

BRIGHTCOVE INC

FORM 10-Q (Quarterly Report)

Filed 05/04/17 for the Period Ending 03/31/17

Address 290 CONGRESS STREET
BOSTON, MA 02210
Telephone (888) 882-1880
CIK 0001313275
Symbol BCOV
SIC Code 7374 - Computer Processing and Data Preparation and Processing Services
Industry Software
Sector Technology
Fiscal Year 12/31

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2017

OR

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

For the transition period from _____ to _____

Commission File Number: 001-35429

BRIGHTCOVE INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

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

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input checked="" type="checkbox"/>

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

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

As of May 1, 2017 there were 33,783,814 shares of the registrant's common stock, \$0.001 par value per share, outstanding.

BRIGHTCOVE INC.

Table of Contents

	<u>Page</u>
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements (Unaudited)</u>	
<u>Condensed Consolidated Balance Sheets as of March 31, 2017 and December 31, 2016</u>	3
<u>Condensed Consolidated Statements of Operations for the three months ended March 31, 2017 and 2016</u>	4
<u>Condensed Consolidated Statements of Comprehensive Loss for the three months ended March 31, 2017 and 2016</u>	5
<u>Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2017 and 2016</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	13
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	25
<u>Item 4. Controls and Procedures</u>	27
<u>PART II. OTHER INFORMATION</u>	27
<u>Item 1. Legal Proceedings</u>	27
<u>Item 1A. Risk Factors</u>	27
<u>Item 5. Other Information</u>	39
<u>Item 6. Exhibits</u>	41
<u>Signatures</u>	42

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Brightcove Inc.
Condensed Consolidated Balance Sheets
(unaudited)

	<u>March 31, 2017</u>	<u>December 31, 2016</u>
	(in thousands, except share and per share data)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 29,168	\$ 36,813
Accounts receivable, net of allowance of \$318 and \$154 at March 31, 2017 and December 31, 2016, respectively	22,438	21,575
Prepaid expenses	5,187	3,729
Other current assets	2,999	2,168
Total current assets	<u>59,792</u>	<u>64,285</u>
Property and equipment, net	9,273	9,264
Intangible assets, net	10,259	10,970
Goodwill	50,776	50,776
Deferred tax asset	127	121
Other assets	980	1,008
Total assets	<u>\$ 131,207</u>	<u>\$ 136,424</u>
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 6,014	\$ 5,327
Accrued expenses	11,956	15,705
Capital lease liability	418	489
Equipment financing	257	307
Deferred revenue	35,909	34,665
Total current liabilities	<u>54,554</u>	<u>56,493</u>
Deferred revenue, net of current portion	62	91
Other liabilities	1,491	1,644
Total liabilities	<u>56,107</u>	<u>58,228</u>
Commitments and contingencies (<i>Note 9</i>)		
Stockholders' equity:		
Undesignated preferred stock, \$0.001 par value; 5,000,000 shares authorized; no shares issued	—	—
Common stock, \$0.001 par value; 100,000,000 shares authorized; 34,243,493 and 34,143,148 shares issued at March 31, 2017 and December 31, 2016, respectively	34	34
Additional paid-in capital	232,782	230,788
Treasury stock, at cost; 135,000 shares	(871)	(871)
Accumulated other comprehensive loss	(992)	(1,172)
Accumulated deficit	(155,853)	(150,583)
Total stockholders' equity	<u>75,100</u>	<u>78,196</u>
Total liabilities and stockholders' equity	<u>\$ 131,207</u>	<u>\$ 136,424</u>

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

Brightcove Inc.
Condensed Consolidated Statements of Operations
(unaudited)

	Three Months Ended March 31,	
	2017	2016
(in thousands, except share and per share data)		
Revenue:		
Subscription and support revenue	\$ 34,242	\$ 34,653
Professional services and other revenue	3,330	1,639
Total revenue	37,572	36,292
Cost of revenue: (1) (2)		
Cost of subscription and support revenue	12,154	11,675
Cost of professional services and other revenue	3,064	1,589
Total cost of revenue	15,218	13,264
Gross profit	22,354	23,028
Operating expenses: (1) (2)		
Research and development	8,194	7,426
Sales and marketing	13,901	12,535
General and administrative	5,391	4,577
Merger-related	—	21
Total operating expenses	27,486	24,559
Loss from operations	(5,132)	(1,531)
Other income (expense), net	138	(31)
Loss before income taxes	(4,994)	(1,562)
Provision for income taxes	79	45
Net loss	\$ (5,073)	\$ (1,607)
Net loss per share - basic and diluted	\$ (0.15)	\$ (0.05)
Weighted-average number of common shares used in computing net loss per share	34,056,104	32,724,850
(1) Stock-based compensation included in above line items:		
Cost of subscription and support revenue	\$ 102	\$ 42
Cost of professional services and other revenue	60	57
Research and development	407	389
Sales and marketing	746	482
General and administrative	475	489
(2) Amortization of acquired intangible assets included in above line items:		
Cost of subscription and support revenue	\$ 508	\$ 508
Research and development	11	31
Sales and marketing	193	226

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

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

	Three Months Ended March 31,	
	2017	2016
	(in thousands)	
Net loss	\$ (5,073)	\$ (1,607)
Other comprehensive income:		
Foreign currency translation adjustments	180	(142)
Comprehensive loss	<u>\$ (4,893)</u>	<u>\$ (1,749)</u>

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

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

	Three Months Ended March 31,	
	2017	2016
	(in thousands)	
Operating activities		
Net loss	\$ (5,073)	\$ (1,607)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	1,734	2,014
Stock-based compensation	1,790	1,459
Provision for reserves on accounts receivable	222	91
Changes in assets and liabilities:		
Accounts receivable	(1,011)	541
Prepaid expenses and other current assets	(2,221)	(2,069)
Other assets	37	(156)
Accounts payable	695	(1,039)
Accrued expenses	(3,870)	844
Deferred revenue	1,102	2,917
Net cash (used in) provided by operating activities	(6,595)	2,995
Investing activities		
Cash paid for purchase of intangible asset	—	(125)
Purchases of property and equipment, net of returns	(378)	(843)
Capitalized internal-use software costs	(603)	(810)
Net cash used in investing activities	(981)	(1,778)
Financing activities		
Proceeds from exercise of stock options	79	43
Payments of withholding tax on RSU vesting	(118)	(86)
Proceeds from equipment financing	—	604
Payments on equipment financing	(76)	(48)
Payments under capital lease obligation	(174)	(278)
Net cash (used in) provided by financing activities	(289)	235
Effect of exchange rate changes on cash	220	203
Net (decrease) increase in cash and cash equivalents	(7,645)	1,655
Cash and cash equivalents at beginning of period	36,813	27,637
Cash and cash equivalents at end of period	<u>\$ 29,168</u>	<u>\$ 29,292</u>

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

Brightcove Inc.

**Notes to Condensed Consolidated Financial Statements
(unaudited)**

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

1. Business Description and Basis of Presentation

Business Description

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

The Company is headquartered in Boston, Massachusetts and was incorporated in the state of Delaware on August 24, 2004. At March 31, 2017, the Company had nine wholly-owned subsidiaries: Brightcove UK Ltd, Brightcove Singapore Pte. Ltd., Brightcove Korea, Brightcove Australia Pty Ltd, Brightcove Holdings, Inc., Brightcove Kabushiki Kaisha (Brightcove KK), Zencoder Inc. (Zencoder), Brightcove FZ-LLC, and Cacti Acquisition LLC.

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, 2016.

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the unaudited condensed consolidated financial statements and notes have been prepared on the same basis as the audited consolidated financial statements for the year ended December 31, 2016 contained in the Company's Annual Report on Form 10-K and include all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the Company's financial position for the three months ended March 31, 2017 and 2016. 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 March 31, 2017, 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, 2016, have not changed, except for the adoption of Accounting Standards Update (ASU) No. 2016-09, *Compensation – Stock Compensation*, which is discussed further in Note 7.

2. Concentration of Credit Risk

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

At March 31, 2017 and December 31, 2016, no individual customer accounted for 10% or more of net accounts receivable. For the three months ended March 31, 2017 and 2016, no individual customer accounted for 10% or more of total revenue.

