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RCG COMPANIES INC
Form 8-K
April 29, 2005

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UNITED STATES
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) April 27, 2005

RCG COMPANIES INCORPORATED
(Exact name of registrant as specified in its charter)

| | | |
|---|--------------------------|--------------------------------------|
| Delaware | 1-8662 | 23-2265039 |
| (State or other jurisdiction of incorporation) | (Commission File Number) | (IRS Employer Identification No.) |

| | |
|---|------------|
| 6836 Morrison Blvd., Ste. 200, Charlotte, North Carolina | 28211 |
| (Address of principal executive offices) | (Zip Code) |

(704) 366-5054
(Registrant's telephone number, including area code)

Not Applicable
(Former name or former address, if changed since last report)

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Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c)) [GRAPHIC OMITTED]
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Item 1.01 Entry into Material Definitive Agreement

Disclosure information required for Item 1.01 is contained in Item 2.01 below which is incorporated by reference.

Item 2.01 Completion of Acquisition or Disposition of Assets

On April 27, 2005, RCG Companies Incorporated ("RCG"), pursuant to the terms of an Asset Purchase Agreement dated April 26, 2005 (the "APA"), closed a transaction through which its wholly owned subsidiary Logisoft Corp. ("Logisoft") and Logisoft's wholly owned subsidiary eStorefronts.net Corp. ("eStorefronts" and together with Logisoft the "Sellers") sold substantially all of the assets of Sellers to RMK Holdings, LLC ("Buyer"), in consideration for which Buyer paid Sellers \$699,000 and assumed \$2,083,000 of Sellers' liabilities. The purchase price paid is subject to a post closing adjustment, as set forth in the APA, once the closing date financial statements have been finalized.

In connection with the transactions set forth in the APA, RCG executed (i) a Guaranty and Indemnification Agreement pursuant to which it guaranteed the payment and performance obligations of Sellers under the APA, and (ii) a Noncompetition Agreement pursuant to which it agreed not to compete with Buyer in a limited number of States for a period of 5 years in the business of reselling computer software and hardware, sales, design, hosting and maintenance of internet and intranet websites, information technology consulting and ecommerce software development and consulting.

The foregoing disclosures are in all cases subject to the terms and provisions set forth in the APA, the Guaranty and Indemnification Agreement, and the Noncompetition Agreement, copies of which are filed herewith as exhibits.

Item 7.01 Regulation FD Disclosure

A copy of a press release with respect to the foregoing transactions is attached hereto as an Exhibit.

Item 9.01. Financial Statements and Exhibits

- (b) Unaudited pro forma financial information of RCG reflecting the sale of Logisoft business.

The unaudited pro forma consolidated financial information gives effect to the sale of the Logisoft business as if the disposition had occurred for the consolidated balance sheet on December 31, 2004, and for the consolidated statement of operations on July 1 of each period presented.

The pro forma adjustments are based on presently available information. The unaudited pro forma information has been included as required by the

Securities and Exchange Commission and is not necessarily indicative of the results that would have been reported had the disposition actually occurred on the dates specified, nor is it indicative of the results that may be obtained in the future.

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UNADITED PRO FORMA COMBINED BALANCE SHEET DATA
 AT DECEMBER 31, 2004
 (In thousands)
 Pro Forma Adjustments

| | RCG Historical | Sale of Logisoft | Other Adjustme |
|--|-------------------|---------------------|-------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 1,163 | \$ 1,161 | |
| Restricted cash | 7,279 | -- | |
| Accounts receivable, net | 1,353 | (1,277) | |
| Prepaid expenses and other current assets | 1,858 | (87) | |
| | 11,653 | (203) | |
| Property and equipment, net | 853 | (366) | |
| Deferred costs and other assets | 49 | (43) | |
| Net non-current assets of discontinued operations | 376 | -- | |
| Goodwill and other intangible assets | 18,005 | (7,917) | |
| | \$ 30,936 | \$ (8,529) | [A] |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Notes payable and other obligations-current portion | \$ 3,949 | \$ (501) | |
| Accounts payable and accrued expenses | 11,959 | (1,819) | |
| Net non-current liabilities of discontinued operations | 4,478 | -- | |
| Unearned income | 6,296 | -- | |
| | 26,682 | (2,320) | |
| Warrant obligations | 1,593 | -- | |
| Notes payable and other obligations | 4,847 | (64) | |
| | 33,122 | (2,384) | [B] |
| Commitments and Contingencies | | | |
| Shareholders' equity: | | | |
| Common stock | 896 | -- | |
| Additional paid-in capital | 125,461 | -- | |
| Accumulated deficit | (127,911) | (6,145) | |
| Treasury stock at cost | (632) | -- | |
| | (2,186) | (6,145) | |
| | \$ 30,936 | \$ (8,529) | |

See Notes to Unaudited Pro Forma Consolidated Financial Information.

