BRIGHTCOVE INC
Form 10-Q
August 03, 2012
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended June 30, 2012

OR

¨ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from to

Commission File Number: 001-35429

BRIGHTCOVE INC.

(Exact name of registrant as specified in its charter)

Delaware		**20-1579162**
(State or other jurisdiction of incorporation or organization)		**(I.R.S. Employer Identification No.)**

290 Congress Street

Boston, MA 02210

(Address of principal executive offices)

(888) 882-1880

(Registrant s telephone number, including area code)

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

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

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

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

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

As of July 31, 2012 there were 27,339,227 shares of the registrant s common stock, $0.001 par value per share, issued and outstanding.

Table of Contents

BRIGHTCOVE INC.

Table of Contents

	Page
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements (Unaudited)	3
Condensed Consolidated Balance Sheets as of June 30, 2012 and December 31, 2011	3
Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2012 and 2011	4
Condensed Consolidated Statements of Comprehensive Loss for the three and six months ended June 30, 2012 and 2011	5
Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2012 and 2011	6
Notes to Condensed Consolidated Financial Statements	7
Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations	19
Item 3. Quantitative and Qualitative Disclosures About Market Risk	36
Item 4. Controls and Procedures	37
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	37
Item 1A. Risk Factors	37
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	51
Item 6. Exhibits	52
Signatures	53
Exhibit Index	

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Brightcove Inc.

Condensed Consolidated Balance Sheets

(unaudited)

(in thousands, except share and per share data)

	June 30, 2012	December 31, 2011
Assets		
Current assets:		
Cash and equivalents	$ 44,607	$ 17,227
Short-term investments	8,987	
Accounts receivable, net of allowance of $468 and $266, at June 30, 2012 and December 31, 2011, respectively (includes related party amounts of $605 and $667 at June 30, 2012 and December 31, 2011, respectively)	17,465	14,693
Prepaid expenses and other current assets	3,654	3,334
Total current assets	74,713	35,254
Long-term investments	5,035	
Property and equipment, net	8,871	6,079
Goodwill	2,372	2,372
Deferred initial public offering costs		2,544
Restricted cash	233	233
Other assets	449	856
Total assets	$ 91,673	$ 47,338
Liabilities, redeemable convertible preferred stock and stockholders equity (deficit)		
Current liabilities:		
Accounts payable	$ 1,411	$ 2,026
Accrued expenses	8,779	8,773
Current portion of long-term debt		833
Deferred revenue	15,970	13,418
Total current liabilities	26,160	25,050
Deferred revenue, net of current portion	263	354
Long-term debt		6,167
Other liabilities	327	77
Redeemable convertible preferred stock warrants		424
Total liabilities	26,750	32,072
Contingencies *(Note 15)*		
Redeemable convertible preferred stock		120,351
Stockholders equity (deficit):		
Preferred stock-undesignated, $0.001 par value; 5,000,000 shares authorized at June 30, 2012; 0 shares issued		

Common stock, $0.001 par value; 100,000,000 and 68,000,000 shares authorized at June 30, 2012 and December 31, 2011, respectively; 27,329,950 and 5,224,532 shares issued and outstanding at June 30, 2012 and December 31, 2011, respectively	27	5
Additional-paid-in-capital	163,225	
Accumulated other comprehensive income	962	1,056
Accumulated deficit	(100,601)	(107,254)
Total stockholders equity (deficit) attributable to Brightcove Inc.	63,613	(106,193)
Non-controlling interest in consolidated subsidiary	1,310	1,108
Total stockholders equity (deficit)	64,923	(105,085)
Total liabilities, redeemable convertible preferred stock and stockholders equity (deficit)	$ 91,673	$ 47,338

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

3

Table of Contents

Brightcove Inc.

Condensed Consolidated Statements of Operations

(unaudited)

(in thousands, except share and per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Revenue: (1)				
Subscription and support revenue	$ 20,718	$ 14,478	$ 39,554	$ 26,970
Professional services and other revenue	902	802	2,010	1,384
Total revenue	21,620	15,280	41,564	28,354
Cost of revenue: (2)				
Cost of subscription and support revenue	5,233	3,760	10,428	7,039
Cost of professional services and other revenue	1,211	1,176	2,380	2,273
Total cost of revenue	6,444	4,936	12,808	9,312
Gross profit	15,176	10,344	28,756	19,042
Operating expenses: (2)				
Research and development	4,564	3,755	8,741	7,198
Sales and marketing	9,745	8,406	18,753	15,372
General and administrative	4,274	3,253	7,911	5,978
Merger-related	479		479	
Total operating expenses	19,062	15,414	35,884	28,548
Loss from operations	(3,886)	(5,070)	(7,128)	(9,506)
Other expense, net	(273)	(261)	(536)	(139)
Loss before income taxes and non-controlling interest in consolidated subsidiary	(4,159)	(5,331)	(7,664)	(9,645)
Provision for income taxes	29	51	58	83
Consolidated net loss	(4,188)	(5,382)	(7,722)	(9,728)
Net income attributable to non-controlling interest in consolidated subsidiary	(150)	(76)	(202)	(145)
Net loss attributable to Brightcove Inc.	(4,338)	(5,458)	(7,924)	(9,873)
Accretion of dividends on redeemable convertible preferred stock		(1,409)	(733)	(2,819)
Net loss attributable to common stockholders	$ (4,338)	$ (6,867)	$ (8,657)	$ (12,692)
Net loss per share attributable to common stockholders - basic and diluted	$ (0.16)	$ (1.42)	$ (0.40)	$ (2.65)
Weighted-average number of common shares used in computing net loss per share attributable to common stockholders basic and diluted	27,256,330	4,832,610	21,549,537	4,795,440

(1) Includes related party revenue (Note 18)	$	899	$	856	$	1,779	$	1,676
(2) Stock-based compensation included in above line items:								
Cost of subscription and support revenue	$	35	$	13	$	55	$	23
Cost of professional services and other revenue		25		35		47		59
Research and development		136		91		217		177
Sales and marketing		363		300		615		555
General and administrative		704		602		1,276		1,217

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

Table of Contents

Brightcove Inc.

Condensed Consolidated Statements of Comprehensive Loss

(unaudited)

(in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	**2011**	**2012**	**2011**
Consolidated net loss	$ (4,188)	$ (5,382)	$ (7,722)	$ (9,728)
Other comprehensive income (loss):				
Foreign currency translation adjustments	106	35	(94)	(8)
Change in market value of investments		(42)		
Other comprehensive loss	106	(7)	(94)	(8)
Comprehensive loss	(4,082)	(5,389)	(7,816)	(9,736)
Less: net income attributable to non-controlling interest in consolidated subsidiary	150	76	202	145
Comprehensive loss attributable to Brightcove Inc.	$ (4,232)	$ (5,465)	$ (8,018)	$ (9,881)

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

Table of Contents

Brightcove Inc.

Condensed Consolidated Statements of Cash Flows

(unaudited)

(in thousands)

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Operating activities		
Net loss	$ (7,722)	$ (9,728)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,821	1,438
Stock-based compensation	2,210	2,031
Change in fair value of warrants	(28)	143
Provision for (reduction of) reserves on accounts receivable	247	(10)
Amortization of premium on investments	45	
Amortization of deferred financing costs	44	
Loss on disposal of equipment	83	40
Loss on sale of investments		146
Changes in assets and liabilities:		
Accounts receivable	(3,048)	(3,874)
Prepaid expenses and other current assets	(345)	(1,694)
Other assets	362	(483)
Accounts payable	(453)	1,758
Accrued expenses	415	2,330
Deferred revenue	2,473	4,288
Net cash used in operating activities	(3,896)	(3,615)
Investing activities		
Purchases of investments	(14,067)	
Purchases of property and equipment	(4,669)	(2,133)
Sales of investments		2,732
Capitalization of internal-use software costs	(24)	(216)
Decrease in restricted cash		278
Net cash (used in) provided by investing activities	(18,760)	661
Financing activities		
Proceeds from exercise of stock options	343	110
Proceeds from issuance of common stock in connection with initial public offering, net of offering costs	56,762	
Borrowings under line of credit		2,000
Borrowings under term loan		5,000
Payments under term loan	(7,000)	
Net cash provided by financing activities	50,105	7,110
Effect of exchange rate changes on cash	(69)	68
Net increase in cash and cash equivalents	27,380	4,224
Cash and cash equivalents at beginning of period	17,227	20,341
Cash and cash equivalents at end of period	$ 44,607	$ 24,565

Supplemental disclosure of non-cash financing activities				
Conversion of preferred stock to common stock	$	106,451	$	
Conversion of warrants to purchase preferred stock to warrants to purchase common stock	$	396	$	
Accretion of Series A, B, C and D redeemable convertible preferred stock issuance costs and dividends	$	773	$	2,973
Vesting of restricted stock	$	50	$	109

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 provider of cloud-based solutions for publishing and distributing professional digital media which enable its customers to publish and distribute video and content applications, or apps, to Internet-connected devices quickly, easily and in a cost-effective manner.

