September 30, 2017 primarily due to decreases in stock-based compensation, travel, and consulting expenses of $200,000, $170,000, and $149,000, respectively. These decreases were partially offset by an increase in rent expense of $135,000.

Sales and Marketing. In the nine months ended September 30, 2018, sales and marketing expense decreased by $1.8 million, or 4%, compared to the nine months ended September 30, 2017 primarily due to travel, employee-related, consulting and computer maintenance and support expenses of $1.6 million, $734,000, $212,000 and $141,000, respectively. These decreases were partially offset by increases in rent, conference, and executive severance expenses of $492,000, $260,000, and $386,000, respectively.

General and Administrative. In the nine months ended September 30, 2018, general and administrative expense increased by $828,000, or 5%, compared to the nine months ended September 30, 2017 primarily due to increases in consulting, employee-related, and recruiting expenses of $868,000, $734,000, and $241,000, respectively. Additionally, there was an increase in maintenance expense of $161,000. These increases were offset in part by decreases in tax, legal, travel and depreciation expenses of $420,000, $210,000, $208,000 and $156,000, respectively.

Other (Expense) Income, Net

	Nine Months Ended September 30,					
	2018		2017		Change	
Other (Expense) Income	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	%
	(in thousands, except percentages)					
Interest income, net	$ 157	%	$ 92	%	$ 65	71%
Interest expense	(5)		(22)		17	(77)
Other (expense) income, net	(579)		453		(1,032)	(228)
Total	$ (427)	%	$ 523	%	$ (950)	(182)%

In the nine months ended September 30, 2018, interest income, net, increased by $65,000, or 71%, compared to the corresponding period of the prior year.

The interest expense during the nine months ended September 30, 2018 is primarily comprised of interest paid on capital leases and an equipment financing. The decrease in other (expense) income, net during the nine months ended September 30, 2018 was primarily due to foreign currency exchange losses recorded during the nine months ended September 30, 2018 upon collection of foreign denominated accounts receivable, compared to gains recorded in the corresponding period of the prior year.

Provision for Income Taxes

	Nine Months Ended September 30,					
	2018		2017		Change	
Provision for Income Taxes	**Amount**	**Percentage of Revenue**	**Amount**	**Percentage of Revenue**	**Amount**	**%**
	(in thousands, except percentages)					
Provision for income taxes	$ 410	%	$ 305	%	$ 105	34%

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In the nine months ended September 30, 2018 and 2017, the provision for income taxes was primarily comprised of income tax expenses related to foreign jurisdictions.

Liquidity and Capital Resources

Condensed Consolidated Statements of Cash Flow Data	Nine Months Ended September 30, 2018	2017
	(in thousands)	
Cash flows used in operating activities	(234)	(11,652)
Cash flows used in investing activities	(3,849)	(3,081)
Cash flows provided by (used in) financing activities	5,012	(408)

Cash and cash equivalents.

Our cash and cash equivalents at September 30, 2018 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, 2018 and December 31, 2017, we had $9.1 million and $7.8 million, respectively, of cash and cash equivalents held by subsidiaries in international locations, including subsidiaries located in Japan and the United Kingdom. As a result of changes in tax law, these earnings can be repatriated to the United States tax-free but will still be subject to foreign withholding taxes. The Company is still in the process of analyzing the impact of the Tax Cuts and Jobs Act on its indefinite reinvestment assertion. 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 and cash collections. In many instances we receive cash payment from a customer prior to the time we are able to recognize revenue on a transaction. We record these payments as deferred revenue, which has a positive effect on our accounts receivable balances. We use days sales outstanding, or DSO, calculated on a quarterly basis, as a measurement of the quality and status of our receivables. We define DSO as (a) accounts receivable, net of allowance for doubtful accounts, divided by total revenue for the most recent quarter, multiplied by (b) the number of days in that quarter. DSO was 54 days at September 30, 2018 and 59 days at December 31, 2017.

