

ZIX CORP
Form 10-Q
May 04, 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 March 31, 2016

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: 0-17995

ZIX CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Texas 75-2216818
(State of Incorporation) (I.R.S. Employer Identification Number)

2711 North Haskell Avenue

Suite 2200, LB 36

Dallas, Texas 75204-2960

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(Address of Principal Executive Offices)

(214) 370-2000

(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. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at May 2, 2016
Common Stock, par value \$0.01 per share	54,607,220

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CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31,	December 31,
(In thousands, except share and par value data)	2016	2015
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 27,089	\$ 28,664
Receivables, net	1,140	498
Prepaid and other current assets	2,514	2,908
Total current assets	30,743	32,070
Property and equipment, net	3,754	4,143
Goodwill	2,161	2,161
Deferred tax assets	48,093	48,912
Total assets	\$ 84,751	\$ 87,286
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 406	\$ 370
Accrued expenses	4,146	4,697
Deferred revenue	24,214	23,182
Total current liabilities	28,766	28,249
Long-term liabilities:		
Deferred revenue	1,317	839
Deferred rent	1,397	1,426
Total long-term liabilities	2,714	2,265
Total liabilities	31,480	30,514
Commitments and contingencies (see Note 7)		
Stockholders' equity:		
Preferred stock, \$1 par value, 10,000,000 shares authorized; none issued and		
outstanding	—	—
Common stock, \$0.01 par value, 175,000,000 shares authorized; 78,404,818 issued		
and 55,723,598 outstanding in 2016 and 77,852,453 issued and 56,546,879		
outstanding in 2015	768	767
Additional paid-in capital	372,811	372,400
Treasury stock, at cost; 22,681,220 common shares in 2016 and 21,305,574 common		
shares in 2015	(87,726)	(82,243)
Accumulated deficit	(232,582)	(234,152)
Total stockholders' equity	53,271	56,772
Total liabilities and stockholders' equity	\$ 84,751	\$ 87,286

See notes to condensed consolidated financial statements.

ZIX CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except share and per share data)	Three Months Ended March	
	31, 2016	2015
Revenues	\$14,328	\$13,073
Cost of revenues	2,537	2,213
Gross margin	11,791	10,860
Operating expenses:		
Research and development	2,179	2,105
Selling, general and administrative	7,144	6,915
Total operating expenses	9,323	9,020
Operating income	2,468	1,840
Other income, net	59	23
Income before income taxes	2,527	1,863
Income tax expense	(957)	(687)
Net income	\$1,570	\$1,176
Basic income per common share	\$0.03	\$0.02
Diluted income per common share	\$0.03	\$0.02
Basic weighted average common shares outstanding	56,002,447	56,496,303
Diluted weighted average common shares outstanding	56,581,366	57,395,616

See notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(Unaudited)

	Stockholders' Equity				Accumulated Deficit	Total Stockholders' Equity
	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Treasury Stock		
(In thousands, except shares)						
Balances, December 31, 2015	77,852,453	\$ 767	\$ 372,400	\$(82,243)	\$(234,152)	\$ 56,772
Issuance of common stock upon exercise of stock options	19,812	1	49	—	—	50
Issuance of common stock upon vesting of restricted stock units	131,664	—	—	—	—	—
Issuance of common stock upon vesting of performance stock units	77,428	—	—	—	—	—
Issuance of restricted common stock	323,461	—	—	—	—	—
Employee stock-based compensation costs	—	—	362	(263)	—	99
Treasury repurchase program	—	—	—	(5,220)	—	(5,220)
Net income	—	—	—	—	1,570	1,570
Balances, March 31, 2016	78,404,818	\$ 768	\$ 372,811	\$(87,726)	\$(232,582)	\$ 53,271

See notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)	Three Months Ended March 31,	
	2016	2015
Operating activities:		
Net income	\$ 1,570	\$ 1,176
Non-cash items in net income:		
Depreciation and amortization	534	504
Employee stock-based compensation costs	362	468
Changes in deferred taxes	819	542
Changes in operating assets and liabilities:		
Receivables	(642)	407
Prepaid and other current assets	394	250
Accounts payable	74	(153)
Deferred revenue	1,510	(230)
Accrued and other liabilities	(580)	(435)
Net cash provided by operating activities	4,041	2,529
Investing activities:		