BRIGHTCOVE INC
Form 10-Q
April 24, 2019
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2019

OR

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

Commission File Number: 001-35429

BRIGHTCOVE INC.

(Exact name of registrant as specified in its charter)

Delaware	**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)

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

Title of each class	**Trading Symbol(s)**	**Name of each exchange on which registered**
Common Stock, par value $0.001 per share	BCOV	The NASDAQ Global Market

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

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

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

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

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

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

As of April 19, 2019 there were 37,839,906 shares of the registrant s common stock, $0.001 par value per share, outstanding.

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BRIGHTCOVE INC.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Brightcove Inc.

Condensed Consolidated Balance Sheets

(unaudited)

	March 31, 2019	December 31, 2018
	(in thousands, except share and per share data)	
Assets		
Current assets:		
Cash and cash equivalents	$ 28,948	$ 29,306
Accounts receivable, net of allowance of $219 and $190 at March 31, 2019 and December 31, 2018, respectively	25,188	23,264
Prepaid expenses	5,865	4,866
Other current assets	7,068	7,070
Total current assets	67,069	64,506
Property and equipment, net	9,557	9,703
Operating lease right-of-use asset	18,073	
Intangible assets, net	5,504	5,919
Goodwill	50,776	50,776
Other assets	2,360	2,452
Total assets	$ 153,339	$ 133,356
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 7,839	$ 7,712
Accrued expenses	14,515	13,982
Operating lease liability	6,285	
Deferred revenue	43,654	39,846
Total current liabilities	72,293	61,540
Operating lease liability, net of current portion	12,983	
Other liabilities	289	1,202
Total liabilities	85,565	62,742
Commitments and contingencies *(Note 10)*		
Stockholders equity:		

Undesignated preferred stock, $0.001 par value; 5,000,000 shares authorized; no shares issued		
Common stock, $0.001 par value; 100,000,000 shares authorized; 36,908,051 and 36,752,469 shares issued at March 31, 2019 and December 31, 2018, respectively	37	37
Additional paid-in capital	253,244	251,122
Treasury stock, at cost; 135,000 shares	(871)	(871)
Accumulated other comprehensive loss	(931)	(952)
Accumulated deficit	(183,705)	(178,722)
Total stockholders equity	67,774	70,614
Total liabilities and stockholders equity	$ 153,339	$ 133,356

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

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Brightcove Inc.

Condensed Consolidated Statements of Operations

(unaudited)

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

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

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Brightcove Inc.

Condensed Consolidated Statements of Comprehensive Loss

(unaudited)

	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
	(in thousands)	
Net loss	$ (4,983)	$ (2,257)
Other comprehensive income:		
Foreign currency translation adjustments	21	247
Comprehensive loss	$ (4,962)	$ (2,010)

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

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Brightcove Inc.

Condensed Consolidated Statements of Stockholders Equity

(unaudited)

(in thousands, except share data)

	Common Stock		Additional Paid-in Capital	Treasury Stock		Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders Equity
	Shares	Par Value		Shares	Value			
Balance at December 31, 2018	36,752,469	$ 37	$ 251,122	(135,000)	$ (871)	$ (952)	$ (178,722)	$ 70,614
Issuance of common stock upon exercise of stock options and pursuant to restricted stock units	155,582		625					625
Stock-based compensation expense			1,497					1,497
Foreign currency translation adjustment						21		21
Net loss							(4,983)	(4,983)
Balance at March 31, 2019	36,908,051	$ 37	$ 253,244	(135,000)	$ (871)	$ (931)	$ (183,705)	$ 67,774

	Common Stock		Additional Paid-in Capital	Treasury Stock		Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders Equity
	Shares	Par Value		Shares	Value			
Balance at December 31, 2017	34,933,408	$ 35	$ 238,700	(135,000)	$ (871)	$ (809)	$ (170,299)	$ 66,756
Issuance of common stock upon exercise of stock options and pursuant to restricted stock units	184,641		677					677
Stock-based compensation expense			1,732					1,732
							5,605	5,605

Impact of adoption of ASU 2014-09 as of January 1, 2018								
Foreign currency translation adjustment						247		247
Net loss							(2,257)	(2,257)
Balance at March 31, 2018	35,118,049	$ 35	$ 241,109	(135,000)	$ (871)	$ (562)	$ (166,951)	$ 72,760

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

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Brightcove Inc.

Condensed Consolidated Statements of Cash Flows

(unaudited)

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

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

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Brightcove Inc.

Notes to Condensed Consolidated Financial Statements

(unaudited)

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

1. Business Description and Basis of Presentation

Business Description

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

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

Basis of Presentation

The accompanying interim condensed consolidated financial statements are unaudited. These condensed consolidated financial statements and notes should be read in conjunction with the audited consolidated financial statements and related notes, together with Management s Discussion and Analysis of Financial Condition and Results of Operations, contained in the Company s Annual Report on Form 10-K for the year ended December 31, 2018.

