BANK OF MONTREAL /CAN/
Form 424B2
September 02, 2015
The information in this preliminary pricing supplement is not complete and may be changed. This preliminary pricing supplement is not an offer to sell nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Registration Statement No. 333-196387
Filed Pursuant to Rule 424(b)(2)

Subject to Completion, dated September 2, 2015
Pricing Supplement to the Prospectus dated June 27, 2014, the Prospectus Supplement dated June 27, 2014 and the Product Supplement dated June 30, 2014
US$
Senior Medium-Term Notes, Series C
Buffered Bullish Enhanced Return Notes due September 29, 2017
Linked to the SPDR® S&P® Oil & Gas Exploration & Production ETF

- The notes are designed for investors who seek a 300% leveraged return based on any appreciation in the share price of the SPDR® S&P® Oil & Gas Exploration & Production ETF (the "Underlying Asset"). Investors should be willing to accept a payment at maturity that is capped at the Maximum Redemption Amount (as defined below) be willing to forgo periodic interest, and be willing to lose 1% of their principal amount for each 1% that the price of the Underlying Asset decreases by more than 20% from its price on the pricing date.

- An investor in the notes may lose up to 80% of the principal at maturity.

- The maximum return at maturity will be equal to the product of the Upside Leverage Factor of 300.00% and the Cap of 12.00%. Accordingly, the Maximum Redemption Amount will be $1,360 for each $1,000 in principal amount (a 36.00% return).

- Any payment at maturity is subject to the credit risk of Bank of Montreal. The notes will not be listed on any securities exchange.

- The notes will be issued in minimum denominations of $1,000 and integral multiples of $1,000.

- The offering is expected to price on or about September 25, 2015, and the notes are expected to settle through the facilities of The Depository Trust Company on or about September 30, 2015.

- The notes are scheduled to mature on September 29, 2017.

- The CUSIP number of the notes is 06366RY90.

- Our subsidiary, BMO Capital Markets Corp. ("BMOCM"), is the agent for this offering. See "Supplemental Plan of Distribution (Conflicts of Interest)" below.

Investing in the notes involves risks, including those described in the "Selected Risk Considerations" section beginning on page P-4 of this pricing supplement, the "Additional Risk Factors Relating to the Notes" section beginning on page PS-5 of the product supplement, and the "Risk Factors" section beginning on page S-1 of the prospectus supplement and on page 7 of the prospectus.
Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these notes or passed upon the accuracy of this pricing supplement, the product supplement, the prospectus

supplement or the prospectus.  Any representation to the contrary is a criminal offense.
The notes will be our unsecured obligations and will not be savings accounts or deposits that are insured by the United States Federal Deposit Insurance Corporation, the Bank Insurance Fund, the Canada Deposit Insurance Corporation or any other governmental agency or instrumentality or other entity.
On the date of this preliminary pricing supplement, based on the terms set forth above, the estimated initial value of the notes is $941.00 per $1,000 in principal amount. The estimated initial value of the notes on the pricing date may differ from this value but will not be less than $920.00 per $1,000 in principal amount. However, as discussed in more detail in this pricing supplement, the actual value of the notes at any time will reflect many factors and cannot be predicted with accuracy.

| | Price to Public(1) | Agent's Commission(1) | Proceeds to Bank of Montreal |
|---|---|---|---|
| Per Note | US$1,000.00 | US$2.50 | US$997.50 |
| Total | US$ | US$ | US$ |

(1)  Certain dealers who purchase the notes for sale to certain fee-based advisory accounts may forego some or all of their selling concessions, fees or commissions. The public offering price for investors purchasing the notes in these accounts may be between $997.50 and $1,000 per $1,000 in principal amount.

BMO CAPITAL MARKETS

Key Terms of the Notes:

| | |
|---|---|
| Underlying Asset: | SPDR® S&P® Oil & Gas Exploration & Production ETF (NYSE Arca symbol: XOP). See the section below entitled "The Underlying Asset" for additional information about the Underlying Asset. |
| Payment at Maturity: | If the Percentage Change is greater than or equal to the Cap, the payment at maturity for each $1,000 in principal amount of the notes will equal the Maximum Redemption Amount.<br><br>If the Percentage Change is positive but is less than the Cap, then the payment at maturity for each $1,000 in principal amount of the notes will be calculated as follows:<br><br>Principal Amount + [(Principal Amount × (Percentage Change x Upside Leverage Factor)]<br><br>If the Percentage Change is between 0% and -20% inclusive, then the amount that the investors will receive at maturity will equal the principal amount of the notes.<br><br>If the Percentage Change is less than -20%, then the payment at maturity will be calculated as follows:<br><br>Principal Amount + [Principal Amount x (Percentage Change + Buffer Percentage)]<br><br>Accordingly, if the Percentage Change is less than -20%, you will lose 1% of the principal amount of the notes for each 1% that the Final Level is less than the Buffer Level. |
| Upside Leverage Factor: | 300.00% |
| Cap: | 12.00% |
| Maximum Redemption Amount: | The payment at maturity will not exceed the Maximum Redemption Amount of $1,360 per $1,000 in principal amount of the notes. |
| Initial Level: | The closing price of one share of the Underlying Asset on the pricing date. |
| Final Level: | The closing price of one share of the Underlying Asset on the valuation date. |
| Buffer Level: | 80% of the Initial Level. |
| Buffer Percentage: | 20%. Accordingly, you will receive the principal amount of your notes at maturity only if the price of the Underlying Asset does not decrease by more than 20% from the pricing date to the valuation date. If the Final Level is less than the Buffer Level, you will receive less than the principal amount of |

| | |
|---|---|
| | your notes at maturity, and you could lose up to 80% of the principal amount of your notes. |
| Percentage Change: | $\frac{\text{Final Level} - \text{Initial Level}}{\text{Initial Level}}$, expressed as a percentage. |
| Pricing Date: | On or about September 25, 2015. |
| Settlement Date: | On or about September 30, 2015, as determined on the pricing date. |
| Valuation Date: | On or about September 26, 2017, as determined on the pricing date. |
| Maturity Date: | On or about September 29, 2017, as determined on the pricing date. |
| Automatic Redemption: | Not applicable |
| Calculation Agent: | BMOCM |
| Selling Agent: | BMOCM |

The pricing date and settlement date are subject to change. The actual pricing date, settlement date, valuation date and maturity date will be set forth in the final pricing supplement.

We may use this pricing supplement in the initial sale of the notes. In addition, BMOCM or another of our affiliates may use this pricing supplement in market-making transactions in any notes after their initial sale. Unless our agent or we inform you otherwise in the confirmation of sale, this pricing supplement is being used in a market-making transaction.