Cash flows used in operating activities.

Cash provided (used in) by operating activities consists primarily of net loss adjusted for certain non-cash items including depreciation and amortization, stock-based compensation expense, the provision for bad debts and the effect of changes in working capital and other activities. Cash used in operating activities during the nine months ended September 30, 2018 was $234,000. The cash flow used in operating activities primarily resulted from net losses of $11.4 million, partially offset by net non-cash charges of $10.3 million and changes in our operating assets and liabilities of $892,000. Uses of cash included decreases in deferred revenue and accounts payable expenses of $1.3 million and $1.3 million, respectively, and increases in other assets and prepaid expenses of $355,000 and $118,000, respectively. These outflows were offset in part by a decrease in accounts receivable of $2.0 million and an increase of accrued expenses of $2.0 million. Net non-cash expenses consisted primarily of $5.2 million for depreciation and amortization expense and $5.0 million for stock-based compensation expense.

Cash flows used in investing activities.

Cash used in investing activities during the nine months ended September 30, 2018 was $3.8 million, consisting primarily of $2.5 million for the capitalization of internal-use software costs and $1.3 million in capital expenditures to support the business.

Cash flows provided by (used in) financing activities.

Cash provided by financing activities for the nine months ended September 30, 2018 was $5.0 million, consisting of proceeds received on the exercise of common stock options of $5.4 million offset in part by payments under capital lease obligation, payments of withholding tax on RSU vesting, and equipment financing of $260,000, $142,000 and $26,000, respectively.

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Credit facility borrowings.

On November 19, 2015, we entered into an amended and restated loan and security agreement with a lender (the Loan Agreement) providing for up to a $20.0 million asset based line of credit (the Line of Credit) with an expiration date of November 11, 2018. Under the Line of Credit, we can borrow up to $20.0 million. Borrowings under the Line of Credit are secured by substantially all of our assets, excluding our intellectual property. Outstanding amounts under the Line of Credit accrue interest at a rate equal to the prime rate or the LIBOR rate plus 2.5%. Under the Loan Agreement, we must comply with certain financial covenants, including maintaining a minimum asset coverage ratio. If the outstanding principal during any month is at least $15.0 million, the Company must also maintain a minimum net income threshold based on non-GAAP operating measures. Failure to comply with these covenants, or the occurrence of an event of default, could permit the Lenders under the Line of Credit to declare all amounts borrowed under the Line of Credit, together with accrued interest and fees, to be immediately due and payable. We were in compliance with all covenants under the Line of Credit as of September 30, 2018. We expect to renew the Line of Credit in November 2018.

Net operating loss carryforwards.

As of December 31, 2017, we had federal and state net operating losses of approximately $161.9 million and $66.7 million, respectively, which are available to offset future taxable income, if any, through 2037. We had federal and state research and development tax credits of $6.1 million and $3.9 million, respectively, which expire in various amounts through 2037. Our net operating loss and tax credit amounts are subject to annual limitations under Section 382 change of ownership rules of the U.S. Internal Revenue Code of 1986, as amended. We completed an assessment to determine whether there may have been a Section 382 ownership change and determined that it is more likely than not that our net operating and tax credit amounts as disclosed are not subject to any material Section 382 limitations.

In assessing our ability to utilize our net deferred tax assets, we considered whether it is more likely than not that some portion or all of our net deferred tax assets will not be realized. Based upon the level of our historical U.S. losses and future projections over the period in which the net deferred tax assets are deductible, at this time, we believe it is more likely than not that we will not realize the benefits of these deductible differences. Accordingly, we have provided a valuation allowance against our U.S. deferred tax assets as of September 30, 2018 and December 31, 2017.

