

INSURANCE MANAGEMENT SOLUTIONS GROUP INC

Form 8-K

January 14, 2002

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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: December 28, 2001

(Date of earliest event
reported)

Insurance Management Solutions Group, Inc.

(Exact name of Registrant as specified in its charter)

Florida

000-25273

59-3422536

(State or other jurisdiction
of incorporation)

(Commission File
Number)

(I.R.S. Employer
Identification Number)

360 Central Avenue
St. Petersburg, Florida

33701

(Address of principal executive offices)

(Zip Code)

(727) 803-2040

(Registrant's telephone number, including area code)

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Item 2. Acquisition or Disposition of Assets.

Insurance Management Solutions Group, Inc. (the Company) is filing this Current Report on Form 8-K to report that on December 28, 2001 the Company consummated the transactions contemplated by a stock purchase agreement (as amended, the Stock Purchase Agreement), dated as of September 20, 2001, by and among the Company, Geotrac of America, Inc., Geotrac Holdings, Inc., Daniel J. White, the Daniel J. White Trust, the Sandra A. White Trust, and, solely for purposes of a non-competition covenant, Bankers Insurance Group, Inc. (BIG). BIG (including its direct and indirect subsidiaries) is the Company's majority shareholder and principal customer. The shareholders of the Company approved the Stock Purchase Agreement and the transactions contemplated thereby in accordance with Florida law at a Special Meeting of Shareholders held on December 26, 2001.

Pursuant to the Stock Purchase Agreement, Geotrac Holdings, Inc., a Delaware corporation formed by Daniel J. White and his spouse, Sandra A. White, purchased all the issued and outstanding capital stock (the Shares) of Geotrac of America, Inc., a wholly-owned subsidiary of the Company (Geotrac). Prior to the consummation of the transactions contemplated by the Stock Purchase Agreement, Mr. White served as a director of the Company and President, Chief Executive Officer and a director of Geotrac. Mr. White resigned as a director of the Company effective as of the consummation of the sale of the Shares.

The purchase price paid for the Shares was \$19,000,000 in cash, plus 524,198 shares of Common Stock, \$.01 par value, of the Company beneficially owned by Daniel J. White and Sandra A. White. Pursuant to the Stock Purchase Agreement, certain of the parties also entered into additional agreements as of the closing of such sale, including a Flood Zone Determination Service Agreement pursuant to which Geotrac will provide the Company with flood zone determination services for up to ten years at pricing management of the Company currently considers to be favorable.

The Company intends to consider various alternatives for the use of the estimated \$18.2 million in net cash proceeds received from the sale of the Shares. Among those alternatives are a one-time shareholder dividend, a stock repurchase program, retention for working capital and other general corporate purposes, and funding operational growth opportunities.

The Stock Purchase Agreement (including the Exhibits thereto) is attached to this Current Report on Form 8-K as Exhibits 2.1 and 2.2 and is incorporated herein by reference.

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Item 7. Financial Statements and Exhibits.

- (a) Financial statements of business acquired.

Not applicable.

- (b) Pro forma financial information.

The accompany unaudited pro forma condensed consolidated balance sheet as of September 30, 2001, reflects the December 28, 2001 disposition of the net assets of Geotrac of America, Inc. as if the transaction had occurred September 30, 2001.

The accompanying unaudited pro forma condensed consolidated statements of operations for the year ended December 31, 2000 and for the nine months ended September 30, 2001 reflect (i) the disposition of the net assets of Geotrac of America, Inc. as if the transaction had occurred December 31, 1999, (ii) the Flood Zone Determination Services Agreement as though the terms of the agreement were in effect since January 1, 2000.

The unaudited pro forma condensed consolidated statements of operations and balance sheet are based on currently available information and do not purport to represent what the Company's results of operations would have been if the events referred to occurred on the above dates, or to project the Company's results of operations for any future periods.

The pro forma condensed consolidated financial statements should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations, and the Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2000 and Quarterly Report on Form 10-Q for the nine months ended September 30, 2001, incorporated by reference herein.

