

INKTOMI CORP
Form 8-K
January 02, 2003

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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

December 17, 2002
(Date of earliest event reported)

0-24339
(Commission File Number)

INKTOMI CORPORATION
(Exact name of Registrant as specified in its charter)

Delaware
(State of Incorporation)

94-3238130
(I.R.S. Employer Identification No.)

**4100 East Third Avenue
Foster City, California 94404**
(Address of principal executive offices)

(650) 653-2800
(Registrant's telephone number, including area code)

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Item 2. Acquisition or Disposition of Assets.

On December 17, 2002, Inktomi Corporation (Inktomi) completed the previously announced sale of its enterprise search software business to Verity, Inc. (Verity) pursuant to an Asset Purchase Agreement, dated as of November 13, 2002, as amended as of December 17, 2002, by and among Inktomi, Inktomi Quiver Corporation (formerly Quiver, Inc.), Ultraseek Corporation, Quiver Ltd. and Verity (as amended, the Agreement). Under the Agreement, Inktomi sold the business assets of its enterprise search software business to Verity for total consideration of \$25 million in cash, and the assumption of Inktomi's obligations under certain existing enterprise search business contracts, including customer support obligations. Of the \$25 million cash consideration, \$3 million plus interest will be paid 18 months following the closing of the sale, subject to reduction for indemnification claims made by Verity during such 18 month period. The consideration paid to Inktomi was determined as a result of arms-length negotiations between Inktomi and Verity. As a result of this asset divestiture, Inktomi has and will likely incur employee severance and other restructuring costs in addition to costs resulting directly from the sale, as further described in Inktomi's Annual Report on Form 10-K for the fiscal year ended September 30, 2002.

A copy of the Asset Purchase Agreement is attached hereto as Exhibit 2.1 and a copy of Amendment No. 1 to the Asset Purchase Agreement is attached hereto as Exhibit 2.2, and each is incorporated herein by reference. The foregoing description of the Agreement is qualified in its entirety by the complete text of the Asset Purchase Agreement and Amendment No. 1 to the Asset Purchase Agreement attached hereto.

Item 7. Financial Statements, Pro Forma Financial Information and Exhibits.

(a) Financial Statements of Businesses Acquired.

Not Applicable.

(b) Unaudited Pro Forma Financial Information.

- (i)** Unaudited pro forma condensed consolidated balance sheet for Inktomi at September 30, 2002.
 - (ii)** Unaudited pro forma condensed consolidated statement of operations for Inktomi for the three fiscal years ended September 30, 2002, 2001 and 2000.
 - (iii)** Notes to the unaudited pro forma financial information.
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INKTOMI CORPORATION
UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION

The following unaudited pro forma condensed consolidated financial information for Inktomi Corporation (the Company or Inktomi) gives effect to the divestiture of Enterprise Search Division by Inktomi Corporation (the Divestiture) to Verity, Inc. This pro forma financial information is presented for illustrative purposes only, and is not necessarily indicative of the operating results and financial position that might have been achieved had the transaction described above occurred on the dates indicated, nor are they necessarily indicative of the operating results and financial position that may occur in the future. The unaudited pro forma condensed consolidated statements of operations for the years ended September 30, 2000, 2001 and 2002 give effect to the Divestiture and related pro forma accounting adjustments, as if the Divestiture had occurred on October 1, 1999, the beginning of fiscal year 2000. The unaudited pro forma condensed consolidated balance sheet as of September 30, 2002 gives effect to the Divestiture and related pro forma accounting adjustments, as if the Divestiture had occurred on September 30, 2002. The adjustments relating to the Divestiture and other adjustments are described in the notes to the unaudited pro forma condensed consolidated financial information.

The unaudited pro forma condensed consolidated financial information should be read in conjunction with Inktomi's Annual Report on Form 10-K for the fiscal year ended September 30, 2002.