The Company is headquartered in Boston, Massachusetts and was incorporated in the state of Delaware on August 24, 2004. At June 30, 2012, the Company had six wholly-owned subsidiaries: Brightcove UK Ltd, Brightcove Singapore Pte. Ltd., Brightcove Korea, Brightcove Australia Pty Ltd, Brightcove Holdings, Inc. and Bright Bay Co. Ltd. In addition, the Company has one majority-owned subsidiary, Brightcove Kabushiki Kaisha (Brightcove KK).

Basis of Presentation

The accompanying interim condensed consolidated financial statements are unaudited. These financial statements and notes should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2011 and related notes, together with management s discussion and analysis of financial condition and results of operations, contained in the Company s final prospectus (the Prospectus) filed with the Securities and Exchange Commission (SEC) on February 17, 2012 pursuant to Rule 424(b) of the Securities Act of 1933, as amended (the Securities Act) related to its initial public offering (IPO).

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the SEC. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States (GAAP) 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, 2011 contained in the Company s Prospectus and include all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the Company s financial position for the three and six months ended June 30, 2012 and 2011. These interim periods are not necessarily indicative of the results to be expected for any other interim period or the full year.

On February 23, 2012, the Company closed its IPO in which the Company sold and issued 5,750,000 shares of common stock, including 750,000 shares of common stock sold pursuant to the exercise of the underwriters option to purchase additional shares, which were sold to the public at a price of $11.00 per share. The Company received aggregate proceeds of approximately $58.8 million from the IPO, including the exercise of the underwriters overallotment option, net of underwriters discounts and commissions, but before deducting offering expenses of approximately $4.3 million. Upon the closing of the IPO, all shares of the Company s outstanding redeemable convertible preferred stock automatically converted into 16,150,505 shares of common stock and all outstanding warrants to purchase redeemable convertible preferred stock automatically converted into warrants to purchase 46,713 shares of common stock at $3.21 per share.

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 June 30, 2012, the Company s significant accounting policies and estimates, which are detailed in the Company s Prospectus, have not changed.

2. Use of Estimates and Uncertainties

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management 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 expensed during the reporting period. Actual results could differ from those

estimates.

Significant estimates relied upon in preparing these consolidated financial statements include revenue recognition and revenue reserves, allowances for doubtful accounts, expected future cash flows used to evaluate the recoverability of long-lived assets, contingent liabilities, expensing and capitalization of research and development costs for internal-use software, the determination of the fair value of stock awards issued, stock-based compensation expense, and the recoverability of the Company s net deferred tax assets and related valuation allowance.

Table of Contents

Although the Company regularly assesses these estimates, actual results could differ materially from these estimates. Changes in estimates are recorded in the period in which they become known. The Company bases its estimates on historical experience and various other assumptions that it believes to be reasonable under the circumstances. Actual results may differ from management s estimates if these results differ from historical experience, or other assumptions do not turn out to be substantially accurate, even if such assumptions are reasonable when made.

3. Principles of Consolidation

The condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries and other non-controlling interest. All significant intercompany balances and transactions have been eliminated in consolidation.

Non-controlling interest represents the minority stockholders proportionate share (37%) of the Company s majority-owned subsidiary, Brightcove KK, a Japanese joint venture, which was formed on July 18, 2008. The non-controlling interest in Brightcove KK is reported as a separate component of stockholders (deficit) equity. The portion of net loss (income) attributable to non-controlling interest is presented as net loss (income) attributable to non-controlling interest in consolidated subsidiary in the condensed consolidated statements of operations. Net income attributable to non-controlling interest for the three months ended June 30, 2012 and 2011 was $150 and $76, respectively, and $202 and $145 for the six months ended June 30, 2012 and 2011, respectively.

4. Subsequent Events Considerations

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. There were no material recognized subsequent events recorded in the unaudited condensed consolidated financial statements as of and for the three and six months ended June 30, 2012.

On July 26, 2012, the Company entered into a definitive agreement to acquire Zencoder Inc. (Zencoder), a provider of cloud-based audio and video encoding services, for total consideration of approximately $30 million, of which $25.4 million is to be paid in cash at closing and the remaining $4.6 million is to be held in escrow. The transaction is subject to customary closing conditions and is expected to close during the quarter ending September 30, 2012. The acquisition will be accounted for as a purchase transaction, and as such the results of operations of Zencoder will be consolidated with the Company beginning on the date the acquisition is closed. In connection with the acquisition of Zencoder, the Company incurred $479 of merger and integration-related costs during 2012, which the Company recorded as an expense in its condensed consolidated statements of operations for the three and six months ended June 30, 2012.

5. Revenue Recognition

The Company primarily derives revenue from the sale of its on-demand application service to the Company s internet video platform, which provides customers the right to access the Company s hosted software applications for uploading, managing, distributing, and monetizing their video assets. Revenue is derived from three primary sources: (1) the subscription of its technology and related support; (2) hosting and bandwidth services; and (3) professional services, which include initiation, set-up and customization services.

The Company recognizes revenues when all of the following conditions are satisfied: (1) there is persuasive evidence of an arrangement; (2) the service has been provided to the customer; (3) the collection of fees is probable; and (4) the amount of fees to be paid by the customer is fixed or determinable.

The Company s subscription arrangements provide customers the right to access its hosted software applications. Customers do not have the right to take possession of the Company s software during the hosting arrangement. Accordingly, the Company recognizes revenue in accordance with Accounting Standards Codification (ASC) 605, *Revenue Recognition*. Contracts for premium customers generally have a term of one year and are non-cancellable. These contracts generally provide the customer with a maximum annual level of usage, and provide the rate at which the customer must pay for actual usage above the annual allowable usage. For these services, the Company recognizes the annual fee ratably as revenue each month. Should a customer s usage of the Company s services exceed the annual allowable level, revenue is recognized for such excess in the period of the usage. Contracts for Express customers are generally month-to-month arrangements, have a maximum monthly level of usage and provide the rate at which the customer must pay for actual usage above the monthly allowable usage. The monthly Express subscription and support and usage fees are recognized as revenue during the period in which the related cash is collected.

Revenue recognition commences upon the later of when the application is placed in a production environment, or when all revenue recognition criteria have been met.

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

Deferred revenue includes amounts billed to customers for which revenue has not been recognized, and primarily consists of the unearned portion of annual software subscription and maintenance and support fees, and deferred initiation and professional service fees.

Revenue is presented net of any taxes collected from customers.

Multiple-Element Arrangements

The Company periodically enters into multi-element service arrangements that include platform subscription fees, support fees, initiation fees, and, in certain cases, other professional services. Prior to January 1, 2011, when the Company entered into such arrangements, each element was accounted for separately over its respective service period, provided that each element had value to the customer on a stand-alone basis, and there was objective and reliable evidence of fair value for the separate elements. If these criteria could not be objectively met or determined, the total value of the arrangement was generally recognized ratably as a single unit of accounting over the entire service period to the extent that all services had begun to be provided at the outset of the period. For multi-element service arrangements entered into through December 31, 2010, the Company was unable to separately account for the different elements because the Company did not have objective and reliable evidence of fair value for certain of its deliverables. Therefore, all revenue under these arrangements has been recognized ratably over the contract term.

