

Edgar Filing: HOMECOM COMMUNICATIONS INC - Form 10-Q

HOMECOM COMMUNICATIONS INC
Form 10-Q
May 15, 2002

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, 2002.

/ / 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 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

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 10, 2002, there were 14,999,156 shares of the registrant's Common Stock, par value \$0.0001 per share.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited)

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HOMECOM COMMUNICATIONS, INC.

Consolidated Balance Sheets as of March 31, 2002 and December 31, 2001

	March 31, 2002 (unaudited) -----
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 219,997
Accounts receivable, net	367,558

Total current assets	587,555
Furniture, fixtures and equipment held for sale	110,084

Total assets	\$ 697,639 =====
LIABILITIES AND STOCKHOLDERS' DEFICIT	
CURRENT LIABILITIES:	
Accounts payable and accrued expenses	\$ 1,689,422

Total current liabilities	1,689,422
Other liabilities	3,836

Total liabilities	1,693,258

Redeemable Preferred stock, Series B, \$.01 par value, 125 shares authorized, 125 shares issued at March 31, 2002 and December 31, 2001 and 17.8 shares outstanding at March 31, 2002 and December 31, 2001, convertible, participating; \$410,029 liquidation value as of March 31, 2002	251,750 -----
STOCKHOLDERS' DEFICIT:	
Common stock, \$.0001 par value, 15,000,000 shares authorized, 14,999,156 shares issued and outstanding at March 31, 2002 and December 31, 2001	1,500
Preferred stock, Series C, \$.01 par value, 175 shares issued and authorized, 90.5 shares outstanding at March 31, 2002 and December 31, 2001, convertible, participating; \$2,100,191 liquidation value at March 31, 2002	1
Preferred stock, Series D, \$.01 par value, 75 shares issued and authorized, 1.3 shares outstanding at March 31, 2002 and December 31, 2001, convertible, participating; \$29,704 liquidation value at March 31, 2002	1
Preferred stock, Series E, \$.01 par value, 106.4 shares issued and authorized, 106.4 shares outstanding at March 31, 2002 and December 31, 2001, convertible, participating; \$2,460,793 liquidation value at March 31, 2002	1
Treasury stock, 123,695 shares at March 31, 2002 and December 31, 2001	(8,659)
Additional paid-in capital	24,428,367
Accumulated deficit	(25,668,580)

Total stockholder's deficit	(1,247,369)

Total liabilities and stockholder's deficit	\$ 697,639 =====

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, 2002 and 2001

	Three Months Ended March 31, (unaudited)	
	2002	2001
Revenues	\$ 371,264	\$ 329,812
Cost of Revenues	236,017	324,973
GROSS PROFIT	135,247	4,839
OPERATING EXPENSES:		
Sales and marketing	--	--
Product development	--	--
General and administrative	105,001	243,376
Depreciation and amortization	--	--
Total operating expenses	105,001	243,376
OPERATING INCOME (LOSS)	30,246	(238,537)
OTHER EXPENSES (INCOME)		
Other income, net	(1,465)	(7,654)
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	31,711	(230,883)
INCOME TAX PROVISION (BENEFIT)	--	--
LOSS FROM CONTINUING OPERATIONS	31,711	(230,883)
LOSS FROM DISCONTINUED OPERATIONS	--	--
GAIN ON DISPOSAL OF DISCONTINUED BUSINESS SEGMENT		262,940
NET INCOME (LOSS)	31,711	32,057
DEEMED PREFERRED STOCK DIVIDEND	(176,684)	(36,603)
LOSS APPLICABLE TO COMMON SHAREHOLDERS	\$ (144,973)	\$ (4,546)
EARNINGS (LOSS) PER SHARE - BASIC AND DILUTED		
CONTINUING OPERATIONS	\$ (0.01)	\$ (0.03)
DISCONTINUED OPERATIONS		0.03
	\$ (0.01)	\$ (0.00)
WEIGHTED NUMBER OF SHARES OUTSTANDING	14,999,156	9,359,156

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

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HOMECOM COMMUNICATIONS, INC.