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INKTOMI CORPORATION
UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET
(in thousands, except per share amounts)

September 30, 2002

| | As filed in Form 10-K | Adjustments | Pro Forma |
|---|--------------------------|----------------------------|------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | \$ 17,292 | \$ 22,000(a) (2,000)(b) | \$ 37,292 |
| Short-term investments | 28,115 | | 28,115 |
| Total cash, cash equivalents and short term investments | 45,407 | 20,000 | 65,407 |
| Accounts receivable, net | 10,864 | (2,754)(c) | 8,110 |
| Prepaid expenses and other current assets | 5,533 | (297)(d) | 5,236 |
| Total current assets | 61,804 | 16,949 | 78,753 |
| Investments in equity securities | 331 | | 331 |
| Property, plant and equipment, net | 62,536 | (378)(d) | 62,158 |
| Goodwill and other intangibles, net | 10,028 | (10,028)(e) | |
| Other assets | 4,708 | (394)(d) | 4,314 |
| Loan to related parties | 5,809 | | 5,809 |
| Total assets | \$ 145,216 | \$ 6,149 | \$ 151,365 |
| Liabilities and Stockholders' Equity | | | |
| Current liabilities | | | |
| Accounts payable | \$ 10,021 | \$ | \$ 10,021 |
| Accrued liabilities | 30,180 | | 30,180 |
| Deferred revenue | 26,767 | (4,588)(f) | 22,179 |
| Current portion of notes payable | 30,003 | | 30,003 |
| Current portion of capital lease obligations | 1,210 | | 1,210 |
| Total current liabilities | 98,181 | (4,588) | 93,593 |
| Capital lease obligations, less current portion | 216 | | 216 |
| Other liabilities | 185 | | 185 |
| Total liabilities | 98,582 | (4,588) | 93,994 |
| Stockholders' equity | | | |

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

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INKTOMI CORPORATION
UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(in thousands, except per share amounts)
For the year ended September 30, 2002

| | As filed in Form 10-K | Adjustments | Pro Forma |
|---|--------------------------|-----------------|--------------------|
| Revenues: | | | |
| Licenses | \$ 41,218 | \$(12,401) (a) | \$ 28,817 |
| Web search services | 47,084 | | 47,084 |
| Maintenance services | 18,275 | (7,958) (a) | 10,317 |
| Other services | 6,128 | (2,059) (a) | 4,069 |
| | <u>112,705</u> | <u>(22,418)</u> | <u>90,287</u> |
| Total revenues | 112,705 | (22,418) | 90,287 |
| Cost of revenues: | | | |
| Licenses | 3,588 | (596) (a) | 2,992 |
| Web search services | 15,264 | | 15,264 |
| Maintenance services | 4,172 | (644) (a) | 3,528 |
| Other services | 5,465 | (1,654) (a) | 3,811 |
| | <u>28,489</u> | <u>(2,894)</u> | <u>25,595</u> |
| Total cost of revenues | 28,489 | (2,894) | 25,595 |
| Gross profit | 84,216 | (19,524) | 64,692 |
| Operating expenses: | | | |
| Sales and marketing | 68,913 | (15,173) (b) | 53,740 |
| Research and development | 51,312 | (7,404) (b) | 43,908 |
| General and administrative | 14,972 | (88) (b) | 14,884 |
| Amortization of goodwill and other intangibles | 50,206 | (79) (c) | 50,127 |
| Impairment of goodwill and other intangibles | 202,615 | | 202,615 |
| Restructuring | 19,869 | (403) (b) | 19,466 |
| Parkside lease restructuring and termination | 79,986 | | 79,986 |
| Impairment of property, plant and equipment | 102,982 | | 102,982 |
| | <u>590,855</u> | <u>(23,147)</u> | <u>567,708</u> |
| Total operating expenses | 590,855 | (23,147) | 567,708 |
| Operating loss | (506,639) | 3,623 | (503,016) |
| Other income, net | 6,603 | | 6,603 |
| | <u>(500,036)</u> | <u>3,623</u> | <u>(496,413)</u> |
| Pretax loss | (500,036) | 3,623 | (496,413) |
| Income Tax Provision | (759) | | (759) |
| | <u>(500,795)</u> | <u>3,623</u> | <u>\$(497,172)</u> |
| Net loss | \$(500,795) | \$ 3,623 | \$(497,172) |
| | <u>\$ (3.51)</u> | | <u>\$ (3.48)</u> |
| Basic and diluted net loss per share | \$ (3.51) | | \$ (3.48) |
| | <u>142,693</u> | | <u>142,693</u> |
| Shares used in calculating basic and diluted net loss per share | 142,693 | | 142,693 |