Initiation fees and other professional services charged when services are first activated were recorded as deferred revenue, and recognized as revenue ratably over a term beginning upon go-live of the software application and extending through the contract term.

In October 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2009-13, *Revenue Recognition (Topic 605), Multiple-Deliverable Revenue Arrangements a Consensus of the FASB Emerging Issues Task Force*, which amended the previous multiple-element arrangements accounting guidance. Pursuant to the new guidance, objective and reliable evidence of fair value of the undelivered elements is no longer required in order to account for deliverables in a multiple-deliverable arrangement separately. Instead, arrangement consideration is allocated to deliverables based on their relative selling price. The new guidance also eliminates the use of the residual method.

Effective January 1, 2011, the Company adopted this new accounting guidance on a prospective basis. The Company applied the new accounting guidance to those multiple-element arrangements entered into, or materially modified, on or after January 1, 2011, which was the beginning of the Company s 2011 fiscal year. The adoption of this new accounting guidance did not have a material impact on the Company s financial condition, results of operations or cash flows.

Under the new accounting guidance, in order to treat deliverables in a multiple-deliverable arrangement as separate units of accounting, the deliverables must have stand-alone value upon delivery. If the deliverables have stand-alone value upon delivery, the Company accounts for each deliverable separately. Subscription services have stand-alone value as such services are often sold separately. In determining whether professional services have stand-alone value, the Company considers the following factors for each professional services agreement: availability of the services from other vendors, the nature of the professional services, the timing of when the professional services contract was signed in comparison to the subscription service start date, and the contractual dependence of the subscription service on the customer s satisfaction with the professional services work. To date, the Company has concluded that all of the professional services included in multiple-deliverable arrangements executed have stand-alone value, with the exception of initiation and activation fees.

Under the new accounting guidance, when multiple deliverables included in an arrangement are separated into different units of accounting, the arrangement consideration is allocated to the identified separate units based on a relative selling price hierarchy. The Company determines the relative selling price for a deliverable based on its vendor-specific objective evidence of fair value (VSOE), if available, or its best estimate of selling price (BESP), if VSOE is not available. The Company has determined that third-party evidence of selling price (TPE) is not a practical alternative due to differences in its service offerings compared to other parties and the availability of relevant third party pricing information. The amount of revenue allocated to delivered items is limited by contingent revenue, if any.

The Company has not established VSOE for its offerings due to lack of pricing consistency, the introduction of new services and other factors. Accordingly, the Company uses its BESP to determine the relative selling price. The Company determines BESP by considering its overall pricing objectives and market conditions. Significant pricing practices taken into consideration include the Company s discounting practices, the size and volume of the Company s transactions, the geographic area where services are sold, price lists, its go to market strategy, historical contractually stated prices and prior relationships and future subscription service sales with certain classes of customers.

The determination of BESP is made through consultation with and approval by the Company s management, taking into consideration the go-to-market strategy. As the Company s go-to-market strategies evolve, the Company may modify its pricing practices in the future, which could result in changes in selling prices, including both VSOE and BESP. The Company plans to analyze the selling prices used in its allocation of arrangement consideration, at a minimum, on an annual basis. Selling prices will be analyzed on a more frequent basis if a significant change in the Company s business necessitates a more timely analysis or if the Company experiences significant variances in its selling prices.

6. 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, investments 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

Table of Contents

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 June 30, 2012 and December 31, 2011, no individual customer accounted for 10% or more of net accounts receivable. For the three and six months ended June 30, 2012 and 2011, no individual customer accounted for 10% or more of total revenue.

7. 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.

8. Cash, Cash Equivalents and Investments

The Company considers all highly liquid investments with an original maturity of three months or less at the date of purchase to be cash equivalents. Investments not classified as cash equivalents with maturities less than one year from the balance sheet date, are classified as short-term investments, while investments with maturities in excess of one year from the balance sheet date are classified as long-term investments. Management determines the appropriate classification of investments at the time of purchase, and re-evaluates such determination at each balance sheet date.

Cash and cash equivalents primarily consist of cash on deposit with banks, and amounts held in interest-bearing money market accounts. Cash equivalents are carried at cost, which approximates their fair market value. Investments primarily consist of certificates of deposit, commercial paper and corporate debentures. At June 30, 2012, the Company classified its investments as held-to-maturity as it is the Company s intention to hold such investments until they mature. As such, investments were recorded at amortized cost at June 30, 2012.

Cash, cash equivalents and investments as of June 30, 2012 consist of the following:

	June 30, 2012				
Description	**Contracted Maturity**		**Amortized Cost**	**Fair Market Value**	**Balance Per Balance Sheet**
Cash		Demand	$ 20,857	$ 20,857	$ 20,857
Money market funds		Demand	23,750	23,750	23,750
Total cash and cash equivalents			$ 44,607	$ 44,607	$ 44,607
Certificates of deposit	92	367 days	$ 1,160	$ 1,159	$ 1,160
Commercial paper	181	360 days	2,091	2,089	2,091
Corporate debentures	179	435 days	5,736	5,773	5,736
Total short-term investments			$ 8,987	$ 9,021	$ 8,987
Certificates of deposit	488	730 days	$ 1,442	$ 1,439	$ 1,442
Corporate debentures	543	721 days	3,593	3,603	3,593
Total long-term investments			$ 5,035	$ 5,042	$ 5,035

Cash and cash equivalents as of December 31, 2011 consist of the following:

Description	Contracted Maturity	December 31, 2011 Amortized Cost	Fair Market Value	Balance Per Balance Sheet
Cash	Demand	$ 14,492	$ 14,492	$ 14,492
Money market funds	Demand	2,735	2,735	2,735
Total cash and cash equivalents		$ 17,227	$ 17,227	$ 17,227

9. Software Development Costs

Costs incurred to develop software applications used in the Company s on-demand application services consist of (a) certain external direct costs of materials and services incurred in developing or obtaining internal-use computer software, and (b) payroll and payroll-related costs for employees who are directly associated with, and who devote time to, the project. These costs generally consist of internal labor during configuration, coding, and testing activities. Research and development costs incurred during the preliminary project stage or costs incurred for data conversion activities, training, maintenance and general and administrative or overhead costs are expensed as incurred. Capitalization begins when the preliminary project stage is complete, management, with the relevant authority, authorizes and commits to the funding of the software project, it is probable the project will be completed, the software will be used to perform the functions intended and certain functional and quality standards have been met. Qualified costs incurred during the operating stage of the Company s software applications relating to upgrades and enhancements are capitalized to the extent it is probable that they will result in added functionality, while costs that cannot be separated between maintenance of, and minor upgrades and enhancements to, internal-use software are expensed as incurred. These capitalized costs are amortized on a straight-line basis over the expected useful life of the software, which is estimated to be three years. Capitalized internal-use software development costs are classified as Software within Property and equipment, net in the accompanying condensed consolidated balance sheets.

During the three months ended June 30, 2012 and 2011, the Company capitalized internal-use software development costs of $0 and $111, respectively, and $24 and $216, respectively, during the six months ended June 30, 2012 and 2011. The Company recorded amortization expense associated with its capitalized internal-use software development costs of $147 and $235 during the three months ended June 30, 2012 and 2011, respectively, and $303 and $490 during the six months ended June 30, 2012 and 2011, respectively.

In addition to the software development costs described above, the Company incurs costs to develop computer software to be licensed or otherwise marketed to customers. Costs incurred in the research, design and development of software for sale to others are charged to expense until technological feasibility is established. The Company capitalizes eligible computer software development costs upon achievement of technological feasibility subject to net realizable value considerations. Thereafter, software development costs are capitalized until the product is released and amortized to product cost of sales on a straight-line basis over the lesser of three years or the estimated economic lives of the respective products. The Company has determined that technological feasibility is established at the time a working model of software is completed. Because the Company believes its current process for developing software will be essentially completed concurrently with the establishment of technological feasibility, no costs have been capitalized to date.