Contractual Obligations and Commitments

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

Our contractual obligations as of December 31, 2017 are summarized in our Annual Report on Form 10-K for the year ended December 31, 2017. In addition to the obligations outlined in our Annual Report on Form 10-K, we entered into an agreement to lease office space in Sydney, Australia with a non-cancelable commitment with total obligations of $1.2 million through June 30, 2023. As of September 30, 2018, our obligation was $1.2 million in connection with this agreement.

In June 2018, we entered into an agreement with a non-cancelable commitment, primarily for content delivery and network storage services, with obligations of $18.0 million through April 30, 2020. As of September 30, 2018, our obligation was $15.0 million in connection with this agreement.

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.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Quantitative and Qualitative Disclosures about Market Risk

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

Financial instruments

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

Foreign currency exchange risk

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

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

	Three Months Ended September 30,	
	2018	**2017**
Revenues generated in locations outside the United States	50%	46%
Revenues in currencies other than the United States dollar (1)	31%	28%
Expenses in currencies other than the United States dollar (1)	17%	15%

	Nine Months Ended September 30,	
	2018	**2017**
Revenues generated in locations outside the United States	49%	45%
Revenues in currencies other than the United States dollar (1)	31%	28%

Expenses in currencies other than the United States dollar (1)	15%	15%

(1) Percentage of revenues and expenses denominated in foreign currency for the three and nine months ended September 30, 2018 and 2017:

	Three Months Ended September 30, 2018		**Three Months Ended September 30, 2017**	
	Revenues	**Expenses**	**Revenues**	**Expenses**
Euro	6%	2%	6%	2%
British pound	6	6	7	6
Japanese Yen	13	5	10	3
Other	6	4	5	4
Total	31%	17%	28%	15%

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	Nine Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
	Revenues	Expenses	Revenues	Expenses
Euro	6%	1%	6%	1%
British pound	7	6	7	6
Japanese Yen	13	4	10	4
Other	5	4	5	4
Total	31%	15%	28%	15%

As of September 30, 2018 and December 31, 2017, we had $5.4 million and $7.3 million, respectively, of receivables denominated in currencies other than the U.S. dollar. We also maintain cash accounts denominated in currencies other than the local currency, which exposes us to foreign exchange rate movements.

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

Currently, our largest foreign currency exposures are the euro, British pound and Japanese yen, primarily because our European and Japanese operations have a higher proportion of our local currency denominated expenses. Relative to foreign currency exposures existing at September 30, 2018, a 10% unfavorable movement in foreign currency exchange rates would expose us to losses in earnings or cash flows or significantly diminish the fair value of our foreign currency financial instruments. For the nine months ended September 30, 2018, we estimated that a 10% unfavorable movement in foreign currency exchange rates would have decreased revenues by $3.9 million, decreased expenses by $2.2 million and decreased operating income by $1.7 million. The estimates used assume that all currencies move in the same direction at the same time and the ratio of non-U.S. dollar denominated revenue and expenses to U.S. dollar denominated revenue and expenses does not change from current levels. Since a portion of our revenue is deferred revenue that is recorded at different foreign currency exchange rates, the impact to revenue of a change in foreign currency exchange rates is recognized over time, and the impact to expenses is more immediate, as expenses are recognized at the current foreign currency exchange rate in effect at the time the expense is incurred. All of the potential changes noted above are based on sensitivity analyses performed on our financial results as of September 30, 2018.

Interest rate risk

We had unrestricted cash and cash equivalents totaling $26.9 million at September 30, 2018. Cash and cash equivalents were invested primarily in money market funds and are held for working capital purposes. We do not use derivative financial instruments in our investment portfolio. Declines in interest rates, however, would reduce future interest income. We incurred $2,000 and $6,000 of interest expense during the three months ended September 30, 2018 and 2017, respectively, and $5,000 and $22,000 of interest expense during the nine months ended September 30, 2018 and 2017, respectively, related to interest paid on capital leases. While we continue to incur interest expense in connection with our capital leases, the interest expense is fixed and not subject to changes in market interest rates. In the event that we borrow under our line of credit, which bears interest at the prime rate or the LIBOR rate plus the LIBOR rate margin, the related interest expense recorded would be subject to changes in the rate of interest.

