UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended September 30, 2014

OR

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

For the transition period from to .

Commission file number 001-36017

Control4 Corporation

(Exact name of registrant as specified in its charter)

Delaware	**42-1583209**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
11734 S. Election Road **Salt Lake City, Utah**	**84020**
(Address of principal executive offices)	(Zip Code)

(801) 523-3100

(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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

Large accelerated filer o	Accelerated filer o
Non-accelerated filer x (do not check if a smaller reporting company)	Smaller reporting company o

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

On October 24, 2014, 23,880,867 shares of the registrant s Common Stock, $0.0001 par value, were issued and outstanding.

Table of Contents

Control4 Corporation

Index

Table of Contents

Control4 Corporation

PART I Financial Information

ITEM 1. Condensed Consolidated Financial Statements

CONTROL4 CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	December 31, 2013	September 30, 2014 (unaudited)
Assets		
Current assets:		
Cash and cash equivalents	$ 84,546	$ 17,450
Restricted cash		325
Short-term investments		48,730
Accounts receivable, net	15,064	19,215
Inventories	15,312	15,546
Prepaid expenses and other current assets	1,773	2,179
Total current assets	116,695	103,445
Property and equipment, net	3,943	4,208
Long-term investments		23,225
Intangible assets, net	928	1,570
Goodwill		99
Other assets	1,120	1,144
Total assets	$ 122,686	$ 133,691
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 13,314	$ 14,217
Accrued liabilities	6,821	4,902
Deferred revenue	644	743
Current portion of notes payable	1,138	1,013
Total current liabilities	21,917	20,875
Notes payable	1,828	1,106
Other long-term liabilities	467	440
Total liabilities	24,212	22,421
Commitments and contingencies		
Stockholders equity:		

Common stock, $0.0001 par value; 500,000,000 shares authorized; 22,785,104 and 23,870,761 shares issued and outstanding at December 31, 2013 and September 30, 2014 (unaudited), respectively		2		2
Additional paid-in capital		200,545		209,187
Accumulated deficit		(102,084)		(97,849)
Accumulated other comprehensive income (loss)		11		(70)
Total stockholders equity		98,474		111,270
Total liabilities and stockholders equity	$	122,686	$	133,691

See accompanying notes to condensed consolidated financial statements (unaudited).

Table of Contents

CONTROL4 CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2014
	(unaudited)		(unaudited)	
Revenue	$ 33,641	$ 39,120	$ 92,755	$ 107,636
Cost of revenue	16,592	18,847	46,129	52,160
Cost of revenue inventory purchase commitment			(180)	
Gross margin	17,049	20,273	46,806	55,476
Operating expenses:				
Research and development	6,409	6,647	18,670	20,519
Sales and marketing	5,596	6,876	16,597	19,541
General and administrative	3,002	3,530	8,613	10,658
Litigation settlements	200	10	440	45
Total operating expenses	15,207	17,063	44,320	50,763
Income from operations	1,842	3,210	2,486	4,713
Other income (expense):				
Interest, net	(205)	24	(412)	25
Other income (expense), net	197	(221)	(709)	(150)
Total other income (expense)	(8)	(197)	(1,121)	(125)
Income before income taxes	1,834	3,013	1,365	4,588
Income tax expense	(103)	(250)	(132)	(353)
Net income	$ 1,731	$ 2,763	$ 1,233	$ 4,235
Net income per common share:				
Basic	$ 0.12	$ 0.12	$ 0.19	$ 0.18
Diluted	$ 0.07	$ 0.11	$ 0.06	$ 0.16
Weighted-average number of shares:				
Basic	14,389	23,840	6,511	23,559
Diluted	23,556	25,590	21,206	25,671

See accompanying notes to condensed consolidated financial statements (unaudited).

Table of Contents

CONTROL4 CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2014
	(unaudited)		(unaudited)	
Net income	$ 1,731	$ 2,763	$ 1,233	$ 4,235
Other comprehensive income (loss):				
Foreign currency translation adjustment	12	(53)	6	(35)
Net unrealized losses on available-for-sale investments		(46)		(46)
Total other comprehensive income (loss)	12	(99)	6	(81)
Comprehensive income	$ 1,743	$ 2,664	$ 1,239	$ 4,154

See accompanying notes to condensed consolidated financial statements (unaudited).