10. Comprehensive Income (Loss)

Comprehensive income (loss) is defined as the change in equity of a business enterprise during a period from transactions, other events, and circumstances from non-owner sources. Comprehensive income (loss) consists of net income (loss) and other comprehensive income (loss), which includes certain changes in equity that are excluded from net income (loss). Specifically, cumulative foreign currency translation and unrealized gains (losses) on investments are included in accumulated other comprehensive income (loss). Comprehensive loss has been disclosed in the accompanying condensed consolidated statements of comprehensive loss.

11. Net Loss per Share

The Company calculates basic and diluted net loss per common share by dividing the net loss attributable to common stockholders by the weighted-average number of common shares outstanding during the period. The Company has excluded (a) all unvested restricted shares that are subject to repurchase and (b) the Company s other potentially dilutive shares of common stock equivalents, which include redeemable convertible preferred stock, warrants to purchase redeemable convertible preferred stock and common stock, and outstanding common stock options, from the weighted-average number of common shares outstanding as their inclusion in the computation for all periods would be anti-dilutive due to net losses. The Company s redeemable convertible preferred stock are participating securities as defined by ASC 260-10, *Earnings Per Share*, but are excluded from the earnings per share calculation as they do not have an obligation to share in the Company s net

losses.

Table of Contents

A reconciliation of the number of shares used in the calculation of basic and diluted net loss per share is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	**2011**	**2012**	**2011**
Weighted-average shares of common stock outstanding	27,299	4,935	21,600	4,909
Less: weighted-average number of unvested restricted common shares outstanding	43	102	50	114
Weighted-average number of common shares used in calculating net loss per common share	27,256	4,833	21,550	4,795

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	**2011**	**2012**	**2011**
Redeemable convertible preferred stock		16,151	4,348	16,151
Options outstanding	4,073	3,919	4,027	4,018
Restricted stock units outstanding	220		110	
Unvested restricted shares	43	102	50	114
Warrants	34	47	37	47
Total	4,370	20,219	8,572	20,330

12. Fair Value of Financial Instruments

Fair value is an exit price, representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants based on the highest and best use of the asset or liability. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. The Company uses valuation techniques to measure fair value that maximize the use of observable inputs and minimize the use of unobservable inputs. These inputs are prioritized as follows:

Level 1: Observable inputs, such as quoted prices for identical assets or liabilities in active markets;

Level 2: Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly, such as quoted prices for similar assets or liabilities, or market-corroborated inputs; and

Level 3: Unobservable inputs for which there is little or no market data which require the reporting entity to develop its own assumptions about how market participants would price the assets or liabilities.

The valuation techniques that may be used to measure fair value are as follows:

A. *Market approach* Uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

B. *Income approach* Uses valuation techniques to convert future amounts to a single present amount based on current market expectations about those future amounts, including present value techniques, option-pricing models, and excess earnings method.

C. *Cost approach* Based on the amount that currently would be required to replace the service capacity of an asset (replacement cost).

Table of Contents

The following tables set forth the Company s financial instruments carried at fair value using the lowest level of input as of June 30, 2012 and December 31, 2011 (in thousands):

	June 30, 2012			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents - money market funds	$ 23,750	$	$	$ 23,750
Restricted cash	233			233
Certificates of deposit	2,602			2,602
Commercial paper		2,091		2,091
Corporate debentures		9,329		9,329
Total assets	$ 26,585	$ 11,420	$	$ 38,005

	December 31, 2011			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents - money market funds	$ 2,735	$	$	$ 2,735
Restricted cash	233			233
Total assets	$ 2,968	$	$	$ 2,968
Liabilities:				
Redeemable convertible preferred stock warrants	$	$	$ 424	$ 424
Total liabilities	$	$	$ 424	$ 424

The redeemable convertible preferred stock warrants were converted to common stock warrants upon the closing of the Company s IPO on February 23, 2012 and are no longer presented at fair value.

13. Stock-based Compensation

At June 30, 2012, the Company had two stock-based compensation plans, the Amended and Restated 2004 Stock Option and Incentive Plan (the 2004 Plan) and the 2012 Stock Incentive Plan (the 2012 Plan). Additionally, during March 2009, Brightcove KK adopted the Brightcove KK Stock Option Plan (the Brightcove KK Plan).

The 2004 Plan provided for the issuance of incentive and non-qualified stock options, restricted stock, and other equity awards to the Company s employees, officers, directors, consultants and advisors, up to an aggregate of 7,397,843 shares of the Company s common stock. The Company also established a UK Sub-Plan of the 2004 Plan under which the Company was permitted to make grants of options to employees subject to tax in the United Kingdom. In conjunction with the effectiveness of the 2012 Plan, the Company s Board of Directors (the Board) voted that no further stock options or other equity-based awards may be granted under the 2004 Plan.

In 2012, the Board and stockholders adopted the 2012 Plan, which became effective on February 16, 2012. The 2012 Plan provides for the issuance of incentive and non-qualified stock options, restricted stock, and other stock-based awards to the Company s officers, employees, non-employee directors and certain other key persons of the Company as are selected by the Board or the compensation committee thereof. In connection with the approval of the 2012 Plan, the Company reserved 1,700,000 shares of common stock for issuance under the 2012 Plan, and 124,703 shares were transferred from the 2004 Plan. The number of shares reserved and available for issuance under the 2012 Plan will automatically increase each January 1, beginning in 2013, by 4% of the outstanding number of shares of the Company s common stock on the immediately preceding December 31 or such lesser number of shares as determined by the Company s compensation committee subject to an overall overhang limit of 30%. This number is subject to adjustment in the event of a stock split, stock dividend or other change in the Company s capitalization.

The Brightcove KK Plan provides for the issuance of stock options to employees, officers, directors, and advisors of Brightcove KK and to employees of the Company. Stock options granted under the Brightcove KK Plan are not exchangeable for either options or shares of the Company.

The Company recorded stock-based compensation expense of $1,263 and $1,041 for the three months ended June 30, 2012 and 2011, respectively, and $2,210 and $2,031 for the six months ended June 30, 2012 and 2011, respectively. As of June 30, 2012, there was $10,664 of unrecognized stock-based compensation expense related to stock-based awards that is expected to be recognized over a weighted average period of 2.46 years.

Table of Contents

The fair value of each option grant was estimated using the Black-Scholes option-pricing model that used the assumptions noted in the following table. The Company determined the volatility for options granted based on an analysis of reported data for a peer group of companies that issued options with substantially similar terms. The expected volatility of options granted has been determined using an average of the historical volatility measures of this peer group of companies. The expected life of options has been determined utilizing the simplified method . The simplified method is based on the average of the vesting tranches and the contractual life of each grant. The risk-free interest rate is based on a treasury instrument whose term is consistent with the expected life of the stock options. The Company has not paid, and does not anticipate paying, cash dividends on its common stock; therefore, the expected dividend yield is assumed to be zero. In addition, based on an analysis of the historical actual forfeitures, the Company applied an estimated forfeiture rate of approximately 13% for the three and six months ended June 30, 2012 and 2011 in determining the expense recorded in the accompanying consolidated statements of operations.

The weighted average assumptions utilized to determine such values are presented in the following table:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Expected life in years	6.2	6.3	6.2	6.3
Risk-free interest rate	1.23%	2.44%	1.29%	2.68%
Volatility	57%	57%	57%	57%
Dividend yield				
Weighted-average fair value of grants	$ 9.12	$ 6.25	$ 7.89	$ 5.20

The following is a summary of the status of the Company s stock options as of June 30, 2012 and the stock option activity for the 2004 Plan and 2012 Plan during the six months ended June 30, 2012.

	Number of Shares	Exercise Price Per Share	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (1)
Outstanding at December 31, 2011	3,986,706	$ 0.13 10.45	$ 3.76		
Granted	438,652	11.00 16.88	14.58		
Exercised	(189,130)	0.13 9.31	1.82		$ 2,293
Canceled	(107,166)	1.25 16.88	8.36		
Outstanding at June 30, 2012	4,129,062	$ 0.13 16.88	$ 4.88	7.11	$ 43,503
Exercisable at June 30, 2012	2,747,150	$ 0.13 11.00	$ 2.63	6.37	$ 34,839
Vested or expected to vest at June 30, 2012 (2)	3,910,211	$ 0.13 16.88	$ 4.52	7.01	$ 42,509

(1) The aggregate intrinsic value was calculated based on the positive difference between the fair value of the Company s common stock on June 30, 2012 of $15.31 per share, or the date of exercise, as appropriate, and the exercise price of the underlying options.

