DHI GROUP, INC.
Form 10-Q
August 02, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)
R QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarter ended June 30, 2018

OR
£ TRANSITION PERIOD PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM TO
Commission File Number: 001-33584

DHI Group, Inc.
(Exact name of Registrant as specified in its Charter)

Delaware	20-3179218
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1040 Avenue of the Americas, 8th Floor	
New York, New York	10018
(Address of principal executive offices)	(Zip Code)

(212) 725-6550
(Registrant’s telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

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 R 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 R No £
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definition of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.
Large accelerated filer £ Accelerated filer R Non-accelerated filer £
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 R

As of July 27, 2018, there were 53,722,553 shares of the registrant's common stock, par value $.01 per share, outstanding.

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PART I
ITEM 1. Financial Statements

DHI GROUP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)
(in thousands, except per share data)

	June 30, 2018	December 31, 2017
ASSETS		
Current assets		
Cash	$9,549	$ 12,068
Accounts receivable, net of allowance for doubtful accounts of $1,206 and $1,688	21,980	38,769
Income taxes receivable	2,248	2,617
Prepaid and other current assets	7,709	5,086
Total current assets	41,486	58,540
Fixed assets, net	15,259	16,147
Acquired intangible assets, net	39,000	45,737
Capitalized contract costs	6,806	—
Goodwill	156,174	170,791
Deferred income taxes	307	469
Other assets	2,501	4,034
Total assets	$261,533	$ 295,718
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued expenses	$18,244	$ 22,196
Deferred revenue	64,194	83,646
Income taxes payable	1,268	1,129
Total current liabilities	83,706	106,971
Long-term debt, net	18,547	41,450
Deferred income taxes	8,434	8,245
Deferred revenue	1,737	—
Income taxes payable	1,489	1,489
Accrual for unrecognized tax benefits	3,179	2,859
Other long-term liabilities	1,996	2,063
Total liabilities	119,088	163,077
Commitments and contingencies (Note 9)		
Stockholders' equity		
Convertible preferred stock, $.01 par value, authorized 20,000 shares; no shares issued and outstanding	—	—
Common stock, $.01 par value, authorized 240,000; issued 86,718 and 83,125 shares, respectively; outstanding: 53,743 and 50,480 shares, respectively	868	831
Additional paid-in capital	379,626	375,537
Accumulated other comprehensive loss	(28,867)	(27,330)
Accumulated earnings	67,559	59,776
Treasury stock, 32,974 and 32,645 shares, respectively	(276,741)	(276,173)
Total stockholders' equity	142,445	132,641
Total liabilities and stockholders' equity	$261,533	$ 295,718

See accompanying notes to the condensed consolidated financial statements.

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DHI GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)
(in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenues	$41,595	$52,400	$84,666	$104,590
Operating expenses:				
Cost of revenues	4,749	7,668	9,906	15,065
Product development	5,129	6,356	10,592	12,807
Sales and marketing	16,387	19,751	32,654	39,650
General and administrative	8,787	10,046	19,169	21,325
Depreciation	2,325	2,819	4,615	5,127
Amortization of intangible assets	191	571	482	1,132
Disposition related and other costs (Note 11)	2,118	1,187	3,129	1,187
Total operating expenses	39,686	48,398	80,547	96,293
Gain (loss) on sale of businesses (Note 4)	(839)	—	3,800	—
Operating income	1,070	4,002	7,919	8,297
Interest expense	(489)	(814)	(1,035)	(1,604)
Other income (expense)	(24)	9	(33)	(7)
Income before income taxes	557	3,197	6,851	6,686
Income tax expense	762	1,375	3,553	3,524
Net income (loss)	$(205)	$1,822	$3,298	$3,162
Basic earnings per share	$—	$0.04	$0.07	$0.07
Diluted earnings per share	$—	$0.04	$0.07	$0.07
Weighted-average basic shares outstanding	48,722	47,953	48,491	47,775
Weighted-average diluted shares outstanding	48,722	48,268	49,406	48,308

See accompanying notes to the condensed consolidated financial statements.

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DHI GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(unaudited)
(in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income (loss)	$(205)	$1,822	$3,298	$3,162
Foreign currency translation adjustment	(3,859)	2,266	(1,537)	2,871
Total other comprehensive income (loss)	(3,859)	2,266	(1,537)	2,871
Comprehensive income (loss)	$(4,064)	$4,088	$1,761	$6,033

See accompanying notes to the condensed consolidated financial statements.

