Qumu Corp
Form 10-Q
November 07, 2018
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2018; OR

o 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: 000-20728

QUMU CORPORATION
(Exact name of registrant as specified in its charter)

Minnesota	41-1577970
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

510 1st Avenue North, Suite 305, Minneapolis, MN 55403
(Address of principal executive offices)

(612) 638-9100
(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 x No o

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company (as defined in Rule 12b-2 of the Exchange Act):

Large accelerated filer o	Accelerated filer o
Non-accelerated filer x	Smaller reporting company x
Emerging growth company o	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): Yes o No x

Common Stock outstanding at November 2, 2018 – 9,528,403 shares of $.01 par value Common Stock.

Table of Contents

QUMU CORPORATION
FORM 10-Q
TABLE OF CONTENTS
FOR THE QUARTER ENDED SEPTEMBER 30, 2018

Table of Contents

PART 1 – FINANCIAL INFORMATION
Item 1. Financial Statements (unaudited)
QUMU CORPORATION AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(in thousands, except share data)

	September 30, 2018 (unaudited)	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 8,499	$ 7,690
Receivables, net of allowance for doubtful accounts of $81 and $21, respectively	4,150	5,529
Contract assets	156	—
Income tax receivable	319	156
Prepaid expenses and other current assets	1,932	1,830
Total current assets	15,056	15,205
Property and equipment, net of accumulated depreciation of $2,730 and $4,678, respectively	512	911
Intangible assets, net	4,661	6,295
Goodwill	7,132	7,390
Deferred income taxes, non-current	60	77
Other assets, non-current	925	4,398
Total assets	$ 28,346	$ 34,276
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and other accrued liabilities	$ 1,841	$ 3,878
Accrued compensation	959	1,824
Deferred revenue	9,114	8,923
Deferred rent	47	181
Financing obligations	144	1,047
Warrant liability	3,458	819
Total current liabilities	15,563	16,672
Long-term liabilities:		
Deferred revenue, non-current	1,483	141
Income taxes payable, non-current	531	3
Deferred tax liability, non-current	40	153
Deferred rent, non-current	322	507
Financing obligations, non-current	—	3
Term loan, non-current	3,304	7,605
Other non-current liabilities	146	—
Total long-term liabilities	5,826	8,412
Total liabilities	21,389	25,084
Commitments and contingencies (Note 4)		
Stockholders' equity:		
Preferred stock, $0.01 par value, authorized 250,000 shares, no shares issued and outstanding	—	—
Common stock, $0.01 par value, authorized 29,750,000 shares, issued and outstanding 9,528,403 and 9,364,804, respectively	95	94
Additional paid-in capital	68,763	68,035

Accumulated deficit	(58,923)	(56,197)
Accumulated other comprehensive loss	(2,978)	(2,740)
Total stockholders' equity	6,957	9,192
Total liabilities and stockholders' equity	$ 28,346	$ 34,276

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

QUMU CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Operations
(unaudited - in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenues:				
Software licenses and appliances	$985	$1,822	$4,303	$3,971
Service	4,668	5,751	13,807	16,967
Total revenues	5,653	7,573	18,110	20,938
Cost of revenues:				
Software licenses and appliances	504	916	1,643	1,778
Service	1,611	1,995	4,990	6,003
Total cost of revenues	2,115	2,911	6,633	7,781
Gross profit	3,538	4,662	11,477	13,157
Operating expenses:				
Research and development	1,617	1,769	5,159	5,676
Sales and marketing	1,796	2,509	6,388	7,484
General and administrative	1,608	2,083	5,536	6,552
Amortization of purchased intangibles	224	226	680	675
Total operating expenses	5,245	6,587	17,763	20,387
Operating loss	(1,707)	(1,925)	(6,286)	(7,230)
Other income (expense):				
Gain on sale of BriefCam, Ltd.	6,502	—	6,502	—
Loss on extinguishment of debt	(1,189)	—	(1,189)	—
Interest expense, net	(262)	(343)	(1,616)	(994)
Decrease (increase) in fair value of warrant liability	(401)	15	(292)	(52)
Other, net	(78)	(166)	(481)	(345)
Total other income (expense), net	4,572	(494)	2,924	(1,391)
Income (loss) before income taxes	2,865	(2,419)	(3,362)	(8,621)
Income tax expense (benefit)	469	(110)	303	(139)
Net income (loss)	$2,396	$(2,309)	$(3,665)	$(8,482)
Net income (loss) per share – basic:				
Net income (loss) per share – basic	$0.25	$(0.25)	$(0.39)	$(0.91)
Weighted average shares outstanding – basic	9,559	9,404	9,472	9,335
Net income (loss) per share – diluted:				
Income (loss) attributable to common shareholders	$2,396	$(2,309)	$(3,665)	$(8,482)
Net income (loss) per share – diluted	$0.25	$(0.25)	$(0.39)	$(0.91)
Weighted average shares outstanding – diluted	9,709	9,404	9,472	9,335