(2) This represents the number of vested options as of June 30, 2012 plus the number of unvested options expected to vest as of June 30, 2012 based on the unvested options outstanding at June 30, 2012, adjusted for an estimated forfeiture rate.

Table of Contents

The following table summarizes the restricted stock unit award activity during the six months ended June 30, 2012:

	Shares	Weighted Average Grant Date Fair Value
Unvested by December 31, 2011		$
Granted	371,451	16.88
Vested and issued		
Canceled	(622)	16.88
Unvested by June 30, 2012	370,829	$ 16.88

The following table summarizes the restricted stock award activity during the six months ended June 30, 2012:

	Shares	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value (1)
Unvested by December 31, 2011	63,495	$ 9.31	
Granted			
Vested	(29,304)	$ 9.31	
Repurchased			
Unvested by June 30, 2012	34,191	$ 9.31	$ 465

(1) The aggregate intrinsic value was calculated based on the positive difference between the closing price of the Company s common stock on June 30, 2012 and the purchase price on the date of grant.

14. Income Taxes

For the three months ended June 30, 2012 and 2011, the Company recorded income tax expense of $29 and $51, respectively, and $58 and $83 for the six months ended June 30, 2012 and 2011, respectively. The income tax expense recorded relates principally to the Company s foreign operations.

The Company has evaluated the positive and negative evidence bearing upon the realizability of its deferred tax assets. As required by the provisions of ASC 740, *Income Taxes*, management has determined that it is more-likely-than-not that the Company will not utilize the benefits of federal, state and foreign deferred tax assets for financial reporting purposes. Accordingly, the deferred tax assets have been fully reserved at June 30, 2012 and December 31, 2011.

The Company s income tax return reporting periods since December 31, 2007 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.

Table of Contents

15. Contingencies

Legal Matters

On July 19, 2012, a complaint was filed by Videoshare, LLC naming the Company in a patent infringement case (Videoshare, LLC v. Brightcove Inc., United States District Court for the District of Massachusetts). The complaint alleges that the Company has infringed U.S. Patent No. 7,987,492 with a listed issue date of July 26, 2011, entitled Sharing A Streaming Video. The complaint seeks an injunction enjoining infringement, damages, and pre- and post-judgment costs and interest. The Company is evaluating the merits of the claim made and, as such, has not yet determined 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 June 30, 2012, the Company has not incurred any costs for the above guarantees and indemnities. From time to time, the Company has received requests for indemnification from customers in connection with patent infringement suits brought against customers by third parties. To date, the Company has not agreed that any of the requested indemnification is required by the Company s contracts with customers.

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.

16. Noncontrolling Interest

Noncontrolling interest represents the minority shareholders proportionate share of the Company s majority owned subsidiary, Brightcove KK. The following table sets forth the changes in noncontrolling interest for the three and six months ended June 30, 2012 and 2011:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Balance at beginning of period	$ 1,160	$ 816	$ 1,108	$ 747
Net income	150	76	202	145
Balance at end of period	$ 1,310	$ 892	$ 1,310	$ 892

17. Debt

On March 31, 2011, the Company entered into a loan and security agreement with a lender (the Line of Credit) providing for an asset based line of credit. Under the Line of Credit, the Company can borrow up to the lesser of (i) $8.0 million or (ii) 80% of the Company s eligible accounts receivable. Borrowing availability under the Line of Credit changes based upon the amount of eligible receivables, concentration of eligible receivables and other factors. The Company has the ability to obtain letters of credit, which reduce the borrowing availability of the Line of Credit. Borrowings under the Line of Credit are secured by substantially all of the Company s assets. Outstanding amounts under the Line of Credit accrue interest at a rate equal to the prime rate plus 1.5%. Advances under the Line of Credit are repayable on March 31, 2013, and interest and related finance charges are payable monthly. During June 2011, the Company made a draw on this facility in the amount of $2.0 million, collateralized by the Company s eligible financed receivables. In December 2011, the Company repaid the $2.0 million balance under the Line of Credit.

On June 24, 2011, the Company entered into the First Loan Modification Agreement (the Modification Agreement) to the Line of Credit. Pursuant to the terms of the Modification Agreement, during the year ended December 31, 2011, the Company drew $7.0 million in term loan advances. In February 2012, the Company repaid the $7.0 million balance under the Modification Agreement and made a final payment of $140,000, representing 2% of the outstanding balance, pursuant to the terms of the Modification Agreement. As such, the Company had no outstanding borrowings under the Modification Agreement at June 30, 2012.

18. Related Party Transactions

Two of the minority interest holders in Brightcove KK, J-Stream and Dentsu, act as product distributors for the Company in Japan.

Table of Contents

As of June 30, 2012 and December 31, 2011, accounts receivable from related parties was:

	June 30, 2012	December 31, 2011
J-Stream	$ 589	$ 566
Dentsu	16	21
Total related party accounts receivable	$ 605	$ 667

For the three and six months ended June 30, 2012 and 2011, the Company recorded revenue from related parties of:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
J-Stream	$ 829	$ 676	$ 1,644	$ 1,335
Dentsu	70	180	135	341
Total related party revenue	$ 899	$ 856	$ 1,779	$ 1,676

19. Segment Information

Disclosure requirements about segments of an enterprise and related information establish standards for reporting information regarding operating segments in annual financial statements and require selected information of those segments to be presented in interim financial reports issued to stockholders. Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision-maker, or decision-making group, in making decisions on how to allocate resources and assess performance. The Company s chief decision maker is the chief executive officer. The Company and the chief decision maker view the Company s operations and manage its business as one operating segment.

Geographic Data

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Revenue:				
North America	$ 13,607	$ 9,966	$ 26,622	$ 18,764
Europe	5,315	3,685	9,750	6,699
Japan	1,427	1,161	2,730	2,156
Asia Pacific	1,113	452	2,206	707
Other	158	16	256	28
Total revenue	$ 21,620	$ 15,280	$ 41,564	$ 28,354

North America is comprised of revenue from the United States, Canada and Mexico. During the three months ended June 30, 2012 and 2011, revenue from customers located in the United States was $12,526 and $9,187, respectively, and $24,334 and $17,397, respectively, during the six months ended June 30, 2012 and 2011. During the three months ended June 30, 2012 and 2011, revenue from customers located in the United Kingdom was $2,092 and $1,660, respectively, and $3,977 and $3,103, respectively, during the six months ended June 30, 2012 and 2011. United Kingdom revenue is included in Europe for each of the respective periods in the table above. During the three and six months ended June 30, 2012 and 2011, no other international country contributed more than 10% of the Company s total revenue.

Table of Contents

As of June 30, 2012 and December 31, 2011, property and equipment at locations outside the U.S. was not material.

20. Reverse Stock Split

On February 3, 2012, the Board and the stockholders of the Company approved a 1-for-2.6 reverse stock split of the Company s common stock, which was effective on February 6, 2012. All share and per share data shown in the accompanying condensed consolidated financial statements and related notes have been retroactively revised to reflect the reverse stock split.

21. Recently Issued and Adopted Accounting Standards

In June 2011, the FASB issued new accounting guidance on the presentation of comprehensive income to provide companies with two options for presenting comprehensive income. Companies can present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This guidance eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders equity. This guidance was effective for the Company on January 1, 2012. As the new guidance relates only to how comprehensive income is disclosed and does not change the items that must be reported as comprehensive income, the adoption of this standard did not have a material impact on the Company s financial position or results of operations.

Table of Contents

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 final prospectus filed pursuant to Rule 424(b) under the Securities Act of 1933, as amended, with the Securities and Exchange Commission on February 17, 2012.

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, 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 solutions for publishing and distributing professional digital media. Brightcove Video Cloud, or Video Cloud, our flagship product released in 2006, is the world s leading online video platform. As of June 30, 2012, we had 4,697 customers in over 60 countries, including many of the world s leading media, retail, technology and financial services companies, as well as governments, educational institutions and non-profit organizations. In the six months ended June 30, 2012, our customers used Video Cloud to deliver an average of approximately 674 million video streams per month, which we believe is more video streams per month than any other professional solution.

