BRIGHTCOVE INC
Form 10-Q
May 10, 2012
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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 March 31, 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)

One Cambridge Center

Cambridge, MA 02142

(Former name, former address and former fiscal year, if changed since last report)

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 x

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 April 30, 2012 there were 27,286,914 shares of the registrant s common stock, $0.001 par value per share, issued and outstanding.

BRIGHTCOVE INC.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Brightcove Inc.

Condensed Consolidated Balance Sheets

(unaudited)

(in thousands, except share and per share data)

	March 31, 2012	December 31, 2011
Assets		
Current assets:		
Cash and equivalents	$ 60,647	$ 17,227
Accounts receivable, net of allowance of $301 and $266, at March 31, 2012 and December 31, 2011, respectively (includes related party amounts of $647 and $667 at March 31, 2012 and December 31, 2011, respectively)	15,946	14,693
Prepaid expenses and other current assets	3,894	3,334
Total current assets	80,487	35,254
Property and equipment, net	8,939	6,079
Goodwill	2,372	2,372
Deferred initial public offering costs		2,544
Restricted cash	233	233
Other assets	509	856
Total assets	$ 92,540	$ 47,338
Liabilities, redeemable convertible preferred stock and stockholders equity (deficit)		
Current liabilities:		
Accounts payable	$ 1,226	$ 2,026
Accrued expenses	8,793	8,773
Current portion of long-term debt		833
Deferred revenue	14,353	13,418
Total current liabilities	24,372	25,050
Deferred revenue, net of current portion	392	354
Long-term debt		6,167
Other liabilities	85	77
Redeemable convertible preferred stock warrants		424
Total liabilities	24,849	32,072
Contingencies *(Note 15)*		
Redeemable convertible preferred stock		120,351
Stockholders equity (deficit):		
Preferred stock, $0.001 par value; 5,000,000 shares authorized at March 31, 2012; 0 shares issued		
Common stock, $0.001 par value; 100,000,000 and 68,000,000 shares authorized at March 31, 2012 and December 31, 2011, respectively; 27,254,000 and 5,224,532 shares issued and outstanding at March 31, 2012 and December 31, 2011, respectively	27	5
Additional-paid-in-capital	161,911	
Accumulated other comprehensive income	856	1,056

Accumulated deficit	(96,263)	(107,254)
Total stockholders equity (deficit) attributable to Brightcove Inc.	66,531	(106,193)
Non-controlling interest in consolidated subsidiary	1,160	1,108
Total stockholders equity (deficit)	67,691	(105,085)
Total liabilities, redeemable convertible preferred stock and stockholders equity (deficit)	$ 92,540	$ 47,338

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)

(in thousands, except share and per share data)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Revenue:		
Subscription and support revenue	$ 18,836	$ 12,492
Professional services and other revenue	1,108	582
Total revenue (1)	19,944	13,074
Cost of revenue: (2)		
Cost of subscription and support revenue	5,195	3,279
Cost of professional services and other revenue	1,169	1,097
Total cost of revenue	6,364	4,376
Gross profit	13,580	8,698
Operating expenses: (2)		
Research and development	4,177	3,443
Sales and marketing	9,008	6,966
General and administrative	3,637	2,725
Total operating expenses	16,822	13,134
Loss from operations	(3,242)	(4,436)
Other (expense) income, net	(263)	122
Loss before income taxes and non-controlling interest in consolidated subsidiary	(3,505)	(4,314)
Provision for income taxes	29	32
Consolidated net loss	(3,534)	(4,346)
Net income attributable to non-controlling interest in consolidated subsidiary	(52)	(69)
Net loss attributable to Brightcove Inc.	(3,586)	(4,415)
Accretion of dividends on redeemable convertible preferred stock	(733)	(1,410)
Net loss attributable to common stockholders	$ (4,319)	$ (5,825)
Net loss per share attributable to common stockholders basic and diluted	$ (0.27)	$ (1.22)
Weighted-average number of common shares used in computing net loss per share attributable to common stockholders basic and diluted	15,842,743	4,757,858
(1) Includes related party revenue (Note 18)	$ 987	$ 932

(2) Stock-based compensation included in above line items:		
Cost of subscription and support revenue	20	10
Cost of professional services and other revenue	22	24
Research and development	81	86
Sales and marketing	252	255
General and administrative	572	615

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)

(in thousands)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Consolidated net loss	$ (3,534)	$ (4,346)
Other comprehensive income (loss):		
Foreign currency translation adjustments	(200)	(43)
Change in market value of investments		42
Other comprehensive loss	(200)	(1)
Comprehensive loss	(3,734)	(4,347)
Less: net income attributable to non-controlling interest in consolidated subsidiary	52	69
Comprehensive loss attributable to Brightcove Inc.	$ (3,786)	$ (4,416)

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

Brightcove Inc.

