

The Deal Pipeline®

InterCloud raises \$2.5M via PIPE featuring 15.3% interest, 25% discount

by Paul Springer

InterCloud Systems Inc. (ICLD) is raising \$2.5 million to fund a telecommunications IT operation that includes a recently announced infrastructure project for the city of Yonkers, N.Y., and a WiFi project for global headhunter Rus-sell Reynolds Associates.

The company can likely meet liquidity requirements for the next year but may still need to raise additional capital, according to a second-quarter regulatory filing.

"However, to execute the company's business plan, service existing indebtedness and implement its business strategy, the company anticipates that it will need to obtain additional financing from time to time and may choose to raise additional funds through public or private equity or debt financings, a bank line of credit, borrowings from affiliates or other arrangements," the filing says.

InterCloud has previously raised \$27.3 million in eight PIPEs since 2012, according to PrivateRaise, The Deal's data service that tracks such offerings.

The Shrewsbury, N.J.-based company showed 25% revenue growth in the second quarter. At the same time, the company raised \$2.5 million in a private-investment-in-public-equity deal after experiencing an increased loss.

Losses rose from \$10 million in last year's quarter to \$14.5 million in the recent one, due to charges including \$4.8 million for compensation and a \$3 million drop in fair valuation of derivative securities.

The company had \$5.27 million in cash on the books at the end of June.

PIPE investors Dominion Capital LLC and Centrecourt Asset Management purchased 18-month senior convertible notes and stock in the recent PIPE.

The notes feature a 12% coupon and a 5% original issue discount. On an annualized basis, the notes have an interest rate of 15.33%. The company can pay interest by issuing common stock at a 25% discount to the average price of the shares over the five days before an interest payment is due.

The PIPE had two closings, Aug. 6 and Tuesday, Aug. 11. The notes' \$2 conversion price, effectively \$1.90 when the OID feature is taken into account, reflects 13.6% and 9.5% discounts on the two dates, respectively.

The company is also required to make amortized payments of principal starting six months after the closing date. If paid in stock, these payments will also have a 25% discount baked in.

Investors also received 25,000 shares of stock for no consideration.

The placement agent was Aegis Capital Corp. Issuer counsel was the law firm of Pryor Cashman LLP. Agent and investor counsel was not disclosed.

The PIPE was disclosed after the close of trading on Wednesday, when InterCloud stock closed at \$1.94. The shares were trading up about 1.5% on the Nasdaq Capital Market the following morning.

The company also announced its second-quarter results after the close on Wednesday. In addition to the figures above, InterCloud's gross profit increased year over year to \$6.6 million and adjusted Ebitda rose from \$50,000 in the second quarter of last year to \$361,000 in the second quarter of 2015.

The company has undertaken cost cutting measures, according to a regulatory filing that says it will reduce the number of employees if revenue projections fall short of goals.