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

We were incorporated in Delaware in August 2004 and our headquarters are in Boston, Massachusetts. In February 2006 we began generating revenue through our sale of Video Cloud. By the end of 2006, we had 106 employees and 59 customers. In November 2009, we launched the Express edition of our Video Cloud product. In May 2011, we announced the initial release of Brightcove App Cloud, or App Cloud. App Cloud is a software application development and management platform designed to help customers publish and distribute video and other professional digital media through software applications, which we refer to as content apps, across multiple Internet-connected devices.

As of December 31, 2011, we had 312 employees and 3,872 customers, of which 2,571 used our Express edition of Video Cloud and 1,301 used our premium editions of Video Cloud. As of June 30, 2012, we had 317 employees and 4,697 customers, of which 3,200 used our Express edition of Video Cloud and 1,497 used our premium editions of Video Cloud.

We have generated substantially all of our revenue to date by offering our Video Cloud product to customers on a subscription-based, software as a service, or SaaS, model. Our revenue grew from $28.4 million in the six months ended June 30, 2011 to $41.6 million in the six months ended June 30, 2012. The number of customers using our solutions grew from 3,872 as of December 31, 2011 to 4,697 as of June 30, 2012. Our consolidated net loss was $9.7 million for the six months ended June 30, 2011 and $7.7 million for the six months ended June 30, 2012.

We moved into our new corporate headquarters in March 2012, which provides us with over 80,000 square feet of office space in Boston, Massachusetts. We have sales and marketing offices in New York, New York; London, England; Paris, France; Hanover, Germany; Barcelona, Spain; Tokyo, Japan; Sydney, Australia; Seoul, South Korea; and Singapore, and a research and development office in Seattle, Washington.

For the six months ended June 30, 2012 and 2011, our net revenue derived from customers located outside North America was 36% and 34%, respectively. We expect the percentage of total net revenue derived from outside North America to increase in future periods as we continue to expand our international operations.

Our philosophy for the next few years will continue to be to invest for long term growth. We believe these investments will help us address some of the challenges facing our business such as demand for our products by customers and potential customers, rapid technological change in our industry, increased competition and resulting price sensitivity. These investments include support for the expansion of our infrastructure within our hosting facilities, the hiring of additional technical and sales personnel, and the innovation of new features for Video Cloud and new products such as App Cloud. We believe these investments will help us retain our existing Video Cloud customers and lead to the acquisition of new customers for both Video Cloud and App Cloud. As a result of our investment philosophy, we expect to incur operating losses on an annual basis through at least the end of 2012. In addition, we will incur incremental public company expenses related to reporting and compliance. However, we believe these investments will result in increased retention and expansion of our customer base and the resulting revenue. Additionally, we believe this 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.

Recent Development

On July 26, 2012, we entered into a definitive agreement to acquire Zencoder Inc. (Zencoder), a provider of cloud-based audio and video encoding services, for total consideration of approximately $30 million. The results of operations of Zencoder will be consolidated with the Company beginning on the closing date of the transaction, which is expected to occur during the quarter ending September 30, 2012.

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 during the period, plus customers who have committed a minimum level of revenue to us for use of our products. We believe the number of customers is a key indicator of our market penetration in the online video platform market, the productivity of our sales organization and the value that our products bring to both large and small organizations. The number of customers subscribing to our Video Cloud product is particularly important to monitor given that we expect revenue from Video Cloud to continue to represent a significant portion of our total revenue, and we are investing significantly to support our sales of this product in a new and rapidly evolving market.

Table of Contents

As of June 30, 2012, we had 4,697 customers, of which 3,200 used our Express edition of Video Cloud and 1,497 used our premium editions of Video Cloud. As of June 30, 2011, we had 3,295 customers, of which 2,183 used our Express edition of Video Cloud and 1,112 used our premium editions of Video Cloud.

Average Monthly Streams. We define average monthly streams as the year-to-date average number of monthly stream starts on Video Cloud. We believe the average number of monthly streams is a key indicator of both the adoption of Video Cloud as an online video platform and the growth of video content across the Internet. We also expect growth in streams will be driven, in part, by improvements in products and features that drive traffic to our customers websites and growth in the number of customers.

During the six months ended June 30, 2012, the average number of monthly streams was approximately 674 million, a decrease of 5% from approximately 700 million during the six months ended June 30, 2011. During 2011 America Online (AOL) utilized more streams than any of our other customers. AOL has since decided to use an internal video streaming solution for the majority of its video properties. Excluding the impact of AOL, our average monthly video streams were up 22% on a year-over-year basis.

Recurring Dollar Retention Rate. We believe that our ability to retain our customers is an indicator of the stability of our revenue base and the long-term value of our customer relationships. We assess our performance in this area using a metric we refer to as our recurring dollar retention rate. We calculate the recurring dollar retention rate by dividing the retained recurring value of subscription revenue for a period by the previous recurring value of subscription revenue for the same period. We define retained recurring value of subscription revenue as the committed subscription fees for all contracts that renew in a given period. We define previous recurring value of subscription revenue as the recurring value from committed subscription fees for all contracts that expire in that same period. We typically calculate our recurring dollar retention rate on a monthly basis.

In the six months ended June 30, 2012, the recurring dollar retention rate was 95% compared with 93% for the six months ended June 30, 2011. This recurring dollar retention rate provides visibility into our ongoing revenue.

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

	Six Months Ended June 30,	
	2012	**2011**
Key Metrics		
Customers (at period end)		
Express	3,200	2,183
Premium	1,497	1,112
Total customers (at period end)	4,697	3,295
Average monthly year-to-date streams (in thousands)	674,170	706,908
Recurring dollar retention rate	95%	93%

Components of Consolidated Statements of Operations

Revenue

Subscription and Support Revenue We generate subscription and support revenue from the sale of our on-demand online video platform called Video Cloud and our application development and management platform called App Cloud.

Video Cloud allows customers to publish and distribute video and other professional digital media across Internet-connected devices. Video Cloud is offered in two product lines. The first product line is comprised of our premium product editions: Enterprise and Pro. The Enterprise edition provides additional features and functionality such as a multi-account environment with consolidated billing, IP address filtering, the ability to produce live events with DVR functionality and advanced upload acceleration of content. Customer arrangements are typically one year contracts, which include a subscription to our platform, basic support and a pre-determined amount of bandwidth. We also offer gold support to our premium customers for an additional fee, which includes extended phone support. The pricing for our premium editions is based

on the number of users, accounts and usage, which is comprised of video streams, bandwidth and managed content. Should a customer s usage of our service exceed the allowable levels, the contract will provide for the rate at which the customer must pay for actual usage above the allowable levels.

Our second product line is our Express edition, which 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. 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, or they are billed annually in advance.

Table of Contents

App Cloud is a software application development and management platform designed to help customers publish and distribute video and other professional digital media through software applications across multiple Internet-connected devices. App Cloud is offered in two product lines. The first product line is comprised of our premium product editions: Enterprise and Pro. The Enterprise edition provides additional features and functionality such as account roles and permissions, multiple department-level accounts and basic support. Our second product line is our Core edition, which is a free, community-supported edition that provides customers with the same basic functionality that is offered in our premium product editions but has been designed for customers who do not typically seek advanced features and functionality.

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 typically priced on a fixed fee basis with a portion due upon contract signing and the remainder due when the related services have been completed.

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

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

Cost of revenue increased in absolute dollars from the first half of 2011 to the first half of 2012. In future periods we expect our cost of revenue will increase in absolute dollars as our revenue increases. We also expect that cost of revenue as a percentage of revenue will decrease over time as we are able to achieve economies of scale in our business. However, cost of revenue as a percentage of revenue could fluctuate from period to period depending on the growth of our professional services business and any associated costs relating to the delivery of subscription services and the timing of significant expenditures. To the extent that our customer base grows, we intend to continue to invest additional resources in expanding the delivery capability of our products and other services. The timing of these additional expenses could affect our cost of revenue, both in terms of absolute dollars and as a percentage of revenue, in any particular quarterly or annual period.