Additional Terms of the Notes

You should read this pricing supplement together with the product supplement dated June 30, 2014, the prospectus supplement dated June 27, 2014 and the prospectus dated June 27, 2014. This pricing supplement, together with the documents listed below, contains the terms of the notes and supersedes all other prior or contemporaneous oral statements as well as any other written materials including preliminary or indicative pricing terms, correspondence, trade ideas, structures for implementation, sample structures, fact sheets, brochures or other educational materials of ours or the agent. You should carefully consider, among other things, the matters set forth in "Additional Risk Factors Relating to the Notes" in the product supplement, as the notes involve risks not associated with conventional debt securities. We urge you to consult your investment, legal, tax, accounting and other advisers before you invest in the notes.

You may access these documents on the SEC website at www.sec.gov as follows (or if such address has changed, by reviewing our filings for the relevant date on the SEC website):

- Product supplement dated June 30, 2014: https://www.sec.gov/Archives/edgar/data/927971/000121465914004753/c627140424b5.htm

- Prospectus supplement dated June 27, 2014: https://www.sec.gov/Archives/edgar/data/927971/000119312514254915/d750935d424b5.htm

- Prospectus dated June 27, 2014: https://www.sec.gov/Archives/edgar/data/927971/000119312514254905/d749601d424b2.htm

Our Central Index Key, or CIK, on the SEC website is 927971. As used in this pricing supplement, "we," "us" or "our" refers to Bank of Montreal.

Selected Risk Considerations

An investment in the notes involves significant risks. Investing in the notes is not equivalent to investing directly in the Underlying Asset.  These risks are explained in more detail in the “Additional Risk Factors Relating to the Notes” section of the product supplement.

- Your investment in the notes may result in a loss. — You may lose some or substantially all of your investment in the notes. The minimum percentage of your principal that you are entitled to receive under the terms of the notes is only 20%. The payment at maturity will be based on the Final Level, and whether the Final Level of the Underlying Asset on the valuation date has declined from the Initial Level to a level that is less than the Buffer Level. You will lose 1.00% of the principal amount of your notes for each 1.00% that the Final Level is less than the Buffer Level. Accordingly, you could lose up to 80% of the principal amount of the notes.

- Your return on the notes is limited to the Maximum Redemption Amount, regardless of any appreciation in the price of the Underlying Asset. — You will not receive a payment at maturity with a value greater than the Maximum Redemption Amount per $1,000 in principal amount of the notes. This will be the case even if the Percentage Change exceeds the Cap.

- Your investment is subject to the credit risk of Bank of Montreal. — Our credit ratings and credit spreads may adversely affect the market value of the notes. Investors are dependent on our ability to pay the amount due at maturity, and therefore investors are subject to our credit risk and to changes in the market’s view of our creditworthiness. Any decline in our credit ratings or increase in the credit spreads charged by the market for taking our credit risk is likely to adversely affect the value of the notes.

- Potential conflicts. — We and our affiliates play a variety of roles in connection with the issuance of the notes, including acting as calculation agent. In performing these duties, the economic interests of the calculation agent and other affiliates of ours are potentially adverse to your interests as an investor in the notes. We or one or more of our affiliates may also engage in trading of shares of the Underlying Asset or securities held by the Underlying Asset on a regular basis as part of our general broker-dealer and other businesses, for proprietary accounts, for other accounts under management or to facilitate transactions for our customers. Any of these activities could adversely affect the price of the Underlying Asset and, therefore, the market value of the notes. We or one or more of our affiliates may also issue or underwrite other securities or financial or derivative instruments with returns linked or related to changes in the performance of the Underlying Asset. By introducing competing products into the marketplace in this manner, we or one or more of our affiliates could adversely affect the market value of the notes.

- Our initial estimated value of the notes will be lower than the price to public. — Our initial estimated value of the notes is only an estimate, and is based on a number of factors.  The price to public of the notes will exceed our initial estimated value, because costs associated with offering, structuring and hedging the notes are included in the price to public, but are not included in the estimated value.  These costs include the underwriting discount and selling concessions, the profits that we and our affiliates expect to realize for assuming the risks in hedging our obligations under the notes and the estimated cost of hedging these obligations.  The initial estimated value of the notes may be as low as the amount indicated on the cover page of this pricing supplement.

- Our initial estimated value does not represent any future value of the notes, and may also differ from the estimated value of any other party. — Our initial estimated value of the notes as of the date of this preliminary pricing supplement is, and our estimated value as determined on the pricing date will be, derived using our internal pricing models.  This value is based on market conditions and other relevant factors, which include volatility of the Underlying Asset, dividend rates and interest rates.  Different pricing models and assumptions could provide values for the notes that are greater than or less than our initial estimated value.  In addition, market conditions and other relevant factors after the pricing date are expected to change, possibly rapidly, and our assumptions may prove to be incorrect. After the pricing date, the value of the notes could change dramatically due to changes in market conditions, our creditworthiness, and the other factors set forth in this pricing supplement and the product supplement. These changes are likely to impact the price, if any, at which we or BMOCM would be willing to purchase the notes from you in any secondary market transactions. Our initial estimated value does not represent a minimum price at which we or our affiliates would be willing to buy your notes in any secondary market at any time.

- The terms of the notes are not determined by reference to the credit spreads for our conventional fixed-rate debt. — To determine the terms of the notes, we will use an internal funding rate that represents a discount from the credit spreads for our conventional fixed-rate debt. As a result, the terms of the notes are less favorable to you than if we had used a higher funding rate.

- Certain costs are likely to adversely affect the value of the notes. — Absent any changes in market conditions, any secondary market prices of the notes will likely be lower than the price to public. This is because any secondary market prices will likely take into account our then-current market credit spreads, and because any secondary market prices are likely to exclude all or a portion of the agent's commission and the hedging profits and estimated hedging costs that are included in the price to public of the notes and that may be reflected on your account statements. In addition, any such price is also likely to reflect a discount to account for costs associated with establishing or unwinding any related hedge transaction, such as dealer discounts, mark-ups and other transaction costs. As a result, the price, if any, at which BMOCM or any other party may be willing to purchase the notes from you in secondary market transactions, if at all, will likely be lower than the price to public. Any sale that you make prior to the maturity date could result in a substantial loss to you.

- Owning the notes is not the same as owning shares of the Underlying Asset or a security directly linked to the Underlying Asset. — The return on your notes will not reflect the return you would realize if you actually owned shares of the Underlying Asset or a security directly linked to the performance of the Underlying Asset and held that investment for a similar period. Your notes may trade quite differently from the Underlying Asset. Changes in the price of the Underlying Asset may not result in comparable changes in the market value of your notes. Even if the price of the Underlying Asset increases during the term of the notes, the market value of the notes prior to maturity may not increase to the same extent. It is also possible for the market value of the notes to decrease while the price of the Underlying Asset increases. In addition, any dividends or other distributions paid on the Underlying Asset will not be reflected in the amount payable on the notes.

