

ZIX CORP
Form 10-Q
November 03, 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 September 30, 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 November 1, 2016
Common Stock, par value \$0.01 per share	53,632,410

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CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30,	December 31,
(In thousands, except share and par value data)	2016	2015
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 24,772	\$ 28,664
Receivables, net	1,155	498
Prepaid and other current assets	2,451	2,908
Total current assets	28,378	32,070
Property and equipment, net	4,220	4,143
Goodwill	2,161	2,161
Deferred tax assets	47,053	48,912
Total assets	\$ 81,812	\$ 87,286
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 244	\$ 370
Accrued expenses	4,407	4,697
Deferred revenue	27,347	23,182
Total current liabilities	31,998	28,249
Long-term liabilities:		
Deferred revenue	1,558	839
Deferred rent	1,395	1,426
Total long-term liabilities	2,953	2,265
Total liabilities	34,951	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; 78,869,191 issued		
and 53,605,902 outstanding in 2016 and 77,852,453 issued and 56,546,879		
outstanding in 2015	768	767
Additional paid-in capital	374,088	372,400
Treasury stock, at cost; 25,263,289 common shares in 2016 and 21,305,574 common		
shares in 2015	(97,742)	(82,243)
Accumulated deficit	(230,253)	(234,152)
Total stockholders' equity	46,861	56,772
Total liabilities and stockholders' equity	\$ 81,812	\$ 87,286

See notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except share and per share data)	Three Months Ended September 30, Nine Months Ended September 30,			
	2016	2015	2016	2015
Revenues	\$ 15,308	\$ 14,011	\$ 44,566	\$ 40,386
Cost of revenues	2,652	2,429	7,824	7,071
Gross margin	12,656	11,582	36,742	33,315
Operating expenses:				
Research and development	2,619	2,044	7,118	6,243
Selling, general and administrative	7,484	6,420	23,656	20,381
Total operating expenses	10,103	8,464	30,774	26,624
Operating income	2,553	3,118	5,968	6,691
Other income, net	74	110	183	162
Income before income taxes	2,627	3,228	6,151	6,853
Income tax expense	(858)	(1,301)	(2,252)	(2,635)
Net income	\$ 1,769	\$ 1,927	\$ 3,899	\$ 4,218
Basic income per common share	\$ 0.03	\$ 0.03	\$ 0.07	\$ 0.07
Diluted income per common share	\$ 0.03	\$ 0.03	\$ 0.07	\$ 0.07
Basic weighted average common shares outstanding	52,717,544	56,517,278	54,157,050	56,719,942
Diluted weighted average common shares outstanding	53,262,075	57,590,136	54,699,207	57,786,463

See notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(Unaudited)

	Stockholders' Equity				Total	
	Common Stock		Additional	Treasury		Accumulated
(In thousands, except shares)	Shares	Amount	Capital	Stock	Deficit	Stockholders' Equity
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	94,685	1	154	—	—	