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, other than the changes to accounting for leases as described in Note 13, the unaudited condensed consolidated financial statements and notes have been prepared on the same basis as the audited consolidated financial statements for the year ended December 31, 2018 contained in the Company s Annual Report on Form 10-K and include all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the Company s financial position for the three months ended March 31, 2019 and 2018. These interim periods are not necessarily indicative of the results to be expected for any other interim period or the full year.

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

The accompanying condensed consolidated financial statements reflect the application of certain significant accounting policies as described below and elsewhere in these notes to the condensed consolidated financial statements. As described in Management s Discussion and Analysis, the Company implemented a significant accounting policy upon the adoption of Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842), Amendments to the FASB Accounting Standards Codification* (ASC 842). As of March 31, 2019, other than the changes to leases, the Company s significant accounting policies and estimates, which are detailed in the Company s Annual Report on Form 10-K for the year ended December 31, 2018, have not changed.

2. Revenue from Contracts with Customers

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

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

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

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

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

Transaction Price Allocated to Future Performance Obligations

As of March 31, 2019, the total aggregate transaction price allocated to the unsatisfied performance obligations for subscription and support contracts was approximately $107.7 million, of which approximately $92.1million is expected to be recognized over the next 12 months. The Company expects to recognize substantially all of the remaining unsatisfied performance obligations by March 2022.

3. Concentration of Credit Risk

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

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

4. Concentration of Other Risks

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

5. Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less at the date of purchase to be cash equivalents. Management determines the appropriate classification of investments at the time of purchase, and re-evaluates such determination at each balance sheet date. The Company did not have any short-term or long-term investments at March 31, 2019 or December 31, 2018.

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

Cash and cash equivalents as of March 31, 2019 consist of the following:

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

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

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

6. Net Loss per Share

The Company calculates basic and diluted net loss per common share by dividing the net loss by the weighted-average number of common shares outstanding during the period. The Company has excluded other potentially dilutive shares, which include warrants to purchase common stock and outstanding common stock options and unvested restricted stock units, from the weighted-average number of common shares outstanding as their inclusion in the computation for all periods would be anti-dilutive due to net losses incurred. The following outstanding common shares have been excluded from the computation of dilutive net loss per share as of March 31, 2019 and 2018.

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

7. Fair Value of Financial Instruments

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

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

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

8. Stock-based Compensation

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

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

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

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

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

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

(1) The aggregate intrinsic value was calculated based on the positive difference between the fair value of the Company s common stock on March 31, 2019 of $8.41 per share, or the date of exercise, as appropriate, and the exercise price of the underlying options.

The following table summarizes the restricted stock unit activity during the three months ended March 31, 2019:

	Shares	Weighted Average Grant

		Date Fair Value
Unvested by December 31, 2018	3,033,582	$ 8.07
Granted	302,250	8.37
Vested and issued	(56,637)	7.19
Canceled	(204,681)	7.83
Unvested by March 31, 2019	3,074,514	$ 8.13

9. Income Taxes

For the three months ended March 31, 2019 and 2018, the Company recorded income tax expense of $175 and $112, respectively. The income tax expense relates principally to the Company s foreign operations.

The Company is required to compute income tax expense in each jurisdiction in which it operates. This process requires the Company to project its current tax liability and estimate its deferred tax assets and liabilities, including net operating loss (NOL) and tax credit carry-forwards. In assessing the ability to realize the net deferred tax assets, management considers whether it is more likely than not that some portion or all of the net deferred tax assets will not be realized.

The Company has provided a valuation allowance against its remaining U.S. net deferred tax assets as of March 31, 2019 and December 31, 2018, as based upon the level of historical U.S. losses and future projections over the period in which the net deferred tax assets are deductible, at this time, management believes it is more likely than not that the Company will not realize the benefits of these deductible differences. The Company maintains net deferred tax liabilities for temporary differences related to its foreign subsidiaries.

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10. Commitments and Contingencies

Legal Matters

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

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

Guarantees and Indemnification Obligations

The Company typically enters into indemnification agreements in the ordinary course of business. Pursuant to these agreements, the Company indemnifies and agrees to reimburse the indemnified party for losses and costs incurred by the indemnified party, generally the Company s customers, in connection with patent, copyright, trade secret, or other intellectual property or personal right infringement claims by third parties with respect to the Company s technology. The term of these indemnification agreements is generally perpetual after execution of the agreement. Based on when customers first subscribe for the Company s service, the maximum potential amount of future payments the Company could be required to make under certain of these indemnification agreements is unlimited, however, more recently the Company has typically limited the maximum potential value of such potential future payments in relation to the value of the contract. Based on historical experience and information known as of March 31, 2019, the Company has not incurred any costs for the above guarantees and indemnities. The Company has received requests for indemnification from customers in connection with patent infringement suits brought against the customer by a third party. To date, the Company has not agreed that the requested indemnification is required by the Company s contract with any such customer.