- You will not have any shareholder rights and will have no right to receive any shares of the Underlying Asset at maturity. — Investing in your notes will not make you a holder of any shares of the Underlying Asset or any securities held by the Underlying Asset. Neither you nor any other holder or owner of the notes will have any voting rights, any right to receive dividends or other distributions, or any other rights with respect to the Underlying Asset or such other securities.

- Changes that affect the Underlying Index will affect the market value of the notes and the amount you will receive at maturity. — The policies of S&P Dow Jones Indices LLC (the "Index Sponsor," or "S&P"), the sponsor of the S&P® Oil & Gas Exploration & Production Select Industry® Index (the "Underlying Index"), concerning the calculation of the Underlying Index, additions, deletions or substitutions of the components of the Underlying Index and the manner in which changes affecting those components, such as stock dividends, reorganizations or mergers, may be reflected in the Underlying Index and, therefore, could affect the share price of the Underlying Asset, the amount payable on the notes at maturity, and the market value of the notes prior to maturity. The amount payable on the notes and their market value could also be affected if the Index Sponsor changes these policies, for example, by changing the manner in which it calculates the Underlying Index, or if the Index Sponsor discontinues or suspends the calculation or publication of the Underlying Index.

- We have no affiliation with the Index Sponsor and will not be responsible for any actions taken by the Index Sponsor. — The Index Sponsor is not an affiliate of ours and will not be involved in the offering of the notes in any way. Consequently, we have no control over the actions of the Index Sponsor, including any actions of the type that would require the calculation agent to adjust the payment to you at maturity. The Index Sponsor has no obligation of any sort with respect to the notes. Thus, the Index Sponsor has no obligation to take your interests into consideration for any reason, including in taking any actions that might affect the value of the notes. None of our proceeds from the issuance of the notes will be delivered to the Index Sponsor.

- Adjustments to the Underlying Asset could adversely affect the notes. — SSgA Funds Management, Inc. ("SSFM"), as the sponsor and advisor of the Underlying Asset, is responsible for calculating and maintaining the Underlying Asset. SSFM can add, delete or substitute the stocks comprising the Underlying Asset or make other methodological changes that could change the share price of the Underlying Asset at any time. If one or more of these events occurs, the calculation of the amount payable at maturity may be adjusted to reflect such event or events. Consequently, any of these actions could adversely affect the amount payable at maturity and/or the market value of the notes.

- We and our affiliates do not have any affiliation with the investment advisor of the Underlying Asset and are not responsible for its public disclosure of information. — The investment advisor of the Underlying Asset advises the Underlying Asset on various matters including matters relating to the policies, maintenance and calculation of the Underlying Asset. We and our affiliates are not affiliated with the investment advisor in any way and have no ability to control or predict its actions, including any errors in or discontinuance of disclosure regarding its methods or policies relating to the Underlying Asset. The investment advisor is not involved in the offering of the notes in any way and has no obligation to consider your interests as an owner of the notes in taking any actions relating to the Underlying Asset that might affect the value of the notes.  Neither we nor any of our affiliates has independently verified the adequacy or accuracy of the information about the investment advisor or the Underlying Asset contained in any public disclosure of information. You, as an investor in the notes, should make your own investigation into the Underlying Asset.

- The correlation between the performance of the Underlying Asset and the performance of the Underlying Index may be imperfect. — The performance of the Underlying Asset is linked principally to the performance of the Underlying Index. However, because of the potential discrepancies identified in more detail in the product supplement, the return on the Underlying Asset may correlate imperfectly with the return on the Underlying Index.

- The Underlying Asset is subject to management risks. — The Underlying Asset is subject to management risk, which is the risk that the investment advisor's investment strategy, the implementation of which is subject to a number of constraints, may not produce the intended results. For example, the investment advisor may invest a portion of the Underlying Asset's assets in securities not included in the relevant industry or sector but which the investment advisor believes will help the Underlying Asset track the relevant industry or sector.

- Lack of liquidity. — The notes will not be listed on any securities exchange. BMOCM may offer to purchase the notes in the secondary market, but is not required to do so. Even if there is a secondary market, it may not provide enough liquidity to allow you to trade or sell the notes easily. Because other dealers are not likely to make a secondary market for the notes, the price at which you may be able to trade the notes is likely to depend on the price, if any, at which BMOCM is willing to buy the notes.

- Hedging and trading activities. — We or any of our affiliates may carry out hedging activities related to the notes, including purchasing or selling shares of the Underlying Asset or securities held by the Underlying Asset, or futures or options relating to the Underlying Asset, or other derivative instruments with returns linked or related to changes in the performance of the Underlying Asset. We or our affiliates may also engage in trading of shares of the Underlying Asset or securities held by the Underlying Asset from time to time. Any of these hedging or trading activities on or prior to the pricing date and during the term of the notes could adversely affect our payment to you at maturity.

- Many economic and market factors will influence the value of the notes. — In addition to the price of the Underlying Asset and interest rates on any trading day, the value of the notes will be affected by a number of economic and market factors that may either offset or magnify each other, and which are described in more detail in the product supplement.

- You must rely on your own evaluation of the merits of an investment linked to the Underlying Asset. — In the ordinary course of their businesses, our affiliates from time to time may express views on expected movements in the price of the Underlying Asset or the prices of the securities held by the Underlying Asset. One or more of our affiliates have published, and in the future may publish, research reports that express views on the Underlying Asset or these securities. However, these views are subject to change from time to time. Moreover, other professionals who deal in the markets relating to the Underlying Asset at any time may have significantly different views from those of our affiliates. You are encouraged to derive information concerning the Underlying Asset from multiple sources, and you should not rely on the views expressed by our affiliates.

Neither the offering of the notes nor any views which our affiliates from time to time may express in the ordinary course of their businesses constitutes a recommendation as to the merits of an investment in the notes.

- Significant aspects of the tax treatment of the notes are uncertain. — The tax treatment of the notes is uncertain. We do not plan to request a ruling from the Internal Revenue Service or from any Canadian authorities regarding the tax treatment of the notes, and the Internal Revenue Service or a court may not agree with the tax treatment described in this pricing supplement.

The Internal Revenue Service has issued a notice indicating that it and the Treasury Department are actively considering whether, among other issues, a holder should be required to accrue interest over the term of an instrument such as the notes even though that holder will not receive any payments with respect to the notes until maturity and whether all or part of the gain a holder may recognize upon sale or maturity of an instrument such as the notes could be treated as ordinary income. The outcome of this process is uncertain and could apply on a retroactive basis.