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FOR THE SIX MONTHS ENDED DECEMBER 31, 2004
(In thousands, except share data)

| | Pro Forma Adjustments | | |
|---|-----------------------|---------------------|----------------------|
| | RCG Historical | Sale of Logisoft | Other Adjustments |
| Revenue: | | | |
| Services | \$ 41,341 | \$ (203) | |
| Product sales | 7,369 | (7,369) | |
| Total revenue | 48,710 | (7,572) | |
| Cost of revenue: | | | |
| Services | 41,349 | (6) | |
| Product sales | 6,520 | (6,520) | |
| Total cost of revenue | 47,869 | (6,526) | |
| Gross profit | 841 | (1,046) | |
| Selling, general and administrative expenses | 7,598 | (1,192) | |
| Depreciation and amortization | 221 | (76) | |
| Operating costs and expenses | 7,819 | (1,268) | |
| Operating loss | (6,978) | (222) | |
| Interest expense, net | 335 | (42) | |
| Other expense | 325 | 8 | |
| Loss from continuing operations before extraordinary items | (7,638) | (256) | |
| Gain on debt restructuring | 2,257 | -- | |
| Loss from continuing operations | \$ (5,381) | \$ (256) | |
| Basic and diluted loss per share: | | | |
| Loss from continuing operations | \$ (0.25) | \$ (0.01) | NA |
| Weighted average shares outstanding | 21,419,404 | 21,419,404 | NA |

See Notes to Unaudited Pro Forma Consolidated Financial Information.

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UNADITED PRO FORMA COMBINED
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED JUNE 30, 2004
(In thousands, except share data)

| | Pro Forma Adjustments | | |
|--|-----------------------|---------------------|----------------------|
| | RCG Historical | Sale of Logisoft | Other Adjustments |
| Revenue: | | | |
| Services | \$ 165,765 | \$ (389) | |
| Product sales | 15,042 | (15,042) | |
| Total revenue | 180,807 | (15,431) | |
| Cost of revenue: | | | |
| Services | 154,812 | (260) | |
| Product sales | 13,244 | (13,244) | |
| Total cost of revenue | 168,056 | (13,504) | |
| Gross profit | 12,751 | 1,927 | |
| Selling, general and administrative expenses | 18,637 | (2,138) | |
| Depreciation and amortization | 810 | (204) | |
| Goodwill impairment | 1,199 | (199) | |
| Operating costs and expenses | 20,646 | (2,541) | |
| Operating loss | (7,895) | (614) | |
| Interest expense, net | 842 | (74) | |
| Gain on investments, net | (120) | -- | |
| Other income | (95) | 100 | |
| Loss from continuing operations ... | \$ (8,522) | \$ (588) | |
| Basic and diluted loss per share: | | | |
| Loss from continuing operations | \$ (0.51) | \$ (.04) | NA |
| Weighted average shares outstanding | 16,799,540 | 16,799,540 | NA |

See Notes to Unaudited Pro Forma Consolidated Financial Information.

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- (A) Total assets of the Logisoft business sold, net of the assumed cash received if the transaction had closed on December 31, 2004.
- (B) Liabilities assumed by the Purchaser.

(c) Exhibits

| Exhibit ----- | Description ----- |
|------------------|--|
| 10.1 | Asset Purchase Agreement dated April 26, 2005, between RMK Holdings, LLC, Logisoft Corp., and eStorefronts.net Corp. |
| 10.2 | Guaranty and Indemnification Agreement, dated April 26, 2005, between RCG Companies Incorporated and RMK Holdings, LLC |
| 10.3 | Noncompetition Agreement, dated April 26, 2005, between RCG Companies Incorporated and RMK Holdings, LLC |
| 99.1 | Press Release dated April 28, 2005 |

5

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 hereunto duly authorized.

Dated: April 29, 2005

RCG COMPANIES INCORPORATED

By: /s/ Marc Bercoon

Marc Bercoon
Chief Financial Officer