3. Concentration of Other Risks

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

4. Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less at the date of purchase to be cash equivalents. Management determines the appropriate classification of investments at the time of purchase, and re-evaluates such determination at each balance sheet date. The Company did not have any short-term or long-term investments at March 31, 2017 or December 31, 2016.

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

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

Description	March 31, 2017			
	Contracted Maturity	Amortized Cost	Fair Market Value	Balance Per Balance Sheet
Cash	Demand	\$ 16,278	\$ 16,278	\$ 16,278
Money market funds	Demand	12,890	12,890	12,890
Total cash and cash equivalents		<u>\$ 29,168</u>	<u>\$ 29,168</u>	<u>\$ 29,168</u>

Cash and cash equivalents as of December 31, 2016 consist of the following:

Description	December 31, 2016			
	Contracted Maturity	Amortized Cost	Fair Market Value	Balance Per Balance Sheet
Cash	Demand	\$ 23,942	\$ 23,942	\$ 23,942
Money market funds	Demand	12,871	12,871	12,871
Total cash and cash equivalents		<u>\$ 36,813</u>	<u>\$ 36,813</u>	<u>\$ 36,813</u>

5. Net Loss per Share

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

	Three Months Ended March 31,	
	2017	2016
Options outstanding	4,178	4,583
Restricted stock units outstanding	1,864	1,507
Warrants	—	28

6. Fair Value of Financial Instruments

The following tables set forth the Company's financial instruments carried at fair value using the lowest level of input as of March 31, 2017 and December 31, 2016:

	March 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	\$ 12,890	\$ —	\$ —	\$ 12,890
Total assets	<u>\$ 12,890</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 12,890</u>

December 31, 2016

	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	\$ 12,871	\$ —	\$ —	\$12,871
Total assets	<u>\$ 12,871</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$12,871</u>

7. Stock-based Compensation

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

	Three Months Ended March 31,	
	2017	2016
Expected life in years	6.2	6.2
Risk-free interest rate	2.24%	1.61%
Volatility	43%	45%
Dividend yield	—	—
Weighted-average fair value of stock options granted	\$ 3.69	\$ 2.67

The Company recorded stock-based compensation expense of \$1,790 and \$1,459 for the three months ended March 31, 2017 and 2016, respectively. As of March 31, 2017, there was \$19,001 of unrecognized stock-based compensation expense related to stock-based awards that is expected to be recognized over a weighted-average period of 2.42 years.

On January 1, 2017, the Company adopted ASU No. 2016-09. ASU 2016-09 identifies areas for simplification involving several aspects of accounting for share based payments, including income tax consequences, classification of awards as either equity or liabilities, an option to make a policy election to recognize gross share based compensation expense with actual forfeitures recognized as they occur as well as certain classification changes on the statement of cash flows. In connection with the adoption of this standard, the Company changed its accounting policy to record actual forfeitures as they occur, rather than estimating forfeitures by applying a forfeiture rate. As this policy change was applied prospectively, prior periods have not been adjusted. The Company recorded a cumulative effect adjustment in the three months ended March 31, 2017, which increased accumulated deficit and additional paid-in-capital by \$197.

The following is a summary of the status of the Company's stock options as of March 31, 2017 and the stock option activity during the three months ended March 31, 2017.

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (In Years)	Aggregate Intrinsic Value (1)
Outstanding at December 31, 2016	4,150,584	\$ 7.17		
Granted	120,916	8.19		
Exercised	(12,088)	6.55		\$ 22
Canceled	(39,963)	7.82		
Outstanding at March 31, 2017	<u>4,219,449</u>	\$ 7.20	6.95	\$ 9,619
Exercisable at March 31, 2017	<u>2,088,026</u>	\$ 6.69	5.24	\$ 6,109

- (1) The aggregate intrinsic value was calculated based on the positive difference between the fair value of the Company's common stock on March 31, 2017 of \$8.90 per share, or the date of exercise, as appropriate, and the exercise price of the underlying options.

[Table of Contents](#)

The following table summarizes the restricted stock unit activity during the three months ended March 31, 2017:

	<u>Shares</u>	<u>Weighted Average Grant Date Fair Value</u>
Unvested by December 31, 2016	1,902,577	\$ 7.84
Granted	115,333	8.54
Vested and issued	(88,882)	6.65
Canceled	(54,180)	7.09
Unvested by March 31, 2017	<u>1,874,848</u>	<u>\$ 7.96</u>

8. Income Taxes

For the three months ended March 31, 2017 and 2016, the Company recorded income tax expense of \$79 and \$45, 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 March 31, 2017 and December 31, 2016. The Company's income tax return reporting periods since December 31, 2012 are open to income tax audit examination by the federal and state tax authorities. In addition, because the Company has net operating loss carryforwards, the Internal Revenue Service is permitted to audit earlier years and propose adjustments up to the amount of net operating losses generated in those years. There are currently no federal, state or foreign audits in progress.

9. Commitments and Contingencies

Legal Matters

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

On July 8, 2016, a complaint was filed by Brand Technologies, Inc. naming the Company, along with several others, as a defendant in a case alleging copyright infringement, violations of the Lanham Act, unfair competition and related claims (Brand Technologies, Inc. v. Cox Enterprises, Inc., et al., United States District Court for the Central District of California). The complaint, subsequently amended twice by the plaintiff, alleges that Cox Media Group (CMG) engaged in the unlicensed provision of copyrighted videos owned by the plaintiff on CMG websites by using our technology. The amended complaint seeks actual and statutory damages, costs and injunctive relief. The defendants filed two separate motions to dismiss, both of which were granted and resulted in a narrowing of the claims in the amended complaint. The Company answered the amended complaint on April 21, 2017 and discovery is ongoing. The Company cannot yet determine whether it is probable that a loss will be incurred in connection with this complaint, nor can the Company reasonably estimate the potential loss, if any.

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 March 31, 2017, the Company has not incurred any costs for the above guarantees and indemnities. The Company has received requests for indemnification from customers in connection with patent infringement suits brought against the customer by a third party. To date, the Company has not agreed that the requested indemnification is required by the Company's contract with any such customer.

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

10. Debt

On November 19, 2015, the Company entered into an amended and restated loan and security agreement with a lender (the “Loan Agreement”) providing for up to a \$20.0 million asset based line of credit (the “Line of Credit”). Under the Line of Credit, the Company can borrow up to \$20.0 million. Borrowings under the Line of Credit are secured by substantially all of the Company’s assets, excluding our intellectual property. Outstanding amounts under the Line of Credit accrue interest at a rate equal to the prime rate or the LIBOR rate plus 2.5%. Under the Loan Agreement, the Company must comply with certain financial covenants, including maintaining a minimum asset coverage ratio. If the outstanding principal during any month is at least \$15.0 million, the Company must also maintain a minimum net income threshold based on non-GAAP operating measures. Failure to comply with these covenants, or the occurrence of an event of default, could permit the lender under the Line of Credit to declare all amounts borrowed under the Line of Credit, together with accrued interest and fees, to be immediately due and payable. The Company was in compliance with all covenants under the Line of Credit as of March 31, 2017. As the Company has not drawn on the Line of Credit, there are no amounts outstanding as of March 31, 2017.

On December 31, 2015, the Company entered into an equipment financing agreement with a lender (the “December 2015 Equipment Financing Agreement”) to finance the purchase of \$604 in computer equipment. In February 2016, the Company drew down \$604 under the December 2015 Equipment Financing Agreement, and the liability was recorded at fair value using a market interest rate. The Company is repaying its obligation over a two year period through January 2018, and the amount outstanding was \$257 as of March 31, 2017.

11. Segment Information

Geographic Data

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

	Three Months Ended March 31,	
	2017	2016
Revenue:		
North America	\$ 23,399	\$ 23,040
Europe	5,967	6,077
Japan	3,769	3,466
Asia Pacific	4,221	3,399
Other	216	310
Total revenue	<u>\$ 37,572</u>	<u>\$ 36,292</u>

North America is comprised of revenue from the United States, Canada and Mexico. Revenue from customers located in the United States was \$22,028 and \$21,663 during the three months ended March 31, 2017 and 2016, respectively. Other than the United States and Japan, no other country contributed more than 10% of the Company’s total revenue during the three months ended March 31, 2017 and 2016.

As of March 31, 2017 and December 31, 2016, property and equipment at locations outside the U.S. was not material.