Please read carefully the section entitled “U.S. Federal Tax Information” in this pricing supplement, the section entitled “Supplemental Tax Considerations—Supplemental U.S. Federal Income Tax Considerations” in the accompanying product supplement, the section “United States Federal Income Taxation” in the accompanying prospectus and the section entitled “Certain Income Tax Consequences” in the accompanying prospectus supplement. You should consult your tax advisor about your own tax situation.

Additional Risks Relating to the SPDR® S&P® Oil & Gas Exploration & Production ETF

- The stocks included in the Underlying Index are concentrated in one sector. — All of the stocks included in the Underlying Index are issued by companies in the oil and gas exploration and production sector. As a result, the stocks that will determine the performance of the Underlying Index, which the Underlying Asset seeks to replicate, are concentrated in one sector. Although an investment in the notes will not give holders any ownership or other direct interests in the stocks comprising the Underlying Index, the return on an investment in the notes will be subject to certain risks associated with a direct equity investment in companies in the oil and gas exploration and production sector. Accordingly, by investing in the notes, you will not benefit from the diversification which could result from an investment linked to companies that operate in multiple sectors.

- The stocks of companies in the oil and gas sector are subject to swift price fluctuations. — The issuers of the stocks held by the Underlying Asset and included in the Underlying Index develop and produce, among other things, crude oil and natural gas, and provide, among other things, drilling services and other services related to oil and gas production and distribution. Stock prices for these types of companies are affected by supply and demand both for their specific product or service and for oil and gas products in general. The price of oil and gas, exploration and production spending, government regulation, world events and economic conditions will likewise affect the performance of these companies. Correspondingly, the stocks of companies in this sector are subject to swift price fluctuations caused by events relating to international politics, energy conservation, the success of exploration projects and tax and other governmental regulatory policies. Weak demand for the companies' products or services or for oil and gas products and services in general, as well as negative developments in these other areas, would adversely impact the value of the stocks held by the Underlying Asset and included in the Underlying Index, the market price of the Underlying Asset, and the value of the notes.

Hypothetical Return on the Notes at Maturity

The following table and examples illustrate the hypothetical return at maturity on a $1,000 investment in the notes. The "return," as used in this section is the number, expressed as a percentage, which results from comparing the payment at maturity per $1,000 in principal amount of the notes to $1,000. The hypothetical total returns set forth below are based on a hypothetical Initial Level of $100.00, the Buffer Percentage of 20% (the Buffer Level is 80% of the Initial Level), the Cap of 12%, the Maximum Redemption Amount of $1,360.00 and the Upside Leverage Factor of 300%. The hypothetical returns set forth below are for illustrative purposes only and may not be the actual returns applicable to investors in the notes. The numbers appearing in the following table and in the examples below have been rounded for ease of analysis.

| Hypothetical Final Level | Hypothetical Percentage Change | Hypothetical Payment at Maturity | Hypothetical Return on the Notes |
|---|---|---|---|
| $0.00 | -100.00% | $200.00 | -80.00% |
| $35.00 | -65.00% | $550.00 | -45.00% |
| $70.00 | -30.00% | $900.00 | -10.00% |
| $80.00 | -20.00% | $1,000.00 | 0.00% |
| $90.00 | -10.00% | $1,000.00 | 0.00% |
| $100.00 | 0.00% | $1,000.00 | 0.00% |
| $103.00 | 3.00% | $1,090.00 | 9.00% |
| $105.00 | 5.00% | $1,150.00 | 15.00% |
| $110.00 | 10.00% | $1,300.00 | 30.00% |
| $112.00 | 12.00% | $1,360.00 | 36.00% |
| $125.00 | 25.00% | $1,360.00 | 36.00% |
| $130.00 | 30.00% | $1,360.00 | 36.00% |
| $150.00 | 50.00% | $1,360.00 | 36.00% |
| $200.00 | 100.00% | $1,360.00 | 36.00% |

Hypothetical Examples of Amounts Payable at Maturity

The following examples illustrate how the returns set forth in the table above are calculated.

Example 1: The price of the Underlying Asset decreases from the hypothetical Initial Level of $100.00 to a hypothetical Final Level of $70.00, representing a Percentage Change of -30%. Because the Percentage Change is negative and the hypothetical Final Level of $70 is less than the hypothetical Initial Level by more than the Buffer Percentage of 20%, the investor receives a payment at maturity of $900.00 per $1,000 in principal amount of the notes, calculated as follows:

$$\$1,000 + [\$1,000 \text{ x } (-30\% + 20\%)] = \$900$$

Example 2: The price of the Underlying Asset decreases from the hypothetical Initial Level of $100.00 to a hypothetical Final Level of $95.00, representing a Percentage Change of -5%. Although the Percentage Change is negative, because the hypothetical Final Level of $95.00 is less than the hypothetical Initial Level by not more than the Buffer Percentage of 20%, the investor receives a payment at maturity of $1,000.00 per $1,000 in principal amount of the notes.

Example 3: The price of the Underlying Asset increases from the hypothetical Initial Level of $100.00 to a hypothetical Final Level of $105.00, representing a Percentage Change of 5%. Because the hypothetical Final Level of $105.00 is greater than the hypothetical Initial Level and the Percentage Change of 5% does not exceed the Cap, the investor receives a payment at maturity of $1,150.00 per $1,000 in principal amount of the notes, calculated as follows:

$1,000 + [$1,000 x (5% x 300%)] = $1,150

Example 4: The price of the Underlying Asset increases from the hypothetical Initial Level of $100.00 to a hypothetical Final Level of $150.00, representing a Percentage Change of 50%. Because the hypothetical Final Level of $150.00 is greater than the hypothetical Initial Level and the Percentage Change of 50% exceeds the Cap, the investor receives a payment at maturity of $1,360.00 per $1,000 in principal amount of the notes, the Maximum Redemption Amount.

U.S. Federal Tax Information

By purchasing the notes, each holder agrees (in the absence of a change in law, an administrative determination or a judicial ruling to the contrary) to treat each note as a pre-paid cash-settled derivative contract for U.S. federal income tax purposes. However, the U.S. federal income tax consequences of your investment in the notes are uncertain and the Internal Revenue Service could assert that the notes should be taxed in a manner that is different from that described in the preceding sentence. Please see the discussion (including the opinion of our counsel Morrison & Foerster LLP) in the product supplement under "Supplemental Tax Considerations—Supplemental U.S. Federal Income Tax Considerations," which applies to the notes.

Supplemental Plan of Distribution (Conflicts of Interest)

BMOCM will purchase the notes from us at a purchase price reflecting the commission set forth on the cover page of this pricing supplement. BMOCM has informed us that, as part of its distribution of the notes, it will reoffer the notes to other dealers who will sell them. Each such dealer, or each additional dealer engaged by a dealer to whom BMOCM reoffers the notes, will purchase the notes at an agreed discount to the price to public.

