

Crexendo, Inc.
Form 10-Q
August 09, 2011

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, 2011

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 001-32277

Crexendo, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

87-0591719
(I.R.S. Employer Identification No.)

1615 South 52nd Street, Tempe, AZ
(Address of Principal Executive
Offices)

85281
(Zip Code)

(623) 242-5959
(Registrant's telephone number, including area code)

iMergent, Inc.

(Former name, former address and former fiscal year, if changed since last report)

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

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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" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (check one).

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>

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 outstanding of the registrant's common stock as of August 8, 2011 was 10,663,787.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

CREXENDO, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(In thousands, except par value and share data)
(unaudited)

	June 30, 2011	December 31, 2010
Assets		
Current Assets:		
Cash and cash equivalents	\$10,578	\$14,207
Restricted cash	1,088	1,088
Trade receivables, net of allowance for doubtful accounts of \$9,662 as of June 30, 2011 and \$10,464 as of December 31, 2010	12,866	12,122
Inventories	495	1,067
Income tax receivable	669	1,239
Deferred income tax assets, net	-	949
Prepaid expenses and other	965	1,376
Total Current Assets	26,661	32,048
Certificate of deposit	500	500
Long-term trade receivables, net of allowance for doubtful accounts of \$8,478 as of June 30, 2011 and \$7,957 as of December 31, 2010	11,921	9,442
Property and equipment, net	3,390	3,139
Deferred income tax assets, net	428	5,024
Intangible assets	115	987
Goodwill	265	265
Other long-term assets	303	239
Total Assets	\$43,583	\$51,644
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	\$2,204	\$3,328
Accrued expenses and other	3,444	3,361
Dividend payable	213	214
Deferred income tax liability	428	-
Deferred revenue, current portion	16,080	13,757
Total Current Liabilities	22,369	20,660
Deferred revenue, net of current portion	11,973	9,523
Other long-term liabilities	410	1,341
Total Liabilities	34,752	31,524

Commitments and contingencies (Note 10)

Stockholders' Equity:

Preferred stock, par value \$0.001 per share - authorized 5,000,000 shares; none issued	-	-
Common stock, par value \$0.001 per share - authorized 100,000,000 shares; 10,663,787 shares outstanding as of June 30, 2011 and 10,664,878 shares outstanding as of December 31, 2010	11	11
Additional paid-in capital	49,388	49,481
Accumulated deficit	(40,568)	(29,372)
Total Stockholders' Equity	8,831	20,120
Total Liabilities and Stockholders' Equity	\$43,583	\$51,644

See accompanying notes.

CREXENDO, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Operations
(In thousands, except per share and share data)
(unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2011	2010	June 30, 2011	2010
Revenue	\$17,496	\$17,448	\$32,064	\$34,542
Operating expenses:				
Cost of revenue	7,675	5,228	13,980	10,325
Selling and marketing	10,076	8,913	18,839	17,787
General and administrative	3,333	3,634	6,092	7,100
Research and development	871	715	1,743	1,253
Total operating expenses	21,955	18,490	40,654	36,465
Loss from operations	(4,459)	(1,042)	(8,590)	(1,923)
Other income (expense):				
Interest income	1,316	1,246	2,469	2,434
Interest expense	(1)	(1)	(2)	(2)
Other expense, net	(39)	(76)	(33)	(134)
Total other income, net	1,276	1,169	2,434	2,298
Income (loss) before income tax provision	(3,183)	127	(6,156)	375
Income tax provision	(6,162)	(76)	(5,040)	(201)
Net income (loss)	\$(9,345)	\$51	\$(11,196)	\$174
Net income (loss) per common share:				
Basic	\$(0.88)	\$0.00	\$(1.05)	\$0.02
Diluted	\$(0.88)	\$0.00	\$(1.05)	\$0.02
Dividends per common share:	\$0.02	\$0.02	\$0.04	\$0.04
Weighted average common shares outstanding:				
Basic	10,642,384	11,402,806	10,640,489	11,413,246
Diluted	10,642,384	11,419,919	10,640,489	11,439,788

See accompanying notes.

