

SONIC FOUNDRY INC  
Form 10-Q  
May 02, 2013  
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**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, 2013**

**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)**

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**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 April 25, 2013
Common Stock, \$0.01 par value	3,923,014

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

	March 31, 2013	September 30, 2012
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 3,676	\$ 4,478
Accounts receivable, net of allowances of \$85	5,653	5,578
Inventories	1,030	1,053
Prepaid expenses and other current assets	915	757
<b>Total current assets</b>	<b>11,274</b>	<b>11,866</b>
Property and equipment:		
Leasehold improvements	852	852
Computer equipment	4,557	3,851
Furniture and fixtures	865	865
<b>Total property and equipment</b>	<b>6,274</b>	<b>5,568</b>
Less accumulated depreciation and amortization	3,154	2,624
<b>Net property and equipment</b>	<b>3,120</b>	<b>2,944</b>
Other assets:		
Goodwill	7,576	7,576
Investment in Mediasite KK	588	420
Software development costs	458	
Other intangibles, net of amortization of \$190 and \$180	5	15
<b>Total assets</b>	<b>\$ 23,021</b>	<b>\$ 22,821</b>
<b>Liabilities and stockholders equity</b>		
Current liabilities:		
Revolving line of credit	\$	\$
Accounts payable	1,305	1,604
Accrued liabilities	761	850
Unearned revenue	5,725	5,284
Current portion of capital lease obligation	184	129
Current portion of notes payable	667	667
<b>Total current liabilities</b>	<b>8,642</b>	<b>8,534</b>
Long-term portion of unearned revenue	363	349
Long-term portion of capital lease obligation	174	131
Long-term portion of notes payable	433	766
Leasehold improvement liability	488	532
Deferred tax liability	2,090	1,970

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Total liabilities	12,190	12,282
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; 3,932,730 and 3,909,040 shares issued and 3,920,014 and 3,896,324 shares outstanding	39	39
Additional paid-in capital	189,917	189,459
Accumulated deficit	(178,930)	(178,764)
Receivable for common stock issued	(26)	(26)
Treasury stock, at cost, 12,716 shares	(169)	(169)
<b>Total stockholders' equity</b>	<b>10,831</b>	<b>10,539</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 23,021</b>	<b>\$ 22,821</b>

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 March 31,		Six Months Ended March 31,	
	2013	2012	2013	2012
<b>Revenue:</b>				
Product	\$ 2,958	\$ 2,617	\$ 5,799	\$ 5,216
Services	3,415	3,250	7,055	6,750
Other	57	61	128	147
Total revenue	6,430	5,928	12,982	12,113
<b>Cost of revenue:</b>				
Product	1,360	1,354	2,674	2,616
Services	380	290	751	706
Total cost of revenue	1,740	1,644	3,425	3,322
<b>Gross margin</b>	4,690	4,284	9,557	8,791
<b>Operating expenses:</b>				
Selling and marketing	3,022	2,704	6,029	5,477
General and administrative	834	650	1,649	1,475
Product development	868	962	2,044	1,944
Total operating expenses	4,724	4,316	9,722	8,896
<b>Loss from operations</b>	(34)	(32)	(165)	(105)
Equity in earnings from investment in Mediasite KK	90		168	
Other expense, net	(23)	(23)	(49)	(75)
Income (loss) before income taxes	33	(55)	(46)	(180)
Provision for income taxes	(60)	(60)	(120)	(120)
<b>Net loss</b>	\$ (27)	\$ (115)	\$ (166)	\$ (300)
<b>Net loss per common share:</b>				
basic	\$ (0.01)	\$ (0.03)	\$ (0.04)	\$ (0.08)
diluted	\$ (0.01)	\$ (0.03)	\$ (0.04)	\$ (0.08)
<b>Weighted average common shares</b>				
basic	3,910,237	3,852,664	3,903,991	3,846,251
diluted	3,910,237	3,852,664	3,903,991	3,846,251

See accompanying notes to the condensed consolidated financial statements



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

	<b>Six months ended</b>	
	<b>March 31,</b>	
	<b>2013</b>	<b>2012</b>
<b>Operating activities</b>		
Net loss	\$ (166)	\$ (300)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Equity in earnings from investment in Mediasite KK	(168)	
Software development costs	(458)	
Amortization of other intangibles	10	33
Amortization of debt discount		32
Depreciation and amortization of property and equipment	530	386
Deferred taxes	120	120
Stock-based compensation expense related to stock options	346	415
Provision for doubtful accounts		