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

QUMU CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Comprehensive Income (Loss)
(unaudited - in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income (loss)	$2,396	$(2,309)	$(3,665)	$(8,482)
Other comprehensive income (loss):				
Net change in foreign currency translation adjustments	(87)	405	(233)	1,101
Total other comprehensive income (loss)	(87)	405	(233)	1,101
Total comprehensive income (loss)	$2,309	$(1,904)	$(3,898)	$(7,381)

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

QUMU CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(unaudited - in thousands)

	Nine Months Ended September 30, 2018	2017
Operating activities:		
Net loss	$(3,665)	$(8,482)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,924	2,309
Stock-based compensation	767	1,090
Accretion of debt discount and issuance costs	1,194	364
Gain on sale of BriefCam, Ltd.	(6,502)	—
Loss on debt extinguishment	1,189	—
Loss on lease contract termination	177	—
Change in fair value of warrant liability	292	52
Deferred income taxes	(99)	(112)
Changes in operating assets and liabilities:		
Receivables	1,363	1,204
Contract assets	394	—
Income taxes receivable / payable	357	142
Prepaid expenses and other assets	291	1,070
Accounts payable and other accrued liabilities	(2,082)	563
Accrued compensation	(857)	(405)
Deferred revenue	2,283	151
Deferred rent	(121)	(132)
Other non-current liabilities	98	—
Net cash used in operating activities	(2,997)	(2,186)
Investing activities:		
Proceeds from sale of BriefCam, Ltd.	9,678	—
Purchases of property and equipment	(116)	(22)
Net cash provided by (used in) investing activities	9,562	(22)
Financing activities:		
Proceeds from term loan and warrant issuance	10,000	—
Principal payments on term loans	(14,000)	—
Payments for term loan issuance costs	(1,308)	(125)
Principal payments on financing obligations	(329)	(383)
Common stock repurchases to settle employee withholding liability	(28)	(11)
Net cash used in financing activities	(5,665)	(519)
Effect of exchange rate changes on cash	(91)	101
Net increase (decrease) in cash and cash equivalents	809	(2,626)
Cash and cash equivalents, beginning of period	7,690	10,364
Cash and cash equivalents, end of period	$8,499	$7,738
Supplemental disclosures of net cash paid (received) during the period:		
Income taxes, net	$52	$(176)
Interest, net	$502	$627

See accompanying notes to unaudited condensed consolidated financial statements.

6

Table of Contents

QUMU CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

(1) Nature of Business and Basis of Presentation

Qumu Corporation (the "Company") provides the software applications businesses use to create, manage, secure, deliver and measure the success of their videos. The Company's innovative solutions release the power of video to engage and empower employees, partners and clients, allowing organizations around the world to realize the greatest possible value from video they create and publish. Whatever the audience size, viewer device or network configuration, the Company's solutions are how business does video.

The Company views its operations and manages its business as one segment and one reporting unit. Factors used to identify the Company's single operating segment and reporting unit include the financial information available for evaluation by the chief operating decision maker in making decisions about how to allocate resources and assess performance. The Company manages the marketing of its products and services through regional sales representatives and independent distributors in the United States and international markets.

The condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make 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 period. Actual results could differ from those estimates.

The accompanying condensed consolidated financial statements are unaudited and have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America for interim financial information, pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Pursuant to such rules and regulations, certain financial information and footnote disclosures normally included in a complete set of financial statements have been condensed or omitted. However, in the opinion of management, the financial statements include all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of the financial position and results of operations and cash flows of the interim periods presented. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K as of and for the year ended December 31, 2017.