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DHI GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(in thousands)

	Six Months Ended June 30,	
	2018	2017
Cash flows from operating activities:		
Net income	$3,298	$3,162
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation	4,615	5,127
Amortization of intangible assets	482	1,132
Deferred income taxes	540	648
Amortization of deferred financing costs	97	162
Stock based compensation	4,089	4,588
Impairment of fixed assets	168	—
Change in accrual for unrecognized tax benefits	320	70
Gain on sale of businesses, net	(3,800)	—
Changes in operating assets and liabilities:		
Accounts receivable	13,482	11,231
Prepaid expenses and other assets	795	(1,082)
Capitalized contract costs	(1,758)	—
Accounts payable and accrued expenses	(3,845)	(1,007)
Income taxes receivable/payable	567	(1,465)
Deferred revenue	(10,692)	1,101
Other, net	(61)	45
Net cash flows from operating activities	8,297	23,712
Cash flows from (used in) investing activities:		
Net cash received from sale of businesses	17,542	—
Purchases of fixed assets	(4,236)	(7,730)
Net cash flows from (used in) investing activities	13,306	(7,730)
Cash flows used in financing activities:		
Payments on long-term debt	(28,000)	(15,000)
Proceeds from long-term debt	5,000	—
Payments under stock repurchase plan	(95)	—
Proceeds from stock option exercises	—	403
Purchase of treasury stock related to vested restricted stock	(467)	(1,109)
Net cash flows used in financing activities	(23,562)	(15,706)
Effect of exchange rate changes	(560)	193
Net change in cash for the period	(2,519)	469
Cash, beginning of period	12,068	22,987
Cash, end of period	$9,549	$23,456

See accompanying notes to the condensed consolidated financial statements.

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DHI GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of DHI Group, Inc. ("DHI" or the "Company") have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and disclosures normally included in annual audited consolidated financial statements prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP") have been omitted and condensed pursuant to such rules and regulations. In the opinion of the Company's management, all adjustments (consisting of only normal and recurring accruals) have been made to present fairly the financial position, results of operations and cash flows of the Company for the periods presented. Although the Company believes that the disclosures are adequate to make the information presented not misleading, these financial statements should be read in conjunction with the Company's audited consolidated financial statements as of and for the year ended December 31, 2017 included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017 (the "Annual Report on Form 10-K"). Operating results for the six month period ended June 30, 2018 are not necessarily indicative of the results to be achieved for the full year.

Preparation of the condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenue and expenses during the period. Management believes the most complex and sensitive judgments, because of their significance to the condensed consolidated financial statements, result primarily from the need to make estimates about the effects of matters that are inherently uncertain. Actual results could differ materially from management's estimates reported in the condensed consolidated financial statements and footnotes thereto. There have been no significant changes in the Company's assumptions regarding critical accounting estimates during the six month period ended June 30, 2018.

2. NEW ACCOUNTING STANDARDS

In May 2014, the Financial Accounting Standards Board (the "FASB") issued ASU No. 2014-09 ("Topic 606"), Revenue from Contracts with Customers. Topic 606 supersedes the revenue recognition requirements in Accounting Standards Codification Topic 605, Revenue Recognition, and requires entities to measure and recognize revenue and the related cash flows it expects to be entitled for the transfer of promised goods or services to customers and requires an entity to recognize the incremental costs of obtaining a contract with a customer as an asset if the entity expects to recover those costs over time. Topic 606 became effective for reporting periods beginning after December 15, 2017. Topic 606 provides companies with two implementation methods. Companies can choose to apply the standard retrospectively to each prior reporting period presented (full retrospective application) or retrospectively with the cumulative effect of initially applying the standard as an adjustment to the opening balance of retained earnings of the annual reporting period that include the date of initial application (modified retrospective application). The Company has chosen the modified retrospective application method and has implemented Topic 606 effective January 1, 2018. The Company has determined that the January 1, 2018 cumulative effect to its revenue streams was an increase of approximately $0.2 million to deferred revenues, and the cumulative effect to its contract acquisition costs was an increase to contract acquisition cost assets of approximately $6.1 million, with a net after tax increase to retained earnings of approximately $4.5 million. The cumulative impact on contract acquisition costs was computed based on contracts in force as of December 31, 2017 using average commission rates on both new business sales to be amortized over approximately two years and the remaining sales contracts to be amortized over approximately one year. See Note 3 to the Notes to the Condensed Consolidated Financial Statements.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The new standard aims to improve existing U.S. GAAP and will change certain aspects of accounting for equity investments, financial instruments, financial liabilities, and the presentation and related disclosures. The updated standard becomes effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company adopted the new standard in the first quarter of 2018, and has determined the adoption did not have a material impact on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases. The new standard has requirements on how to account for leases by both the lessee and the lessor and adds clarification for what constitutes a lease, among other items. The updated standard becomes effective for fiscal years beginning after December 15, 2018 and interim periods the following year, with early adoption permitted. The new standard must be applied using a modified retrospective transition. The Company is evaluating the expected impact of this standard on its consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. REVENUE RECOGNITION

