HOMECOM COMMUNICATIONS INC
Form 10-Q
May 21, 2001

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

/X/ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2001.

/ / TRANSITION REPORT PURSUANT TO 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ___________ to ___________

Commission File Number 0-29204

HOMECOM COMMUNICATIONS, INC
(Exact name of small business issuer as specified in its charter)

DELAWARE	58-2153309
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

3495 Piedmont Road
Building 12, Suite 110
Atlanta, Georgia 30305
(Address of principal executive offices)

(404)-237-4646
(Issuer's Telephone Number)

Indicate by check whether the registrant (1) has filed all reports required to be filed by Section 13 of 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 X

The Company did not timely file a Current Report 8-K to report the sale of certain assets on January 31, 2001.

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: As of May 15, 2001, there were 9,359,156 outstanding shares of the registrant's Common Stock, par value $0.0001 per share.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited)

HOMECOM COMMUNICATIONS, INC.

Consolidated Balance Sheets as of March 31, 2001 and December 31, 2000

	March 31, 2001 (unaudited)
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	$ 620,324
Accounts receivable, net	166,918
Total current assets	787,242
Furniture, fixtures and equipment held for sale	66,076
Deposits	37,739
Intangible assets, net	
Investment	493,905
Total assets	$ 1,384,962
LIABILITIES AND STOCKHOLDERS' DEFICIT	
CURRENT LIABILITIES:	
Accounts payable and accrued expenses	$ 1,076,290
Accrued payroll liabilities	37,696
Current portion of obligations under capital leases	24,471
Total current liabilities	1,138,457
Other liabilities	151,914
Obligations Under capital Leases	12,935
Total liabilities	1,303,306
Redeemable Preferred stock, Series B, $.01 par value, 125 shares authorized, 125 shares issued at March 31, 2001 and December 31, 2000 and 17.8 shares outstanding at March 31, 2001 and December 31, 2000, convertible, participating; $392,021 liquidation value as of March 31, 2001	251,750
STOCKHOLDERS' DEFICIT:	
Common stock, $.0001 par value, 15,000,000 shares authorized, 9,359,156 shares issued and outstanding at March 31, 2001 and December 31, 2000	936
Preferred stock, Series C, $.01 par value, 175 shares issued and authorized, 92.1 shares outstanding at March 31, 2001 and December 31, 2000, convertible, participating; $2,027,162 liquidation value at March 31, 2001	1
Preferred stock, Series D, $.01 par value, 75 shares issued and authorized, 1.3 shares outstanding at March 31, 2001 and December 31, 2000, convertible, participating; $28,150 liquidation value at March 31, 2001	1
Preferred stock, Series E, $.01 par value, 106.4 shares issued and authorized, 106.4 shares outstanding at March 31, 2001 and	

December 31, 2000, convertible, participating; $2,290,167 liquidation value at March 31, 2001	1
Additional paid-in capital	25,044,740
Accumulated deficit	(25,215,773)
Total stockholder's deficit	(170,094)
Total liabilities and stockholder's deficit	$ 1,384,962

The accompanying notes are an integral part of these financial statements.

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HOMECOM COMMUNICATIONS, INC.

Consolidated Statements of Operations for the three months ended
March 31, 2001 and 2000

	Three Months Ended March 31, (unaudited)	
	2001	2000
Revenues	$ 329,812	$ 1,166,471
Cost of Revenues	324,973	410,908
GROSS PROFIT	4,839	755,563
OPERATING EXPENSES:		
Sales and marketing		549,421
Product development		3,793
General and administrative	243,376	985,116
Depreciation and amortization		495,757
Total operating expenses	243,376	2,034,087
OPERATING LOSS	(238,537)	(1,278,524)
OTHER EXPENSES (INCOME)		
Interest expense		4,065
Other income, net	(7,654)	(31,421)
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(230,883)	(1,251,168)
INCOME TAX PROVISION (BENEFIT)	--	--
LOSS FROM CONTINUING OPERATIONS	(230,883)	(1,251,168)
LOSS FROM DISCONTINUED OPERATIONS		(240,000)
GAIN ON DISPOSAL OF DISCONTINUED BUSINESS SEGMENT	262,940	
NET INCOME (LOSS)	32,057	(1,491,168)
DEEMED PREFERRED STOCK DIVIDEND	(36,603)	(311,422)
LOSS APPLICABLE TO COMMON SHAREHOLDERS	$ (4,546)	$(1,802,590)

EARNINGS (LOSS) PER SHARE - BASIC AND DILUTED		
CONTINUING OPERATIONS	$ (0.03)	$ (0.21)
DISCONTINUED OPERATIONS	0.03	(0.03)
	$ (0.00)	$ (0.24)
WEIGHTED NUMBER OF SHARES OUTSTANDING	9,359,156	7,498,251

The accompanying notes are an integral part of these financial statements.

