

CONTROL4 CORP
Form 10-Q
August 03, 2018
Table of Contents

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, 2018

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 001-36017

Control4 Corporation

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	42-1583209 (I.R.S. Employer Identification No.)
--	--

11734 S. Election Road Salt Lake City, Utah (Address of principal executive offices)	84020 (Zip Code)
--	---------------------

(801) 523-3100
(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, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non accelerated filer Smaller reporting company Emerging growth company

Edgar Filing: CONTROL4 CORP - Form 10-Q

(Do not check if a
smaller
reporting company)

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.

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

On July 27, 2018, 26,095,635 shares of the registrant's Common Stock, \$0.0001 par value, were outstanding.

Table of Contents

Control4 Corporation

Index

Part I — Financial Information

Item 1. Condensed Consolidated Financial Statements:

Condensed Consolidated Balance Sheets (unaudited) as of June 30, 2018 and December 31, 2017 2

Condensed Consolidated Statements of Operations (unaudited) for the Three and Six Months Ended June 30, 2018 and 2017 3

Condensed Consolidated Statements of Comprehensive Income (unaudited) for the Three and Six Months Ended June 30, 2018 and 2017 4

Condensed Consolidated Statements of Cash Flows (unaudited) for the Six Months Ended June 30, 2018 and 2017 5

Notes to Condensed Consolidated Financial Statements (unaudited) 6

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations 23

Item 3. Quantitative and Qualitative Disclosures about Market Risk 39

Item 4. Controls and Procedures 40

Part II — Other Information

Item 1. Legal Proceedings 41

Item 1A. Risk Factors 41

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds 63

Item 6. Exhibits 65

Signatures 66

Table of Contents

Control4 Corporation

PART I — Financial Information

ITEM 1. Condensed Consolidated Financial Statements

CONTROL4 CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	June 30, 2018 (unaudited)	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 27,229	\$ 29,761
Restricted cash	267	273
Short-term investments	53,317	44,057
Accounts receivable, net	29,806	29,925
Inventories	41,713	37,171
Prepaid expenses and other current assets	5,445	4,369
Total current assets	157,777	145,556
Property and equipment, net	7,872	7,337
Long-term investments	2,557	12,038
Intangible assets, net	23,315	26,081
Goodwill	21,672	21,867
Other assets	1,491	1,618
Total assets	\$ 214,684	\$ 214,497
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 26,141	\$ 25,654
Accrued liabilities	8,296	10,835
Current portion of deferred revenue	4,990	4,538

Edgar Filing: CONTROL4 CORP - Form 10-Q

Total current liabilities	39,427	41,027
Other long-term liabilities	4,164	3,942
Total liabilities	43,591	44,969
Commitments and contingencies (Note 11)	—	—
Stockholders' equity:		
Common stock, \$0.0001 par value; 500,000,000 shares authorized; 26,086,642 and 25,832,895 shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively	3	3
Additional paid-in capital	236,434	242,281
Accumulated deficit	(64,620)	(72,225)
Accumulated other comprehensive loss	(724)	(531)
Total stockholders' equity	171,093	169,528
Total liabilities and stockholders' equity	\$ 214,684	\$ 214,497

See accompanying notes to condensed consolidated financial statements (unaudited).

Table of Contents

CONTROL4 CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
	(unaudited)		(unaudited)	
Revenue	\$ 69,228	\$ 61,252	\$ 128,377	\$ 111,460
Cost of revenue	32,866	29,993	61,276	55,052
Gross margin	36,362	31,259	67,101	56,408
Operating expenses:				
Research and development	10,511	10,055	21,451	19,899
Sales and marketing	12,553	11,943	25,088	23,390
General and administrative	6,328	5,587	12,621	11,304
Total operating expenses	29,392	27,585	59,160	54,593
Income from operations	6,970	3,674	7,941	1,815
Other income (expense), net:				
Interest, net	256	61	492	99
Other income (expense), net	(425)	248	(782)	104
Total other income (expense), net	(169)	309	(290)	203
Income before income taxes	6,801	3,983	7,651	2,018
Income tax expense (benefit)	161	242	45	(2,544)
Net income	\$ 6,640	\$ 3,741	\$ 7,606	\$ 4,562
Net income per common share:				
Basic	\$ 0.25	\$ 0.15	\$ 0.29	\$ 0.19
Diluted	\$ 0.24	\$ 0.14	\$ 0.28	\$ 0.18
Weighted-average number of shares:				
Basic	26,041	24,587	25,973	24,298
Diluted	27,267	26,388	27,396	26,024

See accompanying notes to condensed consolidated financial statements (unaudited).

Table of Contents

CONTROL4 CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(unaudited)		(unaudited)	
Net income	\$ 6,640	\$ 3,741	\$ 7,606	\$ 4,562
Other comprehensive income (loss):				
Foreign currency translation adjustment, net of tax	(107)	(87)	(158)	362
Net unrealized gain (losses) on available-for-sale investments, net of tax	29	1	(35)	(3)
Total other comprehensive income (loss)	(78)	(86)	(193)	359
Comprehensive income	\$ 6,562	\$ 3,655	\$ 7,413	\$ 4,921

See accompanying notes to condensed consolidated financial statements (unaudited).

Table of Contents

CONTROL4 CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Six Months Ended June 30, 2018 2017 (unaudited)	
Operating activities		
Net income	\$ 7,606	\$ 4,562
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	1,853	1,762
Amortization of intangible assets	2,885	2,551
Loss on disposal of fixed assets	10	