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

11. Debt

On December 14, 2018, the Company entered into an amended and restated loan and security agreement with a lender (the Loan Agreement) providing for up to a $30.0 million asset based line of credit (the Line of Credit). Under the Line of Credit, the Company can borrow up to $30.0 million. Borrowings under the Line of Credit are secured by substantially all of the Company s assets, excluding its intellectual property. Outstanding amounts under the Line of Credit accrue interest at a rate as follows: (i) for prime rate advances, the greater of (A) the prime rate and (B) 4%, and (ii) for LIBOR advances, the greater of (A) the LIBOR rate plus 225 basis points (the LIBOR rate margin) and (B) 4%. Under the Loan Agreement, the Company must comply with certain financial covenants, including maintaining a minimum asset coverage ratio. If the outstanding principal during any month is at least $15.0 million, the Company must also maintain a minimum net income threshold based on non-GAAP operating measures. Failure to comply with these covenants, or the occurrence of an event of default, could permit the lenders under the Line of Credit to declare all amounts borrowed under the Line of Credit, together with accrued interest and fees, to be immediately due and payable. The Company was in compliance with all covenants under the Line of Credit as of March 31, 2019 and there are no borrowings outstanding as of March 31, 2019.

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12. Segment Information

Geographic Data

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

	Three Months Ended March 31, 2019	2018
Revenue:		
North America	$ 21,813	$ 22,678
Europe	6,469	6,313
Japan	6,188	5,387
Asia Pacific	7,272	6,711
Other	94	105
Total revenue	$ 41,836	$ 41,194

North America is comprised of revenue from the United States, Canada and Mexico. Revenue from customers located in the United States was $20,406 and $21,254 during the three months ended March 31, 2019 and 2018, respectively. Other than the United States and Japan, no other country contributed more than 10% of the Company s total revenue during the three months ended March 31, 2019 and 2018.

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

13. Recently Issued and Adopted Accounting Standards

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

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

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

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

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

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

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

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

14. Subsequent Events

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

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the year ended December 31, 2018.

Forward-Looking Statements

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

Company Overview

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

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

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

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As of March 31, 2019, we had 496 employees and 3,696 customers, of which 2,227 used our premium offerings and 1,469 used our volume offerings. As of March 31, 2018, we had 494 employees and 4,033 customers, of which 2,180 used our premium offerings and 1,853 used our volume offerings.

We generate revenue by offering our products to customers on a subscription-based, software as a service, or SaaS, model. Our revenue grew from $41.2 million in the three months ended March 31, 2018 to $41.8 million in the three months ended March 31, 2019, primarily related to an increase in sales of Video Cloud to both new and existing customers. Our consolidated net loss was $5.0 million and $2.3 million for the three months ended March 31, 2019 and 2018, respectively. Included in consolidated net loss for the three months ended March 31, 2019 was stock-based compensation expense, amortization of acquired intangible assets and merger-related expense of $1.4 million, $416,000 and $2.9 million, respectively. Included in consolidated net loss for the three months ended March 31, 2018 was stock-based compensation expense and amortization of acquired intangible assets of $1.7 million and $674,000, respectively.

For the three months ended March 31, 2019 and 2018, our revenue derived from customers located outside North America was 48% and 45%, respectively. We expect the percentage of total net revenue derived from outside North America to increase in future periods as we continue to expand our international operations.

Key Metrics

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

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

As of March 31, 2019, we had 3,696 customers, of which 2,227 used our premium offerings and 1,469 used our volume offerings. As of March 31, 2018, we had 4,033 customers, of which 2,180 used our premium offerings and 1,853 used our volume offerings. Our go-to-market focus and growth strategy is to expand our premium customer base, as we believe our premium customers represent a greater opportunity for our solutions. Volume customers decreased in recent periods primarily due to our discontinuation of the promotional Video Cloud Express offering. As a result, we have experienced attrition of this base level offering without a corresponding addition of customers. We expect customers using our volume offerings to continue to decrease in 2019 and beyond as we continue to focus on the market for our premium solutions.

Recurring Dollar Retention Rate. We assess our ability to retain customers using a metric we refer to as our recurring dollar retention rate. We calculate the recurring dollar retention rate by dividing the retained recurring value of subscription revenue for a period by the previous recurring value of subscription revenue for the same period. We define retained recurring value of subscription revenue as the committed subscription fees for all contracts that renew in a given period, including any increase or decrease in contract value. We define previous recurring value of subscription revenue as the recurring value from committed subscription fees for all contracts that expire in that same period. We typically calculate our recurring dollar retention rate on a monthly basis. Recurring dollar retention rate provides visibility into our ongoing revenue. During the three months ended March 31, 2019 and 2018, the recurring dollar retention rate was 95% and 103%, respectively.

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

Backlog. We define backlog as the aggregate amount of the transaction price that is allocated to performance obligations that have not yet been satisfied, excluding professional service engagements. We believe that this metric is important in understanding future business performance. As of March 31, 2019, the total backlog for subscription and support contracts was approximately $107.7 million, of which approximately $92.1million is expected to be recognized over the next 12 months. As of March 31, 2018, the total backlog for subscription and support contracts was approximately $109.9 million, of which approximately $86.6 million was expected to be recognized over the next 12 months.

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

	Three Months Ended March 31,