

Mattersight Corp  
Form 10-Q  
August 06, 2015  
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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, 2015**

**OR**

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

**FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_**

**Commission File Number 0-27975**

**Mattersight Corporation**

**(Exact Name of Registrant as Specified in Its Charter)**

**Delaware**  
**(State or Other Jurisdiction of**  
**Incorporation or Organization)**

**36-4304577**  
**(I.R.S. Employer**  
**Identification No.)**

**200 W. Madison Street**

**Suite 3100**

**Chicago, Illinois 60606**

**(Address of Registrant's Principal Executive Offices) (Zip Code)**

**(877) 235-6925**

**(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 Section 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 (Section 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

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.:

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

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

The number of shares of the registrant's Common Stock outstanding as of July 28, 2015 was 25,607,309.

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**Table of Contents****Part I. Financial Information****Item 1. Financial Statements****MATTERSIGHT CORPORATION****CONDENSED CONSOLIDATED BALANCE SHEETS****(Unaudited and in thousands, except share and per share data)**

	<b>June 30, 2015</b>	<b>December 31, 2014</b>
<b>ASSETS:</b>		
Current Assets:		
Cash and cash equivalents	\$ 13,458	\$ 14,238
Receivables (net of allowances of \$24 and \$17, respectively)	4,813	3,460
Prepaid expenses	4,897	4,449
Other current assets	1,882	236
<b>Total current assets</b>	<b>25,050</b>	<b>22,383</b>
Equipment and leasehold improvements, net	7,595	4,657
Goodwill	972	972
Intangibles, net	3,438	571
Other long-term assets	2,934	3,495
<b>Total assets</b>	<b>\$ 39,989</b>	<b>\$ 32,078</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY:</b>		
Current Liabilities:		
Short-term debt	\$ 8,002	\$
Accounts payable	2,479	1,183
Accrued compensation and related costs	1,985	2,241
Unearned revenue	6,750	7,859
Capital leases	1,777	1,637
Other current liabilities	4,458	2,549
<b>Total current liabilities</b>	<b>25,451</b>	<b>15,469</b>
Long-term unearned revenue	2,169	2,532
Long-term intangible assets liability	1,624	
Long-term capital leases	1,725	1,176
Other long-term liabilities	1,772	282
<b>Total liabilities</b>	<b>32,741</b>	<b>19,459</b>
Series B Stock, \$0.01 par value; 5,000,000 shares authorized and designated; 1,647,175 and 1,648,185 shares issued and outstanding, with a liquidation	8,401	8,406

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preference of \$10,165 and \$9,877, at June 30, 2015 and December 31, 2014, respectively

Stockholders' Equity:

Preferred Stock, \$0.01 par value; 35,000,000 shares authorized; none issued and outstanding

Common Stock, \$0.01 par value; 50,000,000 shares authorized; 24,704,031 and 24,046,977 shares issued and 22,878,597 and 22,324,093 shares outstanding at June 30, 2015 and December 31, 2014, respectively

	247	240
Additional paid-in capital	245,983	243,282
Accumulated deficit	(233,785)	(226,404)
Treasury stock, at cost, 1,825,434 and 1,722,884 shares at June 30, 2015 and December 31, 2014, respectively	(9,574)	(8,879)
Accumulated other comprehensive loss	(4,024)	(4,026)
<b>Total stockholders' equity (deficit)</b>	<b>(1,153)</b>	<b>4,213</b>
<b>Total liabilities and stockholders' equity (deficit)</b>	<b>\$ 39,989</b>	<b>\$ 32,078</b>

See accompanying notes to the Condensed Consolidated Financial Statements.

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**MATTERSIGHT CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(Unaudited and in thousands, except per share data)

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Revenue:				
Subscription revenue	\$ 8,874	\$ 6,303	\$ 17,206	\$ 12,360
Other revenue	868	1,037	1,852	1,993
Total revenue	9,742	7,340	19,058	14,353
Operating expenses:				
Cost of Subscription revenue	2,055	1,722	3,923	3,444
Cost of Other revenue	614	540	1,321	1,051
Total cost of revenue, exclusive of depreciation and amortization shown below:	2,669	2,262	5,244	4,495
Research and development	3,380	3,283	6,788	6,373
Sales and marketing	3,087	2,173	6,243	4,304
General and administrative	2,821	2,281	5,703	4,531
Depreciation and amortization	1,116	737	2,111	1,480
Total operating expenses	13,073	10,736	26,089	21,183
Operating loss	(3,331)	(3,396)	(7,031)	(6,830)
Interest and other expense, net	(245)	(160)	(359)	(310)
Change in fair value of warrant liability	20	284	25	(86)
Loss before income taxes	(3,556)	(3,272)	(7,365)	(7,226)
Income tax provision	(8)	(8)	(16)	(17)
Net loss	(3,564)	(3,280)	(7,381)	(7,243)
Dividends related to Series B Stock	(147)	(147)	(294)	(294)
Net loss available to Common Stock holders	\$ (3,711)	\$ (3,427)	\$ (7,675)	\$ (7,537)
Per share of Common Stock:				
Basic net loss available to Common Stock holders	\$ (0.17)	\$ (0.18)	\$ (0.35)	\$ (0.41)
Diluted net loss available to Common Stock holders	\$ (0.17)	\$ (0.18)	\$ (0.35)	\$ (0.41)