HOMECOM COMMUNICATIONS, INC.

Consolidate Statements of Cash Flows for the three months ended March 31, 2001 and 2000

	Three Months Ende March 31, (unaudited)	
	2001	20
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 32,057	$(1,4
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation and amortization		4
Provision for bad debts	30,577	
Deferred rent expense	(868)	
Change in operating assets and liabilities:		
Accounts receivable	18,554	(3
Prepaid expenses		
Accounts payable and accrued expenses	(363,658)	(1
Accrued payroll liabilities	(323,696)	
Unearned revenue		(2
Other		
Net cash used in operating activities	(607,034)	(1,5
CASH FLOW FROM INVESTING ACTIVITIES:		
Purchase of furniture, fixtures, and equipment		(
Loans to related parties		
Proceeds from sale of divisions	733,000	
Net cash provided by (used in) investing activities	733,000	(
CASH FLOW FROM FINANCING ACTIVITIES:		
Repayment of capital lease obligations	(26,358)	(
Proceeds from issuance of common shares and exercise of warrants		
Proceeds from a receivable of a related party		2
Net cash provided (used in) financing activities	(26,358)	1
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	99,608	(1,4
CASH AND CASH EQUIVALENTS at beginning of period	520,716	1,4

CASH AND CASH EQUIVALENTS at end of period	$ 620,324	$

The accompanying notes are an integral part of these financial statements.

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HOMECOM COMMUNICATIONS, INC.

Notes to Consolidated Financial Statements

1. BASIS OF PRESENTATION

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to Article 10 of Regulation S-X of the Securities and Exchange Commission. The accompanying unaudited financial statements reflect, in the opinion of management, all adjustments necessary to achieve a fair statement of the financial position and results of operations of HomeCom Communications, Inc. (the "Company") for the interim periods presented. All such adjustments are of a normal and recurring nature. These financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on form 10-K.

2. GOING CONCERN MATTERS

The Company's financial statements are prepared using generally accepted accounting principles applicable to a going concern, which contemplates the realization of assets and liquidations of liabilities in the normal course of business. The Company has incurred significant losses since its incorporation resulting in an accumulated deficit as of March 31, 2001 of approximately $25.2 million. The Company continues to experience negative cash flows from operations and has been dependent on continued financing from investors to sustain its activities. There is no assurance that such financing will be available in the future. These factors raise doubt about the Company's ability to continue as a going concern.

On March 23, 2001 the Company announced that it is seeking to wind down its operations. Our business is dependent on continued financing from investors to sustain our activities, and we have been unable to obtain the additional financing that we need to remain in operation. We currently have insufficient assets to satisfy completely our obligations to our creditors and the liquidation preferences of our preferred stock. We continue to evaluate our alternatives, including the possible sale of other assets, but we cannot offer any assurances that we will be able to identify or complete any transactions that will enable us to remain in operation.

3. SEGMENT INFORMATION

Historically, the Company was organized into five separate business units. The Company has determined that its reportable segments were those that were based on the Company's method of internal reporting, which disaggregated its business by product and service category into business units. The Company's reportable segments were custom Web development (FAST), Internet outsourcing services (HostAmerica), Internet security services (HISS), software products, and InsureRate/FIMI. On June 9, 1998, the Company sold substantially all of the assets of its HostAmerica Internet outsourcing services business unit to Sage

Acquisition Corp. On October 1, 1999 the company sold all of the assets of its HISS unit to Infrastructure Defense, Inc. On January 31, 2001 the Company sold all of the assets of its InsureRate/FIMI unit to Digital Insurance, Inc. and on March 15, 2001 the Company sold the remaining assets of its Software Products group to Netzee, Inc. The Company currently operates in a single business segment, including hosting services and web development. Historical segment information is not provided since each of the former business segments is presented as discontinued operations.

4. BASIC AND DILUTED LOSS PER SHARE

Loss per common share is computed by dividing net loss available to common shareholders by the weighted average number of shares of common stock outstanding for the period of time then ended. The effect of the Company's stock options and convertible securities is excluded from the computations for the three months ended March 31, 2001 and 2000, as it is antidilutive.

5. TAXES

There was no provision for cash payment of income taxes for the three months ended March 31, 2001 and 2000, respectively, as the Company anticipates a net taxable loss for the year ended December 31, 2001.