Condensed Consolidated Statements of Cash Flows

(unaudited)

(in thousands)

	Three Months Ended March 31, 2012	2011
Operating activities		
Net loss	$ (3,534)	$ (4,346)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	824	696
Stock-based compensation	947	990
Change in fair value of warrants	(28)	(3)
Provision for reserves on accounts receivable	67	20
Amortization of deferred financing costs	44	
Loss on disposal of equipment	83	
Changes in assets and liabilities:		
Accounts receivable	(1,377)	(222)
Prepaid expenses and other current assets	(599)	(1,301)
Other assets	299	115
Accounts payable	(636)	115
Accrued expenses	135	(182)
Deferred revenue	1,006	927
Net cash used in operating activities	(2,769)	(3,191)
Investing activities		
Purchase of property and equipment	(3,742)	(1,103)
Capitalization of internal-use software costs	(24)	(105)
Decrease in restricted cash		9
Net cash used in investing activities	(3,766)	(1,199)
Financing activities		
Proceeds from exercise of stock options	181	24
Proceeds from issuance of common stock in connection with initial public offering, net of offering costs	56,923	
Payments under term loan	(7,000)	
Net cash provided by financing activities	50,104	24
Effect of exchange rate changes on cash	(149)	(1)
Net increase (decrease) in cash and cash equivalents	43,420	(4,367)
Cash and cash equivalents at beginning of period	17,227	20,341
Cash and cash equivalents at end of period	$ 60,647	$ 15,974
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	$	395	$	
Accretion of Series A, B, C and D redeemable convertible preferred stock issuance costs and dividends	$	773	$	1,487
Vesting of restricted stock	$	25	$	84

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 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 March 31, 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 months ended March 31, 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 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 $4.2 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 consolidated financial statements. As of March 31, 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.

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 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 March 31, 2012 and 2011 was $52 and $69, respectively.

4. Subsequent Events Considerations

The Company has evaluated all subsequent events and determined that there are no material recognized or unrecognized subsequent events requiring disclosure.

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.

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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 upon final delivery.

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

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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 federally insured limits. The Company routinely assesses the creditworthiness of its customers. The Company generally has not experienced any material losses related to receivables from individual customers, or groups of customers. The Company does not require collateral. Due to these factors, no additional credit risk beyond amounts provided for collection losses is believed by management to be probable in the Company s accounts receivable.

At March 31, 2012 and December 31, 2011, no individual customer accounted for 10% or more of net accounts receivable. For the three months ended March 31, 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 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. 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.

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Cash and cash equivalents as of March 31, 2012 and December 31, 2011 consist of the following:

	March 31, 2012			
Description	Contracted Maturity	Amortized Cost	Fair Market Value	Balance Per Balance Sheet
Cash	Demand	$ 22,905	$ 22,905	$ 22,905
Money market funds	Demand	37,742	37,742	37,742
Total cash and cash equivalents		$ 60,647	$ 60,647	$ 60,647

	December 31, 2011			
Description	Contracted Maturity	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 March 31, 2012 and 2011, the Company capitalized $24 and $105, respectively, of internal-use software development costs. The Company recorded amortization expense associated with its capitalized internal-use software development costs of $156 and $255 for the three months ended March 31, 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.

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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.

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 March 31,	
	2012	**2011**
Weighted-average shares of common stock outstanding	15,901	4,884
Less: weighted-average number of unvested restricted common shares outstanding	58	126
Weighted-average number of common shares used in calculating net loss per common share	15,843	4,758

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 March 31,	
	2012	**2011**
Redeemable convertible preferred stock	8,696	16,151
Options outstanding	3,971	3,854
Unvested restricted shares	58	126
Warrants	47	47
Total	12,772	20,178

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).

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

	March 31, 2012			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Cash equivalents - money market funds	$ 37,742			$ 37,742
Restricted cash	233			233
Total assets	$ 37,975	$	$	$ 37,975

	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 during the three months ended March 31, 2012 and are no longer presented at fair value.

13. Stock-based Compensation

At March 31, 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). 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 $947 and $990 for the three months ended March 31, 2012 and 2011, respectively. As of March 31, 2012, there was $5,502 of unrecognized stock-based compensation expense related to stock-based awards that is expected to be recognized over a weighted average period of 2.44 years.

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 both the three months ended March 31, 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 March 31,	
	2012	**2011**
Expected life in years	6.2	6.2
Risk-free interest rate	1.37%	2.79%
Volatility	57%	57%
Weighted average fair value of grants	$ 5.98	$ 4.61

The following is a summary of the status of the Company s stock options as of March 31, 2012 and the stock option activity for the 2004 Plan and 2012 Plan during the three months ended March 31, 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	171,712	11.00 11.00	11.00		
Canceled	(47,593)	1.25 11.00	8.27		
Exercised	(128,963)	0.31 9.31	1.40		
Outstanding at March 31, 2012	3,981,862	$ 0.13 11.00	$ 4.09	7.31	$ 82,464
Exercisable at March 31, 2012	2,514,024	$ 0.13 11.00	$ 2.28	6.63	$ 56,616
Vested or expected to vest at March 31, 2012 (2)					