The Company has continued to experience recurring operating losses and negative cash flows from operating activities. The ability of the Company to continue as a going concern is dependent upon the Company maintaining compliance with its term loan covenants. The Company's credit agreement is described in Note 4–"Commitments and Contingencies." If an event of default occurs due to the Company not maintaining compliance with its covenants, the lender may accelerate the repayment of outstanding principal, which could negatively impact the Company's ability to fund its working capital requirements, capital expenditures and general corporate expenses. The Company is projecting future compliance with its covenants under its current operating plan.

Recently Adopted Accounting Standards

Revenue from Contracts with Customers

On January 1, 2018, the Company adopted ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) and the related amendments ("Topic 606") using the modified retrospective transition method. Under this method, the Company evaluated contracts that were in effect at the beginning of fiscal 2018 as if those contracts had been accounted for under Topic 606. The Company did not evaluate individual modifications for those periods prior to the adoption date, but the aggregate effect of all modifications as of the adoption date and such effects are provided below. Under the modified retrospective transition approach, periods prior to the adoption date were not adjusted and continue to be reported in accordance with historical, pre-Topic 606 accounting. A cumulative catch up adjustment was recorded to beginning accumulated deficit to reflect the impact of all existing arrangements under Topic 606.

At the adoption date, the Company adjusted accumulated deficit by $939,000, primarily driven by uncompleted contracts for which revenue will not be recognized in future periods under Topic 606, partially offset by the incremental originating costs

7

Table of Contents

associated with those contracts. The cumulative effect of the changes made to our January 1, 2018 condensed consolidated balance sheet from the modified retrospective adoption of Topic 606 is as follows (in thousands):

	December 31, 2017	Adjustments	January 1, 2018
Assets:			
Contract assets	$ —	$ 550	$ 550
Prepaid expenses and other current assets	1,830	(99)	1,731
Other assets, non-current	4,398	(10)	4,388
Liabilities:			
Deferred revenue	8,923	(493)	8,430
Deferred revenue, non-current	141	—	141
Stockholders’ equity:			
Accumulated deficit	(56,197)	939	(55,258)
Accumulated other comprehensive loss	(2,740)	(5)	(2,745)

The most significant impact of the adoption of Topic 606 was on the Company's term software licenses that, under the Company's previous revenue accounting ("Topic 605"), would have continued to be recognized into revenue ratably in 2018 and beyond. However, under Topic 606 the standalone selling price attributable to the license is recognized upon transfer of control resulting in up-front recognition, typically upon fulfillment. The timing of revenue recognition for perpetual software licenses, hardware, and professional services is expected to remain substantially unchanged. See Note 2–"Revenue" for the Company's revenue recognition policy after the adoption of Topic 606.

Revenue generated under Topic 606 is expected to be approximately $1.1 million lower than revenue would have been under Topic 605 for the year ending December 31, 2018. The following table summarizes the effects of adopting Topic 606 on the Company’s condensed consolidated statement of operations and comprehensive income (loss) for the three and nine months ended September 30, 2018:

	Three Months Ended September 30, 2018			Nine Months Ended September 30, 2018		
	As reported under Topic 606	Adjustments	Balances without adoption of Topic 606	As reported under Topic 606	Adjustments	Balances without adoption of Topic 606
Revenues	$5,653	$ 153	$5,806	$18,110	$ 577	$18,687
Cost of revenues	2,115	6	2,121	6,633	24	6,657
Sales and marketing	1,796	12	1,808	6,388	50	6,438
Net income (loss)	2,396	135	2,531	(3,665)	503	(3,162)
Net change in foreign currency translation adjustments	(87)	2	(85)	(233)	12	(221)
Total comprehensive income (loss)	2,309	137	2,446	(3,898)	515	(3,383)

The following table summarizes the effects of adopting Topic 606 on the Company’s condensed consolidated balance sheet as of September 30, 2018:

	September 30, 2018		
	As reported under Topic 606	Adjustments	Balances without adoption of Topic 606
Assets:			
Contract assets	156	(156)	—

Prepaid expenses and other current assets	1,932	33	1,965
Other assets, non-current	925	2	927
Liabilities:			
Deferred revenue	9,114	299	9,413
Deferred revenue, non-current	1,483	(1)	1,482
Stockholders’ equity:			
Accumulated deficit	(58,923)	(436)	(59,359)
Accumulated other comprehensive loss	(2,978)	17	(2,961)