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

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INKTOMI CORPORATION
UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(in thousands, except per share amounts)
For the year ended September 30, 2001

| | As filed in Form 10-K | Adjustments | Pro Forma |
|---|--------------------------|-----------------|------------------|
| Revenues: | | | |
| Licenses | \$ 106,737 | \$(18,674) (a) | \$ 88,063 |
| Web search services | 51,287 | | 51,287 |
| Maintenance services | 21,682 | (6,473)(a) | 15,209 |
| Other services | 18,856 | (889) (a) | 17,967 |
| | <u>198,562</u> | <u>(26,036)</u> | <u>172,526</u> |
| Total revenues | 198,562 | (26,036) | 172,526 |
| Cost of revenues: | | | |
| Licenses | 6,277 | (1,506) (a) | 4,771 |
| Web search services | 24,655 | | 24,655 |
| Maintenance services | 5,916 | (506) (a) | 5,410 |
| Other services | 12,329 | (638) (a) | 11,691 |
| | <u>49,177</u> | <u>(2,650)</u> | <u>46,527</u> |
| Total cost of revenues | 49,177 | (2,650) | 46,527 |
| Gross profit | 149,385 | (23,386) | 125,999 |
| Operating expenses: | | | |
| Sales and marketing | 139,069 | (11,197) (b) | 127,872 |
| Research and development | 77,925 | (2,862) (b) | 75,063 |
| General and administrative | 24,581 | | 24,581 |
| Amortization of goodwill and other intangibles | 70,426 | | 70,426 |
| Impairment of goodwill and other intangibles | 44,915 | | 44,915 |
| Restructuring | 11,627 | (155) (b) | 11,472 |
| Impairment of property, plant and equipment | 904 | | 904 |
| Purchased in-process research and development | 430 | | 430 |
| Acquisition related costs | 19,497 | | 19,497 |
| | <u>389,374</u> | <u>(14,214)</u> | <u>375,160</u> |
| Total operating expenses | 389,374 | (14,214) | 375,160 |
| Operating loss | (239,989) | (9,172) | (249,161) |
| Impairment of investments | (65,895) | | (65,895) |
| Other income, net | 10,340 | | 10,340 |
| | <u>(295,544)</u> | <u>(9,172)</u> | <u>(304,716)</u> |
| Pretax loss | (295,544) | (9,172) | (304,716) |
| Income Tax Provision | (938) | | (938) |
| | <u>(296,482)</u> | <u>(9,172)</u> | <u>(305,654)</u> |
| Net loss | \$ (296,482) | \$ (9,172) | \$ (305,654) |
| Basic and diluted net loss per share | \$ (2.36) | | \$ (2.43) |
| Shares used in calculating basic and diluted net loss per share | 125,608 | | 125,608 |

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

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INKTOMI CORPORATION
UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(in thousands, except per share amounts)
For the year ended September 30, 2000

| | As filed in Form 10-K | Adjustments | Pro Forma |
|---|--------------------------|-----------------|--------------------|
| Revenues: | | | |
| Licenses | \$ 135,796 | \$ (2,731) (a) | \$ 133,065 |
| Web search services | 52,127 | | 52,127 |
| Maintenance services | 12,628 | (769) (a) | 11,859 |
| Other services | 23,666 | (51) (a) | 23,615 |
| | <u>224,217</u> | <u>(3,551)</u> | <u>220,666</u> |
| Total revenues | 224,217 | (3,551) | 220,666 |
| Cost of revenues: | | | |
| Licenses | 6,449 | (1,104) (a) | 5,345 |
| Web search services | 21,774 | | 21,774 |
| Maintenance services | 3,852 | (540) (a) | 3,312 |
| Other services | 10,100 | (34) (a) | 10,066 |
| | <u>42,175</u> | <u>(1,678)</u> | <u>40,497</u> |
| Total cost of revenues | 42,175 | (1,678) | 40,497 |
| Gross profit | 182,042 | (1,873) | 180,169 |
| Operating expenses: | | | |
| Sales and marketing | 123,046 | (1,975) (b) | 121,071 |
| Research and development | 59,714 | (1,683) (b) | 58,031 |
| General and administrative | 19,121 | | 19,121 |
| Amortization of goodwill and other intangibles | 13,182 | | 13,182 |
| Impairment of property, plant and equipment | 1,045 | | 1,045 |
| Purchased in-process research and development | 4,400 | | 4,400 |
| Acquisition-related costs | 3,999 | | 3,999 |
| | <u>224,507</u> | <u>(3,658)</u> | <u>220,849</u> |
| Total operating expenses | 224,507 | (3,658) | 220,849 |
| Operating loss | (42,465) | 1,785 | (40,680) |
| Other income, net | 16,951 | | 16,951 |
| | <u>(25,514)</u> | <u>1,785</u> | <u>(23,729)</u> |
| Pretax loss | (25,514) | 1,785 | (23,729) |
| Income Tax Provision | (1,826) | | (1,826) |
| | <u>\$ (27,340)</u> | <u>\$ 1,785</u> | <u>\$ (25,555)</u> |
| Net loss | \$ (27,340) | \$ 1,785 | \$ (25,555) |
| Basic and diluted net loss per share | \$ (0.24) | | \$ (0.23) |
| Shares used in calculating basic and diluted net loss per share | 113,030 | | 113,030 |

