

SONIC FOUNDRY INC
Form 10-Q
July 31, 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 June 30, 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 July 25, 2013
Common Stock, \$0.01 par value	3,983,401

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

	June 30, 2013	September 30, 2012
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,078	\$ 4,478
Accounts receivable, net of allowances of \$70 and \$85	7,688	5,578
Inventories	1,142	1,053
Prepaid expenses and other current assets	775	757
Total current assets	12,683	11,866
Property and equipment:		
Leasehold improvements	852	852
Computer equipment	4,830	3,851
Furniture and fixtures	865	865
Total property and equipment	6,547	5,568
Less accumulated depreciation and amortization	3,450	2,624
Net property and equipment	3,097	2,944
Other assets:		
Goodwill	7,576	7,576
Investment in Mediasite KK	577	420
Software development costs, net of amortization of \$30	503	
Other intangibles, net of amortization of \$195 and \$180	20	15
Total assets	\$ 24,456	\$ 22,821
Liabilities and stockholders equity		
Current liabilities:		
Revolving line of credit	\$	\$
Accounts payable	1,529	1,604
Accrued liabilities	1,222	850
Unearned revenue	6,081	5,284
Current portion of capital lease obligation	183	129
Current portion of notes payable	667	667
Total current liabilities	9,682	8,534
Long-term portion of unearned revenue	490	349
Long-term portion of capital lease obligation	129	131
Long-term portion of notes payable	266	766
Leasehold improvement liability	466	532
Deferred tax liability	2,150	1,970

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Total liabilities	13,183	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; 3,978,502 and 3,909,040 shares issued and 3,965,786 and 3,896,324 shares outstanding	40	39
Additional paid-in capital	190,318	189,459
Accumulated deficit	(178,890)	(178,764)
Receivable for common stock issued	(26)	(26)
Treasury stock, at cost, 12,716 shares	(169)	(169)
Total stockholders' equity	11,273	10,539
Total liabilities and stockholders' equity	\$ 24,456	\$ 22,821

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,	
	2013	2012	2013	2012
Revenue:				
Product	\$ 4,170	\$ 4,099	\$ 9,969	\$ 9,315
Services	3,782	3,567	10,837	10,317
Other	61	91	189	238
Total revenue	8,013	7,757	20,995	19,870
Cost of revenue:				
Product	1,955	1,850	4,629	4,466
Services	447	352	1,198	1,058
Total cost of revenue	2,402	2,202	5,827	5,524
Gross margin	5,611	5,555	15,168	14,346
Operating expenses:				
Selling and marketing	3,652	3,399	9,681	8,875
General and administrative	779	668	2,428	2,143
Product development	1,071	1,089	3,115	3,033
Total operating expenses	5,502	5,156	15,224	14,051
Income (loss) from operations	109	399	(56)	295
Equity in earnings from investment in Mediasite KK	11	250	179	250
Other expense, net	(20)	(30)	(69)	(106)
Income before income taxes	100	619	54	439
Provision for income taxes	(60)	(60)	(180)	(180)
Net income (loss)	\$ 40	\$ 559	\$ (126)	\$ 259
Net income (loss) per common share:				
basic	\$ 0.01	\$ 0.14	\$ (0.03)	\$ 0.07
diluted	\$ 0.01	\$ 0.14	\$ (0.03)	\$ 0.07
Weighted average common shares				
basic	3,938,038	3,856,536	3,915,339	3,849,667
diluted	3,984,437	3,900,435	3,915,339	3,904,281

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,	
	2013	2012
Operating activities		
Net income (loss)	\$ (126)	\$ 259
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Equity in earnings from investment in Mediasite KK	(179)	(250)
Amortization of other intangibles	15	38
Amortization of software development costs	30	
Amortization of debt discount		32
Depreciation and amortization of property and equipment	826	614
Deferred taxes	180	180
Stock		