

SONIC FOUNDRY INC
Form 10-Q
August 13, 2014
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 June 30, 2014

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)

39-1783372
(I.R.S. Employer
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 August 8, 2014
Common Stock, \$0.01 par value	4,429,252

Table of Contents

TABLE OF CONTENTS

	PAGE NO.
<i>PART I</i>	
<i>FINANCIAL INFORMATION</i>	
Item 1.	
<u>Condensed Consolidated Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets (Unaudited) June 30, 2014 and September 30, 2013</u>	3
<u>Condensed Consolidated Statements of Operations (Unaudited) Three and nine months ended June 30, 2014 and 2013</u>	4
<u>Condensed Consolidated Statements of Comprehensive Income (Unaudited) Three and nine months ended June 30, 2014 and 2013</u>	5
<u>Condensed Consolidated Statements of Cash Flows (Unaudited) Nine months ended June 30, 2014 and 2013</u>	6
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	8
Item 2.	
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	21
Item 3.	
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	32
Item 4.	
<u>Controls and Procedures</u>	33
<i>PART II</i>	
<i>OTHER INFORMATION</i>	
Item 1.	
<u>Legal Proceedings</u>	35
Item 1A.	
<u>Risk Factors</u>	35
Item 6.	
<u>Exhibits</u>	36
<u>Signatures</u>	38

Table of Contents**Item 1****Sonic Foundry, Inc.****Condensed Consolidated Balance Sheets****(in thousands, except for share data)****(Unaudited)**

	June 30, 2014	September 30, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,933	\$ 3,482
Accounts receivable, net of allowances of \$120 and \$90	10,249	6,885
Inventories	2,353	1,447
Prepaid expenses and other current assets	1,235	805
Total current assets	17,770	12,619
Property and equipment:		
Leasehold improvements	968	852
Computer equipment	5,902	5,296
Furniture and fixtures	915	581
Total property and equipment	7,785	6,729
Less accumulated depreciation and amortization	4,362	3,449
Net property and equipment	3,423	3,280
Other assets:		
Goodwill	11,415	7,576
Investment in Mediasite KK		385
Customer relationships, net of amortization of \$124 and \$0	2,538	
Software development costs, net of amortization of \$207 and \$75	325	458
Product rights, net of amortization of \$10 and \$0	662	
Other intangibles, net of amortization of \$155 and \$135	658	15
Total assets	\$ 36,791	\$ 24,333
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	\$ 2,135	\$ 1,513
Accrued liabilities	2,430	1,204
Unearned revenue	8,132	6,470
Current portion of capital lease obligation	207	223
Current portion of notes payable to bank	997	634

Edgar Filing: SONIC FOUNDRY INC - Form 10-Q

Current portion of subordinated notes payable	2,249	
Total current liabilities	16,150	10,044
Long-term portion of unearned revenue	1,145	648
Long-term portion of subordinated note payable	338	
Long-term portion of capital lease obligation	217	149
Long-term portion of notes payable to bank	1,379	133
Leasehold improvement liability	426	445
Deferred tax liability	4,367	2,210
Total liabilities	24,022	13,629
Stockholders' equity:		
Preferred stock, \$.01 par value, authorized 500,000 shares; none issued		
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; 4,249,748 and 3,999,634 shares issued and 4,237,032 and 3,986,918 shares outstanding	43	40
Additional paid-in capital	193,911	190,653
Accumulated deficit	(181,084)	(179,556)
Accumulated other comprehensive income (loss)	94	(238)
Receivable for common stock issued	(26)	(26)
Treasury stock, at cost, 12,716 shares	(169)	(169)
Total stockholders' equity	12,769	10,704
Total liabilities and stockholders' equity	\$ 36,791	\$ 24,333

