



FORM 10-K405

MEDIALINK WORLDWIDE INC - MDLK

Exhibit:

Filed: April 29, 1997 (period: December 31, 1996)

Annual report. The Regulation S-K Item 405 box on the cover page is checked

SIGNATURES

EX-27

U.S. Securities and Exchange Commission
Washington, D.C. 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For fiscal year ended December 31, 1996

Commission File Number 0-21989

Medialink Worldwide Incorporated

(Exact name of registrant as specified in its charter)

Delaware 4899 52-1481284

(State or other jurisdiction (Primary Standard Industrial (I.R.S. Employer
of incorporation or Classification Code Number) Identification Number)
organization)

708 Third Avenue, New York, New York 10017

(Address of principal executive offices) (Zip Code)

(212) 682-8300

(Registrant's telephone number, including area code)

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act:

| Title of Each Class ----- | Name of each exchange on which registered ----- |
|------------------------------|---|
|------------------------------|---|

| | |
|-------------------------------|-------------------------|
| Common Stock, \$.01 par value | The Nasdaq Stock Market |
|-------------------------------|-------------------------|

Pursuant to Rule 15d-2 of the Securities Exchange Act of 1934, this Form 10-K
contains only financial statements for the fiscal year ended December 31, 1996.

Indicate by check mark whether the registrant (1) has filed all reports required
to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during
the preceding 12 months (or for such shorter period that the registrant was
required to file such reports), and (2) has been subject to such filing
requirements for the past 90 days. Yes X No
--- ---

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405
of Regulation S-K is not contained herein, and will not be contained, to the

best of the registrant's knowledge, in definitive proxy or information
statements incorporated by reference in Part III of this Form 10-K or any
amendment to this Form 10-K. (X)

The issuer's revenues for its most recent fiscal year ended December 31, 1996
were \$15,831,023.

The aggregate market value of the voting stock held by non-affiliates of the
registrant amounted to \$28,402,825 at the close of business on April 25, 1997.
The number of shares outstanding of each of the registrant's classes of common
stock, as of the close of business on April 25, 1997, was 5,047,933.

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Medialink Worldwide Incorporated:

We have audited the accompanying balance sheets of Medialink Worldwide Incorporated as of December 31, 1995 and 1996 and the related statements of operations, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Medialink Worldwide Incorporated as of December 31, 1995 and 1996, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 1996 in conformity with generally accepted accounting principles.

/s/ KPMG Peat Marwick LLP

KPMG Peat Marwick LLP

February 20, 1997
New York, New York

MEDIALINK WORLDWIDE INCORPORATED
BALANCE SHEETS
December 31, 1995 and 1996

| | 1995 ---- | 1996 ---- |
|---|--------------|--------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 306,678 | \$ 675,469 |
| Accounts receivable, less allowance for doubtful accounts of \$161,367 and \$162,891 in 1995 and 1996, respectively (Note 2) | 2,418,029 | 4,317,177 |
| Prepaid expenses and other current assets | 262,492 | 131,703 |
| Deferred tax assets - current portion (Note 5) | 617,314 | 84,302 |
| Total current assets | 3,604,513 | 5,208,651 |
| Property and Equipment: | | |
| Furniture and fixtures | 184,292 | 297,458 |
| Office equipment | 604,599 | 942,008 |
| Leasehold improvements | 174,621 | 309,473 |
| | 963,512 | 1,548,939 |
| Less: accumulated depreciation | 419,132 | 637,621 |
| Net property and equipment | 544,380 | 911,318 |
| Due from officers | 6,532 | 7,000 |
| Goodwill, net of amortization (Note 10) | -- | 646,668 |
| Deferred tax assets (Note 5) | 134,389 | 55,088 |
| Other intangible assets (Note 10) | -- | 285,332 |
| Deferred offering costs | -- | 908,767 |
| Other assets | 97,518 | 98,992 |
| Total assets | \$ 4,387,332 | \$ 8,121,816 |

