

SONIC FOUNDRY INC
Form 10-Q
August 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 June 30, 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

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August 5, 2016

Common Stock, \$0.01 par value 4,411,559

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.
<u>PART I FINANCIAL INFORMATION</u>	
Item 1. <u>Condensed Consolidated Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets (Unaudited) – June 30, 2016 and September 30, 2015</u>	<u>4</u>
<u>Condensed Consolidated Statements of Operations (Unaudited) – Three months and nine months ended June 30, 2016 and 2015</u>	<u>6</u>
<u>Condensed Consolidated Statements of Comprehensive Loss (Unaudited) - Three months and nine months ended June 30, 2016 and 2015</u>	<u>7</u>
<u>Condensed Consolidated Statements of Cash Flows (Unaudited) – Nine months ended June 30, 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>18</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>23</u>
Item 4. <u>Controls and Procedures</u>	<u>23</u>
<u>PART II OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	<u>24</u>
Item 1A. <u>Risk Factors</u>	<u>24</u>
Item 6. <u>Exhibits</u>	<u>25</u>
<u>Signatures</u>	<u>27</u>

Table of Contents

Item 1

Sonic Foundry, Inc.

Condensed Consolidated Balance Sheets

(in thousands, except for share data)

(Unaudited)

	June 30, 2016	September 30, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$2,329	\$ 1,976
Accounts receivable, net of allowances of \$100 and \$150	11,899	12,659
Inventories	2,177	2,385
Prepaid expenses and other current assets	985	927
Total current assets	17,390	17,947
Property and equipment:		
Leasehold improvements	948	904
Computer equipment	6,308	5,852
Furniture and fixtures	1,072	837
Total property and equipment	8,328	7,593
Less accumulated depreciation and amortization	6,036	4,785
Property and equipment, net	2,292	2,808
Other assets:		
Goodwill	11,255	10,853
Customer relationships, net of amortization of \$657 and \$457	1,917	1,872
Software development costs, net of amortization of \$533 and \$429	—	104
Product rights, net of amortization of \$257 and \$164	415	508
Other intangibles, net of amortization of \$244 and \$190	94	112
Other long-term assets	598	599
Total assets	\$33,961	\$ 34,803
Liabilities and stockholders' equity		
Current liabilities:		
Revolving line of credit	\$1,651	\$ 1,818
Accounts payable	1,063	2,026
Accrued liabilities	1,989	1,666
Unearned revenue	11,728	11,359
Current portion of capital lease and financing arrangements	289	211
Current portion of notes payable, net of discounts	1,572	1,299
Current portion of subordinated note payable	92	186
Total current liabilities	18,384	18,565
Long-term portion of unearned revenue	2,200	1,325
Long-term portion of capital lease and financing arrangements	276	196
Long-term portion of notes payable and warrant debt, net of discounts	1,258	2,080
Long-term portion of subordinated note payable	—	92
Derivative liability, at fair value	72	109
Other liabilities	252	311
Deferred tax liability	4,520	4,322
Total liabilities	26,962	27,000
Commitments and contingencies		
Stockholders' equity:		

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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; 4,416,467 and 4,376,456 shares issued and 4,403,751 and 4,363,740 shares outstanding, respectively	44	44
Additional paid-in capital	196,839	195,973
Accumulated deficit	(189,367)	(186,897)
Accumulated other comprehensive loss	(322)	(1,122)
Receivable for common stock issued	(26)	(26)
Treasury stock, at cost, 12,716 shares	(169)	(169)

4

Table of Contents

Total stockholders' equity	6,999	7,803
Total liabilities and stockholders' equity	\$33,961	\$34,803

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	Nine
Months	Months
Ended June	Ended
30,	June 30,
2016	2015

Revenue:

Product \$ 3,937