

SONIC FOUNDRY INC
Form 10-Q
February 09, 2017
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly period ended December 31, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 000-30407

SONIC FOUNDRY, INC.
(Exact name of registrant as specified in its charter)

MARYLAND 39-1783372
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)
222 West Washington Ave, Madison, WI 53703
(Address of principal executive offices)

(608) 443-1600
(Registrant's telephone number including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (see definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act).

Large accelerated filer Accelerated filer

Non-accelerated filer 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

State the number of shares outstanding of each of the issuer's common equity as of the last practicable date:

Class Outstanding

Edgar Filing: SONIC FOUNDRY INC - Form 10-Q

February 3, 2017

Common Stock, \$0.01 par value 4,416,423

Table of Contents

PART I. FINANCIAL INFORMATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. For a more complete discussion of accounting policies and certain other information, refer to the Company’s annual report filed on Form 10-K for the fiscal year ended September 30, 2016.

Table of Contents

TABLE OF CONTENTS

	PAGE NO.
PART I <u>FINANCIAL INFORMATION</u>	
Item 1. <u>Condensed Consolidated Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets (Unaudited) – December 31, 2016 and September 30, 2016</u>	<u>4</u>
<u>Condensed Consolidated Statements of Operations (Unaudited) – Three months ended December 31, 2016 and 2015</u>	<u>6</u>
<u>Condensed Consolidated Statements of Comprehensive Loss (Unaudited) - Three months ended December 31, 2016 and 2015</u>	<u>7</u>
<u>Condensed Consolidated Statements of Cash Flows (Unaudited) – Three months ended December 31, 2016 and 2015</u>	<u>8</u>
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	<u>9</u>
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>17</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>21</u>
Item 4. <u>Controls and Procedures</u>	<u>21</u>
PART II <u>OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	<u>22</u>
Item 1A. <u>Risk Factors</u>	<u>22</u>
Item 6. <u>Exhibits</u>	<u>23</u>
<u>Signatures</u>	<u>25</u>

Table of Contents

Item 1

Sonic Foundry, Inc.

Condensed Consolidated Balance Sheets

(in thousands, except for share data)

(Unaudited)

	December 31, 2016	September 30, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,080	\$ 1,794
Accounts receivable, net of allowances of \$195 and \$225	10,324	11,646
Inventories	1,271	1,904
Prepaid expenses and other current assets	1,148	1,404
Total current assets	13,823	16,748
Property and equipment:		
Leasehold improvements	1,032	879
Computer equipment	6,040	5,837
Furniture and fixtures	888	825
Total property and equipment	7,960	7,541
Less accumulated depreciation and amortization	5,859	5,510
Property and equipment, net	2,101	2,031
Other assets:		
Goodwill	10,862	11,310
Customer relationships, net of amortization of \$790 and \$723	1,596	1,882
Product rights, net of amortization of \$318 and \$287	354	385
Other intangibles, net of amortization of \$254 and \$236	57	76
Other long-term assets	615	726
Total assets	\$ 29,408	\$ 33,158
Liabilities and stockholders' equity		
Current liabilities:		
Revolving line of credit	\$ 3,042	\$ 1,772
Accounts payable	906	961
Accrued liabilities	1,613	1,883
Unearned revenue	10,618	12,834
Current portion of capital lease and financing arrangements	272	283
Current portion of notes payable, net of discounts	1,567	1,567
Current portion of subordinated note payable	—	93
Total current liabilities	18,018	19,393
Long-term portion of unearned revenue	1,530	1,257
Long-term portion of capital lease and financing arrangements	207	231
Long-term portion of notes payable and warrant debt, net of discounts	484	871
Derivative liability, at fair value	46	67
Other liabilities	274	259
Deferred tax liability	4,461	4,564
Total liabilities	25,020	26,642
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$.01 par value, authorized 500,000 shares; none issued	—	—
	—	—

Edgar Filing: SONIC FOUNDRY INC - Form 10-Q

5% Preferred stock, Series B, voting, cumulative, convertible, \$.01 par value (liquidation preference at par), authorized 1,000,000 shares, none issued		
Common stock, \$.01 par value, authorized 10,000,000 shares; 4,424,275 shares issued and 4,411,559 shares outstanding, respectively	44	44
Additional paid-in capital	197,318	197,064
Accumulated deficit	(191,723)	(190,214)
Accumulated other comprehensive loss	(1,056)	(183)
Receivable for common stock issued	(26)	(26)
Treasury stock, at cost, 12,716 shares	(169)	(169)
Total stockholders' equity	4,388	6,516
Total liabilities and stockholders' equity	\$ 29,408	\$ 33,158

4

Table of Contents

See accompanying notes to the condensed consolidated financial statements.

5

Table of Contents

Sonic Foundry, Inc.
Condensed Consolidated Statements of Operations
(in thousands, except for share and per share data)
(Unaudited)

	Three Months Ended December 31, 2016 2015	
Revenue:		
Product	\$3,681	\$3,791
Services	5,538	5,199
Other	88	101
Total revenue	9,307	9,091
Cost of revenue:		