Certain dealers who purchase the notes for sale to certain fee-based advisory accounts may forego some or all of their selling concessions, fees or commissions. The public offering price for investors purchasing the notes in these accounts may be less than 100% of the principal amount, as set forth on the cover page of this document. Investors that hold their notes in these accounts may be charged fees by the investment advisor or manager of that account based on the amount of assets held in those accounts, including the notes.

We own, directly or indirectly, all of the outstanding equity securities of BMOCM, the agent for this offering. In accordance with FINRA Rule 5121, BMOCM may not make sales in this offering to any of its discretionary accounts without the prior written approval of the customer.

We reserve the right to withdraw, cancel or modify the offering of the notes and to reject orders in whole or in part. You may cancel any order for the notes prior to its acceptance.

You should not construe the offering of the notes as a recommendation of the merits of acquiring an investment linked to the Underlying Asset or as to the suitability of an investment in the notes.

**Significant**
**Unobservable Inputs**
**(Level 3)   Total**

Assets:

Money market funds

$9,587   $   $   $9,587

Restricted cash

201   201

| | | | | |
|---|---|---|---|---|
| Total assets | | | | |
| | $9,587 | $201 | $ | $9,788 |

| **December 31, 2015** | **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 | $9,580 | $ | $ | $9,580 |
| Restricted cash | | 201 | | 201 |
| Total assets | $9,580 | $201 | $ | $9,781 |

**7. Stock-based Compensation**

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

| | Three Months Ended March 31, 2016 | 2015 |
|---|---|---|
| Expected life in years | 6.2 | 6.3 |
| Risk-free interest rate | 1.61% | 1.82% |
| Volatility | 45% | 49% |
| Dividend yield | | |
| Weighted-average fair value of stock options granted | $ 2.67 | $ 3.99 |

The Company recorded stock-based compensation expense of $1,459 and $1,453 for the three months ended March 31, 2016 and 2015, respectively. As of March 31, 2016, there was $11,368 of unrecognized stock-based compensation expense related to stock-based awards that is expected to be recognized over a weighted-average period of 2.77 years. The following is a summary of the status of the Company s stock options as of March 31, 2016 and the stock option activity during the three months ended March 31, 2016.

| | Number of Shares | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term (In Years) | Aggregate Intrinsic Value [1] |
|---|---|---|---|---|
| Outstanding at December 31, 2015 | 4,622,886 | $ 6.63 | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Granted | 93,250 | | 5.88 | | | | |
| Exercised | (33,263) | | 1.28 | | | $ | 125 |
| Canceled | (104,827) | | 9.39 | | | | |
| Outstanding at March 31, 2016 | 4,578,046 | $ | 6.59 | | 6.78 | $ | 5,060 |
| Exercisable at March 31, 2016 | 2,363,903 | $ | 6.09 | | 4.84 | $ | 4,695 |
| Vested or expected to vest at March 31, 2016 (2) | 4,041,896 | $ | 6.56 | | 6.48 | $ | 4,967 |

(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, 2016 of $6.24 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 March 31, 2016 plus the number of unvested options expected to vest as of March 31, 2016 based on the unvested options outstanding at March 31, 2016 adjusted for an estimated forfeiture rate.

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The following table summarizes the restricted stock unit activity during the three months ended March 31, 2016:

| | Shares | Weighted Average Grant Date Fair Value |
|---|---|---|
| Unvested by December 31, 2015 | 1,503,814 | $ 6.69 |
| Granted | 162,000 | 5.88 |
| Vested and issued | (53,981) | 7.21 |
| Canceled | (35,305) | 7.36 |
| Unvested by March 31, 2016 | 1,576,528 | $ 6.57 |

**8. Income Taxes**

For the three months ended March 31, 2016 and 2015, the Company recorded income tax expense of $45 and $66, respectively. The income tax expense relates principally to the Company s foreign operations.

The Company has evaluated the positive and negative evidence bearing upon the realizability of its U.S. net deferred tax assets. As required by the provisions of Accounting Standards Codification (ASC) 740, *Income Taxes*, management has determined that it is more-likely-than-not that the Company will not utilize the benefits of federal and state U.S. net deferred tax assets for financial reporting purposes. Accordingly, the net deferred tax assets are subject to a valuation allowance at March 31, 2016 and December 31, 2015. The Company s income tax return reporting periods since December 31, 2012 are open to income tax audit examination by the federal and state tax authorities. In addition, because the Company has net operating loss carryforwards, the Internal Revenue Service is permitted to audit earlier years and propose adjustments up to the amount of net operating losses generated in those years. There are currently no federal, state or foreign audits in progress.

**9. Commitments and Contingencies**

**Legal Matters**

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

On August 27, 2012, a complaint was filed by Blue Spike, LLC naming the Company in a patent infringement case (Blue Spike, LLC v. Audible Magic Corporation, et al., United States District Court for the Eastern District of Texas). The complaint alleges that the Company has infringed U.S. Patent No. 7,346,472 with a listed issue date of March 18, 2008, entitled Method and Device for Monitoring and Analyzing Signals, U.S. Patent No. 7,660,700 with a listed issue date of February 9, 2010, entitled Method and Device for Monitoring and Analyzing Signals, U.S. Patent No. 7,949,494 with a listed issue date of May 24, 2011, entitled Method and Device for Monitoring and Analyzing Signals and U.S. Patent No. 8,214,175 with a listed issue date of July 3, 2012, entitled Method and Device for Monitoring and Analyzing Signals. The complaint seeks an injunction enjoining infringement, damages and pre- and post-judgment costs and interest. The Company answered and filed counterclaims against Blue Spike on December 3, 2012. The Company amended its answer and counterclaims on July 15, 2013. This complaint is subject to indemnification by one of the Company s vendors. The Company cannot yet determine whether it is probable that a loss will be incurred in connection with this complaint, nor can the Company reasonably estimate the potential loss, if any.

**Guarantees and Indemnification Obligations**

The Company typically enters into indemnification agreements in the ordinary course of business. Pursuant to these agreements, the Company indemnifies and agrees to reimburse the indemnified party for losses and costs incurred by the indemnified party, generally the Company s customers, in connection with patent, copyright, trade secret, or other intellectual property or personal right infringement claim by third parties with respect to the Company s technology. The term of these indemnification agreements is generally perpetual after execution of the agreement. Based on when customers first subscribe for the Company s service, the maximum potential amount of future payments the Company could be required to make under certain of these indemnification agreements is unlimited, however, more recently the Company has typically limited the maximum potential value of such potential future payments in relation to the value of the contract. Based on historical experience and information known as of March 31, 2016, the Company has not incurred any costs for the above guarantees and indemnities. The Company has received requests for indemnification from customers in connection with patent infringement suits brought against the customer by a third party. To date, the Company has not agreed that the requested indemnification is required by the Company s contract with any such customer.