See accompanying notes to the condensed consolidated financial statements

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2014	2013	2014	2013
Revenue:				
Product	\$ 6,016	\$ 4,170	\$ 12,883	\$ 9,969
Services	5,096	3,782	14,160	10,837
Other	155	61	308	189
Total revenue	11,267	8,013	27,351	20,995
Cost of revenue:				
Product	2,651	1,955	5,489	4,629
Services	827	447	2,178	1,198
Total cost of revenue	3,478	2,402	7,667	5,827
Gross margin	7,789	5,611	19,684	15,168
Operating expenses:				
Selling and marketing	4,719	3,652	12,165	9,681
General and administrative	1,670	779	4,248	2,428
Product development	1,449	1,071	4,078	3,115
Patent settlement	28		428	
Acquisition costs			490	
Total operating expenses	7,866	5,502	21,409	15,224
Income (loss) from operations	(77)	109	(1,725)	(56)
Gain on investment in Mediasite KK			1,391	
Equity in earnings of investment in Mediasite KK		11	38	179
Other expense, net	(59)	(20)	(160)	(69)
Income (loss) before income taxes	(136)	100	(456)	54
Benefit (provision) for income taxes	169	(60)	(1,072)	(180)
Net income (loss)	\$ 33	\$ 40	\$ (1,528)	\$ (126)
Net income (loss) per common share:				
basic	\$ 0.01	\$ 0.01	\$ (0.36)	\$ (0.03)

Edgar Filing: SONIC FOUNDRY INC - Form 10-Q

diluted	\$ 0.01	\$ 0.01	\$ (0.36)	\$ (0.03)
Weighted average common shares				
basic	4,246,265	3,938,038	4,147,938	3,915,339
diluted	4,393,022	3,984,437	4,147,938	3,915,339

See accompanying notes to the condensed consolidated financial statements

Table of Contents**Sonic Foundry, Inc.****Consolidated Statements of Comprehensive Income****(in thousands, except for share and per share data)****(Unaudited)**

	Three Months Ended June 30, Nine Months Ended June 30,			
	2014	2013	2014	2013
Net income (loss)	\$ 33	\$ 40	\$ (1,528)	\$ (126)
Other comprehensive income, net of taxes:				
Foreign currency translation adjustment	78		94	
Total other comprehensive income	78		94	
Comprehensive income (loss)	\$ 111	\$ 40	\$ (1,434)	\$ (126)

See accompanying notes to the condensed consolidated financial statements

Table of Contents**Sonic Foundry, Inc.****Condensed Consolidated Statements of Cash Flows****(in thousands) (Unaudited)**

	Nine Months Ended June 30,	
	2014	2013
Operating activities		
Net loss	\$ (1,528)	\$ (126)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Gain or equity in earnings on investment in Mediasite KK	(1,429)	(179)
Amortization of other intangibles	150	15
Amortization of software development costs	133	30
Amortization of product rights	10	
Depreciation and amortization of property and equipment	919	826
Deferred taxes	1,118	180
Stock-based compensation expense related to stock options	679	485
Provision for doubtful accounts	30	
Changes in operating assets and liabilities, net of acquisition:		
Accounts receivable	(2,401)	(2,110)
Inventories	(382)	(89)
Prepaid expenses and other current assets	(330)	(18)
Accounts payable and accrued liabilities	92	297
Other long-term liabilities	(66)	(66)
Unearned revenue	1,652	938
Net cash (used in) provided by operating activities	(1,353)	183
Investing activities		
Software development costs		(533)
Purchases of property and equipment	(562)	(804)
Cash received in Mediasite KK acquisition, net of cash paid	1,281	
Cash paid for MediaMission acquisition, net of cash acquired	(119)	
Net cash provided by (used in) investing activities	600	(1,337)
See accompanying notes to the condensed consolidated financial statements		

Table of Contents**Sonic Foundry, Inc.****Condensed Consolidated Statements of Cash Flows - Continued****(in thousands)****(Unaudited)**

	Nine Months Ended June 30,	
	2014	2013
Financing activities		
Proceeds from notes payable	1,974	
Payments on notes payable	(923)	(500)
Payment on debt issuance costs	(49)	(20)
Proceeds from exercise of common stock options	243	352
Proceeds from issuance of common stock	32	23
Dividends from investment in Mediasite KK		22
Payments on capital lease obligations	(179)	(123)