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INSURANCE MANAGEMENT SOLUTIONS GROUP, INC. AND SUBSIDIARIES
 PROFORMA CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)
 September 30, 2001

	Insurance Management Solutions Group, Inc. and Subsidiaries		ProForma Adjustments(1)(2)		Geotrac and America, Inc. Other Subsidiaries(3)(4)		ProForma Adjustments(5)(6)	
ASSETS								
Current assets:								
Cash and cash equivalents	\$8,419,601	\$3,628,723	\$4,790,878	\$19,000,000(f.3)	\$24,692,741			
	901,863(e)							
Accounts receivable	4,082,479	2,381,392	1,701,087	1,701,087				
Due from affiliates	9,907,036	1,709,969	\$1,709,969(a)	9,907,036	9,907,036			
Due from Geotrac	1,079,353(b)	1,079,353	(1,079,353)(e)					
Income taxes receivable from Geotrac	1,668,070(d)	1,668,070	(1,668,070)(e)					
Prepaid expenses and other assets	1,301,796	315,393	986,403	986,403				
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Total current assets	23,710,912	8,035,477	20,132,827	37,287,267				
Property and equipment	10,373,045	6,006,646	4,366,399	4,366,399				
Other assets:								
Supply contract		2,189,090(f.3)	2,189,090					
Investment in subsidiary		22,097,996(c)	22,097,996	(22,097,996)(f.1)				
Goodwill	14,672,754	12,389,251	2,283,503	2,283,503				
Customer contracts	766,667	766,667						
Deferred tax assets	629,617	135,591	135,591(d)	629,617	(440,000)(g)	189,617		

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Capitalized software

700,715 700,715 700,715

Other

129,448 103,848 25,600 25,600

Total assets

\$50,983,158 \$27,437,480 \$50,236,657 \$47,042,191

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:

Current portion of long-term debt

\$79,562 \$79,562 \$ \$

Accounts payable

1,864,617 598,478 1,266,139 1,266,139

Due to affiliates

306,602 1,079,353 \$1,079,353(b) 306,602 306,602

Due to Geotrac

1,709,969(a) 1,709,969 \$(1,709,969)(e)

Employee related accrued expenses

2,374,307 913,886 1,460,421 1,460,421

Other accrued expenses

3,125,520 155,918 2,969,602 370,000(f.2) 3,339,602

Income taxes payable

3,518,852 1,668,070 1,668,070(d) 3,518,852 745,000(g) 4,263,852

Income taxes payable to Geotrac

135,591(d) 135,591 (135,591)(e)

Total current liabilities

11,269,460 4,495,267 11,367,176 10,636,616

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Long-term debt	161,584	161,584			
Deferred revenue	883,541	682,633	200,908	200,908	
Deferred tax liabilities		920,000(g)	920,000		
Shareholders' equity:					
Common stock	128,002	500	500	128,002	128,002
Additional paid-in capital	27,680,901	12,536,180	12,536,180	27,680,901	27,680,901
Retained earnings	10,859,670	9,561,316	9,561,316	10,859,670	(2,047,201)(h) 8,812,469
Treasury stock		(1,336,705)(f.3)	(1,336,705)		

Total shareholders' equity	38,668,573	22,097,996	22,097,996(c)	38,668,573	35,284,667
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Total liabilities and equity	\$50,983,158	\$27,437,480	\$50,236,657	\$47,042,191	
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INSURANCE MANAGEMENT SOLUTIONS GROUP, INC. AND SUBSIDIARIES
 PROFORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS (UNAUDITED)
 For the year ended December 31, 2000

	Insurance Management Solutions Group, Geotrac Inc. and Subsidiaries	ProForma adjustments(1)(2)	Other	Subtotal	ProForma adjustments(3)(4)
	Inc.	of	ProForma	(1)	(3)
	Subsidiaries	America,	(2)	(4)	(5)
	Inc.	Other	Subtotal	adjustments	(6)
	(1)	(2)	(3)	(4)	(5)
REVENUES:					
Outsourcing services	\$45,917,152	\$938,002(a)	\$46,855,154	\$46,855,154	
Flood zone determination services	17,066,945	\$17,066,945			
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Total revenues	62,984,097	17,066,945	938,002	46,855,154	46,855,154
EXPENSES					
Cost of outsourcing services	36,766,042	929,002(a)	37,695,044	\$(660,409)(c)	37,034,635
Cost of flood zone determination services	7,664,052	7,673,052	9,000(a)		
Selling, general and administrative	11,205,336	3,766,623	7,438,713	7,438,713	
Management services from Parent	1,885,022	24,263	1,860,759	1,860,759	
Depreciation and amortization	5,342,099	2,317,526	3,024,573	660,409(d)	3,684,982
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Total expenses
 62,862,551 13,781,464 938,002 50,019,089 50,019,089