12. Recently Issued and Adopted Accounting Standards

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* (“ASU 2014-09”), which modifies how all entities recognize revenue, and consolidates into one ASC Topic (ASC Topic 606, *Revenue from Contracts with Customers*) the current guidance found in ASC Topic 605, and various other revenue accounting standards for specialized transactions and industries. ASU 2014-09 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. ASU 2014-09 may be applied using either a full retrospective approach, under which all years included in the financial statements will be presented under the revised guidance, or a modified retrospective approach, under which financial statements will be prepared under the revised guidance for the year of adoption, but not for prior years. Under the latter method, entities will recognize 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.

[Table of Contents](#)

In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of Effective Date*, which defers the effective date of ASU 2014-09 by one year. ASU 2014-09 is now effective for annual reporting periods beginning after December 15, 2017, including interim periods within those annual reporting periods. The Company has developed an implementation plan to adopt this new guidance. As part of this plan, the Company is currently assessing the impact of the new guidance on its results of operations. Based on the Company's procedures performed to date, nothing has come to its attention that would indicate that the adoption of ASU 2014-09 will have a material impact on its revenue recognition on cloud offerings; however, further analysis is required and the Company will continue to evaluate this assessment throughout 2017. While the Company is still evaluating the impact that this guidance will have on its financial statements and related disclosures, the Company's preliminary assessment is that there will be an impact relating to the accounting for costs to acquire a contract. Under the standard, the Company will be required to capitalize certain costs, primarily commission expense to sales representatives, on its consolidated balance sheet and amortize such costs over the period of performance for the underlying customer contracts. The Company is still evaluating the impact of capitalizing costs to execute a contract.

The Company intends to adopt ASU 2014-09 on January 1, 2018. The Company currently expects to apply the modified retrospective method of adoption; however, it has not yet finalized its transition method, but expects to do so during the quarter ending June 30, 2017 upon completion of further analysis.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842), Amendments to the FASB Accounting Standards Codification*, which replaces the existing guidance for leases. ASU 2016-02 requires the identification of arrangements that should be accounted for as leases by lessees. In general, 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. In addition, ASU 2016-02 requires the use of the modified retrospective method, which will require adjustment to all comparative periods presented in the consolidated financial statements. This guidance is effective for annual and interim periods beginning after December 15, 2018 and requires retrospective application. The Company is currently assessing the impact that adopting ASU 2016-02 will have on its consolidated financial statements and related disclosures.

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, 2016.

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, 2016 and the risks discussed in our other SEC filings. Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

Company Overview

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

Brightcove Video Cloud, or Video Cloud, our flagship product released in 2006, is the world's leading online video platform. Video Cloud enables our customers to publish and distribute video to Internet-connected devices quickly, easily and in a cost-effective and high-quality manner. Brightcove Zencoder, or Zencoder, is a cloud-based video encoding service. Brightcove Once, or Once, is an innovative, cloud-based ad insertion and video stitching service that addresses the limitations of traditional online video ad insertion technology. Brightcove Perform, or Perform, is a cloud-based service for creating and managing video player experiences. Brightcove Video Marketing Suite, or Video Marketing Suite, is a comprehensive suite of video technologies designed to address the needs of marketers to drive awareness, engagement and conversion. Brightcove Lift, or Lift, is a solution designed to defeat ad blockers, optimize ad delivery and deliver a premium TV-like viewing experience across connected platforms. Brightcove OTT Flow, powered by Accedo, or OTT Flow, released in April 2016, 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 Enterprise Video Suite, or Enterprise Video Suite, released in August 2016, 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 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.

[Table of Contents](#)

As of March 31, 2017, we had 506 employees and 4,411 customers, of which 2,390 used our volume offerings and 2,021 used our premium offerings. As of March 31, 2016, we had 439 employees and 4,915 customers, of which 3,005 used our volume offerings and 1,910 used our premium offerings.

We generate revenue by offering our products to customers on a subscription-based, software as a service, or SaaS, model. Our revenue grew from \$36.3 million in the three months ended March 31, 2016 to \$37.6 million in the three months ended March 31, 2017, primarily related to an increase in revenue from professional services engagements. Our consolidated net loss was \$5.1 million and \$1.6 million for the three months ended March 31, 2017 and 2016, respectively. Included in consolidated net loss for the three months ended March 31, 2017 was stock-based compensation expense and amortization of acquired intangible assets of \$1.8 million and \$712,000, respectively. Included in consolidated net loss for the three months ended March 31, 2016 was stock-based compensation expense and amortization of acquired intangible assets of \$1.5 million and \$765,000, respectively.

For the three months ended March 31, 2017 and 2016, our revenue derived from customers located outside North America was 38% and 37%, 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 Once customers, our Perform customers, our Video Marketing Suite customers, our Lift customers, our OTT Flow customers and our Enterprise Video Suite customers. Our volume offerings include our Video Cloud Express customers and our Zencoder customers on month-to-month contracts and pay-as-you-go contracts.

As of March 31, 2017, we had 4,411 customers, of which 2,390 used our volume offerings and 2,021 used our premium offerings. As of March 31, 2016, we had 4,915 customers, of which 3,005 used our volume offerings and 1,910 used our premium offerings. During 2013, we shifted our go-to-market focus and growth strategy to expanding our premium customer base, as we believe our premium customers represent a greater opportunity for our solutions. Volume customers decreased since 2013 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 2017 as we continue to focus on the market for our premium solutions and adjust Video Cloud Express price levels.

- *Recurring Dollar Retention Rate* . We assess our ability to retain customers using a metric we refer to as our recurring dollar retention rate. We calculate the recurring dollar retention rate by dividing the retained recurring value of subscription revenue for a period by the previous recurring value of subscription revenue for the same period. We define retained recurring value of subscription revenue as the committed subscription fees for all contracts that renew in a given period, including any increase or decrease in contract value. We define previous recurring value of subscription revenue as the recurring value from committed subscription fees for all contracts that expire in that same period. We typically calculate our recurring dollar retention rate on a monthly basis. Recurring dollar retention rate provides visibility into our ongoing revenue. The recurring dollar retention rate decreased from 98% during the three months ended March 31, 2016 to 85% during the three months ended March 31, 2017.
- *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. We began selling our Starter edition to customers in the second quarter of 2016. We consider Starter to be a premium offering and thus include Starter customers as premium customers. Our Starter edition has a price point of \$199 or \$499 per month, and as of the first quarter of 2017, sales of our Starter edition have reached such a level that we have determined that the overall average annual subscription revenue per premium customer is a more meaningful metric if we exclude revenue from Starter edition customers. As such, we now disclose the average annual subscription revenue per premium customer separately for Starter edition customers and all other premium customers.

[Table of Contents](#)

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

	Three Months Ended March 31,	
	2017	2016
Customers (at period end)		
Volume	2,390	3,005
Premium	2,021	1,910
Total customers (at period end)	4,411	4,915
Recurring dollar retention rate	85%	98%
Average annual subscription revenue per premium customer, excluding Starter edition customers (in thousands)	\$ 67.2	\$ 69.3
Average annual subscription revenue per premium customer for Starter edition customers only (in thousands)	\$ 4.8	\$ —

Components of Consolidated Statements of Operations

Revenue

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

Video Cloud is offered in two product lines. The first product line is comprised of our premium product editions, Pro and Enterprise. All Pro and Enterprise editions include functionality to publish and distribute video to Internet-connected devices. The Enterprise edition provides additional features and functionality such as a multi-account environment and IP-restricted players. Customer arrangements are typically one year contracts, which include a subscription to Video Cloud, basic support and a pre-determined amount of video streams, bandwidth, and managed content (which includes 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 and managed content. Should a customer's usage exceed the contractual entitlements, the contract will provide the rate at which the customer must pay for actual usage above the contractual entitlements. We believe that our bundled pricing approach has made it easier for our customers to purchase all of the elements required to manage, store and deliver their video assets to their viewers. Pricing for some of the non-software elements of our products, however—such as bandwidth and managed content (primarily storage)—has been subject to moderate but consistent pricing pressure as a result of competition among bandwidth and cloud infrastructure providers. This pricing pressure has not historically had a meaningful impact on our results of operations. During the first quarter of 2017, we experienced an unexpected, significant increase in the impact of the price competition among bandwidth and cloud infrastructure providers in the markets for these increasingly commoditized non-software services. As a result, our recurring dollar retention rate decreased in the first quarter. We have taken steps to reduce the portion of our revenue that is subject to such pricing pressure by bringing new solutions, such as Dynamic Delivery (formerly known as Bolt), to market. We believe that these new solutions increase the value of our software platform to customers and allow us to retain a larger portion of the customers' total contract value while reducing the revenue related to non-software elements. However, as a result of the impact of the commoditization of the non-software elements, we now expect that our subscription revenue growth rate will be impacted through the first quarter of 2018.

