

ACXIOM CORP
Form 10-Q
February 07, 2018
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 December 31, 2017

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 0-13163
Acxiom Corporation
(Exact Name of Registrant as Specified in Its Charter)

DELAWARE 71-0581897
(State or Other Jurisdiction of (I.R.S. Employer
Incorporation or Organization) Identification No.)

301 E. Dave Ward Drive 72032
Conway, Arkansas (Zip Code)
(Address of Principal Executive Offices)

(501) 342-1000
(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 or a smaller reporting 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.

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Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company) Emerging growth 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

The number of shares of common stock, \$ 0.10 par value per share, outstanding as of February 2, 2018 was 79,100,637.

ACXIOM CORPORATION AND SUBSIDIARIES
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REPORT ON FORM 10-Q
December 31, 2017

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ACXIOM CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

	December 31, 2017	March 31, 2017
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 177,807	\$ 170,343
Trade accounts receivable, net	155,634	142,768
Refundable income taxes	6,365	7,098
Other current assets	42,357	48,310
Total current assets	382,163	368,519
Property and equipment, net of accumulated depreciation and amortization	153,039	155,974
Software, net of accumulated amortization	37,489	47,638
Goodwill	592,827	592,731
Purchased software licenses, net of accumulated amortization	7,775	7,972
Deferred income taxes	9,621	10,261
Other assets, net	43,576	51,443
	\$ 1,226,490	\$ 1,234,538
LIABILITIES AND EQUITY		
Current liabilities:		
Current installments of long-term debt	\$ 1,837	\$ 39,819
Trade accounts payable	46,211	40,208
Accrued payroll and related expenses	36,592	53,238
Other accrued expenses	53,999	59,861
Deferred revenue	34,169	37,087
Total current liabilities	172,808	230,213
Long-term debt	227,943	189,241
Deferred income taxes	34,300	58,374
Other liabilities	17,328	17,730
Commitments and contingencies		
Equity:		
Common stock	13,552	13,288
Additional paid-in capital	1,216,565	1,154,429
Retained earnings	623,156	602,609
Accumulated other comprehensive income	9,826	7,999
Treasury stock, at cost	(1,088,988)	(1,039,345)
Total equity	774,111	738,980
	\$ 1,226,490	\$ 1,234,538

See accompanying notes to condensed consolidated financial statements.

ACXIOM CORPORATION AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(Dollars in thousands, except per share amounts)

	For the three months ended December 31,	
	2017	2016
Revenues	\$234,871	\$223,312
Cost of revenue	115,920	116,468
Gross profit	118,951	106,844
Operating expenses:		
Research and development	23,318	20,950
Sales and marketing	53,730	43,048
General and administrative	30,886	31,620
Gains, losses and other items, net	(41) 2,111
Total operating expenses	107,893	97,729
Income from operations	11,058	9,115
Other income (expense):		
Interest expense	(2,566) (1,743
Other, net	419	35
Total other expense	(2,147) (1,708
Income before income taxes	8,911	7,407
Income taxes (benefit)	(14,030) 6,334
Net earnings	\$22,941	\$1,073
Basic earnings per share	\$0.29	\$0.01
Diluted earnings per share	\$0.28	\$0.01

See accompanying notes to condensed consolidated financial statements.

ACXIOM CORPORATION AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(Dollars in thousands, except per share amounts)

	For the nine months ended December 31,	
	2017	2016
Revenues	\$672,625	\$655,380
Cost of revenue	344,952	359,392
Gross profit	327,673	295,988
Operating expenses:		
Research and development	70,894	58,631
Sales and marketing	152,288	118,243
General and administrative	95,166	91,993
Gains, losses and other items, net	3,521	2,724
Total operating expenses	321,869	271,591
Income from operations	5,804	24,397
Other income (expense):		
Interest expense	(7,432)	(5,244)
Other, net	(61)	135
Total other expense	(7,493)	(5,109)
Income (loss) before income taxes	(1,689)	19,288
Income taxes (benefit)	(19,994)	7,099
Net earnings	\$18,305	\$12,189
Basic earnings per share	\$0.23	\$0.16
Diluted earnings per share	\$0.22	\$0.15

See accompanying notes to condensed consolidated financial statements.