On January 1, 2018, we adopted Topic 606 applying the modified retrospective method to all contracts that were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 will be presented under Topic 606, while prior period amounts will not be adjusted and will continue to be reported under the accounting standards in effect for the period presented.

We recorded a net increase to opening retained earnings of $4.5 million as of January 1, 2018 due to the cumulative impact of adopting Topic 606.

Changes in accounting policies as a result of adopting Topic 606 and nature of goods

The Company recognizes revenue when control of the promised goods or services is transferred to our customers at an amount that reflects the consideration to which we expect to receive in exchange for those goods or services. Revenue is recognized net of customer discounts ratably over the service period. Customer billings delivered in advance of services being rendered are recorded as deferred revenue and recognized over the service period. The Company generates revenue from the following sources:

Recruitment packages. Recruitment package revenues are derived from the sale to recruiters and employers of a combination of job postings and access to a searchable database of candidates on the Dice, ClearanceJobs, eFinancialCareers, and Rigzone websites. Certain of the Company's arrangements include multiple performance obligations, which primarily consists of the ability to post jobs and access to a searchable database of candidates. The Company determines the units of accounting for multiple performance obligations in accordance with Topic 606. Specifically, the Company considers a performance obligation as a separate unit of accounting if it has value to the customer on a standalone basis. The Company's arrangements do not include a general right of return. Services to customers buying a package of available job postings and access to the database are delivered over the same period and revenue is recognized ratably over the length of the underlying contract, typically from one to twelve months. The separation of the package into two deliverables results in no change in revenue recognition since delivery of the two services occurs over the same time period.

Advertising revenue. Advertising revenue is recognized over the period in which the advertisements are displayed on the websites or at the time a promotional e-mail is sent out to the audience.

Classified revenue. Classified job posting revenues are derived from the sale of job postings to recruiters and employers. A job posting is the ability to list a job on the website for a specified time period. Revenue from the sale of classified job postings is recognized ratably over the length of the contract or the period of actual usage.

Data services revenue. Access to the Company's database of energy industry data is provided to customers for a fee. Data services revenue is recognized ratably over the length of the underlying contract, typically from one to twelve months. The data services business, called RigLogix, was sold on February 20, 2018.

Career fair and recruitment event booth rentals. Career fair and recruitment event revenues are derived from renting booth space to recruiters and employers. Revenue from these sales are recognized when the career fair or recruitment event is held.

Disaggregation of revenue

Our brands serve various economic professions, such as technology, financial, hospitality (the Hcareers business was sold on May 22, 2018), and oil and gas. The following table provides information about disaggregated revenue by brand and includes a reconciliation of the disaggregated revenue with reportable segments (in thousands):

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	Three Months Ended June 30, 2018			Six Months Ended June 30, 2018		
	Tech-Focused	Corporate & Other	Total	Tech-Focused	Corporate & Other	Total
Dice	$23,489	$ —	$23,489	$46,771	$ —	$46,771
ClearanceJobs	5,133	—	5,133	9,937	—	9,937
Dice Europe	1,255	—	1,255	2,547	—	2,547
eFinancial Careers	8,467	—	8,467	17,030	—	17,030
Hcareers (1)	—	1,936	1,936	—	5,329	5,329
Rigzone (1)	—	1,315	1,315	—	2,840	2,840
BioSpace (1)	—	—	—	—	212	212
Total	$38,344	$ 3,251	$41,595	$76,285	$ 8,381	$84,666

(1) The Company sold the RigLogix portion of the Rigzone business on February 20, 2018 and Hcareers on May 22, 2018. Transferred majority ownership of BioSpace to BioSpace management on January 31, 2018.

Revenue for periods ending prior to January 1, 2018 have not been presented under Topic 606.