The second product line is comprised of our volume product edition, which we refer to as our Express edition. Our Express edition targets small and medium-sized businesses, or SMBs. The Express edition provides customers with the same basic functionality that is offered in our premium product editions but has been designed for customers who have lower usage requirements and do not typically seek advanced features and functionality. We discontinued the lower level pricing options for the Express edition and expect the total number of customers using the Express edition to continue to decrease. Customers who purchase the Express edition generally enter into month-to-month agreements. Express customers are generally billed on a monthly basis and pay via a credit card.

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

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

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

Video Marketing Suite 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, bandwidth and managed content 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, bandwidth and managed content or videos. Should a customer's usage exceed the contractual entitlements, the contract will provide the rate at which the customer must pay for actual usage above the contractual entitlements. The Starter edition provides

[Table of Contents](#)

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.

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

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.

All Once, Perform, Video Marketing Suite, Enterprise Video Suite, Lift and OTT Flow customers are considered premium customers.

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

Cost of Revenue

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

Cost of revenue increased in absolute dollars from the first three months of 2016 to the first three months of 2017. In future periods we expect our cost of revenue will increase in absolute dollars as our revenue increases. We also expect that cost of revenue as a percentage of revenue will decrease over time as we are able to achieve economies of scale in our business. However, cost of revenue as a percentage of revenue could fluctuate from period to period depending on the growth of our professional services business and any associated costs relating to the delivery of subscription services and the timing of significant expenditures. To the extent that our customer base grows, we intend to continue to invest additional resources in expanding the delivery capability of our products and other services. The timing of these additional expenses could affect our cost of revenue, both in terms of absolute dollars and as a percentage of revenue, in any particular quarterly or annual period.

Operating Expenses

We classify our operating expenses as follows:

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

[Table of Contents](#)

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

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

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

Other Expense

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

Income Taxes

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

Stock-Based Compensation Expense

Our cost of revenue, research and development, sales and marketing, and general and administrative expenses include stock-based compensation expense. Stock-based compensation expense represents the fair value of outstanding stock options and restricted stock awards, which is recognized as expense over the respective stock option and restricted stock award service periods. For the three months ended March 31, 2017 and 2016, we recorded \$1.8 million and \$1.5 million, respectively, of stock-based compensation expense. We expect stock-based compensation expense to increase in absolute dollars in future periods.

Foreign Currency Translation

With regard to our international operations, we frequently enter into transactions in currencies other than the U.S. dollar. As a result, our revenue, expenses and cash flows are subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the euro, British pound, Australian dollar, and Japanese yen. For the three months ended March 31, 2017 and 2016, 41% and 40%, respectively, of our revenue was generated in locations outside the United States. During the three months ended March 31, 2017 and 2016, 27% 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 increase in absolute dollars and as a percentage of total revenue.

Critical Accounting Policies and Estimates

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

We consider the assumptions and estimates associated with revenue recognition, allowance for doubtful accounts, software development costs, income taxes, business combinations, intangible assets, goodwill and stock-based compensation to be our critical accounting policies and estimates. There have been no material changes to our critical accounting policies since December 31, 2016.

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, 2016, which we filed with the Securities and Exchange Commission on February 21, 2017.

We believe that our significant accounting policies, which are more fully described in the notes to our unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q, have not materially changed from those described in the notes to our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2016.

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, 2016.

	Three Months Ended March 31,	
	2017	2016
	(in thousands, except share and per share data)	
Revenue:		
Subscription and support revenue	\$ 34,242	\$ 34,653
Professional services and other revenue	3,330	1,639
Total revenue	37,572	36,292
Cost of revenue:		
Cost of subscription and support revenue	12,154	11,675
Cost of professional services and other revenue	3,064	1,589
Total cost of revenue	15,218	13,264
Gross profit	22,354	23,028
Operating expenses:		
Research and development	8,194	7,426
Sales and marketing	13,901	12,535
General and administrative	5,391	4,577
Merger-related	—	21
Total operating expenses	27,486	24,559
Loss from operations	(5,132)	(1,531)
Other income (expense), net	138	(31)
Loss before income taxes	(4,994)	(1,562)
Provision for income taxes	79	45
Net loss	\$ (5,073)	\$ (1,607)
Net loss per share—basic and diluted	\$ (0.15)	\$ (0.05)
Weighted-average number of common shares used in computing net loss per share	34,056,104	32,724,850

Overview of Results of Operations for the Three Months Ended March 31, 2017 and 2016

Total revenue increased by \$1.3 million, or 4%, in the three months ended March 31, 2017 compared to the three months ended March 31, 2016 due to an increase in professional services and other revenue of 103%, or \$1.7 million. The increase in professional services revenue was primarily related to the size and number of professional services engagements during the three months ended March 31, 2017, compared to the corresponding quarter in the prior year. This increase was partly offset by a decrease in subscription and support revenue of 1%, or \$411,000. The decrease in subscription and support revenue resulted primarily from a decrease in revenue from the loss of a major customer and a \$746,000 reduction in revenue due to changes in foreign exchange rates compared to the exchange rates that were in effect during the three months ended March 31, 2016. The decreases are offset by a 6% increase in the number of premium customers from 1,910 at March 31, 2016 to 2,021 at March 31, 2017. In addition, our revenue from premium offerings grew by \$1.8 million, or 5%, in the three months ended March 31, 2017, compared to the three months ended March 31, 2016. Our ability to continue to provide the product functionality and performance that our customers require will be a major factor in our ability to continue to increase revenue.

Our gross profit decreased by \$674,000, or 3%, in the three months ended March 31, 2017 compared to the three months ended March 31, 2016, primarily due to a decrease in subscription and support revenue without a corresponding decrease in subscription and support costs. Our ability to continue to maintain our overall gross profit will depend primarily on our ability to continue controlling our costs of delivery. Loss from operations was \$5.1 million in the three months ended March 31, 2017 compared to \$1.5 million in the three months ended March 31, 2016. Loss from operations in the three months ended March 31, 2017 included stock-based compensation expense and amortization of acquired intangible assets of \$1.8 million and \$712,000, respectively. Loss from operations

[Table of Contents](#)

in the three months ended March 31, 2016 included stock-based compensation expense and amortization of acquired intangible assets of \$1.5 million and \$765,000, respectively. In future periods, we expect operating income to improve from increased sales to both new and existing customers and from improved efficiencies throughout our organization as we continue to grow and scale our operations.

As of March 31, 2017, we had \$29.2 million of unrestricted cash and cash equivalents, a decrease of \$7.6 million from \$36.8 million at December 31, 2016, due primarily to \$6.6 million of cash used in operating activities, \$603,000 in capitalized internal-use software costs, and \$378,000 in capital expenditures. There were also cash outflows of \$174,000 in payments under capital lease obligations and \$118,000 in payments of withholding tax on RSU vesting.

Revenue

Revenue by Product Line	Three Months Ended March 31,				Change	
	2017		2016		Amount	%
	Amount	Percentage of Revenue	Amount	Percentage of Revenue		
	(in thousands, except percentages)					
Premium	\$36,062	96%	\$34,308	95%	\$ 1,754	5%
Volume	1,510	4	1,984	5	(474)	(24)
Total	\$37,572	100%	\$36,292	100%	\$ 1,280	4%

During the three months ended March 31, 2017, revenue increased by \$1.3 million, or 4%, compared to the three months ended March 31, 2016, primarily due to an increase in revenue from our premium offerings, which consist of subscription and support revenue, as well as professional services and other revenue. The increase in premium revenue of \$1.8 million, or 5%, is partially the result of a 6% increase in the number of premium customers from 1,910 at March 31, 2016 to 2,021 at March 31, 2017, in addition to a \$1.7 million, or 103%, increase in professional services revenue. The increases are offset by the loss of a major customer and a \$746,000 reduction in revenue due to changes in foreign exchange rates compared to the exchange rates that were in effect during the three months ended March 31, 2016. In the three months ended March 31, 2017, volume revenue decreased by \$474,000, or 24%, compared to the three months ended March 31, 2016, as we continue to focus on the market for our premium solutions.