CREXENDO, INC. AND SUBSIDIARIES
 Condensed Consolidated Statement of Stockholders' Equity
 Six Months Ended June 30, 2011
 (In thousands, except share data)
 (unaudited)

	Common Stock		Additional	Accumulated	Total
	Shares	Amount	Paid-in Capital	Deficit	Stockholders' Equity
Balance, January 1, 2011	10,664,878	\$11	\$49,481	\$ (29,372)	\$ 20,120
Expense for stock options granted to employees			362		362
Stock issued under stock award plans	18,702		60		60
Dividends declared			(426)		(426)
Repurchase of common stock	(19,793)		(89)		(89)
Net loss				(11,196)	(11,196)
Balance, June 30, 2011	10,663,787	\$11	\$49,388	\$ (40,568)	\$ 8,831

See accompanying notes.

CREXENDO, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(In thousands)
(unaudited)

	Six Months Ended June 30,	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$(11,196)	\$174
Adjustments to reconcile net income (loss) to net cash used for operating activities:		
Depreciation and amortization	704	678
Impairment of inventory and intangible assets	1,075	-
Expense for stock options issued to employees	362	533
Tax benefit upon issuance of common stock	-	(3)
Deferred income tax provision	5,973	377
Changes in assets and liabilities net of effects from acquisition:		
Trade receivables	(3,223)	1,257
Inventories	345	(228)
Income tax receivable	570	(511)
Prepaid expenses and other	411	799
Other long-term assets	(8)	13
Accounts payable, accrued expenses and other	(1,624)	(1,290)
Income taxes payable	-	(21)
Deferred revenue	4,773	(1,793)
Other long-term liabilities	(931)	(10)
Net cash used for operating activities	(2,769)	(25)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(348)	(2,053)
Acquisition of company	-	(250)
Investment in subsidiary	(56)	-
Net cash used for investing activities	(404)	(2,303)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from exercise of stock options and related income tax benefit	60	13
Repurchase of common stock	(89)	(323)
Dividend payments	(427)	(458)
Net cash used for financing activities	(456)	(768)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(3,629)	(3,096)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	14,207	21,549
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$10,578	\$18,453

Supplemental disclosure of cash flow information:

Cash paid (received) during the period:

	1	2
Interest		
Income taxes	(569) 356

See accompanying notes.

CREXENDO, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows (CONTINUED)
(In thousands)

	Six Months Ended June 30,	
	2011	2010
Supplemental disclosure of non-cash investing and financing information:		
Dividends declared	\$213	\$229
Purchase of property and equipment included in accounts payable	395	110
Acquisition of company with stock	-	117
Contingent consideration related to acquisition	-	269

See accompanying notes.

CREXENDO, INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements (unaudited)

(1) Description of Business, Basis of Presentation and Summary of Significant Accounting Policies

Description of Business - Crexendo, Inc. is incorporated in the state of Delaware. As used hereafter in the notes to the condensed consolidated financial statements, we refer to Crexendo, Inc. and its wholly-owned subsidiaries, as “we,” “us,” or “our Company”. We are a hosted services company that provides ecommerce software, website development, web hosting, search engine optimization, link building and hosted telecom services that integrate ecommerce with email, fax, and phone for businesses and entrepreneurs. Our services are designed to make enterprise-class hosting services available to small and medium-sized businesses at affordable monthly rates.

Our condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“US GAAP”) and pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). These condensed consolidated financial statements reflect the results of operations, financial position, changes in stockholders’ equity, and cash flows of our Company.

Basis of Presentation – These unaudited condensed consolidated financial statements include the financial statements of Crexendo, Inc. and its wholly-owned subsidiaries. We have eliminated all intercompany balances and transactions in consolidation. We have included all adjustments, consisting only of normal recurring items, which we consider necessary for a fair presentation of our financial results for interim periods presented. These unaudited condensed consolidated financial statements and accompanying notes should be read together with the audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2010. Results of the three and six months ended June 30, 2011 do not necessarily indicate the results we expect for the period ending December 31, 2011 or any other period. In view of our revenue recognition policies and the rapidly evolving nature of our business and the markets we serve, we believe period-to-period comparisons of our operating results, including operating expenses as a percentage of revenue and cash flows, are not necessarily meaningful and should not be relied upon as an indication of future performance.