ACXIOM CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)
(Dollars in thousands)

	For the three months ended December 31,	
	2017	2016
Net earnings	\$22,941	\$1,073
Other comprehensive income:		
Change in foreign currency translation adjustment	416	(1,340)
Unrealized gain on interest rate swap	—	21
Other comprehensive income	416	(1,319)
Comprehensive income	\$23,357	\$(246)

See accompanying notes to condensed consolidated financial statements.

ACXIOM CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)
(Dollars in thousands)

	For the nine months ended December 31,	
	2017	2016
Net earnings	\$18,305	\$12,189
Other comprehensive income (loss):		
Change in foreign currency translation adjustment	1,827	(2,410)
Unrealized gain on interest rate swap	—	117
Other comprehensive income (loss)	1,827	(2,293)
Comprehensive income	\$20,132	\$9,896

See accompanying notes to condensed consolidated financial statements.

ACXIOM CORPORATION AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENT OF EQUITY
 NINE MONTHS ENDED DECEMBER 31, 2017
 (Unaudited)
 (Dollars in thousands)

	Common Stock Number of shares	Common Stock Amount	Additional paid-in Capital	Retained earnings	Accumulated other comprehensive income	Treasury Stock Number of shares	Treasury Stock Amount	Total Equity
Balances at March 31, 2017	132,875,373	\$ 13,288	\$ 1,154,429	\$ 602,609	\$ 7,999	(54,582,392)	\$(1,039,345)	\$ 738,980
Cumulative-effect adjustment from adoption of ASU 2016-09	—	—	384	2,242	—	—	—	\$ 2,626
Employee stock awards, benefit plans and other issuances	805,768	80	15,229	—	—	(389,912)	(10,202)	\$ 5,107
Non-cash stock-based compensation	487,385	49	46,658	—	—	—	—	\$ 46,707
Restricted stock units vested	1,351,652	135	(135)	—	—	—	—	\$—
Acquisition of treasury stock	—	—	—	—	—	(1,588,964)	(39,441)	\$(39,441)
Comprehensive income:								
Foreign currency translation	—	—	—	—	1,827	—	—	\$ 1,827
Net earnings	—	—	—	18,305	—	—	—	\$ 18,305
Balances at December 31, 2017	135,520,178	\$ 13,552	\$ 1,216,565	\$ 623,156	\$ 9,826	(56,561,268)	\$(1,088,988)	\$ 774,111

See accompanying notes to condensed consolidated financial statements

ACXIOM CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Dollars in thousands)

	For the nine months ended December 31,	
	2017	2016
Cash flows from operating activities:		
Net earnings	\$18,305	\$12,189
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	63,719	61,097
Loss (gain) on disposal or impairment of assets	2,646	(520)
Accelerated deferred debt costs	720	—
Deferred income taxes	(20,451)	(1,982)
Non-cash stock compensation expense	46,707	33,955
Changes in operating assets and liabilities:		
Accounts receivable, net	(11,432)	(6,161)
Other assets	(1,277)	8,653
Accounts payable and other liabilities	(18,232)	(11,819)
Deferred revenue	(4,314)	(10,247)
Net cash provided by operating activities	76,391	85,165
Cash flows from investing activities:		
Capitalized software development costs	(10,332)	(11,171)
Capital expenditures	(26,950)	(30,096)
Data acquisition costs	(621)	(463)
Equity investments	(1,000)	—
Net cash received from disposition	4,000	16,988
Net cash paid in acquisitions	—	(137,383)
Net cash used in investing activities	(34,903)	(162,125)
Cash flows from financing activities:		
Proceeds from debt	230,000	70,000
Payments of debt	(226,732)	(24,173)
Fees for debt refinancing	(4,001)	—
Sale of common stock, net of stock acquired for withholding taxes	5,107	9,670
Excess tax benefits from stock-based compensation	—	1,785
Acquisition of treasury stock	(39,441)	(30,542)
Net cash provided by (used) in financing activities	(35,067)	26,740
Effect of exchange rate changes on cash	1,043	(1,559)
Net change in cash and cash equivalents	7,464	(51,779)
Cash and cash equivalents at beginning of period	170,343	189,629
Cash and cash equivalents at end of period	\$177,807	\$137,850

See accompanying notes to condensed consolidated financial statements.