Revenue by Type	Three Months Ended March 31,				Change	
	2017		2016		Amount	%
	Amount	Percentage of Revenue	Amount	Percentage of Revenue		
	(in thousands, except percentages)					
Subscription and support	\$34,242	91%	\$34,653	95%	\$ (411)	(1)%
Professional services and other	3,330	9	1,639	5	1,691	103
Total	\$37,572	100%	\$36,292	100%	\$ 1,280	4%

In the three months ended March 31, 2017, subscription and support revenue decreased by \$411,000, or 1%, compared to the three months ended March 31, 2016. The decrease was primarily related to the loss of a major customer and a reduction in revenue of \$746,000 due to changes in foreign exchange rates compared to the exchange rates that were in effect during the three months ended March 31, 2016. The decreases are offset by a 6% increase in the number of premium customers from 1,910 at March 31, 2016 to 2,021 at March 31, 2017. In addition, professional services and other revenue increased by \$1.7 million, or 103%, primarily related to the size and number of professional services engagements during the three months ended March 31, 2017 compared to the corresponding quarter in the prior year. Professional services and other revenue will vary from period to period depending on the number of implementations and other projects that are in process.

Revenue by Geography	Three Months Ended March 31,				Change	
	2017		2016		Amount	%
	Amount	Percentage of Revenue	Amount	Percentage of Revenue		
	(in thousands, except percentages)					
North America	\$23,399	62%	\$23,040	63%	\$ 359	2%
Europe	5,967	16	6,077	17	(110)	(2)
Japan	3,769	10	3,466	10	303	9
Asia Pacific	4,221	11	3,399	9	822	24
Other	216	1	310	1	(94)	(30)
International subtotal	14,173	38	13,252	37	921	7
Total	\$37,572	100%	\$36,292	100%	\$ 1,280	4%

[Table of Contents](#)

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

In the three months ended March 31, 2017, total revenue for North America increased \$359,000, or 2%, compared to the three months ended March 31, 2016. In the three months ended March 31, 2017, total revenue outside of North America increased \$921,000, or 7%, compared to the three months ended March 31, 2016. The increase in revenue from international regions is primarily related to an increase in revenue in Asia Pacific and Japan. The increase in revenue from Asia Pacific and Japan is primarily related to an increase in revenue from professional services engagements related to OTT application development. These increases were partially offset by a \$746,000 reduction in revenue due to changes in foreign exchange rates compared to the exchange rates that were in effect during the three months ended March 31, 2016.

Cost of Revenue

<u>Cost of Revenue</u>	<u>Three Months Ended March 31,</u>				<u>Change</u>	
	<u>2017</u>		<u>2016</u>		<u>Amount</u>	<u>%</u>
	<u>Amount</u>	<u>Percentage of Related Revenue</u>	<u>Amount</u>	<u>Percentage of Related Revenue</u>		
	(in thousands, except percentages)					
Subscription and support	\$12,154	35%	\$11,675	34%	\$ 479	4%
Professional services and other	3,064	92	1,589	97	1,475	93
Total	\$15,218	41%	\$13,264	37%	\$ 1,954	15%

In the three months ended March 31, 2017, cost of subscription and support revenue increased \$479,000, or 4%, compared to the three months ended March 31, 2016. The increase resulted primarily from increases in network hosting services, partner commissions, employee-related and amortization expenses of \$312,000, \$157,000, \$134,000 and \$107,000, respectively. These increases were partially offset by a decrease in depreciation expense of \$360,000.

In the three months ended March 31, 2017, cost of professional services and other revenue increased \$1.5 million, or 93%, compared to the three months ended March 31, 2016. The increase resulted primarily from increases in contractor and employee-related expenses of \$1.0 million and \$380,000, respectively.

Gross Profit

<u>Gross Profit</u>	<u>Three Months Ended March 31,</u>				<u>Change</u>	
	<u>2017</u>		<u>2016</u>		<u>Amount</u>	<u>%</u>
	<u>Amount</u>	<u>Percentage of Related Revenue</u>	<u>Amount</u>	<u>Percentage of Related Revenue</u>		
	(in thousands, except percentages)					
Subscription and support	\$22,088	65%	\$22,978	66%	\$ (890)	(4)%
Professional services and other	266	8	50	3	216	432
Total	\$22,354	59%	\$23,028	63%	\$ (674)	(3)%

The overall gross profit percentage was 59% and 63% for the three months ended March 31, 2017 and 2016, respectively. The decrease is primarily due to a shift in the mix of revenue as there was an increase in revenue from professional services engagements, which has a lower gross margin than subscription and support revenue. Subscription and support gross profit decreased \$890,000, or 4%, compared to the three months ended March 31, 2016. Professional services and other gross profit increased \$216,000, or 432% compared to the three months ended March 31, 2016. It is likely that gross profit, as a percentage of revenue, will fluctuate quarter by quarter due to the timing and mix of subscription and support revenue and professional services and other revenue, and the type, timing and duration of service required in delivering certain projects.

Operating Expenses

Operating Expenses	Three Months Ended March 31,				Change	
	2017		2016		Amount	%
	Amount	Percentage of Revenue	Amount	Percentage of Revenue		
	(in thousands, except percentages)					
Research and development	\$ 8,194	22%	\$ 7,426	20%	\$ 768	10%
Sales and marketing	13,901	37	12,535	35	1,366	11
General and administrative	5,391	14	4,577	13	814	18
Merger-related	—	—	21	—	(21)	(100)
Total	\$27,486	73%	\$24,559	68%	\$ 2,927	12%

Research and Development . In the three months ended March 31, 2017, research and development expense increased by \$768,000, or 10%, compared to the three months ended March 31, 2016 primarily due to increases in employee-related and contractor expenses of \$634,000 and \$166,000 respectively. In future periods, we expect that our research and development expense will increase in absolute dollars as we continue to add employees, develop new features and functionality for our products, introduce additional software solutions and expand our product and service offerings.

Sales and Marketing . In the three months ended March 31, 2017, sales and marketing expense increased by \$1.4 million, or 11%, compared to the three months ended March 31, 2016 primarily due to employee-related, stock-based compensation and travel expenses of \$721,000, \$264,000 and \$258,000 respectively. There were also increases in computer maintenance and support and commission expenses of \$139,000 and \$133,000, respectively. These increases were partially offset by a decrease in contractor expense of \$151,000. We expect that our sales and marketing expense will increase in absolute dollars along with our revenue, as we continue to expand sales coverage and build brand awareness through what we believe are cost-effective channels. We expect that such increases may fluctuate from period to period, however, due to the timing of marketing programs.

General and Administrative . In the three months ended March 31, 2017, general and administrative expense increased by \$814,000, or 18%, compared to the three months ended March 31, 2016 primarily due to increases in legal fees, employee-related expense, and bad debt expense of \$350,000, \$321,000 and \$134,000, respectively. These increases were offset by a decrease in contractor expense of \$170,000. In future periods, we expect general and administrative expense to remain relatively unchanged.

Merger-related . In the three months ended March 31, 2016, merger-related expenses of \$21,000 related to costs associated with the retention of certain employees of Unicorn. No such expense was incurred during the three months ended March 31, 2017.

Other Income (Expense), Net

Other Expense	Three Months Ended March 31,				Change	
	2017		2016		Amount	%
	Amount	Percentage of Revenue	Amount	Percentage of Revenue		
	(in thousands, except percentages)					
Interest income, net	\$30	— %	\$26	— %	\$4	15%
Interest expense	(9)	—	(19)	—	10	(53)
Other income (expense), net	117	—	(38)	—	155	(408)
Total	\$138	— %	\$(31)	0%	\$169	(545)%

In the three months ended March 31, 2017, interest income remained relatively unchanged. Interest income is generated from the investment of our cash balances, less related bank fees.

