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NETZEE INC
Form 8-K
February 16, 2001

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): February 2, 2001

NETZEE, INC.

(Exact name of registrant as specified in its charter)

----- Georgia ----- (State or other jurisdiction of incorporation or organization)	0-27925 ----- (Commission File Number)	58-2488883 ----- (I.R.S. Employer Identification No.)
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6190 Powers Ferry Road, Suite 400, Atlanta, Georgia 30339

(Address of principal executive offices)
(770) 850-4000

(Registrant's telephone number including area code)
N/A

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

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Item 2. Acquisition or Disposition of Assets.

Pursuant to the terms of the Asset Purchase Agreement dated February 2, 2001 by and among Netzee, Inc. ("Netzee"), Netcal, Inc., a wholly-owned subsidiary of Netzee ("Netcal"), and The InterCept Group, Inc. ("InterCept"), Netcal sold to InterCept certain of its operating assets and operating liabilities for a total purchase price of approximately \$16 million including liabilities assumed of approximately \$2 million. Netzee received cash proceeds of approximately \$14 million, of which \$250,000 was placed in escrow for indemnification and other purposes. The amount of the consideration was determined based upon arm's length negotiations.

In conjunction with the sale of these assets, Netzee converted its \$15 million line of credit with InterCept and its \$5 million promissory note with the John H. Harland Company ("Harland") into a \$20 million joint credit facility (\$15 million to be funded by InterCept and \$5 million to be funded by Harland). The terms of the credit facility remain consistent with the terms of the former line of credit and promissory note, except that both InterCept and Harland now have the right (instead of just InterCept) to enforce the covenants contained in the

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line of credit agreement.

After settling certain closing and other liabilities and retaining cash for operations, Netzee used approximately \$11.8 million of the proceeds from the sale to pay down principal balances on the \$20 million revolving credit facility from InterCept and Harland. The revolving credit facility will remain in place, and will be used to fund Netzee's future operations. The amended facility will expire on November 2, 2002. As of February 5, 2001, Netzee had approximately \$8.2 million outstanding under this facility.

Netzee will record a loss of approximately \$7.5 million on the sale of the Netcal assets.

The assets sold were primarily located in Calabasas Hills, California and were used principally in Netzee's business of developing, marketing and distributing regulatory reporting software and related products and services to financial institutions.

Netzee was formed as a Georgia corporation in August 1999 to be merged with Direct Access Interactive, Inc. ("Direct Access"), a company that was formed in October 1996 to provide Internet and telephone banking products and services. InterCept acquired Direct Access as a wholly-owned subsidiary in March 1999. InterCept currently owns approximately 28% of Netzee's common stock. Netzee's CEO and director Donny R. Jackson is also a director of InterCept. Several of Netzee's directors are also directors of InterCept. Additionally, Netzee has a marketing agreement with InterCept and sublets certain office space from InterCept. InterCept also sublets certain office space from Netzee.

As a result of Netzee's purchase of certain assets from Harland in November 2000, Harland currently owns approximately 16% of Netzee's common stock.

Item 7. Pro Forma Financial Information and Exhibits.

(a) Pro forma Financial Statements of Business Disposed.

The following unaudited pro forma condensed consolidated financial statements of Netzee, Inc. giving effect to the disposition described above are provided for the periods stated therein:

Unaudited Pro Forma Condensed Consolidated Balance Sheet as of
September 30, 2000

Unaudited Pro Forma Condensed Consolidated Statement of Operations for
the nine months ended September 30, 2000

Unaudited Pro Forma Condensed Consolidated Statement of Operations for
the year ended December 31, 1999

Notes to Pro Forma Condensed Consolidated Financial Information

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(c) Exhibits.

Item No.	Exhibit List
2.1	Asset Purchase Agreement dated February 2, 2001, by and among Netzee, Netcal and InterCept.

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- 10.1 Amended and Restated Credit Agreement dated as of February 2, 2001, by and among Netzee, Harland, and InterCept.
- 99.1 Press Release dated February 5, 2001.

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SIGNATURES

Pursuant to the requirements 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.

NETZEE, INC.

Date: February 16, 2001

/s/ Richard S. Eiswirth

Senior Executive Vice President, Chief
Financial Officer and Secretary
(Principal Financial Officer and
Duly Authorized Officer)

Date: February 16, 2001

/s/ Jarett J. Janik

Vice President and Controller
(Principal Accounting Officer)

EXHIBIT LIST

Exhibit No.	Description
Item No.	Exhibit List
2.1	Asset Purchase Agreement dated February 2, 2001, by and among Netzee, Netcal and InterCept.
10.1	Amended and Restated Credit Agreement dated as of February 2, 2001, by and among Netzee, Harland, and InterCept.
99.1	Press Release dated February 5, 2001.

