

Qumu Corp  
Form 10-Q  
May 08, 2015  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 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, 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: 000-20728

QUMU CORPORATION

(Exact name of registrant as specified in its charter)

Minnesota  
(State or other jurisdiction of incorporation or organization)

41-1577970  
(I.R.S. Employer Identification No.)

7725 Washington Avenue South, Minneapolis, MN 55439  
(Address of principal executive offices)

952-683-7900  
(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 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 (as defined 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

Common Stock outstanding at April 30, 2015 – 9,146,760 shares of \$.01 par value Common Stock.

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 FOR THE QUARTER ENDED MARCH 31, 2015

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## PART 1 – FINANCIAL INFORMATION

## Item 1. Financial Statements (unaudited)

## QUMU CORPORATION AND SUBSIDIARIES

## Condensed Consolidated Balance Sheets

(in thousands, except share data)

	March 31, 2015 (unaudited)	December 31, 2014 (audited)
Assets		
Current assets:		
Cash and cash equivalents	\$6,925	\$11,684
Marketable securities	20,496	23,486
Restricted cash	2,300	2,300
Receivables, net of allowance for doubtful accounts of \$26 and \$55, respectively	5,939	10,090
Finished goods inventories	405	168
Prepaid income taxes	432	301
Prepaid expenses and other current assets	4,972	3,633
Deferred income taxes - current	63	64
Current assets from discontinued operations	910	1,026
Total current assets	42,442	52,752
Property and equipment, net of accumulated depreciation of \$2,057 and \$1,842, respectively	1,833	1,899
Intangible assets, net of amortization	12,561	13,384
Goodwill	8,103	8,525
Deferred income taxes - non-current	2	2
Other assets - non-current	3,499	3,615
Total assets	\$68,440	\$80,177
Liabilities and Stockholders' Equity		
Current liabilities:		
Trade accounts payable	\$2,911	\$3,197
Accrued compensation	4,363	6,222
Other accrued expenses	427	332
Deferred revenue	10,295	9,015
Deferred income taxes - current	58	110
Income taxes payable	23	53
Current liabilities from discontinued operations	50	448
Total current liabilities	18,127	19,377
Non-current liabilities:		
Deferred revenue - non-current	842	1,047
Income taxes payable - non-current	9	8
Deferred tax liability - non-current	975	1,071
Other non-current liabilities	366	401
Total long-term liabilities	2,192	2,527
Total liabilities	20,319	21,904
Commitments and contingencies (Note 11)	—	—
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 9,138,125 and 9,127,425, respectively	91	91
Additional paid-in capital	64,179	63,566

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Accumulated deficit	(14,539	) (4,599	)
Accumulated other comprehensive loss	(1,610	) (785	)
Total stockholders' equity	48,121	58,273	
Total liabilities and stockholders' equity	\$68,440	\$80,177	

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2015	2014
Revenues:		
Software licenses and appliances	\$984	\$1,196
Service	4,985	2,733
Total revenues	5,969	3,929
Cost of revenues:		
Software licenses and appliances	233	772
Service	3,542	1,767
Total cost of revenues	3,775	2,539
Gross profit	2,194	1,390
Operating expenses:		
Research and development	2,802	2,024
Selling, general and administrative	9,192	6,517
Amortization of purchased intangibles	199	157
Total operating expenses	12,193	8,698
Operating loss	(9,999)	(7,308)
Other income (expense):		
Interest, net	16	12
Loss on currency exchange	(64)	(17)
Other, net	—	(10)
Total other expense, net	(48)	(15)
Loss before income taxes	(10,047)	(7,323)
Income tax benefit	(174)	(1,150)
Net loss from continuing operations	(9,873)	(6,173)
Net income (loss) from discontinued operations, net of tax	(67)	2,244
Net loss	\$(9,940)	\$(3,929)
Net income (loss) per basic and diluted share:		
Net loss from continuing operations per share	\$(1.07)	\$(0.71)
Net income (loss) from discontinued operations per share	\$(0.01)	\$0.26
Net loss per share	\$(1.08)	\$(0.45)
Basic and diluted weighted average shares outstanding	9,168	8,700
See accompanying notes to unaudited condensed consolidated financial statements.		