The interest expense during the three months ended March 31, 2017 is primarily comprised of interest paid on capital leases and an equipment financing. The increase in other income (expense), net during the three months ended March 31, 2017 was primarily due to foreign currency exchange gains recorded during the three months ended March 31, 2017 upon collection of foreign denominated accounts receivable, compared to losses recorded in the corresponding period of the prior year.

Provision for Income Taxes

Provision for Income Taxes	Three Months Ended March 31,				Change	
	2017		2016		Amount	%
	Amount	Percentage of Revenue	Amount	Percentage of Revenue		
	(in thousands, except percentages)					
Provision for income taxes	\$79	—%	\$45	—%	\$34	76%

In the three months ended March 31, 2017 and 2016, the provision for income taxes was primarily comprised of income tax expenses related to foreign jurisdictions.

Liquidity and Capital Resources

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

Condensed Consolidated Statements of Cash Flow Data	Three Months Ended March 31,	
	2017	2016
	(in thousands)	
Purchases of property and equipment	\$ (378)	\$ (843)
Depreciation and amortization	1,734	2,014
Cash flows (used in) provided by operating activities	(6,595)	2,995
Cash flows used in investing activities	(981)	(1,778)
Cash flows (used in) provided by financing activities	(289)	235

Cash and cash equivalents.

Our cash and cash equivalents at March 31, 2017 were held for working capital purposes and were invested primarily in money market funds. We do not enter into investments for trading or speculative purposes. At March 31, 2017 and December 31, 2016, we had \$4.9 million and \$5.9 million, respectively, of cash and cash equivalents held by subsidiaries in international locations, including subsidiaries located in Japan and the United Kingdom. It is our current intention to permanently reinvest unremitted earnings in such subsidiaries or to repatriate the earnings only when tax effective. We believe that our existing cash and cash equivalents will be sufficient to meet our anticipated working capital and capital expenditure needs over at least the next 12 months.

Accounts receivable, net.

Our accounts receivable balance fluctuates from period to period, which affects our cash flow from operating activities. The fluctuations vary depending on the timing of our billing activity, cash collections, and changes to our allowance for doubtful accounts. In many instances we receive cash payment from a customer prior to the time we are able to recognize revenue on a transaction. We record these payments as deferred revenue, which has a positive effect on our accounts receivable balances. We use days' sales outstanding, or DSO, calculated on a quarterly basis, as a measurement of the quality and status of our receivables. We define DSO as (a) accounts receivable, net of allowance for doubtful accounts, divided by total revenue for the most recent quarter, multiplied by (b) the number of days in that quarter. DSO was 54 days at March 31, 2017 and 53 days at December 31, 2016.

Cash flows (used in) provided by operating activities.

Cash (used in) provided by operating activities consists primarily of net loss adjusted for certain non-cash items including depreciation and amortization, stock-based compensation expense, the provision for bad debts and the effect of changes in working capital and other activities. Cash used in operating activities during the three months ended March 31, 2017 was \$6.6 million. The cash flow used in operating activities resulted from net losses of \$5.1 million and changes in our operating assets and liabilities of \$5.3 million, partially offset by net non-cash charges of \$3.8 million. Uses of cash included a decrease in accrued expense of \$3.9 million and increases in prepaid expenses and accounts receivable of \$2.2 million and \$1.0 million, respectively. The cash outflows relating to accrued expenses primarily related to payments for incentive compensation and payments associated with the closure of certain facilities. These outflows were offset in part by increases in deferred revenue and accounts payable of \$1.1 million and \$695,000, respectively. Net non-cash expenses consisted primarily of \$1.8 million for stock-based compensation expense and \$1.7 million for depreciation and amortization expense.

[Table of Contents](#)

Cash flows used in investing activities.

Cash used in investing activities during the three months ended March 31, 2017 was \$981,000, consisting primarily of \$603,000 for the capitalization of internal-use software costs and \$378,000 in capital expenditures to support the business.

Cash flows (used in) provided by financing activities.

Cash (used in) provided by financing activities for the three months ended March 31, 2017 was \$289,000, consisting of payments under capital lease obligation, withholding tax on RSU vesting and equipment financing of \$174,000, \$118,000 and \$76,000, respectively, offset in part by the proceeds received on the exercise of common stock options of \$79,000.

Credit facility borrowings.

On November 19, 2015, we entered into an amended and restated loan and security agreement with a lender (the “Loan Agreement”) providing for up to a \$20.0 million asset based line of credit (the “Line of Credit”). Under the Line of Credit, we can borrow up to \$20.0 million. Borrowings under the Line of Credit are secured by substantially all of our assets, excluding our intellectual property. Outstanding amounts under the Line of Credit accrue interest at a rate equal to the prime rate or the LIBOR rate plus 2.5%. Under the Loan Agreement, we must comply with certain financial covenants, including maintaining a minimum asset coverage ratio. If the outstanding principal during any month is at least \$15.0 million, the Company must also maintain a minimum net income threshold based on non-GAAP operating measures. Failure to comply with these covenants, or the occurrence of an event of default, could permit the Lenders under the Line of Credit to declare all amounts borrowed under the Line of Credit, together with accrued interest and fees, to be immediately due and payable. We were in compliance with all covenants under the Line of Credit as of March 31, 2017.

On December 31, 2015, the Company entered into an equipment financing agreement with a lender (the “December 2015 Equipment Financing Agreement”) to finance the purchase of \$604,000 in computer equipment. In February 2016, the Company drew down \$604,000 under the December 2015 Equipment Financing Agreement, and the liability was recorded at fair value using a market interest rate. The Company is repaying its obligation over a two year period through January 2018, and the amount outstanding was \$257,000 as of March 31, 2017.

Net operating loss carryforwards.

As of December 31, 2016, we had federal and state net operating losses of approximately \$155.5 million and \$57.4 million, respectively, which are available to offset future taxable income, if any, through 2035. Included in the federal and state net operating losses are deductions attributable to excess tax benefits from the exercise of non-qualified stock options of \$16.9 million and \$10.2 million, respectively. The tax benefits attributable to these net operating losses are credited directly to additional paid-in capital when realized. The Company has not realized any such tax benefits through December 31, 2016. We had federal and state research and development tax credits of \$5.4 million and \$3.5 million, respectively, which expire in various amounts through 2035. Our net operating loss and tax credit amounts are subject to annual limitations under Section 382 change of ownership rules of the U.S. Internal Revenue Code of 1986, as amended. We completed an assessment to determine whether there may have been a Section 382 ownership change and determined that it is more likely than not that our net operating and tax credit amounts as disclosed are not subject to any material Section 382 limitations.

In assessing our ability to utilize our net deferred tax assets, we considered whether it is more likely than not that some portion or all of our net deferred tax assets will not be realized. Based upon the level of our historical U.S. losses and future projections over the period in which the net deferred tax assets are deductible, at this time, we believe it is more likely than not that we will not realize the benefits of these deductible differences. Accordingly, we have provided a valuation allowance against our U.S. deferred tax assets as of March 31, 2017 and December 31, 2016.

Contractual Obligations and Commitments

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

[Table of Contents](#)

Our contractual obligations as of December 31, 2016 are summarized in our Annual Report on Form 10-K for the year ended December 31, 2016. In addition to the obligations outlined in our Annual Report on Form 10-K, we entered into an agreement with a non-cancelable commitment in January 2017, primarily for content delivery and network storage service, with obligations of \$15.8 million through December 31, 2018. As of March 31, 2017, our obligation was \$12.0 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.

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. Q UANTITATIVE 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 and Japanese yen. Except for revenue transactions in Japan, we enter into transactions directly with substantially all of our foreign customers.