Company Name Change - In May 2011, our shareholders approved an amendment to our articles of incorporation to change our name from “iMergent, Inc.” to “Crexendo, Inc.” The name change was effective May 18, 2011. Our ticker symbol “IIG” on the New York Stock Exchange changed to “EXE.”

Seasonality - Our StoresOnline revenue has historically been subject to seasonal fluctuations as responses to our marketing for Preview Training Sessions and Internet Training Workshops are historically lower during the period from June through Labor Day, and during the holiday season from Thanksgiving Day through the middle of January. As a result of the restructuring announced on July 5, 2011 (see Notes 5, 6, and 13) that resulted in the suspension of our seminar sales model, which included Preview Training Sessions and Internet Training Workshops, we believe that seasonality will have less of an impact going forward.

Significant Accounting Policies – We described our significant accounting policies in Note 1 to our consolidated financial statements set forth in Item 8 of our Annual Report on Form 10-K for the period ended December 31, 2010. Other than the policy changes discussed below, there have been no significant changes to our accounting policies since December 31, 2010.

Recently Adopted Accounting Guidance – On January 1, 2011, we prospectively adopted new guidance on revenue recognition in which arrangements that include tangible products that have software components that are essential to

the functionality of the tangible product will no longer be within the scope of the software revenue recognition guidance, and such software-enabled products will now be subject to other relevant revenue recognition guidance. This new accounting guidance applies to arrangements entered into or materially modified beginning on January 1, 2011. Additionally, the Financial Accounting Standards Board (“FASB”) issued authoritative guidance on revenue arrangements with multiple deliverables that are outside the scope of the software revenue recognition guidance. Under the new guidance, when vendor specific objective evidence or third party evidence for deliverables in an arrangement cannot be determined, a best estimate of the selling price is required to separate deliverables and allocate arrangement consideration using the relative selling price method. The new guidance includes new disclosure requirements on how the application of the relative selling price method affects the timing and amount of revenue recognition. The adoption of this new guidance, on a prospective basis, had a material impact on our financial statements (Note 7). For all other revenue arrangements we continue to follow accounting guidance as set forth in prior periods.

On January 1, 2011, we adopted new guidance which modifies prior guidance for goodwill and other intangible assets. This authoritative guidance modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if there are qualitative factors indicating that it is more likely than not that a goodwill impairment exists. The qualitative factors are consistent with the existing guidance which requires goodwill of a reporting unit to be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The adoption of this authoritative guidance did not have a material impact on our financial position or results of operations.

Other Comprehensive Income (Loss) – Our unaudited condensed consolidated financial statements for the three and six months ended June 30, 2011 and 2010 did not reflect any components of other comprehensive income (loss) other than net income (loss).

Significant Customers – No customer accounted for 10% or more of our total net revenue or total accounts receivable for the three and six months ended June 30, 2011 or 2010.

(2) Dividends

During the three and six months ended June 30, 2011 and 2010, our Board of Directors declared the following cash dividends:

Declaration Date (Fiscal year 2011)	Per Share Dividend	Record Date	Total Amount	Payment Date
June 30, 2011	\$ 0.02	July 11, 2011	\$ 213,000	July 18, 2011
March 22, 2011 (Fiscal year 2010)	\$ 0.02	March 31, 2011	\$ 213,000	April 7, 2011
June 22, 2010	\$ 0.02	June 29, 2010	\$ 229,000	July 7, 2010
March 29, 2010	\$ 0.02	April 5, 2010	\$ 229,000	April 12, 2010

(3) Net Income (Loss) Per Common Share

Basic net income (loss) per common share is computed by dividing the net income (loss) for the period by the weighted-average number of common shares outstanding during the period. Diluted net income (loss) per common share is computed giving effect to all dilutive common stock equivalents, consisting of common stock options. Diluted net loss per common share for the three and six months ended June 30, 2011 was the same as basic net loss per common share because the common share equivalents were anti-dilutive for those periods. The following table sets forth the computation of basic and diluted net income (loss) per common share for the periods indicated:

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	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2011	2010	2011	2010
Net income (loss) (in thousands)	\$ (9,345)	\$ 51	\$ (11,196)	\$ 174
Weighted-average share reconciliation:				
Weighted-average shares outstanding	10,656,384	11,430,921	10,654,489	11,443,687
Weighted-average restricted shares held in escrow	(14,000)	(28,115)		