

SONIC FOUNDRY INC
Form 10-Q
May 07, 2009
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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, 2009

OR

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

Commission File Number 1-14007

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)

Registrant's telephone number, including area code: (608) 443-1600

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 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 May 4, 2009
Common Stock, \$0.01 par value	35,907,950

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

	(Unaudited) March 31, 2009	September 30, 2008
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,497	\$ 3,560
Accounts receivable, net of allowance of \$105 and \$150	4,012	3,864
Inventories	128	330
Prepaid expenses and other current assets	738	429
Total current assets	7,375	8,183
Property and equipment:		
Leasehold improvements	980	980
Computer equipment	2,503	2,476
Furniture and fixtures	461	461
Total property and equipment	3,944	3,917
Less accumulated depreciation	2,399	2,223
Net property and equipment	1,545	1,694
Other assets:		
Goodwill	7,576	7,576
Other intangibles, net of amortization of \$26 and \$19	14	21
Total assets	\$ 16,510	\$ 17,474
Liabilities and stockholders equity		
Current liabilities:		
Line of credit	\$ 600	\$
Accounts payable	704	1,256
Accrued liabilities	1,158	1,113
Unearned revenue	4,722	4,661
Current portion of notes payable	333	333
Current portion of capital lease obligations	40	46
Total current liabilities	7,557	7,409
Long-term portion of notes payable	56	223
Long-term portion of capital lease obligations	5	24
Other liabilities	213	255
Total liabilities	7,831	7,911
Stockholders equity:		
Preferred stock, \$.01 par value, authorized 5,000,000 shares; none issued and outstanding		
5% preferred stock, Series B, voting, cumulative, convertible, \$.01 par value (liquidation preference at par), authorized 10,000,000 shares, none issued and outstanding		
	360	357

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Common stock, \$.01 par value, authorized 100,000,000 shares; 36,035,117 and 35,728,837 shares issued and 35,907,950 and 35,601,670 shares outstanding		
Additional paid-in capital	184,709	184,204
Accumulated deficit	(176,195)	(174,803)
Receivable for common stock issued	(26)	(26)
Treasury stock, at cost, 127,167 shares	(169)	(169)
Total stockholders' equity	8,679	9,563
Total liabilities and stockholders' equity	\$ 16,510	\$ 17,474

See accompanying notes

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,	
	2009	2008	2009	2008
Revenue:				
Product	\$ 3,249	\$ 2,182	\$ 4,993	\$ 3,124
Services	2,129	1,719	4,365	3,277
Other	35	28	64	48
Total revenue	5,413	3,929	9,422	6,449
Cost of revenue:				
Product	1,195	1,097	1,961	1,606
Services	135	57	260	270
Total cost of revenue	1,330	1,154	2,221	1,776
Gross margin	4,083	2,775	7,201	4,673
Operating expenses:				
Selling and marketing	2,607	3,330	5,270	6,876
General and administrative	733	736	1,516	1,714
Product development	887	982	1,790	1,928
Total operating expenses	4,227	5,048	8,576	10,518
Loss from operations	(144)	(2,273)	(1,375)	(5,845)
Other income (expense), net	(8)	(5)	(17)	27
Net loss	\$ (152)	\$ (2,278)	\$ (1,392)	\$ (5,818)
Net loss per common share:				
basic and diluted	\$ (0.00)	\$ (0.06)	\$ (0.04)	\$ (0.16)
Weighted average common shares				
basic and diluted	35,814,417	35,572,140	35,781,939	35,566,949

See accompanying notes

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

	Six months ended March 31,	
	2009	2008
Operating activities		
Net loss	\$ (1,392)	\$ (5,818)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization of other intangibles	7	6
Depreciation and amortization of property and equipment	327	337
Loss on sale of fixed assets		5
Other non-cash items	(3)	90
Share-based compensation expense related to stock warrants and options	368	492
Provision for doubtful accounts	(45)	(80)
Changes in operating assets and liabilities:		
Accounts receivable	(103)	983
Inventories	202	127
Prepaid expenses and other current assets	(309)	177
Accounts payable and accrued liabilities	(507)	(450)
Other long-term liabilities	(42)	(46)
Unearned revenue	64	235
Net cash used in operating activities	(1,433)	(3,942)
Investing activities		
Purchases of property and equipment	(178)	(110)
Net cash used in investing activities	(178)	(110)
Financing activities		
Proceeds from line of credit	600	
Payments on notes payable	(167)	(167)
Proceeds from exercise of common stock options	85	29
Proceeds from issuance of common stock	55	
Payments on capital lease obligations	(25)	(32)
Net cash provided by (used in) financing activities	548	(170)
Net decrease in cash	(1,063)	(4,222)
Cash and cash equivalents at beginning of period	3,560	8,008
Cash and cash equivalents at end of period	\$ 2,497	\$ 3,786