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

	Three Months Ended March 31,	
	2017	2016
Revenues generated in locations outside the United States	41%	40%
Revenues in currencies other than the United States dollar (1)	27%	28%
Expenses in currencies other than the United States dollar (1)	15%	14%

(1) Percentage of revenues and expenses denominated in foreign currency for the three months ended March 31, 2017 and 2016:

[Table of Contents](#)

	Three Months Ended March 31, 2017		Three Months Ended March 31, 2016	
	Revenues	Expenses	Revenues	Expenses
Euro	6%	1%	7%	2%
British pound	7	6	7	6
Japanese Yen	10	4	10	4
Other	5	4	4	2
Total	28%	15%	28%	14%

As of March 31, 2017 and December 31, 2016, we had \$7.4 million and \$5.6 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 March 31, 2017, a 10% unfavorable movement in foreign currency exchange rates would expose us to significant losses in earnings or cash flows or significantly diminish the fair value of our foreign currency financial instruments. For the three months ended March 31, 2017, we estimated that a 10% unfavorable movement in foreign currency exchange rates would have decreased revenues by \$1.0 million, decreased expenses by \$624,000 and decreased operating income by \$399,000. The estimates used assume that all currencies move in the same direction at the same time and the ratio of non-U.S. dollar denominated revenue and expenses to U.S. dollar denominated revenue and expenses does not change from current levels. Since a portion of our revenue is deferred revenue that is recorded at different foreign currency exchange rates, the impact to revenue of a change in foreign currency exchange rates is recognized over time, and the impact to expenses is more immediate, as expenses are recognized at the current foreign currency exchange rate in effect at the time the expense is incurred. All of the potential changes noted above are based on sensitivity analyses performed on our financial results as of March 31, 2017 and 2016.

Interest rate risk

We had unrestricted cash and cash equivalents totaling \$29.2 million at March 31, 2017. 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 \$9,000 and \$19,000 of interest expense during the three months ended March 31, 2017 and 2016, respectively, related to interest paid on capital leases and an equipment financing. While we continue to incur interest expense in connection with our capital leases and equipment financing, the interest expense is fixed and not subject to changes in market interest rates. In the event that we borrow under our line of credit, which bears interest at the prime rate or the LIBOR rate plus the LIBOR rate margin, the related interest expense recorded would be subject to changes in the rate of interest.

Inflation risk

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

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of March 31, 2017, our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of March 31, 2017, our disclosure controls and procedures were effective in ensuring that material information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, including ensuring that such material information is accumulated by and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On July 8, 2016, a complaint was filed by Brand Technologies, Inc. naming us, along with several others, as a defendant in a case alleging copyright infringement, violations of the Lanham Act, unfair competition and related claims (Brand Technologies, Inc. v. Cox Enterprises, Inc., et al., United States District Court for the Central District of California). The complaint, subsequently amended twice by the plaintiff, alleges that Cox Media Group (CMG) engaged in the unlicensed provision of copyrighted videos owned by the plaintiff on CMG websites by using our technology. The amended complaint seeks actual and statutory damages, costs and injunctive relief. The defendants filed two separate motions to dismiss, both of which were granted and resulted in a narrowing of the claims in the amended complaint. We answered the amended complaint on April 21, 2017 and discovery is ongoing. We cannot yet determine whether it is probable that a loss will be incurred in connection with this complaint, nor can we reasonably estimate the potential loss, if any.

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

ITEM 1A. RISK FACTORS

In Part I-Item 1A ("Risk Factors") of our Annual Report on Form 10-K for the fiscal year ended December 31, 2016, which was filed with the Securities and Exchange Commission on February 21, 2017, we described risk factors related to the Company. The following risk factors update and replace those set forth in our Annual Report on Form 10-K for the year ended December 31, 2016. You should carefully review these risk factors and those described in other reports we file with the Securities and Exchange Commission in evaluating our business. Our business, prospects, financial condition, or operating results could be harmed by any of these risks, as well as other risks not currently known to us or that we currently consider immaterial. If any of such risks and uncertainties actually occurs, our business, financial condition or operating results could differ materially from the plans, projections and other forward-looking statements included in the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this report and in our other public filings. The trading price of our common stock could decline due to any of these risks, and, as a result, you may lose all or part of your investment.

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

We have incurred significant losses in each period since our inception in 2004. We experienced a consolidated net loss of \$2.8 million for the three months ended March 31, 2015, a consolidated net loss of \$1.6 million for the three months ended March 31, 2016 and a consolidated net loss of \$5.1 million for the three months ended March 31, 2017. For the year ended December 31, 2016, we reported a consolidated net loss of \$10.0 million. These losses were due to the substantial investments we made to build our products and services, grow and maintain our business and acquire customers. Key elements of our growth strategy include acquiring new customers and continuing to innovate and build our brand. As a result, we expect our operating expenses to increase in the future due to expected increased sales and marketing expenses, operations costs, research and development costs and general and administrative costs and, therefore, our operating losses will continue or even potentially increase for the foreseeable future. In addition, as a public company we incur significant legal, accounting and other expenses that we did not incur as a private company. Furthermore, to the extent that we are successful in increasing our customer base, we will also incur increased expenses because costs associated with generating and supporting customer agreements are generally incurred up front, while revenue is generally recognized

ratably over the committed term of the agreement. You should not rely upon our recent bookings or revenue growth as indicative of our future performance. We cannot assure you that we will reach profitability in the future or at any specific time in the future or that, if and when we do become profitable, we will sustain profitability. If we are ultimately unable to generate sufficient revenue to meet our financial targets, become profitable and have sustainable positive cash flows, investors could lose their investment.

Substantially all of our revenue has historically come from a single product, Video Cloud.

We have historically been substantially dependent on revenue from a single product, Video Cloud, and we expect that revenue from Video Cloud will continue to comprise a significant portion of our revenue. Our business would be harmed by a decline in the market for Video Cloud, increased competition in the market for online video platforms, or our failure or inability to provide sufficient investment to support Video Cloud as needed to maintain or grow its competitive position.

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

We sell our products pursuant to agreements that are generally for annual terms. Our customers have no obligation to renew their subscriptions after their subscription period expires, and we have experienced losses of customers that elected not to renew, in some cases, for reasons beyond our control. For example, our largest customer during 2016 has faced distressing financial circumstances in recent quarters. As a result, we expect to lose substantially all of the revenue we expected to generate from this customer in 2017. In addition, even if subscriptions are renewed, they may not be renewed on the same or on more profitable terms. As a result, our ability to retain our existing customers and grow depends in part on subscription renewals. We may not be able to accurately predict future trends in customer renewals, and our customers' renewal rates have and may continue to decline or fluctuate because of several factors, including their satisfaction or dissatisfaction with our services, the cost of our services and the cost of services offered by our competitors, reductions in our customers' spending levels or the introduction by competitors of attractive features and functionality. If our customer retention rate decreases, we may need to increase the rate at which we add new customers in order to maintain and grow our revenue, which may require us to incur significantly higher advertising and marketing expenses than we currently anticipate, or our revenue may decline. If our customers do not renew their subscriptions for our services, renew on less favorable terms, or do not purchase additional functionality or subscriptions, our revenue may grow more slowly than expected or decline, and our profitability and gross margins may be harmed or affected.

Our long term financial targets are predicated on bookings and revenue growth and operating margin improvements that we may fail to achieve, which could reduce our expected earnings and cause us to fail to meet the expectations of analysts or investors and cause the price of our securities to decline.

We are projecting long-term bookings, revenue and earnings growth. Our projections are based on the expected growth potential in our premium customer base, as well as the market for on-demand software solutions generally. We may not achieve the expected bookings and revenue growth if the markets we serve do not grow at expected rates, if customers do not purchase or renew subscriptions as we expect, and/or if we are not able to deliver products desired by customers and potential customers. Our long-term operating margin improvement targets are predicated on operating leverage as long term revenue increases and improved operating efficiencies from moving to additional cloud-based delivery of services, together with lower cost of goods sold, research and development expenses and general and administrative expenses as a percentage of total revenue. If operating margins do not improve, our earnings could be adversely affected and the price of our securities could decline.

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

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

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

We derive, and expect to continue to derive, substantially all of our revenue from the sale of our on-demand solutions. As a result, widespread acceptance and use of the on-demand business model is critical to our future growth and success. Under the perpetual or periodic license model for software procurement, users of the software would typically install and operate the applications on their hardware. Because many companies are generally predisposed to maintaining control of their information technology, or IT,

[Table of Contents](#)

systems and infrastructure, there may be resistance to the concept of accessing software as a service provided by a third party. In addition, the market for on-demand software solutions is still evolving, and competitive dynamics may cause pricing levels to change as the market matures and as existing and new market participants introduce new types of solutions and different approaches to enable organizations to address their technology needs. As a result, we may be forced to reduce the prices we charge for our products and may be unable to renew existing customer agreements or enter into new customer agreements at the same prices and upon the same terms that we have historically. If the market for on-demand software solutions fails to grow, grows more slowly than we currently anticipate or evolves and forces us to reduce the prices we charge for our products, our bookings growth, revenue, gross margin and other operating results could be materially adversely affected.