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## QUMU CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income (Loss)  
(unaudited - in thousands)

	Three Months Ended March 31,	
	2015	2014
Net loss	\$ (9,940 )	\$ (3,929 )
Other comprehensive income (loss):		
Net changes in:		
Foreign currency translation adjustments	(835 )	23
Change in net unrealized gain (loss) on marketable securities, net of tax	10	(4 )
Total other comprehensive income (loss)	(825 )	19
Total comprehensive loss	\$ (10,765 )	\$ (3,910 )
See accompanying notes to unaudited condensed consolidated financial statements.		

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

	Three Months Ended March 31,	
	2015	2014
Cash flows used in operating activities:		
Net loss	\$(9,940 )	\$(3,929 )
Net income (loss) from discontinued operations, net of tax	(67 )	2,244 )
Net loss from continuing operations	(9,873 )	(6,173 )
Adjustments to reconcile net loss to net cash used in continuing operating activities:		
Depreciation and amortization	748	455
Current income tax benefit resulting from income generated from discontinued operations	—	(1,161 )
Deferred income tax benefit	(89 )	(25 )
Loss on disposal of property and equipment	1	—
Stock-based compensation	568	349
Changes in operating assets and liabilities:		
Receivables	4,084	(781 )
Finished goods inventories	(239 )	34
Prepaid income taxes / income taxes payable	(142 )	384
Prepaid expenses and other assets	(1,293 )	(1,487 )
Trade accounts payable	(238 )	524
Accrued compensation	(1,839 )	(2,010 )
Other accrued expenses and other current liabilities	72	53
Deferred revenue	1,208	1,490
Other non-current liabilities	(35 )	(32 )
Net cash used in continuing operating activities	(7,067 )	(8,380 )
Net cash provided by (used in) discontinued operating activities	(397 )	3,841
Net cash used in operating activities	(7,464 )	(4,539 )
Cash flows used in investing activities:		
Purchases of marketable securities	(7,250 )	(13,999 )
Sales and maturities of marketable securities	10,250	9,000
Purchases of property and equipment	(240 )	(179 )
Proceeds from sale of property and equipment	43	—
Net cash provided by (used in) continuing investing activities	2,803	(5,178 )
Net cash provided by discontinued investing activities	—	143
Net cash provided by (used in) investing activities	2,803	(5,035 )
Cash flows from financing activities:		
Proceeds from employee stock plans	45	108
Net cash provided by financing activities	45	108
Effect of exchange rate changes on cash	(143 )	20
Net decrease in cash and cash equivalents	(4,759 )	(9,446 )
Cash and cash equivalents, beginning of period	11,684	37,725
Cash and cash equivalents, end of period	\$6,925	\$28,279
Supplemental disclosures of net cash received during the period for:		
Income taxes received (paid), net	\$(112 )	\$476
See accompanying notes to unaudited condensed consolidated financial statements.		





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

(1) Basis of Presentation and Nature of Business

The consolidated financial statements include the accounts of Qumu Corporation, its subsidiaries, collectively hereinafter referred to as “Qumu” or the “Company.” All references to Qumu, Inc. shall mean the Company's wholly-owned subsidiary acquired in October 2011. All intercompany accounts and transactions have been eliminated in consolidation.

The Company previously conducted its operations through two businesses consisting of 1) its enterprise video content management software business and 2) its disc publishing business. As further described in note 3, on June 27, 2014, the Company's shareholders approved the sale of the disc publishing assets and on July 1, 2014, the sale was completed. As a result, effective June 27, 2014, the disc publishing business was classified as held for sale and qualified for presentation as discontinued operations effective with the reporting of the Company's financial results for the second quarter of 2014. Accordingly, effective June 27, 2014, the Company has one remaining reportable segment, the enterprise video content management software business. The operational results of the disc publishing business are presented in the “Net income from discontinued operations, net of tax” line item on the Condensed Consolidated Statements of Operations. All remaining amounts presented in the accompanying condensed consolidated financial statements and notes reflect the financial results and financial position of the Company's continuing enterprise video content management software business, other than consolidated amounts reflecting operating results and balances for both the continuing and discontinued operations.

Qumu's enterprise video content management software business provides the tools businesses need to create, manage, secure, deliver and measure the success of their videos. Qumu helps organizations around the world realize the greatest possible value from video and other rich content they create and publish. The Company markets its products to customers in North America, Europe and Asia.