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UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET

SEPTEMBER 30, 2000

HISTORICAL

PRO FORMA
ADJUSTMENTS

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ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 5,254,925	\$ 14,100,000 (a)
Accounts receivable, net	2,425,557	(11,800,000) (b)
Leases receivable, current	419,435	(845,876) (c)
Prepays and other current assets	788,859	(100,805) (c)

Total current assets	8,888,776	

PROPERTY AND EQUIPMENT, net	9,634,805	(35,524) (c)
LEASES RECEIVABLE, NET OF CURRENT	1,573,652	
OTHER ASSETS:		
Intangible assets, net	108,747,312	(26,312,024) (c)
Deposits and other long-term assets	170,198	(13,001) (c)

Total other assets	108,917,510	

Total assets	\$129,014,743	
	=====	

	HISTORICAL	PRO FORMA ADJUSTMENTS
	-----	-----
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$ 4,380,296	\$ (273,496) (c)
Deferred revenue	6,255,734	250,000 (d)
Notes payable	134,232	(3,069,058) (c)
Other current liabilities	415,534	

Total current liabilities	11,185,796	
NONCURRENT LIABILITIES:		
Deferred revenue, net of current	1,466,943	
Related party loans	15,000,000	(6,800,000) (b)
Long-term debt, net of current maturities	6,507,500	(5,000,000) (b)

Total liabilities	34,160,239	
SHAREHOLDERS' EQUITY:		
Preferred stock, no par value, Series A 8% convertible, 5,000,000 shares authorized, 500,000 shares issued and outstanding at September 30, 2000	6,500,000	
Common stock, no par value, 70,000,000 shares authorized 22,028,083 shares issued and		

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outstanding at September 30, 2000	176,021,418	
Notes receivable from shareholders	(3,122,972)	
Deferred stock compensation	(6,201,621)	
Accumulated deficit	(78,342,321)	(10,114,676) (e)

Total shareholders' equity	94,854,504	

Total liabilities and shareholders'	\$ 129,014,743	
	=====	

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UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 1999

	HISTORICAL (1)	PRO FORMA ADJUSTMENTS
	-----	-----
REVENUES:		
Monthly maintenance and service	\$ 1,770,674	(222,019) (f)
License, hardware, implementation and other	579,239	

Total revenues	2,349,913	

COSTS AND EXPENSES:		
Costs of services, license, hardware, implementation and maintenance	1,958,318	(50,562) (f)
Selling general and administrative expenses	4,481,635	(74,969) (f)
Stock based compensation expense	4,591,888	
Depreciation and amortization	13,056,016	(541,740) (f)

Total operating expenses	24,087,857	

OPERATING LOSS	(21,737,944)	
INTEREST EXPENSE (INCOME), net	673,972	
EXTRAORDINARY LOSS	(4,518,760)	

INCOME BEFORE TAXES	(26,930,676)	
PREFERRED DIVIDENDS	(24,200)	

NET (LOSS) INCOME	\$ (26,954,876)	
	=====	
BASIC AND DILUTED NET LOSS PER SHARE	\$ (2.34)	
	=====	
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	11,542,034	
	=====	

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- (1) The results of operations for the predecessor Direct Access from January 1, 1999 to February 28, 1999 and the results of operations for Netzee for the period from March 1, 1999 to December 31, 1999 have been combined for these proforma statements.

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UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2000

	HISTORICAL	PRO FORMA ADJUSTMENTS
	-----	-----
REVENUES:		
Monthly maintenance and service	\$ 11,508,301	(4,009,862) (f)
License, hardware, implementation and other	1,041,964	(5,074) (f)

Total revenues	12,550,265	

COSTS AND EXPENSES:		
Costs of services, license, hardware, implementation and maintenance	6,307,590	(903,378) (f)
Selling general and administrative expenses	14,818,968	(1,101,216) (f)
Stock based compensation expense	2,345,591	--
Depreciation and amortization	39,518,414	(8,920,498) (f)

Total operating expenses	62,990,563	

OPERATING LOSS	(50,440,298)	
INTEREST EXPENSE (INCOME), net	579,037	

INCOME BEFORE TAXES	(51,019,335)	
PREFERRED DIVIDENDS	(390,000)	

NET (LOSS) INCOME	\$ (51,409,335)	
	=====	
BASIC AND DILUTED NET LOSS PER SHARE	\$ (2.39)	
	=====	
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	21,475,349	
	=====	

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Notes to Pro Forma Consolidated Financial Information

The unaudited pro forma condensed consolidated balance sheet as of September 30, 2000, was prepared as if the sale occurred on such date. The following unaudited

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condensed consolidated statements of operations give effect to the sale as of the beginning of the periods presented. The unaudited pro forma condensed consolidated statements of operations do not purport to represent what our results of operations actually would have been if the sale had occurred as of such date or what such results will be for any future periods. The unaudited pro forma condensed consolidated financial statements are derived from our historical financial statements and the assumptions and adjustments described in the accompanying notes. We believe that all adjustments necessary to present fairly such unaudited financial information have been made. The unaudited pro forma financial data should be read in conjunction with the accompanying notes thereto.

- (a) Reflects the approximate net cash proceeds from the assets sold.
- (b) Reflects the cash proceeds from the assets sold that were used to pay down the credit facility and reflects the conversion of the \$5 million promissory note from Harland to participation in \$20 million credit facility.
- (c) Reflects the elimination of the carrying value of the assets and liabilities sold net of the loss on the sale.
- (d) Reflects the accrual for costs incurred on the sale of the assets.
- (e) Reflects the elimination of the accumulated deficit related to the assets sold net of the loss on the sale.
- (f) Reflects the elimination of the income and expenses related to the assets sold.