LIABILITIES AND STOCKHOLDERS' EQUITY

| | | |
|--|--------------|--------------|
| Current Liabilities: | | |
| Current portion of obligations under capital leases (Note 3) | \$ -- | \$ 11,699 |
| Current portion of long-term debt (Note 10) | -- | 47,143 |
| Current portion of covenant not to compete (Note 10) | -- | 70,000 |
| Accounts payable | 1,586,561 | 1,964,250 |
| Accrued expenses | 229,009 | 1,969,631 |
| Income taxes payable | 67,132 | 87,381 |
| Total current liabilities | 1,882,702 | 4,150,104 |
| Commitment not to compete, excluding current portion (Note 10) | -- | 236,977 |
| Deferred rent payable | 79,878 | 55,418 |
| Obligation under capital leases, excluding current portion (Note 3) | -- | 27,817 |
| Long-term debt, excluding current portion (Note 10) | -- | 273,950 |
| Total liabilities | 1,962,580 | 4,744,266 |
| Stockholders' Equity (Note 4): | | |
| Series A, 10% cumulative convertible preferred stock, \$1.50 par value. Authorized, issued and outstanding 655,417 shares | 983,126 | 983,126 |
| Series B, 10% cumulative convertible preferred stock, \$1.35 par value. Authorized, issued and outstanding 475,185 shares | 641,500 | 641,500 |
| Series C, 10% cumulative convertible preferred stock, \$2.75 par value. Authorized 645,455 shares; issued and outstanding 629,130 shares | 1,730,107 | 1,730,107 |
| Common stock, \$.01 par value. Authorized 15,000,000 shares: issued and outstanding 906,743 and 936,264 shares in 1995 and 1996 respectively | 9,067 | 9,363 |
| Additional paid-in capital | 352,524 | 520,165 |
| Accumulated deficit | (1,289,882) | (446,254) |
| Equity adjustment for foreign currency translation | (1,690) | (60,457) |
| Total stockholders' equity | 2,424,752 | 3,377,550 |
| Total liabilities and stockholders' equity | \$ 4,387,332 | \$ 8,121,816 |

See accompanying notes to financial statements

MEDIALINK WORLDWIDE INCORPORATED
 STATEMENTS OF OPERATIONS
 Years ended December 31, 1994, 1995 and 1996

| | 1994 ---- | 1995 ---- | 1996 ---- |
|---|--------------|---------------|---------------|
| Revenues | \$ 7,547,761 | \$ 10,624,680 | \$ 15,831,023 |
| Direct costs | 3,038,503 | 4,553,349 | 6,382,882 |
| | ----- | ----- | ----- |
| Gross Profit | 4,509,258 | 6,071,331 | 9,448,141 |
| General and administrative expense (Note 3) | 4,068,786 | 5,373,307 | 7,952,878 |
| | ----- | ----- | ----- |
| Operating income | 440,472 | 698,024 | 1,495,263 |
| Other income (expense): | | | |
| Interest expense | (6,205) | -- | (29,403) |
| Interest and other income | 7,062 | 15,273 | 22,501 |
| | ----- | ----- | ----- |
| Income before income taxes | 441,329 | 713,297 | 1,488,361 |
| Income tax (benefit) expense | (1,022,963) | 332,062 | 644,733 |
| | ----- | ----- | ----- |
| Net income | \$ 1,464,292 | \$ 381,235 | \$ 843,628 |
| | ===== | ===== | ===== |
| Net income applicable to common stock | \$ 1,128,819 | \$ 45,762 | \$ 508,155 |
| | ===== | ===== | ===== |
| Pro forma net income per common and common equivalent share - unaudited (Note 9) | | \$0.11 | \$0.25 |
| | | ===== | ===== |