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

**10. Debt**

On November 19, 2015, the Company entered into an amended and restated loan and security agreement with a lender (the Loan Agreement ) providing for up to a $20.0 million asset based line of credit (the Line of Credit ). Under the Line of Credit, the Company can borrow up to $20.0 million. Borrowings under the Line of Credit are secured by substantially all of the Company s assets, excluding our intellectual property. Outstanding amounts under the Line of Credit accrue interest at a rate equal to the prime rate or the LIBOR rate plus 2.5%. Under the Loan Agreement, the Company must comply with certain financial covenants, including maintaining a minimum asset coverage ratio. If the outstanding principal during any month is at least $15.0 million, the Company must also maintain a minimum net income threshold based on non-GAAP operating measures. Failure to comply with these covenants, or the occurrence of an event of default, could permit the lender under the Line of Credit to declare all amounts borrowed under the Line of Credit, together with accrued interest and fees, to be immediately due and payable. The Company was in compliance with all covenants under the Line of Credit as of March 31, 2016.

On December 31, 2015, the Company entered into an equipment financing agreement with a lender (the December 2015 Equipment Financing Agreement ) to finance the purchase of $604 in computer equipment. In February 2016, the Company drew down $604 under the December 2015 Equipment Financing Agreement, and the liability was recorded at fair value using a market interest rate. The Company is repaying its obligation over a two year period through January 2018, and the amount outstanding was $556 as of March 31, 2016.

**11. Segment Information**

**Geographic Data**

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

| | Three Months Ended March 31, 2016 | 2015 |
|---|---|---|
| Revenue: | | |
| North America | $ 23,040 | $ 20,448 |
| Europe | 6,077 | 6,731 |
| Japan | 3,466 | 2,059 |
| Asia Pacific | 3,399 | 3,201 |
| Other | 310 | 446 |
| Total revenue | $ 36,292 | $ 32,885 |

North America is comprised of revenue from the United States, Canada and Mexico. During the three months ended March 31, 2016 and 2015, revenue from customers located in the United States was $21,663 and $19,007, respectively. During the three months ended March 31, 2016 and 2015, no other country contributed more than 10% of the Company s total revenue.

As of March 31, 2016 and December 31, 2015, property and equipment at locations outside the U.S. was not material.

**12. Recently Issued and Adopted Accounting Standards**

In May 2014, the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board jointly issued Accounting Standards Update (ASU) No. 2014-9, *Revenue from Contracts with Customers*, which clarifies the principles for recognizing revenue and develops a common revenue standard for GAAP and International Financial Reporting Standards. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The ASU is effective for public entities for annual and interim periods beginning after December 15, 2017 and allows for either full retrospective or modified retrospective application, with early adoption not permitted. Accordingly, the standard is effective for the Company on January 1, 2018. The Company is currently evaluating the adoption method it will apply and the impact that this guidance will have on its financial statements and related disclosures. Early adoption is permitted, but not before the original public organization effective date (that is, annual periods beginning after December 15, 2016).

In August 2014, the FASB issued ASU No. 2014-15, *Disclosure of Uncertainties about an Entity s Ability to Continue as a Going Concern.* ASU 2014-15 requires management to evaluate, at each annual or interim reporting period, whether there are conditions or events that exist that raise substantial doubt about an entity s ability to continue as a going concern within one year after the date the financial statements are issued and provide related disclosures. ASU 2014-15 is effective for annual periods ending after December 15, 2016 and earlier application is permitted. The adoption of ASU 2014-15 is not expected to have a material effect on the Company s consolidated financial statements or disclosures.

In March 2016, the FASB issued ASU No. 2016-09, *Compensation Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. ASU 2016-09 identifies areas for simplification involving several aspects of accounting for share based payments, including income tax consequences, classification of awards as either equity, or liabilities, an option to make a policy election to recognize gross share based compensation expense with actual forfeitures recognized as they occur as well as certain classification changes on the statement of cash flows. This guidance is effective for annual and interim reporting periods beginning after December 15, 2016, with early adoption permitted. The Company is currently assessing the impact that adopting ASU 2016-09 will have on its consolidated financial statements and related disclosures.

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In February 2016 the FASB issued ASU 2016-02, *Leases (Topic 842), Amendments to the FASB Accounting Standards Codification,* which replaces the existing guidance for leases. ASU 2016-02 requires the identification of arrangements that should be accounted for as leases by lessees. In general, for lease arrangements exceeding a twelve month term, these arrangements must now be recognized as assets and liabilities on the balance sheet of the lessee. Under ASU 2016-02, a right-of-use asset and lease obligation will be recorded for all leases, whether operating or financing, while the income statement will reflect lease expense for operating leases and amortization/interest expense for financing leases. The balance sheet amount recorded for existing leases at the date of adoption of ASU 2016-02 must be calculated using the applicable incremental borrowing rate at the date of adoption. In addition, ASU 2016-02 requires the use of the modified retrospective method, which will require adjustment to all comparative periods presented in the consolidated financial statements. This guidance is effective for annual and interim periods beginning after December 15, 2018 and requires retrospective application. The Company is currently assessing the impact that adopting ASU 2016-02 will have on its consolidated financial statements and related disclosures.

In April 2015, the FASB issued ASU 2015-05, *Intangibles Goodwill and Other Internal-Use Software (Subtopic 350-40), Customer s Accounting for Fees Paid in a Cloud Computing Arrangement.* ASU 2015-05 provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The guidance will not change GAAP for a customer s accounting for service contracts. The ASU aims to reduce complexity and diversity in practice. We adopted this standard on January 1, 2016 and the adoption did not have a material impact on our consolidated financial statements.

In April 2015, the FASB, issued ASU 2015-03, *Interest Imputation of Interest (Subtopic 835-30), Simplifying the Presentation of Debt Issuance Costs,* which provides that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct reduction from the carrying amount of the related debt liability, rather than classifying the costs separately in the balance sheet as a deferred charge. The ASU aims to reduce complexity. We adopted this standard on January 1, 2016 and the adoption did not have a material impact on our consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, *Consolidation (Topic 810), Amendments to the Consolidation Analysis*, which updated accounting guidance on consolidation requirements. This update changes the guidance with respect to the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. This guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015, with early adoption permitted. We adopted this standard on January 1, 2016 and the adoption did not have a material impact on our consolidated financial statements.