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

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INKTOMI CORPORATION
NOTES TO THE UNAUDITED PRO FORMA
CONDENSED CONSOLIDATED FINANCIAL INFORMATION

NOTE 1 Unaudited Pro Forma Condensed Consolidated Balance Sheet Adjustments

The unaudited pro forma condensed consolidated balance sheet assumes that divestiture of certain assets and liabilities of Inktomi Corporation's (Inktomi's) Enterprise Search Division (Enterprise Search) to Verity, Inc. (Verity) occurred as of September 30, 2002. Assumptions and adjustments to reflect the estimated net proceeds and gain on sale of certain assets and liabilities of Enterprise Search to Verity include:

| | | |
|-----|---|------------------|
| (a) | Cash sales proceeds (Sales price of \$25 million less \$3 million held in escrow) | \$ 22,000 |
| (b) | Estimated cost resulting directly from the sale including transaction, legal and accounting fees | (2,000) |
| | Estimated net proceeds | <u>20,000</u> |
| (c) | Accounts receivable | 2,754 |
| (d) | Carrying value of computers, office equipment and non-proprietary software | 1,069 |
| (e) | Carrying value of net intangibles assets including goodwill of \$8,240 and acquired technology of \$1,788 both generated from the August 2002 acquisition of Quiver which technology was included in the sale of assets to Verity | 10,028 |
| (f) | Deferred revenue assumed by Verity | (4,588) |
| | Estimated net assets of Search Enterprise Division assets sold | <u>9,263</u> |
| (g) | Estimated gain | <u>\$ 10,737</u> |

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**INKTOMI CORPORATION
NOTES TO THE UNAUDITED PRO FORMA
CONDENSED CONSOLIDATED FINANCIAL INFORMATION**

NOTE 2 Unaudited Pro Forma Condensed Consolidated Statement of Operations Adjustments

The pro forma adjustments to the unaudited pro forma condensed consolidated statement of operations eliminate the results of operations directly related to the Enterprise Search. For purposes of this pro forma statement, the sale of certain assets and liabilities of the Enterprise Search is assumed to have occurred as of October 1, 1999, the beginning of Inktomi's fiscal year 2000. The statements of operations do not include the gain on disposal, the costs related to the sale or interest income that would have been earned on sales proceeds since October 1, 1999.

- (a) Reflects the elimination of license, maintenance and professional service revenue and cost of revenue related to Enterprise Search.
 - (b) Reflects the elimination of primarily direct costs for Inktomi employees in sales and marketing, research and development and general and administrative related to Enterprise Search.
 - (c) Reflects the elimination of amortization of acquired technology generating from the August 2002 acquisition of Quiver which technology was included in the sale of assets to Verity.
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(c) Exhibits.

The following exhibits are filed as part of this report:

| Exhibit No. | Description |
|--------------------|---|
| 2.1 | Asset Purchase Agreement, dated as of November 13, 2002, by and among Inktomi Corporation, Inktomi Quiver Corporation (formerly Quiver, Inc.), Ultraseek Corporation, Quiver Ltd. and Verity, Inc. |
| 2.2 | Amendment No. 1 to Asset Purchase Agreement, dated as of December 17, 2002, by and among Inktomi Corporation, Inktomi Quiver Corporation (formerly Quiver, Inc.), Ultraseek Corporation, Quiver Ltd. and Verity, Inc. |

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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 hereunto duly authorized.

Dated: January 2, 2002

INKTOMI CORPORATION

By /s/ Randy S. Gottfried

Randy S. Gottfried
Senior Vice President and Chief Financial Officer

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INDEX TO EXHIBITS

| Exhibit No. | Description |
|--------------------|---|
| 2.1 | Asset Purchase Agreement, dated as of November 13, 2002, by and among Inktomi Corporation, Inktomi Quiver Corporation (formerly Quiver, Inc.), Ultraseek Corporation, Quiver Ltd. and Verity, Inc. |
| 2.2 | Amendment No. 1 to Asset Purchase Agreement, dated as of December 17, 2002, by and among Inktomi Corporation, Inktomi Quiver Corporation (formerly Quiver, Inc.), Ultraseek Corporation, Quiver Ltd. and Verity, Inc. |