Consolidate Statements of Cash Flows for the three months ended
March 31, 2002 and 2001

	Three Months Ended March 31, (unaudited)	
	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 31,711	\$ 32,0
Adjustments to reconcile net loss to cash used in operating activities:		
Provision for bad debts	(7,608)	30,5
Deferred rent expense	(1,644)	(8
Change in operating assets and liabilities:		
Accounts receivable	(205,806)	18,5
Accounts payable and accrued expenses	2,181	(363,6
Accrued payroll liabilities		(323,6
	(181,166)	(607,0
CASH FLOW FROM INVESTING ACTIVITIES:		
Purchase of furniture, fixtures, and equipment	(12,183)	
Proceeds from sale of divisions		733,0
	(12,183)	733,0
CASH FLOW FROM FINANCING ACTIVITIES:		
Repayment of capital lease obligations		(26,3
	--	(26,3
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(193,349)	99,6
CASH AND CASH EQUIVALENTS at beginning of period	413,346	520,7
CASH AND CASH EQUIVALENTS at end of period	\$ 219,997	\$ 620,3

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

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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," "we" or "us") 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, 2002 of approximately \$25.7 million. The Company continues to experience negative cash flows from operations and historically has been dependent on continued financing from investors and liquidation of assets to sustain its activities. However, the Company believes that it is highly unlikely that it will be able to secure any additional financing from investors or any proceeds from the sales of any of its remaining assets. These factors raise doubt about the Company's ability to continue as a going concern.

On March 23, 2001, the Company issued a press release to announce our intention to wind down our operations and, to the extent possible, sell our remaining assets. In our press release, we stated, "HomeCom also announced that it has decided to wind down its operations... HomeCom has been unable to obtain additional financing and has insufficient assets to completely satisfy its obligations to creditors and the liquidation preferences of its preferred stock." The press release went on to state: "HomeCom continues to explore other possibilities, which may include the sale of other assets." This announcement followed the sale of substantially all of the assets of First Institutional Marketing, Inc. ("FIMI") and its affiliates to Digital Insurance, Inc. on January 31, 2001 and the sale of substantially all of the assets used in our Internet Banking operations to Netzee, Inc. on March 15, 2001. These sales left us with only one remaining business, our hosting and web site maintenance business, which we had been trying to sell for approximately two years. Currently, we are negotiating an agreement to sell this business, representing substantially all of our operating assets, to Tulix Systems, Inc., an entity in which Timothy R. Robinson, Gia Bokuchava and Nino Doijashvili, who are officers and directors of both the Company and Tulix, are the principal shareholders. If this sale is completed, the Company will have no operating assets and no source of revenue or profits.

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), Internet banking, 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 Internet Banking 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

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presented as discontinued operations.

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4. BASIC AND DILUTED LOSS PER SHARE

Loss per common share is computed by dividing net loss available to common stockholders 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, 2002 and 2001, as it is antidilutive.

5. TAXES

There was no provision for cash payment of income taxes for the three months ended March 31, 2002 and 2001, respectively, as the Company anticipates a net taxable loss for the year ended December 31, 2002.

6. DISPOSITION OF BUSINESS UNITS

On January 31, 2001, the Company sold substantially all the assets of its InsureRate/FIMI division to Digital Insurance for \$458,000 in cash. The purchase price was established through arms' length negotiations between the Company and Digital Insurance.

On March 15, 2001, the Company sold substantially all the assets of its Software Products division to Netzee for \$275,000 in cash. The purchase price was established through arms' length negotiations between the Company and Netzee. The Company recorded a gain of \$262,940 on the sale of this division during the first quarter of 2001.

The Company has removed the results of these discontinued operations from the continuing operations of the Company for all periods presented.