## 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, 2015.*

### 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, shou 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, 2015 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.*

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**Company Overview**

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

Brightcove Video Cloud, or Video Cloud, our flagship product released in 2006, is the world s leading online video platform. Video Cloud enables our customers to publish and distribute video to Internet-connected devices quickly, easily and in a cost-effective and high-quality manner. Brightcove Zencoder, or Zencoder, is a cloud-based video encoding service. Brightcove Once, or Once, is an innovative, cloud-based ad insertion and video stitching service that addresses the limitations of traditional online video ad insertion technology. Brightcove Gallery, or Gallery, is a cloud-based service that enables customers to create and publish video portals. Brightcove Perform, or Perform, is a cloud-based service for creating and managing video player experiences. Brightcove Video Marketing Suite, or Video Marketing Suite, is a comprehensive suite of video technologies designed to address the needs of marketers to drive awareness, engagement and conversion. Brightcove Lift, or Lift, released in October 2015, is a solution designed to defeat ad blockers, optimize ad delivery and deliver a premium TV-like viewing experience across connected platforms.

Our philosophy for the next few years will continue to be to invest in our product strategy and development, sales, and go-to-market to support our long-term revenue growth. We believe these investments will help us address some of the challenges facing our business such as demand for our products by existing 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, the innovation of new features for existing products and the development of new products. We believe this strategy will help us retain our existing customers, increase our average annual subscription revenue per premium customer and lead to the acquisition of new customers. Additionally, we believe customer growth will enable us to achieve economies of scale which will reduce our cost of goods sold, research and development and general and administrative expenses as a percentage of total revenue.

As of March 31, 2016, we had 439 employees and 4,915 customers, of which 3,005 used our volume offerings and 1,910 used our premium offerings. As of March 31, 2015, we had 410 employees and 5,578 customers, of which 3,714 used our volume offerings and 1,864 used our premium offerings.

We generate revenue by offering our products to customers on a subscription-based, software as a service, or SaaS, model. Our revenue grew from $32.9 million in the three months ended March 31, 2015 to $36.3 million in the three months ended March 31, 2016, primarily as a result of continued adoption of Video Cloud across our customer base. Our consolidated net loss was $1.6 million and $2.8 million for the three months ended March 31, 2016 and 2015, respectively. Included in consolidated net loss for the three months ended March 31, 2016 was stock-based compensation expense and amortization of acquired intangible assets of $1.5 million and $765,000, respectively. Included in consolidated net loss for the three months ended March 31, 2015 was stock-based compensation expense and amortization of acquired intangible assets of $1.5 million and $790,000, respectively.

For the three months ended March 31, 2016 and 2015, our revenue derived from customers located outside North America was 37% and 38%, 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 Once customers, our Zencoder customers, our Gallery customers, our Perform customers, our Video Marketing Suite customers and our Lift customers. Our volume offerings include our Video Cloud Express customers and our Zencoder customers on month-to-month and pay-as-you-go contracts.

As of March 31, 2016, we had 4,915 customers, of which 3,005 used our volume offerings and 1,910 used our premium offerings. As of March 31, 2015, we had 5,578 customers, of which 3,714 used our volume offerings and 1,864 used our premium offerings. During 2013, we shifted our go-to-market focus and growth strategy to expanding our premium customer base, as we believe our premium customers represent a greater opportunity for our solutions. Volume customers decreased during 2014 and 2015 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 2016 as we continue to focus on the market for our premium solutions and adjust Video Cloud Express price levels.

*Recurring Dollar Retention Rate*. We assess our ability to retain customers using a metric we refer to as our recurring dollar retention rate. We calculate the recurring dollar retention rate by dividing the retained recurring value of subscription revenue for a period by the previous recurring value of subscription revenue for the same period. We define retained recurring value of subscription revenue as the committed subscription fees for all contracts that renew in a given period, including any increase or decrease in contract value. We define previous recurring value of subscription revenue as the recurring value from committed subscription fees for all contracts that expire in that same period. We typically calculate our recurring dollar retention rate on a monthly basis. Recurring dollar retention rate provides visibility into our ongoing revenue. During the three months ended March 31, 2016 and 2015, the recurring dollar retention rate was 98% and 91%, 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.

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

| | **Three Months Ended March 31,** | |
|---|---|---|
| | **2016** | **2015** |
| Customers (at period end) | | |
| Volume | 3,005 | 3,714 |
| Premium | 1,910 | 1,864 |
| Total customers (at period end) | 4,915 | 5,578 |
| Recurring dollar retention rate | 98% | 91% |
| Average annual subscription revenue per premium customer (in thousands) | $ 69.3 | $ 63.1 |

**Components of Consolidated Statements of Operations**

*Revenue*

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

Video Cloud is offered in two product lines. The first product line is comprised of our premium product editions, Pro and Enterprise. All Pro and Enterprise editions include functionality to publish and distribute video to Internet-connected devices. The Enterprise edition provides additional features and functionality such as a multi-account environment 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 Video Cloud, basic support and a pre-determined amount of video streams, bandwidth, and managed content. We also offer gold support or platinum support to our premium customers for an additional fee, which includes extended phone support. The pricing for our premium editions is based on the number of users, accounts and usage, which is comprised of video streams, bandwidth and managed content. Should a customer s usage exceed the contractual entitlements, the contract will provide the rate at which the customer must pay for actual usage above the contractual entitlements. The second product line is comprised of our volume product edition, which we refer to as our Express edition. Our Express edition targets small and medium-sized businesses, or SMBs. The Express edition provides customers with the same basic functionality that is offered in our premium product editions but has been designed for customers who have lower usage requirements and do not typically seek advanced features and functionality. We are discontinuing the lower level pricing options for the Express edition and expect the total number of customers using the Express edition to continue to decrease. Customers who purchase the Express edition generally enter into month-to-month agreements. Express customers are generally billed on a monthly basis and pay via a credit card.

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

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

Gallery is offered to customers of our premium Video Cloud editions on a subscription basis. A customer s usage of Gallery counts against the pre-determined amount of video streams, bandwidth and managed content included with their Video Cloud Pro or Enterprise contract. Should a customer s usage exceed the contractual entitlements, the contract will provide the rate at which the customer must pay for actual usage above the contractual entitlements. We also offer gold support or platinum support to our Gallery customers for an additional fee, which includes extended phone support.

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

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

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

All Once, Gallery, Perform, Video Marketing Suite and Lift customers are considered premium customers.

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

*Cost of Revenue*

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

The costs associated with providing professional services are significantly higher as a percentage of related revenue than the costs associated with delivering our subscription and support services due to the labor costs of providing professional services. 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 three months of 2015 to the first three months of 2016. 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, amortization of acquired intangible assets, in addition to costs associated with marketing and promotional events, corporate communications, advertising, other brand building and product marketing expenses and allocated overhead. Our sales and marketing expenses have increased in absolute dollars in each of the last three years. We intend to continue to invest in sales and marketing and increase the number of sales representatives to add new customers and expand the sale of our product offerings within our existing customer base, build brand awareness and sponsor additional marketing events. Accordingly, in future periods we expect sales and marketing expense to increase in absolute dollars and continue to be our most significant operating expense. Over the long term, we believe that sales and marketing expense as a percentage of revenue will decrease, but will vary depending upon the mix of revenue from new and existing customers and from small, medium-sized and enterprise customers, as well as changes in the productivity of our sales and marketing programs.