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Shares used to calculate basic net loss per share	22,032	18,679	21,955	18,591
Shares used to calculate diluted net loss per share	22,032	18,679	21,955	18,591

Stock-based compensation, primarily restricted stock, is included in individual line items above:

Total cost of revenue	\$ 65	\$ 46	\$ 124	\$ 102
Research and development	253	375	519	751
Sales and marketing	355	197	721	411
General and administrative	744	531	1,418	973

See accompanying notes to the Condensed Consolidated Financial Statements.



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**MATTERSIGHT CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**  
**(Unaudited and in thousands)**

	<b>For the Three Months Ended</b>		<b>For the Six Months Ended</b>	
	<b>June 30, 2015</b>	<b>June 30, 2014</b>	<b>June 30, 2015</b>	<b>June 30, 2014</b>
Net loss	\$ (3,564)	\$ (3,280)	\$ (7,381)	\$ (7,243)
Other comprehensive loss:				
Effect of currency translation	3	(2)	2	3
Comprehensive net loss	\$ (3,561)	\$ (3,282)	\$ (7,379)	\$ (7,240)

See accompanying notes to the Condensed Consolidated Financial Statements.

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**MATTERSIGHT CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited and in thousands)

	<b>For the Six Months Ended</b>	
	<b>June 30, 2015</b>	<b>June 30, 2014</b>
<b>Cash Flows from Operating Activities:</b>		
Net loss	\$ (7,381)	\$ (7,243)
<b>Adjustments to reconcile net loss to net cash used in operating activities:</b>		
Depreciation and amortization	2,111	1,480
Stock-based compensation	2,782	2,237
Change in fair value of warrant liability	(25)	86
<b>Changes in assets and liabilities:</b>		
Receivables	(1,353)	(75)
Prepaid expenses	(846)	(512)
Other assets	(985)	17
Accounts payable	267	478
Accrued compensation and related costs	(256)	(305)
Unearned revenue	(1,472)	(1,681)
Other liabilities	1,470	(56)
<b>Total Adjustments</b>	<b>1,693</b>	<b>1,669</b>
<b>Net cash used in operating activities</b>	<b>(5,688)</b>	<b>(5,574)</b>
<b>Cash Flows from Investing Activities:</b>		
Capital expenditures	(1,207)	(369)
Intangible assets	(475)	(129)
<b>Net cash used in investing activities</b>	<b>(1,682)</b>	<b>(498)</b>
<b>Cash Flows from Financing Activities:</b>		
Proceeds from line of credit	15,000	7,000
Repayments from line of credit	(7,000)	
Principal payments under capital lease obligations	(999)	(804)
Acquisition of treasury stock	(695)	(645)
Fees from issuance of Common Stock	(11)	(2)
Proceeds from stock compensation and employee stock purchase plans, net	299	86
<b>Net cash provided by financing activities</b>	<b>6,594</b>	<b>5,635</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>(4)</b>	<b>2</b>

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Decrease in cash and cash equivalents	(780)	(435)
Cash and cash equivalents, beginning of period	14,238	13,392
Cash and cash equivalents, end of period	\$ 13,458	\$ 12,957
<b>Non-Cash Investing and Financing Transactions:</b>		
Capital lease obligations incurred	\$ 1,752	\$ 763
Capital equipment purchased on credit	1,752	763
Fair value of warrants classified as liability	355	342
Fair value of intangible asset liability	2,285	
<b>Supplemental Disclosures of Cash Flow Information:</b>		
Interest paid	\$ 101	\$ 148

See accompanying notes to the Condensed Consolidated Financial Statements.