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, 2018, 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, 2018, our disclosure controls and procedures were effective in ensuring that material information

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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 May 22, 2017, a lawsuit was filed against us and two individuals by Ooyala, Inc. (Ooyala) and Ooyala Mexico S. de R.L. de C.V. (Ooyala Mexico). The lawsuit, which was filed in the United States District Court for the District of Massachusetts, concerned allegations that the two individuals, who are former employees of Ooyala Mexico, misappropriated customer information and other trade secrets and used that information in working for Brightcove. On October 19, 2018, the parties settled the matter for an immaterial amount, and the case was dismissed on October 24, 2018.

On October 26, 2017, Realtime Adaptive Streaming LLC filed a complaint against us and our subsidiary Brightcove Holdings, Inc. in the United States District Court for the District of Delaware. The complaint alleged that Brightcove infringed five patents related to file compression technology. On December 1, 2017 Realtime filed an amended complaint, adding two additional patents to its claims. On October 18, 2018, we entered into a patent license agreement which provides us a license to the patents-in-suit (as well as additional patents and patent applications owned by Realtime) in exchange for a one-time payment, the amount of which is immaterial to the results of our operations. As a result of entering into the patent license agreement, the case was dismissed on October 31, 2018.

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

ITEM 1A. RISK FACTORS

You should carefully consider the risks described in our annual report on Form 10-K for the fiscal year ended December 31st, 2017, under the heading Part I Item 1A. Risk Factors, together with all of the other information in this Quarterly Report on Form 10-Q. Our business, prospects, financial condition, or operating results could be harmed by any of these risks, as well as other risks not currently known to us or that we currently consider immaterial. If any of such risks and uncertainties actually occurs, our business, financial condition or operating results could differ materially from the plans, projections and other forward-looking statements included in the section titled Management s Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this report and in our other public filings. The trading price of our common stock could decline due to any of these risks, and, as a result, you may lose all or part of your investment.

ITEM 5. OTHER INFORMATION

Our policy governing transactions in our securities by directors, officers and employees permits our officers, directors and certain other persons to enter into trading plans complying with Rule 10b5-1 under the Exchange Act. Generally, under these trading plans, the individual relinquishes control over the transactions once the trading plan is put into place. Accordingly, sales under these plans may occur at any time, including possibly before, simultaneously with, or immediately after significant events involving our company.

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

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ITEM 6. EXHIBITS

Exhibits	
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.
4.2 (4)**	Brightcove Inc. 2018 Inducement Plan.
4.3 (5)**	Form of Stock Option Agreement under the Brightcove Inc. 2018 Inducement Plan.
4.4 (6)**	Form of Performance-Based Restricted Stock Unit Award Agreement under the Brightcove Inc. 2018 Inducement Plan.
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.
(4) Filed as Exhibit 4.4 to Registrant s Registration Statement on Form S-8 filed with the Securities and Exchange Commission on May 1, 2018, and incorporated herein by reference.
(5) Filed as Exhibit 4.5 to Registrant s Registration Statement on Form S-8 filed with the Securities and Exchange Commission on May 1, 2018, and incorporated herein by reference.
(6) Filed as Exhibit 4.6 to Registrant s Registration Statement on Form S-8 filed with the Securities and Exchange Commission on May 1, 2018, and incorporated herein by reference.
** Indicates a management contract or any compensatory plan, contract or arrangement
^ Furnished herewith.

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SIGNATURES

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

	BRIGHTCOVE INC. *(Registrant)*
Date: November 1, 2018	By: /s/ Jeff Ray Jeff Ray *Chief Executive Officer* *(Principal Executive Officer)*
Date: November 1, 2018	By: /s/ Robert Noreck Robert Noreck *Chief Financial Officer* *(Principal Financial Officer)*