See accompanying notes

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Sonic Foundry, Inc.

Notes to Condensed Consolidated Financial Statements

March 31, 2009

(Unaudited)

1. Basis of Presentation and Significant Accounting Policies

Sonic Foundry, Inc. (the Company) is in the business of providing enterprise solutions and services for the web communications market.

Interim Financial Data

The accompanying unaudited condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States 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 accounting principles generally accepted in the United States (GAAP) for complete financial statements and should be read in conjunction with the Company's annual report filed on Form 10-K for the fiscal year ended September 30, 2008. In the opinion of management, all adjustments (consisting only of adjustments of a normal and recurring nature) considered necessary for a fair presentation of the results of operations have been included. Operating results for the three and six month periods ended March 31, 2009 are not necessarily indicative of the results that might be expected for the year ending September 30, 2009.

Revenue Recognition

General

Revenue is recognized when persuasive evidence of an arrangement exists, delivery occurs or services are rendered, the sales price is fixed or determinable and collectibility is reasonably assured. Revenue is deferred when undelivered products or services are essential to the functionality of delivered products, customer acceptance is uncertain, significant obligations remain, or the fair value of undelivered elements is unknown. The Company does not offer customers the right to return product, other than for exchange or repair pursuant to a warranty or stock rotation. The Company's policy is to reduce revenue if it incurs an obligation for price rebates or other such programs during the period the obligation is reasonably estimated to occur. The following policies apply to the Company's major categories of revenue transactions.

Products

Products are considered delivered, and revenue is recognized, when title and risk of loss have been transferred to the customer. Under the terms and conditions of the sale, this occurs at the time of shipment to the customer. Product revenue currently represents sales of our Mediasite recorder and Mediasite related products such as server software revenue.

Services

We sell support contracts to our customers, typically one year in length and record the related revenue ratably over the contractual period. Our support contracts cover phone and electronic technical support availability over and above the level provided by our dealers, software upgrades on a when and if available basis, advance hardware replacement and an extension of the standard hardware warranty from 90 days to one year. The manufacturer we contract with to build the units performs hardware warranty service. We also sell installation, training, event webcasting and customer content hosting services. Revenue for those services is recognized when performed in the case of installation, training and event webcasting services and is recognized ratably over the contract period for content hosting services. Service amounts invoiced to customers in excess of revenue recognized are recorded as deferred revenue until the revenue recognition criteria are met.

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Revenue Arrangements that Include Multiple Elements

Revenue for transactions that include multiple elements such as hardware, software, installation, training and post customer support is allocated to each element based on vendor-specific objective evidence of the fair value (VSOE) in accordance with Statement of Position (SOP) 97-2, Software Revenue Recognition, and SOP 98-9, Modification of SOP 97-2. Revenue is recognized for each element when the revenue recognition criteria have been met for that element. VSOE is based on the price charged when the element is sold separately. If VSOE of fair value does not exist for all elements in a multiple element arrangement, revenue is allocated first to the fair value of the undelivered elements and the residual revenue to the delivered elements. The Company recognizes revenue for delivered elements only when all of the following criteria are satisfied: undelivered elements are not essential to the functionality of delivered elements, uncertainties regarding customer acceptance are resolved and the fair value for all undelivered elements is known.

For revenue arrangements with multiple elements outside the scope of SOP 97-2, the Company accounts for the arrangements in accordance with Emerging Issues Task Force (EITF) Issue 00-21, Revenue Arrangements with Multiple Elements, and allocates the arrangement 's fees into separate units of accounting based on fair value. The Company supports fair value of the elements based upon the prices the Company charges when it sells similar elements separately.