ACXIOM CORPORATION AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
 (Unaudited)
 (Dollars in thousands)

	For the nine months ended December 31, 2017 2016	
Supplemental cash flow information:		
Cash paid during the period for:		
Interest	\$6,712	\$5,301
Income taxes, net of refunds	1,152	4,796
Non-cash investing and financing activities:		
Leasehold improvements paid directly by lessor	978	—

See accompanying notes to condensed consolidated financial statements.

ACXIOM CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

These condensed consolidated financial statements have been prepared by Acxiom Corporation (“Registrant,” “Acxiom,” we, us or the “Company”), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC” or the “Commission”). In the opinion of the Registrant’s management, all adjustments necessary for a fair presentation of the results for the periods included have been made, and the disclosures are adequate to make the information presented not misleading. All such adjustments are of a normal recurring nature. Certain note information has been omitted because it has not changed significantly from that reflected in Notes 1 through 19 of the Notes to Consolidated Financial Statements filed as part of Item 8 of the Registrant’s annual report on Form 10-K for the fiscal year ended March 31, 2017 (“2017 Annual Report”), as filed with the Commission on May 26, 2017. This quarterly report and the accompanying condensed consolidated financial statements should be read in connection with the 2017 Annual Report. The financial information contained in this quarterly report is not necessarily indicative of the results to be expected for any other period or for the full fiscal year ending March 31, 2018.

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States (“U.S. GAAP”). Actual results could differ from those estimates. Certain of the accounting policies used in the preparation of these condensed consolidated financial statements are complex and require management to make judgments and/or significant estimates regarding amounts reported or disclosed in these financial statements. Additionally, the application of certain of these accounting policies is governed by complex accounting principles and their interpretation. A discussion of the Company’s significant accounting principles and their application is included in Note 1 of the Notes to Consolidated Financial Statements and in Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations, of the Company’s 2017 Annual Report.

Accounting Pronouncements Adopted During the Current Year

In January 2017, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2017-01, “Business Combinations (Topic 805): Clarifying the Definition of a Business” (“ASU 2017-01”), which amended the existing FASB Accounting Standards Codification. The standard provides additional guidance to assist entities with evaluation of whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting, including acquisitions, disposals, goodwill, and consolidation. ASU 2017-01 is effective for the Company beginning in fiscal 2019, with early adoptions permitted. We adopted the standard in the current fiscal year, on a prospective basis, and do not expect the adoption of this guidance to have a material impact on our condensed consolidated financial statements and related disclosures.

In November 2016, the FASB issued ASU 2016-18, “Statement of Cash Flows (Topic 230): Restricted Cash” (“ASU 2016-18”). This standard is intended to reduce diversity in the presentation of restricted cash and restricted cash equivalents in the statement of cash flows. The standard requires that restricted cash and restricted cash equivalents be included as components of total cash and cash equivalents as presented on the statement of cash flows. As a result, entities will no longer present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. ASU 2016-18 is effective for annual periods beginning after December 15, 2017 (fiscal 2019 for the Company), including interim periods within those fiscal years; earlier adoption is permitted. We adopted the standard during the current fiscal year. Early adoption did not result in any changes to our existing accounting policies, presentation of items in our condensed consolidated financial statements and related disclosures,

or any changes resulting from the retrospective application to all periods reported.

In March 2016, the FASB issued ASU No. 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting" ("ASU 2016-09"), which is intended to improve the accounting for stock-based payment transactions as part of the FASB's simplification initiative. The ASU changes five aspects of the accounting for stock-based payment award transactions that will affect public companies,

including: (1) accounting for income taxes; (2) classification of excess tax benefits on the statement of cash flows; (3) forfeitures; (4) minimum statutory tax withholding requirements; and (5) classification of employee taxes paid on the statement of cash flows when an employer withholds shares for tax-withholding purposes. The inclusion of excess tax benefits and deficiencies as a component of income tax expense will increase volatility within our provision for income taxes as the amount of excess tax benefits or deficiencies from stock-based compensation awards depends on our stock price at the date the awards vest or the date of option exercises. This guidance also requires excess tax benefits to be presented as an operating activity on the statement of cash flows and allows an entity to make an accounting policy election to either estimate expected forfeitures or to account for them as they occur.