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

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

**Other Expense**

Other expense consists primarily of interest income earned on our cash, cash equivalents and investments, foreign exchange gains and losses, interest expense payable on our debt, loss on disposal of equipment and changes in the fair value of the warrants issued in connection with a line of credit.

**Income Taxes**

As part of the process of preparing our consolidated financial statements, we are required to estimate our taxes in each of the jurisdictions in which we operate. We account for income taxes in accordance with the asset and liability method. Under this method, deferred tax assets and liabilities are recognized based on temporary differences between the financial reporting and income tax bases of assets and liabilities using statutory rates. In addition, this method requires a valuation allowance against net deferred tax assets if, based upon the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. We have provided a valuation allowance against our existing net deferred tax assets at March 31, 2016, with the exception of the deferred tax assets related to Brightcove KK.

**Stock-Based Compensation Expense**

Our cost of revenue, research and development, sales and marketing, and general and administrative expenses include stock-based compensation expense. Stock-based compensation expense represents the fair value of outstanding stock options and restricted stock awards, which is recognized as expense over the respective stock option and restricted stock award service periods. For the three months ended March 31, 2016 and 2015, we recorded $1.5 million of stock-based compensation expense. We expect stock-based compensation expense to increase in absolute dollars in future periods.

**Foreign Currency Translation**

With regard to our international operations, we frequently enter into transactions in currencies other than the U.S. dollar. As a result, our revenue, expenses and cash flows are subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the euro, British pound, Australian dollar, and Japanese yen. For the three months ended March 31, 2016 and 2015, 40% and 42%, respectively, of our revenue was generated in locations outside the United States. For the three months ended March 31, 2016 and 2015, 28% of our revenue was in currencies other than the U.S. dollar, as were some of the associated expenses. In periods when the U.S. dollar declines in value as compared to the foreign currencies in which we conduct business, our foreign currency-based revenue and expenses generally increase in value when translated into U.S. dollars. We expect our foreign currency-based revenue to increase in absolute dollars and as a percentage of total revenue.

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**Critical Accounting Policies and Estimates**

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

We consider the assumptions and estimates associated with revenue recognition, allowance for doubtful accounts, software development costs, income taxes, business combinations, intangible assets, goodwill and stock-based compensation to be our critical accounting policies and estimates. There have been no material changes to our critical accounting policies since December 31, 2015.

For a detailed explanation of the judgments made in these areas, refer to Management s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2015, which we filed with the Securities and Exchange Commission on February 26, 2016.

We believe that our significant accounting policies, which are more fully described in the notes to our unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q, have not materially changed from those described in the notes to our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2015.

**Results of Operations**

The following tables set forth our results of operations for the periods presented. The data has been derived from the unaudited condensed consolidated financial statements contained in this Quarterly Report on Form 10-Q which, in the opinion of our management, reflect all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial position and results of operations for the interim periods presented. The period-to-period comparison of financial results is not necessarily indicative of future results. This information should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2015.

| | Three Months Ended March 31, | |
|---|---|---|
| | **2016** | **2015** |
| | **(in thousands)** | |
| Revenue: | | |
| Subscription and support revenue | $ 34,653 | $ 31,811 |
| Professional services and other revenue | 1,639 | 1,074 |
| Total revenue | 36,292 | 32,885 |
| Cost of revenue: | | |
| Cost of subscription and support revenue | 11,675 | 10,346 |

| | | |
|---|---|---|
| Cost of professional services and other revenue | 1,589 | 1,246 |
| Total cost of revenue | 13,264 | 11,592 |
| Gross profit | 23,028 | 21,293 |
| Operating expenses: | | |
| Research and development | 7,426 | 7,820 |
| Sales and marketing | 12,535 | 10,839 |
| General and administrative | 4,577 | 5,161 |
| Merger-related | 21 | 14 |
| Total operating expenses | 24,559 | 23,834 |
| Loss from operations | (1,531) | (2,541) |
| Other expense, net | (31) | (224) |
| Loss before income taxes | (1,562) | (2,765) |
| Provision for income taxes | 45 | 66 |
| Net loss | $ (1,607) | $ (2,831) |
| Net loss per share - basic and diluted | $ (0.05) | $ (0.09) |
| Weighted-average number of common shares used in computing net loss per share - basic and diluted | 32,724,850 | 32,495,685 |

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**Overview of Results of Operations for the Three Months Ended March 31, 2016 and 2015**

Total revenue increased by 10%, or $3.4 million, in the three months ended March 31, 2016 compared to the three months ended March 31, 2015 due to both an increase in subscription and support revenue of 9%, or $2.8 million, and an increase in professional services and other revenue of 53%, or $565,000. The increase in subscription and support revenue resulted primarily from an increase in revenue from new and existing customers. In addition, our revenue from premium offerings grew by $3.8 million, or 13%, in the three months ended March 31, 2016 compared to the three months ended March 31, 2015. These increases are offset by a $567,000 reduction in revenue due to changes in foreign exchange rates compared to the exchange rates that were in effect during the three months ended March 31, 2015. 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 $1.7 million, or 8%, in the three months ended March 31, 2016 compared to the three months ended March 31, 2015, primarily due to an increase in revenue. Our ability to continue to maintain our overall gross profit will depend primarily on our ability to continue controlling our costs of delivery. Loss from operations was $1.5 million in the three months ended March 31, 2016 compared to $2.5 million in the three months ended March 31, 2015. Loss from operations in the three months ended March 31, 2016 included stock-based compensation expense and amortization of acquired intangible assets of $1.5 million and $765,000, respectively. Loss from operations in the three months ended March 31, 2015 included stock-based compensation expense and amortization of acquired intangible assets of $1.5 million and $790,000, respectively. We expect operating income to improve from increased sales to both new and existing customers and from improved efficiencies throughout our organization as we continue to grow and scale our operations.

As of March 31, 2016, we had $29.3 million of unrestricted cash and cash equivalents, an increase of $1.7 million from $27.6 million at December 31, 2015, due primarily to $3.0 million of cash provided by operating activities and $604,000 in proceeds from an equipment financing. These increases were offset by $843,000 in capital expenditures, $810,000 in capitalization on internal-use software costs and $278,000 in payments under capital lease obligations.

*Revenue*

| Revenue by Product Line | Three Months Ended March 31, 2016 Amount | Percentage of Revenue | 2015 Amount | Percentage of Revenue | Change Amount | % |
|---|---|---|---|---|---|---|
| | (in thousands, except percentages) | | | | | |
| Premium | $ 34,308 | 95% | $ 30,465 | | | |