

Mattersight Corp
Form 10-Q
May 10, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2018

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 0-27975

Mattersight Corporation

(Exact Name of Registrant as Specified in Its Charter)

Delaware 36-4304577
(State or Other Jurisdiction of (I.R.S. Employer
Incorporation or Organization) Identification No.)

200 W. Madison Street

Suite 3100

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Chicago, Illinois 60606

(Address of Principal Executive Offices) (Zip Code)

(877) 235-6925

(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 Section 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 (Section 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, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Smaller reporting company

Emerging growth company

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

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

The number of shares of the registrant's common stock outstanding as of May 1, 2018 was 33,220,445.

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Part I. Financial Information

Forward-Looking Statements

Statements in this Quarterly Report on Form 10-Q that are not historical facts are “forward-looking statements” and are made pursuant to the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). A reader can identify these forward-looking statements, because they are not limited to historical fact or they use words such as “scheduled,” “will,” “anticipate,” “project,” “estimate,” “forecast,” “goal,” “objective,” “committed,” “intend,” “continue,” “plan,” “may,” “expect,” “intend,” “could,” “would,” “should,” or “will likely result,” and other similar expressions, and terms of similar meaning in connection with any discussion of our prospects, financial statements, business, financial condition, revenues, results of operations, or liquidity, involving risks and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. In addition to other factors and matters contained or incorporated in this document, important factors that could cause actual results or events to differ materially from those indicated by such forward-looking statements include, without limitation, those noted under Risk Factors included in Part I Item 1A of this Quarterly Report on Form 10-Q and included in Part I Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2017, as well as the following:

- Uncertainties associated with the attraction of, and the ability to execute contracts with, new clients, the continuation of existing, and execution of new, engagements with existing clients, the conversion of free pilots to paid subscription contracts, and the timing of related client commitments;
- Reliance on a relatively small number of clients for a significant percentage of our revenue;
- Risks involving the variability and predictability of the number, size, scope, cost, and duration of, and revenue from, client engagements;
- Management of the other risks associated with complex client projects and new service offerings, including execution risk;
- Cyber-attacks or other privacy or data security incidents, and failure to comply with privacy and data security regulations;
- Management of growth and development of, and introduction of, new service offerings;
- The potential failure to satisfy conditions to the completion of the proposed Merger (defined below) due to the failure to receive a sufficient number of tendered shares in the tender offer; and
- The proposed Merger may not be completed on the timeframe expected or at all.

We cannot guarantee any future results, levels of activity, performance, or achievements. The statements made in this Quarterly Report on Form 10-Q represent our views as of the date of this report, and it should not be assumed that the statements made in this report remain accurate as of any future date. Moreover, we assume no obligation to update forward-looking statements, except as may be required by law. In light of Regulation FD, it is our policy not to comment on earnings, financial guidance, or operations other than through press releases, publicly announced conference calls, or other means that will constitute public disclosure for purposes of Regulation FD.

Item 1. Financial Statements

MATTERSIGHT CORPORATION

CONSOLIDATED BALANCE SHEETS

(Unaudited and in thousands, except share and per share data)

	March 31,	December 31,
	2018	2017
ASSETS		
Current Assets:		
Cash and cash equivalents	\$8,681	\$ 9,044
Receivables net of allowances of \$42 and \$41, at March 31, 2018 and December 31, 2017, respectively	8,612	6,565
Prepaid expenses	6,352	5,805
Other current assets	60	65
Total current assets	23,705	21,479
Equipment and leasehold improvements, net of accumulated depreciation and amortization of \$25,841 and \$24,955, at March 31, 2018 and December 31, 2017, respectively	7,499	8,572
Goodwill	972	972
Intangible assets, net of amortization of \$4,487 and \$4,357, respectively	2,899	2,952
Other long-term assets (includes \$2,475 and \$2,675 in restricted cash, at March 31, 2018 and December 31, 2017, respectively)	5,885	5,960
Total assets	\$40,960	\$ 39,935
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Short-term debt	\$96	\$ 93
Accounts payable	1,788	1,474
Accrued compensation and related costs	3,568	3,312
Unearned revenue	8,200	3,032
Capital leases	1,701	1,967
Other current liabilities	4,223	3,399
Total current liabilities	19,576	13,277
Long-term debt	13,030	17,056
Long-term unearned revenue	1,039	914
Long-term capital leases	866	1,190
Other long-term liabilities	6,606	6,475
Total liabilities	41,117	38,912
7% Series B convertible preferred stock, \$0.01 par value; 5,000,000 shares authorized and	8,353	8,353