We adopted ASU No. 2016-09 during the current fiscal year, which required us to reflect any adjustments as of April 1, 2017. We elected to account for forfeitures as they occur rather than estimating expected forfeitures. We recorded the cumulative impact of adoption through an increase in retained earnings of \$2.2 million, of which \$2.6 million related to deferred tax assets from certain federal and state research tax credit carryforwards attributable to excess tax benefits from stock-based compensation that had not been previously recognized, offset by \$0.4 million related to elimination of the forfeiture pool. We elected to prospectively adopt the effect on the statement of cash flows and accordingly, did not restate the Condensed Consolidated Statement of Cash Flows for the nine months ended December 31, 2016.

Recent Accounting Pronouncements Not Yet Adopted

In January 2017, the FASB issued ASU 2017-04, "Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment" ("ASU 2017-04"), which eliminates step two from the goodwill impairment test. Under ASU 2017-04, an entity should recognize an impairment charge for the amount by which the carrying amount of a reporting unit exceeds its fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. ASU 2017-04 is effective for annual periods beginning after December 15, 2019 (fiscal 2021 for the Company), including interim periods within those fiscal years; earlier adoption is permitted for goodwill impairment tests performed on testing dates after January 1, 2017. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)" ("ASU 2016-02"), as a comprehensive new standard that amends various aspects of existing guidance for leases and requires additional disclosures about leasing arrangements. The new standard will require lessees to recognize a right-of-use asset and a lease liability on the balance sheet for all leases with the exception of short-term leases. For lessees, leases will continue to be classified as either operating or finance in the income statement. Lessor accounting is similar to the current model but updated to align with certain changes to the lessee model. Lessors will continue to classify leases as operating, direct financing or sales-type leases. ASU 2016-02 is effective for annual periods beginning after December 15, 2018 (fiscal 2020 for the Company), including interim periods within those fiscal years. Earlier adoption is permitted. In the financial statements in which the ASU is first applied, leases shall be measured and recognized at the beginning of the earliest comparative period presented with an adjustment to equity. The Company is continuing to evaluate the impact of the adoption of this guidance on its consolidated financial statements and related disclosures.

In May 2014, the FASB issued update ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASU 2014-09") and issued subsequent amendments to the initial guidance in August 2015, March 2016, April 2016, May 2016, and December 2016 within ASU 2015-14, ASU 2016-08, ASU 2016-10, ASU 2016-12 and ASU 2016-20, respectively (ASU 2014-09 and the subsequent amendments, collectively, "Topic 606"). Topic 606 supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of the new guidance is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. The guidance defines a five-step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation, among others. Topic 606 also provides guidance on the

recognition of costs related to obtaining customer contracts. The effective date for the Company is the first quarter of fiscal 2019 using either of two methods: (i) retrospective application to each prior reporting period presented with the option to elect certain practical expedients; or (ii) retrospective application with the cumulative effect recognized at the date of initial application and providing certain additional disclosures. The Company has completed its preliminary assessment of the new standard and is continuing assessment as we complete

implementation design activities. We plan to adopt Topic 606 in the first quarter of fiscal 2019 pursuant to the aforementioned adoption method (ii), and we do not believe there will be a material impact to our revenues upon adoption. We are continuing to evaluate the impact to our revenues related to our pending adoption of Topic 606 and our preliminary assessments are subject to change. We are also continuing to evaluate the provisions of Topic 606 related to costs of obtaining customer contracts.

The Company does not anticipate that the adoption of any other recent accounting pronouncements will have a material impact on the Company's consolidated financial position, results of operations or cash flows.

2. EARNINGS PER SHARE AND STOCKHOLDERS' EQUITY:

Earnings Per Share

A reconciliation of the numerator and denominator of basic and diluted earnings per share is shown below (in thousands, except per share amounts):

	For the three months ended December 31, 2017	For the nine months ended December 31, 2016	For the three months ended December 31, 2017	For the nine months ended December 31, 2016
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Basic earnings per share: