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EASYLINK SERVICES CORP
Form 8-K
August 16, 2004

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)
August 1, 2004

EASYLINK SERVICES CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	000-26371	13-3787073
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

33 Knightsbridge Road
Piscataway, NJ 08854
(Address of principal executive offices)

Registrant's telephone number, including area code: (732) 652-3500

N/A

Former Name or Former Address, if Changed Since Last Report

ITEM 2. ACQUISITION OR DISPOSITION OF ASSETS

On August 1, 2004, the Company sold its MailWatch service line and certain assets related thereto (the "MailWatch business") to Infocrossing, Inc. Under the terms of the sale, Infocrossing paid to the Company a purchase price consisting of \$3.5 million in cash and 123,193 shares of Infocrossing common stock. The shares of common stock have not been registered for resale under federal or state securities laws and may be resold only in compliance with applicable registration requirements or any available exemption. The consideration paid to EasyLink was determined as a result of negotiations between Infocrossing and EasyLink. In connection with the sale, the Company and Infocrossing entered into a Transition Services Agreement under which the Company will provide Infocrossing certain transition services for a period after the closing.

The net book value of assets for the MailWatch service line that were included in the sale amounted to \$1.1 million and \$0.8 million as of December 31, 2003

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and June 30, 2004, respectively.

See the Company's historical consolidated financial statements included in EasyLink's Annual Report on Form 10-K for the year ended December 31, 2003 and our quarterly report on Form 10-Q for the period ended June 30, 2004 for additional information.

ITEM 7. FINANCIAL STATEMENTS, PRO FORMA FINANCIAL INFORMATION AND EXHIBITS

(a) Financial Statements of Businesses Acquired

Not applicable.

(b) Unaudited Pro Forma Financial Information

The unaudited pro forma condensed consolidated statement of operations for the year ended December 31, 2003 and the six months ended June 30, 2004 gives effect to the sale of the MailWatch service line as if it had occurred on January 1, 2003. The unaudited pro forma condensed consolidated balance sheet as of June 30, 2004 gives effect to the sale of the business as if it had occurred on June 30, 2004.

The Company believes the accounting used for the pro forma adjustments provides a reasonable basis on which to present the unaudited pro forma condensed consolidated financial statements except that only directly attributable costs are included in the proforma adjustments as costs of the MailWatch service line. No allocation of other costs, particularly sales and marketing and general and administrative expenses, has been made in the proforma adjustments. Furthermore, the proforma adjustments do not include any cost reductions that the Company could have achieved without the MailWatch service line. The pro forma adjustments also do not include any returns that we might have earned on the sale proceeds.

The unaudited pro forma condensed consolidated statement of operations and unaudited pro forma condensed consolidated balance sheet are unaudited and were derived by adjusting the historical consolidated financial statements of the Company, which includes the results of the MailWatch service line. The unaudited pro forma condensed consolidated financial statements are provided for informational purposes only and should not be construed to be indicative of the Company's consolidated financial position or results of operations had the transaction been consummated on the date assumed and do not project the Company's consolidated financial position or results of operations for any future date or period.

The unaudited pro forma consolidated financial statements and accompanying notes should be read in conjunction with the Company's historical consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2003.

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	As reported	Proforma Adjustments	Proforma	As r
Revenues	\$ 101,347	\$ 4,669	\$ 96,678	\$ 4
Cost of revenues	49,553	2,061	47,492	2
Gross profit	51,794	2,608	49,186	2
Sales and marketing	18,379	---	18,379	
General and administrative	24,405	184	24,221	1
Product development	6,383	395	5,988	
Amortization of goodwill and other intangible assets	2,066	---	2,066	
Restructuring charges	1,478	---	1,478	
Total operating expenses	52,711	579	52,132	2
Income (loss) from operations	(917)	2,029	(2,946)	
Other income (expense), net: Gain on debt restructurings and settlements	54,078	---	54,078	
Other income (expense), net	(1,275)	---	(1,275)	
Total other income (expense), net .	52,803	---	52,803	
Income from continuing operations before income taxes	51,886	2,029	49,857	
Provision for Federal and state income taxes	---	---	---	
Net income from continuing operations	\$ 51,886	\$ 2,029	\$ 49,857	\$
Basic net income from continuing operations per share	\$ 1.47	\$ 0.06	\$ 1.41	\$
Diluted net income from continuing operations per share	\$ 1.46	\$ 0.06	\$ 1.40	\$
Weighted-average basic shares outstanding	35,402	35,402	35,402	4
Weighted-average diluted shares outstanding	35,653	35,653	35,653	4

See accompanying notes to unaudited condensed consolidated financial statements

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EASYLINK SERVICES CORPORATION
 UNAUDITED PROFORMA CONDENSED CONSOLIDATED BALANCE SHEET
 (In thousands)

	June 30, 20	
	As reported	Proforma Adjustment
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$5,761	\$3,500
Accounts receivable, net.....	10,949	
Assets held for sale.....	807	(807)
Prepaid expenses and other current assets.....	2,243	
	-----	-----
Total current assets.....	19,760	2,693
	-----	-----
Property and equipment, net.....	8,482	
Goodwill and other intangible assets, net.....	16,541	
Other assets.....	1,255	1,500
	-----	-----
Total assets.....	\$46,038	\$4,193
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable.....	\$7,898	
Accrued expenses.....	12,690	
Current portion of notes payable.....	4,406	
Other current liabilities.....	4,448	1,577
	-----	-----
Total current liabilities.....	29,442	1,577
	-----	-----
Notes payable, less current portion.....	7,780	
Other long term liabilities.....	1,736	
	-----	-----
Total liabilities.....	38,958	1,577
	-----	-----
Stockholders' equity:		
Common stock.....	441	
Additional paid-in capital.....	553,235	
Accumulated other comprehensive loss.....	(409)	
Accumulated deficit.....	(546,187)	2,616
	-----	-----
Total stockholders' equity.....	7,080	2,616

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Total liabilities and stockholders' equity.....	\$46,038 =====	\$4,193 =====
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See accompanying notes to unaudited condensed consolidated financial statements

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EasyLink Services Corporation
Notes to Unaudited Proforma Condensed Consolidated Financial Statements

1. The proforma adjustments in the proforma condensed consolidated statements of operations for the year ended December 31, 2003 and the six months ended June 30, 2004 include the elimination of revenues for the MailWatch service line and the elimination of only directly attributable costs of the MailWatch service line.

The gain on the sale of the MailWatch Service line and the related tax effect of the transaction are not reflected in the proforma condensed consolidated statements of operations for any period.

No adjustments are included in the proforma condensed consolidated statements of operations for any period that would represent income from cost reimbursements under the Transitions Services Agreement related to the sale as these amounts are not expected to have a continuing impact on the Company.

2. The proforma adjustments to the unaudited proforma condensed consolidated balance sheet as of June 30, 2004 include the proceeds from the sale of \$3.5 million in cash and restricted stock valued at approximately \$1.5 million and the related tax effect of the sale of approximately \$1.6 million.

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(c) Exhibits

99.1* Asset Purchase Agreement, dated July 31, 2004, by and between EasyLink Services Corporation, a Delaware corporation, EasyLink Services USA, Inc., a Delaware corporation, Infocrossing Services, Inc., a Delaware corporation, and Infocrossing, Inc., a Delaware corporation.

99.2* Transition Services Agreement, dated July 31, 2004, by and between EasyLink Services Corporation and Infocrossing Services, Inc.

* Disclosure schedules and other attachments are omitted, but will be furnished supplementally to the Commission upon request.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the

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Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Dated: August 16, 2004

EASYLINK SERVICES CORPORATION

By: s/Michael Doyle

Michael Doyle, Vice President and
Chief Financial Officer

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INDEX TO EXHIBITS

Exhibit No.	Description
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