Table of Contents

CONTROL4 CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Nine Months Ended September 30, 2013 (unaudited)	Nine Months Ended September 30, 2014 (unaudited)
Operating activities		
Net income	$ 1,233	$ 4,235
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	1,609	1,880
Amortization of intangible assets	218	330
Provision for doubtful accounts	112	271
Gain on inventory purchase commitment	(180)	
Stock-based compensation	2,648	3,994
Excess tax benefit from exercise of options for common stock		(18)
Warrant liability expense	709	
Changes in assets and liabilities:		
Accounts receivable	(2,978)	(4,338)
Inventories	(2,947)	(175)
Restricted cash		(334)
Prepaid expenses and other current assets	(98)	(402)
Other assets	(243)	(24)
Accounts payable	2,150	956
Accrued liabilities	(838)	(2,072)
Deferred revenue	95	99
Other long-term liabilities	(1,138)	(26)
Net cash provided by operating activities	352	4,376
Investing activities		
Purchases of available-for-sale investments		(86,765)
Proceeds from sales of available-for-sale investments		2,850
Proceeds from maturities of available-for-sale investments		11,915
Purchases of property and equipment	(2,575)	(2,148)
Business acquisitions, net of cash acquired	(88)	(1,116)
Net cash used in investing activities	(2,663)	(75,264)
Financing activities		
Proceeds from issuance of common stock, net of issuance costs	65,556	
Proceeds from exercise of options for common stock	367	4,630
Excess tax benefit from exercise of options for common stock		18
Proceeds from notes payable	1,145	
Repayment of notes payable	(986)	(847)
Net cash provided by financing activities	66,082	3,801
Effect of exchange rate changes on cash and cash equivalents	19	(9)
Net decrease in cash and cash equivalents	63,790	(67,096)

Cash and cash equivalents at beginning of period		18,695		84,546
Cash and cash equivalents at end of period	$	82,485	$	17,450
Supplemental disclosure of cash flow information				
Cash paid for interest	$	419	$	150
Cash paid for taxes		131		227
Supplemental schedule of non-cash investing and financing activities				
Options for common stock granted in connection with a business acquisition		174		
Elimination of liability upon net exercise of warrants to purchase preferred stock		1,310		
Conversion of redeemable convertible preferred stock to common stock		116,313		

See accompanying notes to condensed consolidated financial statements (unaudited).

Table of Contents

Control4 Corporation

Notes to Condensed Consolidated Financial Statements

(unaudited)

1. Description of Business and Summary of Significant Accounting Policies

Control4 Corporation (Control4 or the Company) is a leading provider of automation and control solutions for the connected home. The Company unlocks the potential of connected devices, making entertainment systems easier to use, homes more comfortable, appliances more energy efficient, and families more secure. The Company was incorporated in the state of Delaware on March 27, 2003.

Unaudited Interim Financial Statements

The accompanying condensed consolidated balance sheets and the condensed consolidated statements of operations, comprehensive income and cash flows are unaudited. These unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) on the same basis as the audited consolidated financial statements and, in the opinion of management, reflect all adjustments, consisting of only normal recurring adjustments, considered necessary to present fairly the Company s financial position, results of operations and cash flows. The results of operations for the three and nine months ended September 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014, or any other future interim or annual period.

These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company s Annual Report on Form 10-K filed with the Securities and Exchange Commission (the SEC) on February 21, 2014. The December 31, 2013 consolidated balance sheet included herein was derived from the audited financial statements as of that date.

Reclassifications

Certain prior-year amounts have been reclassified in order to conform to the current-year presentation. A reclassification was made from general and administrative expenses to other income (expense) related to foreign currency transaction gains (losses). As a result, income from operations is impacted by $0.2 million for the three months ended September 30, 2013, and by $10,000 for the nine months ended September 30, 2013, but this reclassification did not impact previously reported net income, or related per share amounts, for either period. In addition, a reclassification was made related to international hospitality revenue previously disclosed as United States hospitality revenue. The reclassification did not materially impact previous disclosures related to geographic information. Furthermore, this reclassification had no effect on previously reported amounts related to total revenue, income from continuing operations, net income or related per share amounts, and does not impact previous disclosures regarding concentrations of revenue.

Basis of Presentation

The unaudited condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in the unaudited condensed consolidated financial statements.

Segment Reporting

Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision maker, the Chief Executive Officer, in making decisions regarding resource allocation and accessing performance. To date, the Company has viewed its operations and manages its business as one operating segment.

Concentrations of Risk

The Company s accounts receivable are derived from revenue earned from its worldwide network of dealers and distributors. The Company s sales to dealers and distributors located outside the United States are generally denominated in United States dollars, except for sales to dealers and distributors located in the United Kingdom and the European Union, which are generally denominated in pounds sterling and the euro, respectively. There were no individual account balances greater than 10% of total accounts receivable at December 31, 2013 and September 30, 2014.

Table of Contents

No dealer or distributor accounted for more than 10% of total revenue for the three and nine months ended September 30, 2013 and 2014.

The Company relies on a limited number of suppliers for its contract manufacturing. A significant disruption in the operations of these manufacturers would impact the production of the Company s products for a substantial period of time, which could have a material adverse effect on the Company s business, financial condition and results of operations.