6. DISPOSITION OF BUSINESS UNITS

On January 31, 2001, the Company sold substantially all the assets of its InsureRate / First Institutional Marketing, Inc. ("FIMI") division to Digital Insurance for $458,000 in cash. Additionally, notes receivable of $370,000 issued by certain shareholders of FIMI were forgiven in exchange for the surrender of the common stock that collateralized the notes. Additionally 300,000 warrants to acquire 300,000 shares of Homecom common stock at an exercise price of $3.74 were forfeited. The purchase price was established through arms' length negotiations between the Company and Digital Insurance.

The Company has removed the results of this discontinued operation from the continuing operations of the Company for all periods presented. The Company recorded a loss of approximately $3 million on the sale of the FIMI assets in the fourth quarter of year 2000.

On March 15, 2001, the Company sold substantially all the assets of its Software Products division to Netzee, Inc. ("Netzee") for $275,000 in cash. The purchase price was established through arms' length negotiations between the Company and Netzee.

The Company has removed the results of this discontinued operation from the continuing operations of the Company for all periods presented. The Company recorded a gain of $262,940 on the sale of this division.

7. OTHER MATTERS

Certain prior period amounts have been reclassified to conform to current period presentation.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

GENERAL

Except for historical information contained herein, some matters discussed in this report constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The Company notes that a variety of risk factors could cause the Company's actual results and experience to differ materially from the anticipated results or other expectations expressed in the Company's forward-looking statements. Reference is made in particular to the discussion set forth below in this report and set forth in the Company's Annual Report on Form 10-K and to the Company's Registration Statements on Forms S-1 and S-3.

On March 23, 2001, we announced our intentions to wind down our operations. Our business is dependent on continued financing from investors to sustain our activities, and we have been unable to obtain the additional financing that we need to remain in operation. We currently have insufficient assets to satisfy completely our obligations to our creditors and the liquidation preferences of our preferred stock. We continue to evaluate our alternatives, including the possible sale of other assets, but we cannot offer any assurances that we will be able to identify or complete any transactions that will enable us to remain in operation.

Historically, we developed and marketed specialized software applications, products and services that enabled financial institutions and their customers to use the Internet and intranets/extranets to obtain and communicate important business information, conduct commercial transactions and improve business productivity. We provided Internet/intranet solutions in three areas: (i) the design, development and integration of customized software applications, including World Wide Web site development and related network outsourcing; (ii) the development, sale and integration of our existing software applications into the client's operations; and, (iii) security consulting and integration services. In October, 1999, we sold our security consulting and integration services operations and entered into a joint marketing program with the acquirer. During the first quarter of 2001, we sold our remaining software applications businesses. Currently, we only derive revenue from professional web development services and hosting fees.

On March 29, 2001, Harvey Sax resigned from his position as our President, Chief Executive Officer and member of our Board of Directors. In connection with Mr. Sax's resignation, we entered into a separation and release agreement with Mr. Sax pursuant to which we paid Mr. Sax severance of $150,000 and pursuant to which we and Mr. Sax released one another from various potential claims and liabilities.

On January 31, 2001, we sold substantially all of the assets used in the operation of our InsureRate division to Digital Insurance, Inc. for approximately $458,000 in cash and the assumption of certain liabilities. On March 15, 2001, we sold substantially all of the assets used in our internet banking operations to Netzee, Inc. in a transaction that generated net proceeds to HomeCom of approximately $275,000. The proceeds from these two transactions do not represent significant operating capital for us.

Our revenues and operating results have varied substantially from period to period, and should not be relied upon as an indication of future results.

RESULTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2001 COMPARED TO THREE MONTHS ENDED MARCH 31, 2000

NET SALES. Net sales decreased 71.7% from $1,166,471 in the first quarter of 2000 to $329,812 in the first quarter of 2001. This decrease of $836,659 is primarily attributable to the absence of any web development work. Revenues now consist exclusively of hosting and site maintenance work.

COST OF SALES. Cost of sales includes salaries for programmers, technical staff and customer support, as well as a pro-rata allocation of telecommunications, facilities and data center costs. Cost of sales decreased from $410,908, or 35.2% of revenues in the first quarter of 2000, to $324,973, or 98.5% of revenues in the first quarter of 2001. The increase in the percentage of cost of sales is due to the lack of web development work and the fact that, at the new reduced manpower levels, production now accounts for a much higher portion of the cost ratios used to calculate pro-rata distributions.

GROSS PROFIT. Gross profit decreased by $750,724 from $755,563 in the first quarter of 2000 to $4,839 in the first quarter of 2001. Gross profit margins declined from 64.8% during the first quarter of 2000 to 1.5% during the first quarter of 2001. This erosion in gross profit is primarily related to a less profitable product mix and the dramatic decline in revenue.