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

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

- our ability to retain existing customers and attract new customers;
- the rates at which our customers renew;
- the amount of revenue generated from our customers’ use of our products or services in excess of their committed contractual entitlements;
- the timing and amount of costs of new and existing marketing and advertising efforts;
- the timing and amount of operating costs and capital expenditures relating to expansion of our business, operations and infrastructure;
- the cost and timing of the development and introduction of new product and service offerings by us or our competitors; and
- system or service failures, security breaches or network downtime.

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

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

- market acceptance of our current and future products and services;
- customer renewal rates;
- our ability to compete with other companies that are currently in, or may in the future enter, the market for our products;
- our ability to successfully expand our business, especially internationally;
- our ability to control costs, including our operating expenses;
- the amount and timing of operating expenses, particularly sales and marketing expenses, related to the maintenance and expansion of our business, operations and infrastructure;
- network outages or security breaches and any associated expenses;
- foreign currency exchange rate fluctuations;
- write-downs, impairment charges or unforeseen liabilities in connection with acquisitions;
- our ability to successfully manage acquisitions; and
- general economic and political conditions in our domestic and international markets.

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

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

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

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

[Table of Contents](#)

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

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

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

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

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

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

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

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

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

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

of their other services. Technological and commercial developments may lead to the increasing commoditization of our products and services, including data delivery and storage, further increasing downward pressure on the prices we can charge. If we are unable to compete successfully with traditional and other emerging providers of competing services, our business, financial condition and results of operations could be adversely affected.

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

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

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

We increased our number of full-time employees from 410 as of March 31, 2015, to 439 as of March 31, 2016 and to 506 as of March 31, 2017, and our revenue grew from \$32.9 million in the first quarter of 2015 to \$36.3 million in the first quarter of 2016 and to \$37.6 million in the first quarter of 2017. Our headcount and operations have grown, both domestically and internationally, since our inception. This growth has placed, and will continue to place, a significant strain on our management, administrative, operational and financial infrastructure. We anticipate further growth will be required to address increases in our product and service offerings and continued international expansion. Our success will depend in part upon the ability of our senior management team to manage this growth effectively. To do so, we must continue to recruit, hire, train, manage and integrate a significant number of qualified managers, technical personnel and employees in specialized roles within our company, including in technology, sales and marketing. If our new employees perform poorly, or if we are unsuccessful in recruiting, hiring, training, managing and integrating these new employees, or retaining these or our existing employees, our business may suffer.

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

Potential future acquisitions could be difficult to integrate, divert the attention of key personnel, disrupt our business, dilute stockholder value and impair our financial results.

As part of our business strategy, we intend to consider acquisitions of companies, technologies and products that we believe could accelerate our ability to compete in our core markets or allow us to enter new markets. Acquisitions involve numerous risks, any of which could harm our business, including:

- difficulties in integrating the technologies, products, operations and existing contracts of a target company and realizing the anticipated benefits of the combined businesses;
- difficulties in integrating the personnel of a target company;
- difficulties in supporting and transitioning customers, if any, of a target company;
- diversion of financial and management resources from existing operations;
- the price we pay or other resources that we devote may exceed the value we realize, or the value we could have realized if we had allocated the purchase price or other resources to another opportunity;
- risks of entering new markets in which we have limited or no experience;
- potential loss of key employees, customers and strategic alliances from either our current business or a target company's business; and
- inability to generate sufficient revenue to offset acquisition costs.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Unauthorized disclosure of data, unauthorized access to our service and misuse of our service could adversely affect our business.

Any security breaches, unauthorized access, unauthorized usage, virus or similar breach or disruption could result in loss of confidential information, personal data and customer content, damage to our reputation, early termination of our contracts, litigation, regulatory investigations, increased costs or other liabilities. If our security measures, or those of our partners or service providers, are breached as a result of third-party action, employee error, malfeasance or otherwise and, as a result, someone obtains unauthorized access to confidential information, personal data or customer content, our reputation will be damaged, our business may suffer or we could incur significant liability. If the measures we have put in place to limit or restrict access to and use of functionality, usage entitlements and support for customers or prospective customers are breached, circumvented or ineffective as a result of third-party action, employee error, malfeasance or otherwise and, as a result, someone obtains unauthorized access to and use of functionality, usage entitlements and support, our business may suffer or we could incur significant liability and/or costs.

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

[Table of Contents](#)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

functionality. In addition, any changes in, or unexpected interpretations of, the trade secret and other intellectual property laws in any country in which we operate may compromise our ability to enforce our trade secret and intellectual property rights. Costly and time-consuming litigation could be necessary to enforce and determine the scope of our proprietary rights, and failure to obtain or maintain trade secret protection could adversely affect our competitive business position.

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

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

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

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

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

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

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

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

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

[Table of Contents](#)

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

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

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

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

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

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

Our business and operations could be adversely affected if we are subject to stockholder activism, which could cause us to incur significant expense and impact the market price of our common stock.

In recent years, proxy contests and other forms of stockholder activism have been directed against numerous public companies. Stockholder activism, including potential proxy contests, could result in substantial costs and divert the attention of our management and our board of directors and resources from our business. Activist campaigns can create perceived uncertainties as to our future direction, strategy or leadership and may result in the loss of potential business opportunities and harm our ability to attract new customers, employees and investors. In addition, we may be required to incur significant legal fees and other expenses related to any activist stockholder matters. Further, the market price of our common stock could be subject to significant fluctuation or otherwise be adversely affected by the events, risks, and uncertainties of any stockholder activism.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ITEM 5. OTHER INFORMATION

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

[Table of Contents](#)

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

ITEM 6. EXHIBITS

Exhibits

- | | |
|---------|---|
| 3.1 (1) | Eleventh Amended and Restated Certificate of Incorporation. |
| 3.2 (2) | Amended and Restated By-Laws. |
| 4.1 (3) | Form of Common Stock certificate of the Registrant. |
| 31.1^ | Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2^ | Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1^ | Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS | XBRL Instance Document. |
| 101.SCH | XBRL Taxonomy Extension Schema Document. |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document. |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document. |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document. |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document. |
- (1) Filed as Exhibit 3.2 to Amendment No. 5 to Registrant’s Registration Statement on Form S-1 filed with the Securities and Exchange Commission on February 6, 2012, and incorporated herein by reference.
- (2) Filed as Exhibit 3.3 to Amendment No. 5 to Registrant’s Registration Statement on Form S-1 filed with the Securities and Exchange Commission on February 6, 2012, and incorporated herein by reference.
- (3) Filed as Exhibit 4.1 to Amendment No. 5 to Registrant’s Registration Statement on Form S-1 filed with the Securities and Exchange Commission on February 6, 2012, and incorporated herein by reference.
- ^ Furnished herewith.

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: May 4, 2017

By: /s/ David Mendels
David Mendels
Chief Executive Officer
(Principal Executive Officer)

Date: May 4, 2017

By: /s/ Kevin R. Rhodes
Kevin R. Rhodes
Chief Financial Officer
(Principal Financial Officer)

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

I, David Mendels, certify that:

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

Date: May 4, 2017

By: /s/ David Mendels
David Mendels
Chief Executive Officer
(Principal Executive Officer)

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

I, Kevin R. Rhodes, certify that:

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

Date: May 4, 2017

By: /s/ Kevin R. Rhodes
Kevin R. Rhodes
Chief Financial Officer
(Principal Financial Officer)

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

In connection with the Quarterly Report on Form 10-Q of Brightcove Inc. for the quarterly period ended March 31, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), David Mendels, as Chief Executive Officer of Brightcove Inc., hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Brightcove Inc.

Date: May 4, 2017

By: /s/ David Mendels
David Mendels
Chief Executive Officer
(Principal Executive Officer)

In connection with the Quarterly Report on Form 10-Q of Brightcove Inc. for the quarterly period ended March 31, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Kevin R. Rhodes, as Chief Financial Officer of Brightcove Inc., hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Brightcove Inc.

Date: May 4, 2017

By: /s/ Kevin R. Rhodes
Kevin R. Rhodes
Chief Financial Officer
(Principal Financial Officer)