7. STOCKHOLDERS' DEFECIT

As a requirement of the April 2000 private placement of the Company's Series E Convertible Preferred Stock, which was issued with a principal amount of \$2,127,000, the Company was obligated to file and have declared effective, within a specified time period, a registration statement with respect to a minimum of 1,808,293 shares of common stock issuable upon conversion of the Series E Preferred Stock. As of March 31, 2002, such registration statement has not been declared effective and penalties are owed to the Series E Preferred Stock holders. In addition, given the Company's financial condition as discussed in footnote 2, the Company has no current plans to ensure that such registration statement is declared effective. In accordance with the terms of the agreement between the parties, penalties accrue at the rate of 2% per 30 day period of the outstanding purchase price of the unregistered securities. As of March 31, 2002, \$1,048,381 has been accrued into accounts payable and accrued expenses for such penalties.

8. 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

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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. Forward looking statements include, but may not be limited to, those statements regarding the Company's expectations, beliefs, intentions, or strategies regarding the future. All forward-looking statements included in this document are based on information available to the Company on the date hereof, and the Company assumes no obligation to update any such forward-looking statements. Specifically, the Company's statements with respect to, among other things, the potential disposition of the Company's remaining assets and business and its ability or inability to continue as a going concern are forward looking statements. 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 including, among other things, our ability or inability to dispose of our remaining assets and business, our ability to obtain additional financing, and other factors discussed in this report and set forth in our Annual Report on Form 10-K and our Registration Statements on Forms S-1 and S-3.

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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 acquiror. During 2001, we sold our remaining software applications businesses. Currently, we only derive revenue from professional web development services and hosting fees. On March 23, 2001, we announced our intentions to wind down our operations. We are negotiating an agreement to sell substantially all of the assets used in our hosting and website maintenance business to Tulix Systems, Inc., an entity in which Timothy R. Robinson, Gia Bokuchava and Nino Doijashvili, who are officers and directors of both the Company and Tulix, are the principal shareholders. If this sale is completed, we will have no operating assets and no source of revenue or profits.

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, 2002 COMPARED TO THREE MONTHS ENDED MARCH 31, 2001

NET SALES. Net sales increased 12.6% from \$329,812 in the first quarter of 2001 to \$371,264 in the first quarter of 2002. This increase of \$41,452 is primarily attributable to increased sales to Roadrunner. Without the increase in sales to Roadrunner, revenues would actually have decreased \$77,849. All revenues now consist exclusively of hosting and site maintenance work, which are recognized at the time the services are provided.

COST OF SALES. Cost of sales includes salaries for programmers, technical

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staff and customer support, as well as a pro-rata allocation of telecommunications, facilities and data center costs. Cost of sales decreased from \$324,973, or 98.5% of revenues, in the first quarter of 2001 to \$236,017, or 63.6% of revenues, in the first quarter of 2002. The decrease in the percentage of cost of sales is due to continued reductions in production personnel in the year 2001, and a resultant reduction in the pro-rata costs charged to production as compared to the first quarter of 2001.

GROSS PROFIT. Gross profit increased by \$130,408 from \$4,839 in the first quarter of 2001 to \$135,247 in the first quarter of 2002. Gross profit margins increased from 1.5% during the first quarter of 2001 to 36.4% during the first quarter of 2002. This improvement in gross profit is primarily related to recognizing continued growth in Roadrunner revenue while at the same time realizing continued reductions in personnel and pro-rata production costs.

SALES AND MARKETING. The Company ceased all significant sales and marketing efforts entering 2001. There were no such expenditures in the first quarter of 2001 or 2002.

PRODUCT DEVELOPMENT. The Company ceased all significant product development efforts entering 2001. There were no such expenditures in the first quarter of 2001 or 2002.

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 \$243,376 in the first quarter of 2001 to \$105,001 in the first quarter of 2002 due to continued reductions in overhead, including personnel and telecommunications, throughout the second through fourth quarter of 2001. As a percentage of net sales, these expenses decreased from 73.8% in the first quarter of 2001 to 28.3% in the first quarter of 2002.

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DEPRECIATION AND AMORTIZATION. 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. There were no charges recognized in the first quarter of 2001 or 2002.

