

Mattersight Corp
Form 10-Q
August 09, 2016

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, 2016

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 36-4304577
(State or Other Jurisdiction of (I.R.S. Employer
Incorporation or Organization) Identification No.)

200 W. Madison Street

Suite 3100

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Chicago, Illinois 60606

(Address of 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

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 19, 2016 was 26,567,621.

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Part I. Financial Information

Forward-Looking Statements

Statements in this Quarterly Report on Form 10-Q that are not historical facts are “forward-looking statements” and are made pursuant to the safe harbor provisions of Section 27A of the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). These forward-looking statements, which may be identified by use of words such as “plan,” “may,” “might,” “believe,” “expect,” “intend,” “could,” “would,” “should,” and other words and phrases of similar meaning, in connection with any discussion of our prospects, financial statements, business, financial condition, revenues, results of operations, or liquidity, involve risks and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. In addition to other factors and matters contained or incorporated in this document, important factors that could cause actual results or events to differ materially from those indicated by such forward-looking statements include, without limitation, those noted under “Risk Factors” included in Part I Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2015, as well as the following:

- Uncertainties associated with the attraction of, and the ability to execute contracts with, new clients, the continuation of existing, and execution of new, engagements with existing clients, the conversion of free pilots to paid subscription contracts, and the timing of related client commitments;
- Reliance on a relatively small number of clients for a significant percentage of our revenue;
- Risks involving the variability and predictability of the number, size, scope, cost, and duration of, and revenue from, client engagements;
- Management of the other risks associated with complex client projects and new service offerings, including execution risk; and
- Management of growth and development of, and introduction of, new service offerings.

We cannot guarantee any future results, levels of activity, performance, or achievements. The statements made in this Quarterly Report on Form 10-Q represent our views as of the date of this report, and it should not be assumed that the statements made in this report remain accurate as of any future date. Moreover, we assume no obligation to update forward-looking statements, except as may be required by law. In light of Regulation FD, it is our policy not to comment on earnings, financial guidance, or operations other than through press releases, publicly announced conference calls, or other means that will constitute public disclosure for purposes of Regulation FD.

Item 1. Financial Statements

MATTERSIGHT CORPORATION

CONSOLIDATED BALANCE SHEETS

(Unaudited and in thousands, except share and per share data)

	June 30, 2016	December 31, 2015
ASSETS		
Current Assets:		
Cash and cash equivalents	\$15,400	\$ 15,407
Receivables net of allowances of \$29 and \$24, respectively	5,737	4,863
Prepaid expenses	5,681	4,582
Other current assets	197	235
Total current assets	27,015	25,087
Equipment and leasehold improvements, net of accumulated depreciation and amortization of \$17,357 and \$14,805, respectively	8,980	8,523
Goodwill	972	972
Intangibles net of amortization of \$3,566 and \$3,351, respectively	3,313	3,353
Other long-term assets (includes \$500 in restricted cash at June 30, 2016)	2,379	2,467
Total assets	\$42,659	\$ 40,402
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Short-term debt	\$7,046	\$ —
Accounts payable	1,551	1,223
Accrued compensation and related costs	2,327	2,761
Unearned revenue	3,876	6,378
Capital leases	2,164	1,819
Other current liabilities	2,402	1,796
Total current liabilities	19,366	13,977
Long-term debt	5,944	—
Long-term unearned revenue	1,306	1,597
Long-term capital leases	2,267	1,614
Other long-term liabilities	5,399	5,689
Total liabilities	34,282	22,877
7%	8,374	8,388
Series B convertible preferred stock, \$0.01 par value; 5,000,000 shares authorized and designated; 1,641,960 and 1,644,768 shares issued and outstanding at June 30, 2016 and December 31, 2015, respectively, with a liquidation preference of \$10,719 and		

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\$10,443, at June 30, 2016 and December 31, 2015, respectively		
Stockholders' Equity:		
Preferred stock, \$0.01 par value; 35,000,000 shares authorized; none issued	—	—
Common stock, \$0.01 par value; 50,000,000 shares authorized; 27,577,704 and		
27,636,853 shares issued at June 30, 2016 and December 31, 2015,		
respectively; 26,567,670 and 25,849,876 shares outstanding at June 30, 2016		
and December 31, 2015, respectively	276	276
Additional paid-in capital	263,134	264,212
Accumulated deficit	(254,106)	(242,085)
Treasury stock, at cost, 1,010,034 and 1,786,977 shares at June 30, 2016 and		
December 31, 2015, respectively	(5,267)	(9,239)
Accumulated other comprehensive loss	(4,034)	(4,027)
Total stockholders' equity	3	9,137
Total liabilities and stockholders' equity	\$42,659	\$ 40,402

See accompanying notes to the Unaudited Consolidated Financial Statements.

MATTERSIGHT CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited and in thousands, except per share data)

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Revenue:				
Subscription revenue	\$ 8,501	\$ 8,874	\$ 17,723	\$ 17,206
Other revenue	573	868	1,404	1,852
Total revenue	9,074	9,742	19,127	19,058
Operating expenses:				
Cost of subscription revenue	2,579	2,055	5,059	3,923
Cost of other revenue	616	614	1,382	1,321
Total cost of revenue, exclusive of depreciation and amortization				
shown below:	3,195	2,669	6,441	5,244
Research and development	3,350	3,380	6,600	6,788
Sales and marketing	4,197	3,087	8,827	6,243
General and administrative	2,872	2,821	6,038	5,703
Depreciation and amortization	1,417	1,216	2,818	2,211
Total operating expenses	15,031	13,173	30,724	26,189
Operating loss	(5,957)	(3,431)	(11,597)	(7,131)
Interest and other expense, net	(237)	(145)	(408)	(259)
Change in fair value of warrant liability	—	20	—	25
Loss before income taxes	(6,194)	(3,556)	(12,005)	(7,365)
Income tax provision	(6)	(8)	(16)	(16)
Net loss	(6,200)	(3,564)	(12,021)	(7,381)
Dividends related to 7% Series B convertible preferred stock	(147)	(147)	(293)	(294)
Net loss available to common stock holders	\$ (6,347)	\$ (3,711)	\$ (12,314)	\$ (7,675)
Per share of common stock:				
Basic net loss available to common stock holders	\$ (0.25)	\$ (0.17)	\$ (0.49)	\$ (0.35)
Diluted net loss available to common stock holders	\$ (0.25)	\$ (0.17)	\$ (0.49)	\$ (0.35)
Shares used to calculate basic net loss per share	25,161	22,032	25,112	21,955
Shares used to calculate diluted net loss per share	25,161	22,032	25,112	21,955
Stock-based compensation expense is included in individual line items above:				
Total cost of revenue	\$ 112	\$ 65	\$	