SALES AND MARKETING. Sales and marketing expenses include salaries, variable commissions and bonuses for the sales force, advertising and promotional marketing materials, and a pro-rata allocation of telecommunications, facilities and data center costs. The cost of sales decreased from $549,421, or 47.1% of revenues in the first quarter of 2000 to $0 in the first quarter of 2001. The Company has discontinued all sales and marketing efforts at this time.

PRODUCT DEVELOPMENT. Product development costs consist of personnel costs required to conduct the Company's product development efforts, and a pro-rata allocation of telecommunications, facilities and data center costs. Management believes that continuing investment in product development is required to compete effectively in the Company's industry. Total expenditures for product development decreased from $3,793 in the first quarter of 2000 to $0 in the first quarter of 2001. The Company has discontinued all product development efforts at this time.

GENERAL AND ADMINISTRATIVE. General and administrative expenses include salaries for administrative personnel, insurance and other administrative expenses, as well as a pro-rata allocation of telecommunications, and facilities and data center costs. General and administrative expenses decreased from $985,116 in the first quarter of 2000 to $243,376 in the first quarter of 2001 due to the reductions in overhead begun in the fourth quarter of 2000 and continued in the first quarter of 2001. As a percentage of net sales, these expenses decreased from 84.5% in the first quarter of 2000 to 73.8% in the first quarter of 2001, due to continued cuts in overhead.

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DEPRECIATION AND AMORTIZATION. Depreciation and amortization includes depreciation and amortization of computers, network equipment, office equipment, equipment under capital leases and intangible assets. Depreciation and amortization was $495,757, or 42.5% of revenues in the first quarter of 2000. With the write down of the carrying value of all fixed assets in the fourth quarter of 2000 the company has suspended depreciation of its remaining assets in anticipation of a sale.

LIQUIDITY AND CAPITAL RESOURCES

Our sources of capital are extremely limited. We have incurred operating losses since inception and as of March 31, 2000, we had an accumulated deficit of $25,215,773 and a working capital deficit of $351,215. On March 23, 2001, we announced our intentions to wind down operations. While we continue to evaluate our alternatives, we have been unable to obtain additional financing and do not have sufficient assets to completely satisfy our obligations to our creditors and the liquidation preferences of our preferred shareholders.

We believe that we have exhausted our current sources of capital and also believe that it is highly unlikely that we will be able to secure additional capital that would be required to undertake additional steps to continue our operations. We may elect to implement other cost reduction actions as we may determine are necessary and in our best interests, including the possible additional sale of assets. Also, we believe that there may be value in remaining current in our reporting obligations under the Securities Exchange Act of 1934, although we can give no assurance that we will ever be able to realize any value from our situation. If we cannot resolve our liabilities, and no other alternatives are available, we may be forced to seek protection from our creditors. The aforementioned factors raise substantial doubt about our ability to continue as a going concern. The financial statements included herein have been prepared assuming the Company is a going concern and do not include any adjustments that might result should the Company be unable to continue as a going concern.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not Applicable

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Not Applicable

Item 2. Changes in Securities and Use of Proceeds

Not Applicable

Item 3. Defaults Upon Senior Securities

Not Applicable

Item 4. Submission of Matters to a Vote of Security Holders

Not Applicable

Item 5. Other Information

Not Applicable

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

2.1 Asset Purchase Agreement dated January 31, 2001 for the Acquisition of

Certain Assets of Homecom Communications, Inc., InsureRate, Inc., and FIMI Securities, Inc. by Digital Insurance, Inc. (Filed as Exhibit 2.1 to the Company's Annual Report on Form 10-K, as filed with the Commission on April 12, 2001, and incorporated herein by reference.)

2.2 Asset Purchase Agreement by and between Netzee, Inc. and HomeCom Communications, Inc. dated as of March 15, 2001. (Filed as Exhibit 2.2 to the Company's Annual Report on Form 10-K, as filed with the Commission on April 12, 2001, and incorporated herein by reference.)

10.1 Separation and Release Agreement, dated March 29, 2001, between HomeCom Communications, Inc. and Harvey Sax.

(b) Reports on Form 8-K

During the first quarter of 2001, we filed the following reports on Form 8-K:

(i) On March 1, 2001, we filed a current report on Form 8-K to report the resignation of Roger Nebel from the Board of Directors on February 26, 2001.

(ii) On February 14, 2001, we filed a current report on Form 8-K to report a change in our Certifying Accountant on February 8, 2001.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HOMECOM COMMUNICATIONS, INC.

BY: /s/ TIMOTHY R. ROBINSON

Timothy R. Robinson
Executive Vice President, Chief Financial Officer
May 15, 2001

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(c)