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. 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. Operating results for these interim periods are not necessarily indicative of results to be expected for the entire year, due to seasonal, operating and other factors. In accordance with ASC 205-20, the operating results for the three months ended March 31, 2015 and the financial position as of March 31, 2015 reflect the Company's disc publishing business as discontinued operations. Previously reported operating results and financial position for comparable periods in 2014 have also been restated to reflect this reclassification. 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, 2014.

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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from estimates on items such as asset impairment charges, deferred tax asset valuation allowances and accruals for uncertain tax positions. These estimates and assumptions are based on management's best judgment. Management evaluates estimates and assumptions on an ongoing basis using its technical knowledge, historical experience and other factors, including consideration of the impact of the current economic environment. Management believes its assumptions are reasonable and adjusts such estimates and assumptions when facts and circumstances change. Illiquid credit markets, volatile equity, foreign currency and

energy markets, and declines in business and consumer spending have combined to increase the uncertainty inherent in such estimates and assumptions. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Any required changes in those estimates will be reflected in the financial statements in future periods.

2) Acquisition of Kulu Valley, Ltd.

On October 3, 2014, the Company entered into Share Purchase Agreements to acquire 100% of the outstanding shares (the "Share Purchase Transaction") of Kulu Valley Ltd., a private limited company incorporated in England and Wales ("Kulu"). The acquisition was made to expand Qumu's addressable market through the offering of Kulu Valley's best-in-class video content creation

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capabilities and easy-to-deploy pure cloud solution, and provides Kulu's customers with access to industry leading video content management and delivery capability.

After inclusion of working capital and other adjustments required under the Share Purchase Agreements, the aggregate net purchase price totaled approximately \$14,591,000 consisting of a cash outlay of approximately \$11,556,000, net of cash acquired in the transaction of \$2,466,000, and approximately 275,000 shares of Qumu Corporation's common stock valued at the closing price per share of \$12.95 on the date of acquisition. For purposes of calculating the purchase price attributable to the 275,000 shares of Company common stock issuable in the Share Purchase Transaction, the parties agreed upon a value of \$13.75 per share. All of the shares of the Company's common stock issued in the Share Purchase Transaction were issued to shareholders of Kulu who are also employees of Kulu. Pursuant to the terms of a lock-up letter agreement, the shares issued in the Share Purchase Transaction will be restricted from transfer, subject to certain exceptions. The restrictions will lapse for all of the shares issued at 365 days following the closing of the Share Purchase Transaction. Following the acquisition, Kulu's liabilities consisted of trade payables, accrued expenses, deferred tax liabilities and deferred revenue related primarily to active software subscription agreements. Of the cash amounts payable in the acquisition, \$2,000,000 was subject to escrow for a fifteen month period to secure certain warranty and indemnification obligations to the Company. The acquisition was funded through the use of cash held by the Company at the acquisition date and the Company's common stock. The acquisition was accounted for under the provisions of ASC 805, Business Combinations. The results of operations of Kulu are included in the Company's Consolidated Statements of Operations since October 3, 2014, the date of the acquisition. The impact of applying fair value purchase accounting adjustments resulted in a \$1.1 million reduction in the carrying value of deferred revenues. The acquisition of Kulu's assets and liabilities does not constitute a material business combination and accordingly, pro forma results have not been included.

The following table summarizes the purchase accounting allocation of the total purchase price to Kulu's net tangible and intangible assets, with the residual allocated to goodwill (in thousands).

Aggregate purchase price, net of cash acquired	\$ 15,118	
Less: discount applied to Qumu Corporation stock for trade restrictions	(527)	)
Net transaction consideration	\$ 14,591	
Current assets	\$ 1,494	
Property and equipment	140	
Intangible assets	6,663	
Goodwill	8,795	
Current liabilities	(1,170)	)
Net deferred tax liabilities	(1,331)	)
Total net assets acquired	\$ 14,591	

The Company is not aware of further adjustments required in the purchase price allocation.

The aggregate purchase price was allocated to the fair values of the tangible and intangible assets acquired and liabilities assumed. The fair values assigned to intangible assets were determined through the use of forecasted cash inflows and outflows, primarily applying a relief-from royalty and a multi-period excess earnings method. These valuation methods were based on management's estimates as of the acquisition date of October 3, 2014. The excess of the purchase price over the net tangible and identifiable intangible assets acquired was recorded as goodwill, which is non-deductible for tax purposes. Transaction costs of approximately \$245,000 were expensed as incurred and were included in the Company's selling, general and administrative expenses for the period ending December 31, 2014. The guidance under ASC 805 provides that intangible assets with finite lives be amortized over their estimated remaining useful lives, while goodwill and other intangible assets with indefinite lives will not be amortized, but rather tested for impairment on at least an annual basis. Useful lives for intangible assets were determined based upon the remaining useful economic lives of the intangible assets that are expected to contribute directly or indirectly to future cash flows.