LIQUIDITY AND CAPITAL RESOURCES

Our sources of capital are extremely limited. We have incurred operating losses since inception and as of March 31, 2002, we had an accumulated deficit of \$25,668,580 and a working capital deficit of \$1,101,867. On March 23, 2001, we announced our intentions to wind down operations. We currently are negotiating an agreement to sell substantially all of our operating assets to Tulix. If we complete this sale, we will have no operating assets and no source of revenue or profits.

Whether we sell our remaining assets or not, 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 that we may determine to be necessary and in our best interests. Also, we believe that there may be value in remaining current in our reporting obligations under the Securities Exchange Act of 1934, as amended, 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

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our creditors. The aforementioned factors raise substantial doubt about HomeCom's ability to continue as a going concern. The financial statements included herein have been prepared assuming HomeCom is a going concern and do not include any adjustments that might result should HomeCom be unable to continue as a going concern.

We spent \$12,183 during the first quarter of 2002 for the purchase of capital equipment. This amount was expended primarily for computer equipment, communications equipment and software necessary for us to maintain the operating integrity of our Network Operations Center for the continued provision of services to our existing customers.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

On or about February 8, 2002, we received a complaint filed by Properties Georgia OBJLW One Corporation in the State Court of Fulton County, Georgia on December 6, 2001, alleging that we defaulted on our lease in Building 14 at 3495 Piedmont Road, Atlanta, Georgia 30305. The complaint seeks damages in the amount of \$141,752 plus interest of \$23,827, plus attorneys' fees and court costs.

On or about January 14, 2002, Creditors Adjustment Bureau, Inc., a California corporation and the assignee of the claims of Siemens ICN, filed a complaint against us alleging, among other things, that we breached our contract with Siemens. The complaint seeks damages of \$18,058.08 plus interest at a rate of 18% from January 26, 2001, plus expenses and attorneys' fees. The complaint was filed in the Superior Court of California, County of Santa Clara, California.

We are not a party to any other material legal proceedings. From time to time, we are involved in various routine legal proceedings incidental to the conduct of our business.

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Item 2. Changes in Securities and Use of Proceeds

Not applicable.

Item 3. Defaults Upon Senior Securities

As a requirement of the April 2000 private placement of \$2,127,000 principal amount of the Company's Series E Convertible Preferred Stock, the Company was obligated to file and have declared effective, within a specified time period, a registration statement with respect to a minimum of 1,808,293 shares of common stock issuable upon conversion of the Series E Preferred Stock. As of March 31, 2002, such registration statement has not been declared effective and penalties are owed to the Series E Preferred Stock holders. In addition, given the Company's financial condition as discussed in footnote 2, the Company has no current plans to ensure that such registration statement is declared effective. In accordance with the terms of the agreement between the parties, penalties accrue at the rate of 2% per 30 day period of the outstanding purchase price of the unregistered securities. As of March 31, 2002, \$1,048,381

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has been accrued into accounts payable and accrued expenses for such penalties.

In March 2002, the outstanding shares of our Series B preferred stock were scheduled to convert automatically into shares of common stock, pursuant to the Certificate of Designations governing our Series B preferred stock. However, because we did not have a sufficient number of authorized shares of Common Stock available for issuance upon conversion of these shares of Series B preferred stock, no shares of Series B stock have been converted, and we remain obligated to convert the remaining shares of Series B preferred stock into shares of common stock.

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

None

(b) Reports on Form 8-K

During the first quarter of 2002, we filed the following reports on Form 8-K:

- (i) On January 14, 2002, we filed a current report on Form 8-K to report a change in control resulting from the conversions of shares of preferred stock into shares of common stock by MacNab, LLC and the subsequent sales of shares of common stock by MacNab, LLC to Brittany Capital Management on December 28, 2001.

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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

Name: Timothy R. Robinson
Title: Executive Vice President,
Chief Financial Officer

Date: May 15, 2002

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EXHIBIT INDEX

None