Operating income (loss)
 121,546 3,285,481 (3,163,935) (3,163,935)
 Interest income
 288,715 244,630 262,822(b) 306,907 306,907
 Interest expense
 (70,244) (272,164) (262,822)(b) (60,902) (60,902)

Income (loss) before taxes
 340,017 3,257,947 (2,917,930) (2,917,930)
 Provision (benefit) for income taxes
 849,383 1,580,371 (730,988) (730,938)

Net income (loss)
 \$(509,366) \$1,677,576 \$ (2,186,942) \$(2,186,942)

Net income (loss) per common share:

Basic and diluted
\$(.04) \$(.18)

Weighted average common shares outstanding:

Basic and diluted
12,793,953 12,269,755

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INSURANCE MANAGEMENT SOLUTIONS GROUP, INC. AND SUBSIDIARIES
 PROFORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS (UNAUDITED)
 For the nine months ended September 30, 2001

Insurance Management Solutions Group, Inc. and Subsidiaries	ProForma Adjustments(1)(2)	ProForma Inc. of America, Inc.	Other	Subsidiaries	Adjustments(1)(2)	ProForma
_____	_____	_____	_____	_____	_____	_____

REVENUES:

Outsourcing services					
\$45,655,162	\$892,806(a)	\$46,547,968	\$46,547,968		
Flood zone determination services					
\$15,647,236	\$15,647,236				

Total revenues					
61,302,398	15,647,236	892,806	46,547,968	46,547,968	

EXPENSES

Cost of outsourcing services					
31,273,839	892,806(a)	32,166,645	\$(646,769)(c)	31,519,876	
Cost of flood zone determination services					
7,167,451	7,167,451				
Selling, general and administrative					
8,808,175	3,510,722	5,297,453	5,297,453		
Management services from Parent					
1,187,506	44,522	1,142,984	1,142,984		
Depreciation and amortization					
4,026,733	1,768,238	2,258,495	646,769(d)	2,905,264	

Total expenses
 52,463,704 12,490,933 892,806 40,865,577 40,865,577

Operating income
 8,838,694 3,156,303 5,682,391 5,682,391
 Interest income
 250,492 72,380 3,942(b) 182,054 182,054
 Interest expense
 (13,599) (11,805) (3,942)(b) (5,736) (5,736)
 Equity in earnings of Sub
 (54,388) (54,388)

Income before taxes
 9,021,199 3,162,490 5,858,709 5,858,709
 Provision (benefit) for income taxes
 3,600,214 1,623,032 1,977,182 1,977,182

Net income
 \$5,420,985 \$1,539,458 \$ 3,881,527 \$3,881,527

Net income per common share:

Basic and diluted
\$.42 \$.32

Weighted average common shares outstanding:

Basic and diluted
12,800,261 12,276,063

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NOTES TO PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION

BALANCE SHEET September 30, 2001

(1) See the introduction to the Pro Forma Condensed Consolidated Financial Information

(2) The Geotrac of America, Inc. (Geotrac) column amounts represent its separate historical balance sheet at September 30, 2001. The Other column represents the reversal of the intercompany elimination entries (a), (b), (c) and (d) related to Geotrac made by the Company to derive its consolidated balance sheet (the first column in the presentation). Such reversals, for pro forma reporting purposes only, result in reflecting Geotrac on an unconsolidated basis in the column labeled Subtotal to more easily show the disposition (see 3 below). (3) Pro forma adjustments: (e) reflects the cash settlement of intercompany accounts. In the pro forma information previously released before the final close of this transaction it was assumed that the intercompany amounts, to the extent that they did not offset, would be forgiven by both parties. However, in closing the transaction the parties completed an estimated cash settlement immediately prior to the December 28,