In the aggregate, the identifiable intangible assets were valued at \$6,663,000, of which \$4,233,000 was allocated to developed technology, \$2,315,000 was allocated to customer relationships, \$74,000 was allocated to trade name and \$41,000 was allocated to covenant not-to-compete agreements. The acquired intangible assets will be amortized

based on estimated expected future cash flows for a period ranging from fifteen months to nine years. Amortization expense related to the acquired intangibles is reflected in cost of service revenues and operating expenses - amortization of purchased intangibles in the Condensed Consolidated

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Statements of Operations. See Note 7, "Goodwill and Intangible Assets" for a rollforward of the carrying value of goodwill and intangible assets.

As part of the opening balance sheet purchase accounting, the Company established a net deferred tax liability of \$1.3 million. This consisted of a deferred tax liability of approximately \$1.5 million for the estimated future impact of the difference in the U.S. book versus U.K. statutory and tax basis of the purchased intangible assets, deferred revenues and accrued compensation. Partially offsetting this was the impact of the establishment of deferred tax assets amounting to approximately \$0.2 million for the future benefit of utilization of acquired net operating losses and the impact of cumulative temporary U.S. book to tax differences.

(3) Divestiture of Disc Publishing Business

On April 24, 2014, the Company entered into an asset purchase agreement (the "asset purchase agreement") with Equus Holdings, Inc. and Redwood Acquisition, Inc. (now known as Rimage Corporation, "Buyer"). Under the terms of the asset purchase agreement, the Company agreed to sell to Buyer all of the assets primarily used or primarily held for use in connection with its disc publishing business. Buyer also agreed to assume on the closing date certain agreements and liabilities relating to the disc publishing business and the acquired assets.

At a special meeting of the Company's shareholders held on June 27, 2014, the Company's shareholders approved the sale of the disc publishing assets as contemplated by the asset purchase agreement. As a result, effective June 27, 2014, the disc publishing business was classified as held for sale and qualified for discontinued operations presentation in the Company's consolidated financial statements. In accordance with ASC 205-20, the results of the discontinued disc publishing business have been presented as discontinued operations effective with the reporting of financial results for the second quarter 2014. As such, financial results for the three months ended March 31, 2015 have been reported on this basis. Previously reported results for the three months ended March 31, 2014 have also been restated to reflect this reclassification.

On July 1, 2014, the Company's sale of the disc publishing business was completed. The Company also entered into a mutual transition services agreement with Buyer and entered into a lease agreement with Buyer for the lease from Buyer of a portion of the property located at 7725 Washington Avenue South, Minneapolis, MN 55439.

The adjusted purchase price paid to the Company was \$22.0 million, of which \$2.3 million was placed in an escrow account to support the Company's indemnification obligations under the asset purchase agreement for a fifteen-month escrow period. The \$2.3 million escrow is classified as restricted cash in current assets on the Condensed Consolidated Balance Sheets as of March 31, 2015. In the third quarter of 2014, the Company recorded a gain on sale of the disc publishing business of \$16.2 million, exclusive of the impact of transaction related expenses recorded through September 30, 2014. The gain on sale attributable to the U.S. is offset for federal income tax purposes by current or prior-year tax losses but is subject to applicable state income taxes.

The operational results of the disc publishing business are presented in the "Net income (loss) from discontinued operations, net of tax" line item on the Condensed Consolidated Statements of Operations. The assets and liabilities of the discontinued business are presented on the Condensed Consolidated Balance Sheets as assets and liabilities from discontinued operations.

Other than consolidated amounts reflecting operating results and balances for both the continuing and discontinued operations, all remaining amounts presented in the accompanying condensed consolidated financial statements and notes reflect the financial results and financial position of the Company's continuing enterprise video content management software business.

Revenue, operating income, income tax expense and net income (loss) from discontinued operations were as follows (in thousands):

Three Months Ended March 31,  
2015