Operating Expenses

We classify our operating expenses as follows:

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

Sales and Marketing. Sales and marketing expenses consist primarily of personnel and related expenses for our sales and marketing staff, including salaries, benefits, incentive compensation, commissions, stock-based compensation and travel costs, 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. The increase in sales and marketing expenses as a percentage of revenue is primarily due to our substantial investments in obtaining and retaining customers. 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 meet the compliance requirements of operating as a public company, including those costs incurred in connection with Section 404 of the Sarbanes-Oxley Act. We will comply with Section 404 of the Sarbanes-Oxley Act for the year ending December 31, 2013. Over the long term, we believe that general and administrative expenses as a percentage of revenue will decrease.

Other Expense

Other expense consists primarily of interest income earned on our cash, cash equivalents and investments, foreign exchange gains and losses, interest expense payable on our debt, changes in the fair value of the warrants issued in connection with a line of credit and income (loss) recorded upon the sale of long-term investments.

Non-Controlling Interest

Our results include a non-controlling interest in our majority-owned subsidiary, Brightcove Kabushiki Kaisha, or Brightcove KK. Brightcove KK is a Japanese joint venture which was formed on July 18, 2008. We own 63% of the entity. The non-controlling interest in Brightcove KK is reported as a separate component of stockholders equity (deficit) in our condensed consolidated balance sheet. The portion of net income attributable to non-controlling interest is presented as net income attributable to non-controlling interest in consolidated subsidiary in our condensed consolidated statements of operations.

Income Taxes

As part of the process of preparing our consolidated financial statements we are required to estimate our taxes in each of the jurisdictions in which we operate. We account for income taxes in accordance with the asset and liability method. Under this method, deferred tax assets and liabilities are recognized based on temporary differences between the financial reporting and income tax bases of assets and liabilities using statutory rates. In addition, this method requires a valuation allowance against net deferred tax assets if, based upon the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. We have provided a full valuation allowance against our net deferred tax assets at June 30, 2012 and December 31, 2011.

Stock-Based Compensation Expense

Our cost of revenue, research and development, sales and marketing, and general and administrative expenses include stock-based compensation expense. Stock-based compensation expense represents the fair value of outstanding stock options and restricted stock awards, which are recognized over the respective stock option and restricted stock award service periods. The Company recorded stock-based compensation expense of $1.3 million and $1.0 million for the three months ended June 30, 2012 and 2011, respectively, and $2.2 million and $2.0 million for the six months ended June 30, 2012 and 2011, respectively. We expect stock-based compensation expense to increase in absolute dollars in future periods.

Foreign Currency Translation

With regard to our international operations, we frequently enter into transactions in currencies other than the U.S. dollar. As a result, our revenues, 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 June 30, 2012 and 2011, 42% and 40%, respectively, of our revenue was generated in locations outside the United States. For the six months ended June 30, 2012 and 2011, 41% and 39%, respectively, of our revenue was generated in locations outside the United States. During the three months ended June 30, 2012 and 2011, 30% and 29%, respectively, of our revenue was in currencies other than the U.S. dollar, as are some of the associated expenses. During both the six months ended June 30, 2012 and 2011, 29% of our revenue was in currencies other than the U.S. dollar, as are some of the associated expenses. In

periods when the U.S. dollar declines in value as compared to the foreign currencies in which we conduct business, our foreign currency-based revenues and expenses generally increase in value when translated into U.S. dollars. We expect our foreign currency-based revenue to increase in absolute dollars and as a percentage of total revenue.

Table of Contents

Critical Accounting Policies and Estimates

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

We consider the assumptions and estimates associated with revenue recognition, allowance for doubtful accounts, software development costs, income taxes, 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, 2011. For further information on our critical and other significant accounting policies, see the notes to the condensed consolidated financial statements appearing elsewhere in this Quarterly Report on Form 10-Q and our final prospectus filed pursuant to Rule 424(b) under the Securities Act with the SEC on February 17, 2012.

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 final prospectus filed pursuant to Rule 424(b) under the Securities Act with the SEC on February 17, 2012.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Revenue:				
Subscription and support revenue	$ 20,718	$ 14,478	$ 39,554	$ 26,970
Professional services and other revenue	902	802	2,010	1,384
Total revenue	21,620	15,280	41,564	28,354
Cost of revenue:				
Cost of subscription and support revenue	5,233	3,760	10,428	7,039
Cost of professional services and other revenue	1,211	1,176	2,380	2,273
Total cost of revenue	6,444	4,936	12,808	9,312
Gross profit	15,176	10,344	28,756	19,042
Operating expenses:				
Research and development	4,564	3,755	8,741	7,198
Sales and marketing	9,745	8,406	18,753	15,372
General and administrative	4,274	3,253	7,911	5,978
Merger-related	479		479	
Total operating expenses	19,062	15,414	35,884	28,548
Loss from operations	(3,886)	(5,070)	(7,128)	(9,506)
Other (expense) income, net	(273)	(261)	(536)	(139)
Loss before income taxes and non-controlling interest in consolidated subsidiary	(4,159)	(5,331)	(7,664)	(9,645)
Provision for income taxes	29	51	58	83

Consolidated net loss	(4,188)	(5,382)	(7,722)	(9,728)
Net income attributable to non-controlling interest in consolidated subsidiary	(150)	(76)	(202)	(145)
Net loss attributable to Brightcove Inc.	(4,338)	(5,458)	(7,924)	(9,873)
Accretion of dividends on redeemable convertible preferred stock		(1,409)	(733)	(2,819)
Net loss attributable to common stockholders	$ (4,338)	$ (6,867)	$ (8,657)	$ (12,692)
Net loss per share attributable to common stockholders - basic and diluted	$ (0.16)	$ (1.42)	$ (0.40)	$ (2.65)
Weighted-average number of common shares used in computing net loss per share attributable to common stockholders basic and diluted	27,256,330	4,832,610	21,549,537	4,795,440

24

Table of Contents

Overview of Results of Operations for the Three Months Ended June 30, 2012 and 2011

Total revenue increased by 41%, or $6.3 million, in the three months ended June 30, 2012 compared to the three months ended June 30, 2011 due to both an increase in subscription and support revenue of 43%, or $6.2 million, and an increase in professional services and other revenue of 12%, or $100,000. The increase in subscription and support revenue resulted primarily from an increase in the number of our premium customers, which was 1,497 as of June 30, 2012, an increase of 35% from 1,112 customers as of June 30, 2011. In addition, our revenue from Express offerings grew by $531,000, or 41%, in the three months ended June 30, 2012 compared to the three months ended June 30, 2011 as our Express customer base increased by approximately 47%. Our ability to continue to provide the product functionality and performance that our customers require will be a major factor in our ability to continue to increase revenue.

Our gross profit increased by $4.8 million, or 47%, in the three months ended June 30, 2012 compared to the three months ended June 30, 2011, primarily due to an increase in revenue. With the continued growth in our total revenue, our ability to continue to maintain our overall gross profit will depend on our ability to continue controlling our costs of delivery.

Loss from operations was $3.9 million in the three months ended June 30, 2012 compared to $5.1 million in the three months ended June 30, 2011. Loss from operations in the three months ended June 30, 2012 and 2011 included $1.3 million and $1.0 million, respectively, of stock-based compensation expense. 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 June 30, 2012, we had $44.6 million of unrestricted cash and cash equivalents, an increase of $27.4 million from $17.2 million at December 31, 2011, due primarily to the net proceeds received from the issuance of common stock in connection with our initial public offering. This increase was offset by the purchase of $14.0 million of investments. In addition, as of December 31, 2011, we had $7.0 million of outstanding debt which was repaid during the quarter ended March 31, 2012.