Geographic Information

The Company s revenue includes amounts earned through sales to dealers and distributors located outside of the United States. With the exception of Canada, no single foreign country accounted for more than 10% of total revenue for the three and nine months ended September 30, 2013 and 2014. The following table sets forth revenue from the United States, Canada and all other international dealers and distributors combined (in thousands):

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2014
Revenue-United States	$ 22,140	$ 25,517	$ 60,933	$ 71,211
Revenue-Canada	3,641	4,140	10,690	10,802
Revenue-all other international sources	7,860	9,463	21,132	25,623
Total revenue	$ 33,641	$ 39,120	$ 92,755	$ 107,636
International revenue (excluding Canada) as a percent of total revenue	23%	24%	23%	24%

Use of Accounting Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, the Company evaluates its estimates including those related to revenue recognition, sales returns, provisions for doubtful accounts, asset impairment, product warranty, inventory obsolescence, litigation, determination of fair value of stock options, deferred tax asset valuation allowances and income taxes. Actual results may differ from those estimates.

Product Warranty

The Company provides its customers a limited product warranty of two years, which requires the Company to repair or replace (at its option) defective products during the warranty period at no cost to the customer. The Company estimates the costs that may be incurred to replace or repair defective products and records a reserve at the time revenue is recognized. Factors that affect the Company s warranty liability include the number of installed systems, the Company s historical experience and management s judgment regarding anticipated rates of product warranty returns, net of refurbished products. The Company assesses the adequacy of its recorded warranty liability each period and makes adjustments to the liability as necessary. Warranty costs accrued includes amounts accrued for products at the time of shipment, adjustments for changes in estimated costs for warranties on products shipped in the period, and changes in estimated costs for warranties on products shipped in prior periods. It is not practicable for the Company to determine the amounts applicable to each of these components.

The following table presents the changes in the product warranty liability (in thousands):

		Warranty Liability
Balance at December 31, 2013	$	1,213
Warranty costs accrued		679
Warranty claims		(778)
Balance at September 30, 2014	$	1,114

Net Income Per Share

Basic net income per share is computed using the weighted-average number of common shares outstanding during the period. Diluted net income per share is computed using the weighted-average number of common shares outstanding and potentially dilutive

Table of Contents

common shares outstanding during the period that have a dilutive effect on net income per share. Potentially dilutive common shares result from the assumed exercise of outstanding stock options and the assumed conversion of outstanding convertible preferred stock and warrants using the if-converted method. In a net loss position, diluted net loss per share is computed using only the weighted-average number of common shares outstanding during the period, as any additional common shares would be anti-dilutive.

The following table presents the reconciliation of the numerator and denominator used in the calculation of basic and diluted net income per share (in thousands):

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2014
Numerator:				
Net income	$ 1,731	$ 2,763	$ 1,233	$ 4,235
Denominator:				
Weighted average common stock outstanding for basic net income per common share	14,389	23,840	6,511	23,559
Effect of dilutive securities stock options, convertible preferred stock, and warrants to purchase common stock and preferred stock	9,167	1,750	14,695	2,112
Weighted average common shares and dilutive securities outstanding	23,556	25,590	21,206	25,671

The following weighted-average common stock equivalents were anti-dilutive and therefore were excluded from the calculation of diluted net income per share (in thousands):

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2014
Convertible preferred stock				
Options to purchase common stock	253	1,245	355	912
Warrants to purchase common stock				
Warrants to purchase preferred stock			1	
Total	253	1,245	356	912

Restricted Cash

Restricted cash as of September 30, 2014, is composed of a guarantee made by our subsidiary in the United Kingdom to HM Revenue & Customs related to a customs duty deferment account.

Recent Accounting Pronouncements

In July 2013, the FASB issued ASU 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists.* The amended guidance requires an entity to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The guidance was effective for the Company beginning January 1, 2014. The adoption of this guidance did not have an impact on the Company s results of operations, financial position, or cash flows as it relates only to financial statement presentation.

In May 2014, the FASB issued ASU 2004-09, *Revenue from Contracts with Customers (Topic 606)*, which amends the guidance in ASC 605, *Revenue Recognition.* 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 or services. The guidance is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. The Company is still evaluating the impact of adopting this guidance as well as whether the Company will apply the amendments retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of applying this update at the date of initial application.

Table of Contents

In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements Going Concern (Subtopic 205-40).* The amended guidance requires an entity to prepare financial statements under the liquidation basis of accounting in accordance with Subtopic 205-30, Presentation of Financial Statements Liquidation Basis of Accounting, if liquidation of the entity becomes imminent. The guidance is effective for the annual period ending on December 31, 2016, and for annual periods and interim periods thereafter. Early application is permitted. The adoption of this guidance will not have an impact on the Company s results of operations, financial position, or cash flows.

2. Balance Sheet Components

Inventories consisted of the following (in thousands):

	December 31, 2013	September 30, 2014
Finished goods	$ 14,061	$ 14,689
Component parts	1,251	857
	$ 15,312	$ 15,546

Property and equipment, net consisted of the following (in thousands):

	December 31, 2013	September 30, 2014
Computer equipment and software		