Table of Contents

The Company’s net cash used in operating activities for the nine months ended September 30, 2018 did not change due to the adoption of Topic 606. The following table summarizes the effects of adopting Topic 606 on the financial statement line items of the Company’s condensed consolidated statement of cash flows for the nine months ended September 30, 2018:

	Nine Months Ended September 30, 2018		
	As reported under Topic 606	Adjustments	Balances without adoption of Topic 606
Operating activities:			
Net loss	$(3,665)	$ 503	$(3,162)
Adjustments to reconcile net loss to net cash used in operating activities:			
Changes in operating assets and liabilities:			
Contract assets	394	(394)	—
Prepaid expenses and other assets	291	74	365
Deferred revenue	2,283	(183)	2,100

Financial Instruments

In January 2016, the FASB issued ASU 2016-01, Financial Instruments – Overall, which the Company adopted on January 1, 2018, modifying its accounting and required disclosures for its equity investment previously accounted for under the cost basis method of accounting.

The Company’s equity investment consisted of its investment totaling $3.1 million in convertible preferred stock of privately-held BriefCam, Ltd. (“BriefCam”), as described in Note 9–"Investment in Software Company," which is included in other assets in the condensed consolidated balance sheets as of December 31, 2017. The new standard eliminated the cost method of accounting for investments in equity securities that do not have readily determinable fair values and permits the election of a measurement alternative that allows such securities to be recorded at cost, less impairment, if any, plus or minus changes resulting from observable price changes in market-based transactions for an identical or similar investment of the same issuer. The Company adopted the provisions of the new standard applicable to its investment in BriefCam on a prospective basis and elected the measurement alternative for non-marketable investments previously accounted for under the cost method of accounting.

On July 6, 2018, the Company sold its investment in BriefCam, which had a carrying value of $3.1 million as of December 31, 2017, resulting in a gain on sale of $6.5 million during the three and nine months ended September 30, 2018. From the date of adoption of the new accounting standard on January 1, 2018 to the sale of BriefCam, there were no observable price changes or impairments related to the Company’s non-marketable investment in the equity security.

Income Taxes

In March 2018, the Company adopted ASU 2018-05, Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118, which updates the income tax accounting in U.S. GAAP to reflect the SEC interpretive guidance released on December 22, 2017, when the Tax Cuts and Jobs Act of 2017 was signed into law. Additional information regarding the adoption of this standard is contained in Note 7–"Income Taxes."

Accounting Standards Not Yet Adopted

In August 2018, the FASB issued ASU 2018-13, Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement (Topic 820), which changes the fair value measurement disclosure requirements of ASC 820. The ASU is effective for all entities for fiscal years beginning after December 15, 2019, including interim periods therein. Early adoption is permitted for any eliminated or modified disclosures upon issuance of this ASU. The Company does not believe the impact of adopting this standard will be material to its consolidated financial statements disclosures.

In February 2018, the FASB issued ASU 2018-02, Income Statement – Reporting Comprehensive Income (Topic 220), which allows a reclassification from accumulated other comprehensive income (loss) to retained earnings (accumulated deficit) for stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017 and requires certain disclosures regarding stranded tax effects in accumulated other comprehensive income (loss). This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted during interim or annual periods. The Company does not believe the impact of adopting this standard will be material to its consolidated financial statements.

Table of Contents

In January 2017, the FASB issued ASU 2017-04, Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. The purpose of the amendment is to simplify how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. This standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The Company does not believe the impact of adopting this standard will be material to its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases, which will supersede the existing lease guidance and will require all leases with a term greater than 12 months to be recognized in the statements of financial position and eliminate current real estate-specific lease guidance, while maintaining substantially similar classification criteria for distinguishing between finance leases and operating leases. This standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted. The Company plans to use a modified retrospective approach and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Company developed a project plan to guide the implementation of ASU 2016-02 and has made progress on this plan, including assessing the Company's portfolio of leases and compiling information on active leases. The Company is currently evaluating the impact on its consolidated financial statements of adopting this standard, which will require right-of-use assets and lease liabilities be recorded in the consolidated balance sheet for operating leases, which may be material.

(2) Revenue

The Company generates revenue through the sale of enterprise video content management software, hardware, maintenance and support, and professional and other services. Software sales may take the form of a perpetual software license, a cloud-hosted software as a service (SaaS) or a term software license. Software licenses and appliances revenue includes sales of perpetual software licenses and hardware. Service revenue inclu