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designated; 1,637,786 and 1,637,786 shares issued and outstanding at March 31,		
2018 and December 31, 2017, respectively, with a liquidation preference of \$11,714		
and \$11,568, at March 31, 2018 and December 31, 2017, respectively		
Stockholders' Equity:		
Preferred stock, \$0.01 par value; 35,000,000 shares authorized; none issued and		
outstanding	—	—
Common stock, \$0.01 par value; 50,000,000 shares authorized; 33,307,647 and		
33,083,180 shares issued at March 31, 2018 and December 31, 2017,		
respectively; 33,220,445 and 33,039,713 shares outstanding at March 31, 2018		
and December 31, 2017, respectively	333	331
Additional paid-in capital	277,000	275,963
Accumulated deficit	(281,556)	(279,425)
Treasury stock, at cost, 87,202 and 43,467 shares at March 31, 2018 and		
December 31, 2017, respectively	(205)	(117)
Accumulated other comprehensive loss	(4,082)	(4,082)
Total stockholders' deficit	(8,510)	(7,330)
Total liabilities and stockholders' equity	\$40,960	\$ 39,935

See accompanying notes to the Unaudited Consolidated Financial Statements.

MATTERSIGHT CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited and in thousands, except per share data)

	Quarter Ended	
	March 31, 2018	March 31, 2017
Revenue:		
Subscription revenue	\$12,986	\$10,343
Other revenue	728	616
Total revenue	13,714	10,959
Operating expenses:		
Total cost of revenue, exclusive of depreciation and amortization	3,926	3,439
Product development	3,441	3,321
Sales and marketing	3,508	3,450
General and administrative	3,403	3,295
Depreciation and amortization	1,427	1,545
Total operating expenses	15,705	15,050
Operating loss	(1,991)	(4,091)
Non-operating income (expense):		
Interest and other borrowing costs	(266)	(969)
Change in fair value of warrant liability	110	97
Other non-operating income	1	10
Total non-operating expense	(155)	(862)
Loss before income taxes	(2,146)	(4,953)
Income tax benefit	15	1
Net loss	(2,131)	(4,952)
Dividends related to 7% Series B convertible preferred stock	(146)	(146)
Net loss available to common stockholders	\$(2,277)	\$(5,098)
Per share of common stock:		
Basic net loss available to common stockholders	\$(0.07)	\$(0.19)
Diluted net loss available to common stockholders	\$(0.07)	\$(0.19)
Shares used to calculate basic net loss per share	31,747	27,423
Shares used to calculate diluted net loss per share	31,747	27,423
Stock-based compensation expense is included in individual line items above:		
Total cost of revenue	\$175	\$81
Product development	351	134
Sales and marketing	184	123
General and administrative	570	354

See accompanying notes to the Unaudited Consolidated Financial Statements.

MATTERSIGHT CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(Unaudited and in thousands)

	Quarter Ended	
	March	March
	31,	31,
	2018	2017
Net loss	\$(2,131)	\$(4,952)
Other comprehensive loss:		
Effect of foreign currency translation	—	(19)
Comprehensive net loss	\$(2,131)	\$(4,971)

See accompanying notes to the Unaudited Consolidated Financial Statements.

MATTERSIGHT CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited and in thousands)

Three Months
 Ended
 March 31, March 31,

2018 2017

Cash Flows from Operating Activities:		
Net loss	\$(2,131)	\$(4,952)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,427	1,545
Stock-based compensation	1,280	692
Discount accretion and other debt-related costs	20	271
Provision for uncollectible accounts	1	(3)
Change in fair value of warrant liability	(110)	(97)
Changes in assets and liabilities:		
Receivables	(2,048)	(1,054)
Prepaid expenses	(215)	(246)
Other current assets	5	214