

ZIX CORP
Form 10-Q
May 07, 2013
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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, 2013

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)

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Texas
(State of
Incorporation)

75-2216818
(I.R.S. Employer
Identification Number)

2711 North Haskell Avenue
Suite 2200, LB 36
Dallas, Texas 75204-2960

(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 3, 2013
Common Stock, par value \$0.01 per share	61,874,546

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ZIX CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except par values)	March 31, 2013 (unaudited)	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 24,208	\$ 22,988
Receivables, net	1,675	967
Prepaid and other current assets	1,473	1,697
Deferred tax assets	1,604	1,600
Total current assets	28,960	27,252
Property and equipment, net	2,264	2,384
Goodwill	2,161	2,161
Deferred tax assets	51,018	51,052
Total assets	\$ 84,403	\$ 82,849
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 851	\$ 501
Accrued expenses	2,455	2,655
Deferred revenue	17,427	17,470
Total current liabilities	20,733	20,626
Long-term liabilities:		
Deferred revenue	1,005	902
Deferred rent	59	76
Total long-term liabilities	1,064	978
Total liabilities	21,797	21,604
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; 73,759,870 issued and 61,858,970 outstanding in 2013 and 73,165,433 issued and 61,264,533 outstanding in 2012	730	728
Additional paid-in capital	356,539	355,747
Treasury stock, at cost; 11,900,900 common shares in 2013 and 11,900,900 common shares in 2012	(41,506)	(41,506)
Accumulated deficit	(253,157)	(253,724)
Total stockholders' equity	62,606	61,245
Total liabilities and stockholders' equity	\$ 84,403	\$ 82,849

See notes to condensed consolidated financial statements.

Table of Contents**ZIX CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(Unaudited)

(In thousands, except per share data)	Three Months Ended March 31,	
	2013	2012
Revenues	\$ 11,764	\$ 10,301
Cost of revenues	1,936	1,855
Gross margin	9,828	8,446
Operating expenses:		
Research and development	2,611	1,477
Selling, general and administrative	6,616	4,330
Total operating expenses	9,227	5,807
Operating income	601	2,639
Other income, net	60	5
Income before income taxes	661	2,644
Income tax expense	(94)	(218)
Net Income	\$ 567	\$ 2,426
Basic income per common share	\$ 0.01	\$ 0.04
Diluted income per common share	\$ 0.01	\$ 0.04
Basic weighted average common shares outstanding	60,977,582	63,022,777
Diluted weighted average common shares outstanding	62,032,258	63,764,735

See notes to condensed consolidated financial statements.

Table of Contents**ZIX CORPORATION****CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**

(Unaudited)

	Stockholders' Equity					Total Stockholders Equity
	Common Stock		Paid-In Additional Capital	Treasury Stock	Accumulated Deficit	
(In thousands, except shares)	Shares	Amount				
Balance, December 31, 2012	73,165,433	\$ 728	\$ 355,747	\$ (41,506)	\$ (253,724)	\$ 61,245
Issuance of common stock upon exercise of stock options	209,437	2	390			392
Issuance of restricted common stock	385,000					
Employee stock-based compensation costs			402			402
Net income					567	567
Balance, March 31, 2013	73,759,870	\$ 730	\$ 356,539	\$ (41,506)	\$ (253,157)	\$ 62,606

See notes to condensed consolidated financial statements.

Table of Contents**ZIX CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

(In thousands)	Three Months Ended March 31,	
	2013	2012
Operating activities:		
Net income	\$ 567	\$ 2,426
Non-cash items in net income:		
Depreciation and amortization	355	333
Employee stock-based compensation costs	402	203
Non-employee stock-based compensation costs		4
Changes in deferred taxes	29	68
Changes in operating assets and liabilities:		
Receivables	(708)	(445)
Prepaid and other current assets	225	58
Accounts payable	365	(190)
Deferred revenue	60	207
Accrued and other liabilities	(217)	(131)
Net cash provided by operating activities	1,078	2,533
Investing activities:		
Purchases of property and equipment	(250)	(228)
Net cash used in investing activities	(250)	(228)
Financing activities:		
Proceeds from exercise of stock options	392	19
Purchase of treasury shares		(4,998)
Net cash provided by (used in) financing activities	392	(4,979)
Increase (decrease) in cash and cash equivalents	1,220	(2,674)
Cash and cash equivalents, beginning of period	22,988	20,680
Cash and cash equivalents, end of period	\$ 24,208	\$ 18,006

See notes to condensed consolidated financial statements.

Table of Contents**ZIX CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

1. Basis of Presentation

The accompanying condensed consolidated financial statements of Zix Corporation (ZixCorp, the Company, we, our, us) should be read in conjunction with the audited consolidated financial statements included in the Company's 2012 Annual Report on Form 10-K. These financial statements are unaudited, but have been prepared in the ordinary course of business for the purpose of providing information with respect to the covered interim periods. Management of the Company believes that all adjustments necessary for a fair presentation for such periods have been included and are of a normal recurring nature. The results of operations for the three-month period ended March 31, 2013, are not necessarily indicative of the results to be expected for any future periods or for the full fiscal year.

2. Recent Accounting Standards and Pronouncements*Presentation of Other Comprehensive Income*

In February 2013, the FASB issued guidance that requires entities to provide information about the amounts reclassified out of accumulated other comprehensive income by component and to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income. This new guidance did not have an impact on our condensed consolidated financial statements.

3. Stock- Based Awards and Stock-Based Employee Compensation Expense

Our stock-based awards include stock options, restricted stock, and restricted stock units (RSU s). As of March 31, 2013, the Company had 7,453,060 stock options outstanding and 517,700 shares available for grant.

Stock Option Activity

There were 209,437 stock options exercised for the three month period ended March 31, 2013, and 12,100 stock options exercised for the three month period ended March 31, 2012. There was a \$19 thousand excess tax benefit recorded in the three month period ended March 31, 2013, related to the 209,437 option exercises. A deferred tax asset totaling \$85 thousand and \$61 thousand, resulting from stock-based compensation expense associated with options relating to the Company's U.S. operations, was recorded for the three month periods ended March 31, 2013 and 2012, respectively.

The following is a summary of all stock option transactions during the three months ended March 31, 2013:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Yrs)
Outstanding at December 31, 2012	7,684,776		