

SONIC FOUNDRY INC
Form 10-Q
February 11, 2016
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, 2015

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
(State or other jurisdiction of
incorporation or organization)
222 West Washington Ave, Madison, WI 53703
(Address of principal executive offices)

39-1783372
(I.R.S. Employer
Identification No.)

(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 5, 2016

4,370,640

Common Stock, \$0.01 par value

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, 2015.

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, 2015 and September 30, 2015</u>	4
<u>Condensed Consolidated Statements of Operations (Unaudited) – Three months ended December 31, 2015 and 2014</u>	6
<u>Condensed Consolidated Statements of Comprehensive Loss (Unaudited) - Three months ended December 31, 2015 and 2014</u>	7
<u>Condensed Consolidated Statements of Cash Flows (Unaudited) – Three months ended December 31, 2015 and 2014</u>	8
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	9
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	17
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	21
Item 4. <u>Controls and Procedures</u>	21
PART II <u>OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	22
Item 1A. <u>Risk Factors</u>	22
<u>Signatures</u>	25
Item 6. <u>Exhibits</u>	23

Table of Contents

Item 1

Sonic Foundry, Inc.

Condensed Consolidated Balance Sheets

(in thousands, except for share data)

(Unaudited)

	December 31, 2015	September 30, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,666	\$ 1,976
Accounts receivable, net of allowances of \$100 and \$150	9,257	12,659
Inventories	2,535	2,385
Prepaid expenses and other current assets	833	927
Total current assets	15,291	17,947
Property and equipment:		
Leasehold improvements	915	904
Computer equipment	6,098	5,852
Furniture and fixtures	950	837
Total property and equipment	7,963	7,593
Less accumulated depreciation and amortization	5,231	4,785
Property and equipment, net	2,732	2,808
Other assets:		
Goodwill	10,817	10,853
Customer relationships, net of amortization of \$524 and \$457	1,796	1,872
Software development costs, net of amortization of \$474 and \$429	59	104
Product rights, net of amortization of \$195 and \$164	477	508
Other intangibles, net of amortization of \$207 and \$190	104	112
Other long-term assets	608	599
Total assets	\$ 31,884	\$ 34,803
Liabilities and stockholders' equity		
Current liabilities:		
Revolving line of credit	\$ 1,716	\$ 1,818
Accounts payable	1,072	2,026
Accrued liabilities	1,105	1,666
Unearned revenue	10,964	11,359
Current portion of capital lease and financing arrangements	272	211
Current portion of notes payable, net of discounts	1,583	1,299
Current portion of subordinated note payable	90	186
Total current liabilities	16,802	18,565
Long-term portion of unearned revenue	1,191	1,325
Long-term portion of capital lease and financing arrangements	277	196
Long-term portion of notes payable and warrant debt, net of discounts	2,033	2,080
Long-term portion of subordinated note payable	—	92
Derivative liability, at fair value	63	109
Other liabilities	289	311
Deferred tax liability	4,353	4,322
Total liabilities	25,008	27,000
Commitments and contingencies		
Stockholders' equity:		

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; 4,376,456 shares issued and 4,363,740 shares outstanding, respectively	44	44
Additional paid-in capital	196,307	195,973
Accumulated deficit	(188,104)	(186,897)
Accumulated other comprehensive loss	(1,176)	(1,122)
Receivable for common stock issued	(26)	(26)
Treasury stock, at cost, 12,716 shares	(169)	(169)
Total stockholders' equity	6,876	7,803
Total liabilities and stockholders' equity	\$ 31,884	\$ 34,803

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,	
	2015	2014
Revenue:		
Product	\$3,791	\$3,374
Services	5,199	5,244
Other	101	123
Total revenue	9,091	8,741
Cost of revenue:		