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**MATTERSIGHT CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note One General**

In the opinion of management, the accompanying unaudited condensed consolidated financial statements of Mattersight Corporation ( we, Mattersight, or the Company ) include all normal and recurring adjustments necessary for a fair presentation of our condensed consolidated financial position as of June 30, 2015 and December 31, 2014, the condensed consolidated results of our operations for the three months and six months ended June 30, 2015 and June 30, 2014, the condensed consolidated statements of our comprehensive loss for the three months and six months ended June 30, 2015 and June 30, 2014, and our condensed consolidated cash flows for the six months ended June 30, 2015 and June 30, 2014, and are in accordance with United States generally accepted accounting principles ( GAAP ) and in conformity with Securities and Exchange Commission ( SEC ) Article 8-03 of Regulation S-X; provided, that certain information and disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted.

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto in Mattersight s Annual Report on Form 10-K for the fiscal year ended December 31, 2014 filed with the SEC on March 12, 2015. The results of operations for the three months and six months ended June 30, 2015 are not necessarily indicative of the results to be expected for the full year.

The preparation of financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

**Note Two Summary of Significant Accounting Policies**

For a description of the Company s Summary of Significant Accounting Policies, see Note Two Summary of Significant Accounting Policies of the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2014.

***Change in Presentation***

Beginning in the second quarter of 2015, Mattersight reclassified certain expenses, which had been previously reported within Selling, marketing and development to distinguish between (i) Research and development and (ii) Sales and marketing.

In the first quarter of 2015, Mattersight reported Subscription revenue, which consists of Behavioral Analytics Subscription revenue and Marketing Managed Services revenue, and Other revenue, which consists of Deployment revenue, Professional Services revenue, CRM Services revenue, and Reimbursed Expenses revenue.

Previously in 2014, Mattersight reported Behavioral Analytics revenue, which consisted of Subscription revenue, Deployment revenue, and Professional Services revenue, and Other revenue, which consisted of CRM Services

revenue and Marketing Managed Services revenue. Reimbursed Expenses revenue was reported separately.

We feel the revised presentation provides a clearer understanding of our business and revenue streams. The changes in presentation did not have an impact on total revenue, total cost of revenue, or total operating expenses. There was no change to our significant accounting policies. The 2014 revenue and expense classifications have been revised to conform to our current presentation.

**Note Three Revenue Recognition**

*Revenue Recognition*

**Subscription Revenue**

Subscription revenue consists of Behavioral Analytics Subscription revenue and Marketing Managed Services revenue derived from the performance of services on a continual basis.

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Subscription revenue is based on a number of factors, such as the number of users to whom the Company provides one of its Behavioral Analytics-related service offerings, including Predictive Behavioral Routing, Performance Management, and Predictive Analytics, the type and number of Behavioral Analytics offerings deployed to the client, and in some cases, the number of hours of calls analyzed during the relevant month of the subscription period. Subscription periods generally range from three to five years after the go-live date or, in cases where the Company contracts with a client for a short-term pilot of a Behavioral Analytics offering prior to committing to a longer subscription period, if any, the subscription or pilot periods generally range from three to twelve months after the go-live date. This revenue is recognized over the applicable subscription period, as the service is performed for the client.

Marketing Managed Services revenue is derived from marketing application hosting. This revenue is generally in the form of fixed monthly fees received from the Company's clients and is recognized as the services are performed for the client. Any related setup fee would be recognized over the term of the hosting contract.

## **Other Revenue**

Other revenue consists of Deployment revenue, Professional Services revenue, and Reimbursed Expenses revenue.

Deployment revenue consists of planning, deployment, and training fees derived from Behavioral Analytics contracts. These fees, which are considered to be installation fees related to Behavioral Analytics subscription contracts, are deferred until the installation is complete and are then recognized over the applicable subscription period. In cases where the Company contracts with a client for a short-term pilot of a Behavioral Analytics offering prior to committing to a longer subscription period, if any, the period in which pilot deployment revenue is recognized generally ranges from three to twelve months after the go-live date. Installation costs incurred are deferred up to an amount not to exceed the amount of deferred installation revenue and additional amounts that are recoverable based on the contractual arrangement. These costs are included in Prepaid expenses and Other long-term assets. Such costs are amortized over the subscription period. Costs in excess of the foregoing revenue amount are expensed in the period incurred.

Professional Services revenue primarily consists of fees charged to the Company's clients to provide post-deployment follow-on consulting services, which include custom data analysis, the implementation of enhancements, and training, as well as fees generated from the Company's operational consulting services. Professional Services are performed for the Company's clients on a fixed-fee or time-and-materials basis. Revenue is recognized as the services are performed, with performance generally assessed on the ratio of actual hours incurred to-date compared to the total estimated hours over the entire term of the contract.

Reimbursed Expenses revenue includes billable costs related to travel and other out-of-pocket expenses incurred while performing services for the Company's clients. The cost of third-party product and support may be included within this category if the transaction does not satisfy the requirements for gross reporting. An equivalent amount of reimbursable expenses is included in Total co