See accompanying notes to financial statements

MEDIALINK WORLDWIDE INCORPORATED
STATEMENTS OF STOCKHOLDERS' EQUITY

| | Common stock | | Series A, 10% cumulative convertible preferred stock | | Series B, 10% cumulative convertible preferred stock | | Series C, 10% cumulative convertible preferred stock | |
|---------------------------------|------------------|-----------|---|------------|---|------------|---|--------------|
| | No. of shares | Par value | No. of shares | Par value | No. of shares | Par value | No. of shares | Par value |
| Balance at December 31, 1993 | 901,943 | \$ 9,019 | 655,417 | \$ 983,126 | 475,185 | \$ 641,500 | 629,130 | \$ 1,730,107 |
| Net income | -- | -- | -- | -- | -- | -- | -- | -- |
| Translation adjustment | -- | -- | -- | -- | -- | -- | -- | -- |
| Balance at December 31, 1994 | 901,943 | 9,019 | 655,417 | 983,126 | 475,185 | 641,500 | 629,130 | 1,730,107 |
| Stock options exercised | 4,800 | 48 | -- | -- | -- | -- | -- | -- |
| Net income | -- | -- | -- | -- | -- | -- | -- | -- |
| Translation adjustment | -- | -- | -- | -- | -- | -- | -- | -- |
| Balance at December 31, 1995 | 906,743 | 9,067 | 655,417 | 983,126 | 475,185 | 641,500 | 629,130 | 1,730,107 |
| Issuance of common stock | 26,521 | 266 | -- | -- | -- | -- | -- | -- |
| Stock options exercised | 3,000 | 30 | -- | -- | -- | -- | -- | -- |
| Net Income | -- | -- | -- | -- | -- | -- | -- | -- |
| Translation adjustment | -- | -- | -- | -- | -- | -- | -- | -- |
| Balance at December 31, 1996 | 936,264 | \$ 9,363 | 655,417 | \$ 983,126 | 475,185 | \$ 641,500 | 629,130 | \$ 1,730,107 |

| | Additional paid-in capital | Accumulated deficit | Equity adjustment for foreign currency translation | Total stockholders' equity |
|---------------------------------|----------------------------------|------------------------|--|----------------------------------|
| Balance at December 31, 1993 | \$ 346,572 | \$ (3,135,409) | \$ (17,955) | \$ 556,960 |
| Net income | -- | 1,464,292 | -- | 1,464,292 |
| Translation adjustment | -- | -- | (4,706) | (4,706) |
| Balance at December 31, 1994 | 346,572 | (1,671,117) | (22,661) | 2,016,546 |
| Stock options exercised | 5,952 | -- | -- | 6,000 |
| Net income | -- | 381,235 | -- | 381,235 |
| Translation adjustment | -- | -- | 20,971 | 20,971 |
| Balance at December 31, 1995 | 352,524 | (1,289,882) | (1,690) | 2,424,752 |
| Issuance of common stock | 163,921 | -- | -- | 164,187 |
| Stock options exercised | 3,720 | -- | -- | 3,750 |
| Net Income | -- | 843,628 | -- | 843,628 |
| Translation adjustment | -- | -- | (58,767) | (58,767) |
| Balance at December 31, 1996 | \$ 520,165 | \$ (446,254) | \$ (60,457) | \$ 3,377,550 |

See accompanying notes to financial statements

MEDIALINK WORLDWIDE INCORPORATED
 STATEMENTS OF CASHFLOWS
 Years ended December 31, 1994, 1995 and 1996