2001 disposition whereby the intercompany amounts including those related to income taxes were satisfied;(f.1) reflect the disposition (elimination) of Geotrac net assets; (f.2) reflects the recording of transaction costs not already recorded in the September 30, 2001 financial statements (the Company elected to expense and not capitalize transaction costs such as legal, accounting and investment banking fees as they were incurred. Prior to September 30, 2001 approximately \$434,000 of these costs had been incurred, and paid and/or accrued at September 30, 2001. An additional amount of \$370,000 is estimated to have been incurred after September 30, 2001, for a total of approximately \$804,000 in transaction costs related to the disposition); (f.3) reflects the consideration received totaling approximately \$22,537,000 comprised of \$19,000,000 in cash, 524,198 shares of the Company's common stock valued at \$2.55 a share (fair market quote at September 30, 2001) or approximately \$1,337,000, and a favorable long-term supply contract with Geotrac valued at

approximately \$2,200,000 by management of the Company and supported by an independent third party investment banking firm's valuation; (g) reflects the current and deferred income taxes on the transaction. The transaction for financial statement purposes results in a pre-tax loss of approximately \$375,000. Because of the existence of non-deductible goodwill of approximately \$5,400,000, the total income tax expense for financial statement purposes is approximately \$2,105,000, using a statutory federal and state rate of approximately 42%; (h) reflects the after tax loss of approximately \$2,047,000 for financial statement purposes, exclusive of the effect of the transaction costs of \$434,000 (pre-tax) already expensed in the historical financial statements at September 30, 2001.

STATEMENT OF OPERATIONS year ended December 31, 2000

- (1) See the introduction to the Pro Forma Condensed Consolidated Financial Information.
- (2) The Geotrac of America, Inc. column amounts represent its separate historical statement of operations for the year ended December 31, 2000. The Other column

represents the entries, (a) and (b), made by the Company to derive its consolidated statement of operations (the first column in the presentation).(3) Pro forma adjustment (c) reflects the more favorable pricing terms for flood zone determinations performed by Geotrac for the Company's customers under the new service agreement. Pro forma adjustment (d) reflects the amortization of the asset supply contract (the service agreement) totaling \$2,189,090 recorded as a component of consideration received when Geotrac was sold. The asset is to be amortized over the 10-year contract period using a method that approximates the projected annual requirements of flood zone determinations. Amortization is greater in earlier periods, as it is anticipated that the differential between the contract's pricing and

market quotes
from other
vendors will
decrease during
the contract s
term.

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STATEMENT OF OPERATIONS nine months ended September 30, 2001

(1) See the introduction to the Pro Forma Condensed Consolidated Financial Information.

(2) The Geotrac of America, Inc. column amounts represent its separate historical statement of operations for the nine months ended September 30, 2001. The

Other column represents the entries, (a) and (b), made by the Company to derive its consolidated statement of operations (the first column in the presentation).(3) Pro forma adjustment (c) reflects the more favorable pricing terms for flood zone determinations performed by Geotrac for the Company's customers under the new service agreement. Pro forma adjustment (d) reflects the amortization of the asset supply contract (the service agreement) totaling \$2,189,090 recorded as a component of consideration received when Geotrac was sold. The asset is to be amortized over

the 10-year contract period using a method that approximates the projected annual requirements of flood zone determinations. Amortization is greater in earlier periods, as it is anticipated that the differential between the contract s pricing and market quotes from other vendors will decrease during the contract s term and the time value of money.

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(c) Exhibits.

2.1 Stock Purchase Agreement, dated as of September 20, 2001 (the Stock Purchase Agreement), by and among Insurance Management Solutions Group, Inc., Geotrac of America, Inc., Geotrac Holdings, Inc., Daniel J. White, the Daniel J. White Trust, the Sandra A. White Trust and, solely for purposes of Section 7.2, Bankers Insurance Group, Inc. (including the Exhibits thereto).*

2.2 Amendment to the Stock Purchase Agreement, dated December 28, 2001.

* The Disclosure Schedules to the Stock Purchase Agreement have been purposely omitted. Copies thereof will be furnished supplementally to the Securities and Exchange Commission upon request.

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SIGNATURE

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.

INSURANCE MANAGEMENT SOLUTIONS GROUP, INC.

By: /s/ David M. Howard

David M. Howard
President and Chief Executive Officer

Date: January 14, 2002

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EXHIBIT INDEX

Exhibit No.	Description
2.1	Stock Purchase Agreement, dated as of September 20, 2001 (the Stock Purchase Agreement), by and among Insurance Management Solutions Group, Inc., Geotrac of America, Inc., Geotrac Holdings, Inc., Daniel J. White, the Daniel J. White Trust, the Sandra A. White Trust and, solely for purposes of Section 7.2, Bankers Insurance Group, Inc. (including the Exhibits thereto)
2.2	Amendment to the Stock Purchase Agreement, dated December 28, 2001.

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