Contract Balances

The following table provides information about opening and closing balances of receivables and contract liabilities from contracts with customers as required under Topic 606 (in thousands):

	As of June 30, 2018	As of January 1, 2018
Receivables	$21,980	$38,769
Short-term contract liabilities (deferred revenue)	64,194	83,810
Long-term contract liabilities (deferred revenue)	1,737	—

We receive payments from customers based upon contractual billing schedules; accounts receivable is recorded when customers are invoiced per the contractual billings schedules. As the Company's standard payment terms are less than one year, the Company elected the practical expedient, where applicable. As a result, the Company did not consider the effects of a significant financing component. Contract liabilities include customer billings delivered in advance of performance under the contract, and associated revenue is realized when services are rendered under the contract.

Receivables increase due to customer billings and decrease by cash collected from customers along with business divestitures. Included in January 1, 2018 is $3.5 million of receivables related to businesses divested during the six months ended June 30, 2018. Contract liabilities increase due to customer billings and are decreased as performance obligations are satisfied under the contracts. Included in January 1, 2018 is $6.7 million of short-term contract liabilities related to the businesses divested during the six months ended June 30, 2018.

During the three and six months ended June 30, 2018, the Company recognized the following revenues as a result of changes in the contract liability balances in the respective periods (in thousands):

	Three Months Ended June 30, 2018		Six Months Ended June 30, 2018	
Revenue recognized in the period from:				
Amounts included in the contract liability at the beginning of the period	$	31,774	$	56,120

Transaction price allocated to the remaining performance obligations

Under the guidance of Topic 606, the following table includes estimated revenue expected to be recognized in the future related to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period (in thousands):

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	Remainder of 2018	2019	2020	Total
Tech-focused	$ 48,718	$15,161	$379	$64,258
Corporate & Other	1,409	264	—	1,673
Total	$ 50,127	$15,425	$379	$65,931

Contract acquisition costs

In connection with the adoption of Topic 606, we are required to capitalize certain contract acquisition costs consisting primarily of commissions paid when contracts are signed. As allowed for by the practical expedient, the Company is using a portfolio approach for contract acquisition costs, which allows the new revenue guidance to be applied to a portfolio of contracts with similar characteristics. As a result, the Company has applied the portfolio approach to new business contracts and recurring or remaining business contracts. The Company reasonably expects that the effects of applying the portfolio approach would not differ materially from applying Topic 606 at the individual contract level. As of January 1, 2018, the date we adopted Topic 606, we capitalized $6.1 million in contract acquisition costs related to contracts that were not completed. The cumulative effect for contract acquisition costs was computed based on contracts in force as of December 31, 2017 using the average commission rates on both new business sales contracts, to be amortized over approximately two years, and the remaining sales contracts to be amortized over approximately one year. For costs incurred to obtain new business sales contracts, we will record these costs over an average customer life, which was determined using customer renewal rates; for the remaining sales contracts, we will record these costs over the weighted average contract term. For the three and six months ended June 30, 2018, the Company recorded $2.5 million and $4.7 million of expense, respectively, related to the amortization of contract acquisition costs and there was no impairment loss incurred. During the three and six months ended June 30, 2018, $0.7 million and $0.9 million of contract acquisition costs were removed, respectively, due to the sale of BioSpace and RigLogix in the first quarter of 2018 and the sale of Hcareers in the second quarter of 2018.

In accordance with Topic 606, the impact of adoption to our condensed consolidated statements of operations was as follows:

	Three Months Ended June 30, 2018		
(in thousands, except per share amounts)	As Reported	Balance Without Adoption of Topic 606	Effect of Change-Higher (Lower)
Revenues	$41,595	$41,595	$ —
Operating expenses	$39,686	$40,046	$ (360)
Operating income	$1,070	$710	$ 360
Net income	$(205)	$(475)	$ 270

Basic earnings per share	$—	$(0.01)	$ 0.01
Diluted earnings per share	$—	$(0.01)	$ 0.01

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	Six Months Ended June 30, 2018		
(in thousands, except per share amounts)	As Reported	Balance Without Adoption of Topic 606	Effect of Change-Higher (Lower)
Revenues	$84,666	$ 84,519	$147
Operating expenses	$80,547	$ 82,175	$(1,628)
Operating income	$7,919	$ 6,144	$1,775
Net income	$3,298	$ 1,967	$1,331
Basic earnings per share	$0.07	$ 0.04	$0.03
Diluted earnings per share	$0.07	$ 0.04	$0.03

In accordance with Topic 606, the impact of adoption to our condensed consolidated balance sheets was as follows:

	As of June 30, 2018		
(in thousands)	As Reported	Balance Without Adoption of Topic 606	Effect of Change-Higher (Lower)
ASSETS			