Revenue

	Three Months Ended June 30,					
	2012		2011		Change	
Revenue by Product Line	**Amount**	**Percentage of Revenue**	**Amount**	**Percentage of Revenue**	**Amount**	**%**
	(in thousands, except percentages)					
Premium	$ 19,802	92%	$ 13,993	92%	$ 5,809	42%
Express	1,818	8	1,287	8	531	41
Total	$ 21,620	100%	$ 15,280	100%	$ 6,340	41%

During the three months ended June 30, 2012, revenue increased by $6.3 million, or 41%, compared to the three months ended June 30, 2011, 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 $5.8 million, or 42%, is the result of a 35% increase in the number of premium customers from 1,112 at June 30, 2011 to 1,497 at June 30, 2012, as well as increased revenue from our existing customers. Express revenue grew by $531,000, or 41%, which was also driven by an increase of 47% in customers from 2,183 at June 30, 2011 to 3,200 at June 30, 2012.

Table of Contents

Revenue by Type	Three Months Ended June 30, 2012 Amount	2012 Percentage of Revenue	2011 Amount	2011 Percentage of Revenue	Change Amount	Change %
	(in thousands, except percentages)					
Subscription and support	$ 20,718	96%	$ 14,478	95%	$ 6,240	43%
Professional services and other	902	4	802	5	100	12
Total	$ 21,620	100%	$ 15,280	100%	$ 6,340	41%

In the three months ended June 30, 2012, subscription and support revenue increased by $6.2 million, or 43%, compared to the three months ended June 30, 2011. The increase was primarily related to the continued growth of our customer base for our premium offerings. In addition, professional services and other revenue increased by $100,000, or 12%. 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 June 30, 2012 Amount	2012 Percentage of Revenue	2011 Amount	2011 Percentage of Revenue	Change Amount	Change %
	(in thousands, except percentages)					
North America	$ 13,607	63%	$ 9,966	65%	$ 3,641	37%
Europe	5,315	25	3,685	24	1,630	44
Japan	1,427	6	1,161	8	266	23
Asia Pacific	1,113	5	452	3	661	146
Other	158	1	16		142	nm
International subtotal	8,013	37	5,314	35	2,699	51
Total	$ 21,620	100%	$ 15,280	100%	$ 6,340	41%

nm not meaningful

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 June 30, 2012, total revenue for North America increased $3.6 million, or 37%, compared to the three months ended June 30, 2011. The increase in revenue for North America resulted primarily from an increase in subscription and support revenue from our premium offerings. In the three months ended June 30, 2012, total revenue outside of North America increased $2.7 million, or 51%, compared to the three months ended June 30, 2011. The increase in revenue internationally was the result of our increasing focus on marketing our services internationally.

Table of Contents

Cost of Revenue

	Three Months Ended June 30,					
	2012		2011		Change	
Cost of Revenue	Amount	Percentage of Related Revenue	Amount	Percentage of Related Revenue	Amount	%
	(in thousands, except percentages)					
Subscription and support	$ 5,233	25%	$ 3,760	26%	$ 1,473	39%
Professional services and other	1,211	134	1,176	147	35	3
Total	$ 6,444	30%	$ 4,936	32%	$ 1,508	31%

In the three months ended June 30, 2012, cost of subscription and support revenue increased $1.5 million, or 39%, compared to the three months ended June 30, 2011. The increase resulted primarily from an increase in the cost of content delivery network expenses, employee-related expenses, network hosting services and depreciation of $611,000, $214,000, $146,000 and $128,000, respectively. There were also increases in expenses related to third-party software as a service, integrated with our service offering, and telecommunications of $132,000 and $103,000, respectively.

In the three months ended June 30, 2012, cost of professional services and other revenue remained relatively unchanged compared to the corresponding period of the prior year.

Gross Profit

	Three Months Ended June 30,					
	2012		2011		Change	
Gross Profit	Amount	Percentage of Related Revenue	Amount	Percentage of Related Revenue	Amount	%
	(in thousands, except percentages)					
Subscription and support	$ 15,485	75%	$ 10,718	74%	$ 4,767	44%
Professional services and other	(309)	(34)	(374)	(47)	65	17
Total	$ 15,176	70%	$ 10,344	68%	$ 4,832	47%

For the three months ended June 30, 2012, the overall gross profit percentage was 70% compared to 68% for the three months ended June 30, 2011. The increase in overall gross profit percentage was related to improvement in the professional services and other gross profit percentage as we were able to better leverage our fixed costs to deliver professional services and increase related revenue. Subscription and support gross profit percentage remained relatively unchanged compared to the corresponding period of the prior year. We continue to generate a negative gross profit for professional services and other due to the development of our professional services management team and infrastructure. We expect to continue to gain economies of scale over time. It is likely that gross profit, as a percentage of revenue, will fluctuate quarter by quarter due to the timing and mix of subscription and support revenue and professional services and other revenue, and the type, timing and duration of service required in delivering certain projects.

Operating Expenses

Three Months Ended June 30,

Operating Expenses	2012			2011			Change		
	Amount		Percentage of Revenue	Amount		Percentage of Revenue	Amount		%
	(in thousands, except percentages)								
Research and development	$	4,564	21%	$	3,755	25%	$	809	22%
Sales and marketing		9,745	45		8,406	55		1,339	16
General and administrative		4,274	20		3,253	21		1,021	31
Merger-related		479	2					479	nm
Total	$	19,062	88%	$	15,414	101%	$	3,648	24%

nm not meaningful

Table of Contents

Research and Development. In the three months ended June 30, 2012, research and development expense increased by $809,000, or 22%, compared to the three months ended June 30, 2011 primarily due to increases in employee-related expenses and rent expense of $437,000 and $171,000, respectively. While the net increase in headcount was three employees, quarter over quarter, we hired seven employees during June 2011 and therefore did not recognize a full quarter of expense for these employees during the three months ended June 30, 2011. In addition, a portion of the increase in employee-related expenses can be attributed to higher capitalized software development costs during the three months ended June 30, 2011 as compared to the three months ended June 30, 2012. In future periods, we expect that our research and development expense will continue to 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 June 30, 2012, sales and marketing expense increased $1.3 million, or 16%, compared to the three months ended June 30, 2011 primarily due to increases in employee-related expenses, marketing programs and travel related expenses of $529,000, $180,000 and $138,000, respectively. There were also increases in rent and commission expenses of $250,000 and $113,000, respectively. We expect that our sales and marketing expense will continue to increase in absolute dollars along with our revenue, as we continue to expand sales coverage and build brand awareness through what we believe are cost-effective channels. We expect that such increases may fluctuate from period to period, however, due to the timing of marketing programs.

General and Administrative. In the three months ended June 30, 2012, general and administrative expense increased by $1.0 million, or 31%, compared to the three months ended June 30, 2011 primarily due to an increase in employee-related expenses, stock based compensation and depreciation expense of $443,000 and $100,000 and $93,000, respectively. In future periods, we expect general and administrative expense will increase in absolute dollars as we add personnel and incur additional costs related to the growth of our business and operations.

Merger-related. During the three months ended June 30, 2012, we incurred $479,000 of merger-related costs associated with our acquisition of Zencoder, which we expect to close during the quarter ending September 30, 2012. We did not incur any merger-related costs during the three months ended June 30, 2011.

Other Expense, Net

	Three Months Ended June 30,					
	2012		2011		Change	
Other Expense	**Amount**	**Percentage of Revenue**	**Amount**	**Percentage of Revenue**	**Amount**	**%**
	(in thousands, except percentages)					
Interest income, net	$ 38	%	$ 6	%	$ 32	nm
Interest expense			(8)		8	100
Other expense, net	(311)	(1)	(259)	(2)	(52)	(20)
Total	$ (273)	(1)%	$ (261)	(2)%	$ (12)	(5)%

nm not meaningful

In the three months ended June 30, 2012, interest income, net, increased by $32,000 compared to the corresponding period of the prior year. Interest income is generated from the investment of our cash balances, less related bank fees.

The increase in other expense, net was primarily due to increased foreign currency exchange losses of $383,000 upon collection of foreign denominated accounts receivable. This increase was partially offset by the expense recorded during the three months ended June 30, 2011 of $146,000 related to the revaluation of a warrant with no corresponding expense in 2012. There was also a decrease in expense attributable to the realized loss of $146,000, recognized during the three months ended June 30, 2011, when we sold our remaining auction rate securities, or ARS.

Provision for Income Taxes

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