| | 1994 ---- | 1995 ---- | 1996 ---- |
|---|--------------|--------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Net income | \$ 1,464,292 | \$ 381,235 | \$ 843,628 |
| Adjustments to reconcile income to net cash provided in operating activities: | | | |
| Depreciation and amortization | 127,377 | 148,509 | 422,705 |
| Provision for bad debts | 5,601 | 74,701 | 147,702 |
| Equity adjustment for foreign currency translation | (4,706) | 20,971 | (58,767) |
| Loss on disposal of assets | -- | 22,489 | -- |
| Deferred income taxes | (1,047,983) | 296,280 | 612,313 |
| Deferred rent payable | (5,951) | 71,445 | (24,460) |
| Increase in accounts receivable | (375,383) | (1,154,422) | (1,758,135) |
| Decrease in due from officers | -- | -- | (468) |
| (Increase) decrease in prepaid expenses and other current assets | (41,993) | (94,713) | 132,322 |
| Increase in accounts payable and accrued expenses | 261,133 | 635,325 | 1,804,666 |
| Increase in income taxes payable | 23,313 | 33,187 | 20,249 |
| Total adjustments | (1,058,592) | 53,772 | 1,298,127 |
| Net cash provided by operating activities | 405,700 | 435,007 | 2,141,755 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Net cash used in acquisition of PR Data Systems, Inc. | -- | -- | (119,801) |
| Additions to property and equipment | (127,407) | (394,496) | (647,933) |
| Increase in other assets | (60,117) | (2,247) | (578) |
| Net cash used in investing activities | (187,524) | (396,743) | (768,312) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Deferred offering costs | -- | -- | (908,767) |
| Proceeds from exercise of stock options | -- | 6,000 | 3,750 |
| Proceeds from issuance of common stock | -- | -- | 9,186 |
| Principal payments under covenant not to compete | -- | -- | (10,059) |
| Principal payments under capital lease obligations | -- | -- | (4,875) |
| Repayments of note payable - bank | (180,000) | -- | (84,980) |
| Repayments of long-term debt | -- | -- | (8,907) |
| Net cash (used) provided by financing activities | (180,000) | 6,000 | (1,004,652) |
| Net increase in cash and cash equivalents | 38,176 | 44,264 | 368,791 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 224,238 | 262,414 | 306,678 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | \$ 262,414 | \$ 306,678 | \$ 675,469 |

See accompanying notes to financial statements

MEDIALINK WORLDWIDE INCORPORATED
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 1994, 1995 AND 1996

(1) Summary of Significant Accounting Policies

(a) Description of Business

Medialink Worldwide Incorporated (the "Company") is a Delaware corporation incorporated on September 24, 1986. In August 1996 the Company changed its name from Video Broadcasting Corporation. The Company is a worldwide provider of video and audio production and distribution services for business and other organizations that seek to communicate their news through television, radio and other media. Since July 18, 1996, as a result of the acquisition of substantially all of the assets and liabilities of PR Data Systems Inc. ("PR Data"-see note 10), the Company has expanded its research capabilities and added print news release distribution services. The Company has seven offices in the United States and one office in the United Kingdom ("UK").

(b) Revenue Recognition

Fees earned from the distribution and monitoring of video news releases and the distribution of printed news releases are recognized in the period that the release is distributed. Fees earned for satellite media tours and producing video news releases and live broadcasts are recognized in the period that services are performed.

(c) Property and Equipment

Property and equipment are stated at cost. Depreciation on property and equipment is computed on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of the lease term or estimated useful life of the asset.

(d) Deferred Rent Payable

In accordance with Statement of Financial Accounting Standards No. 13, "Accounting for Leases," the Company recognizes rental costs on a straight-line basis over the fixed term of the lease period. Deferred rent payable represents the excess of rental expense recorded over rental payments to date.

(e) Cash and Cash Equivalents

The Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. At December 31, 1995 and 1996, cash equivalents consisted of amounts on deposit in money market accounts amounting to \$109,159 and \$55,882, respectively.

(f) Foreign Currency Translation

Foreign operations' financial statements are translated to U.S. dollars in accordance with Statement of Financial Accounting Standards No. 52, "Foreign Currency Translation." Assets and liabilities of the foreign bureau are translated into U.S. dollars at year-end rates of exchange. Statements of operations accounts are translated at the average exchange rate prevailing during the year. Resulting translation adjustments are reported as a separate component of stockholders' equity.

(g) Income Taxes

The Company accounts for income taxes under the provisions of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (Statement 109). Under the asset and liability method of Statement 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to

MEDIALINK WORLDWIDE INCORPORATED
NOTES TO FINANCIAL STATEMENTS-(continued)
YEARS ENDED DECEMBER 31, 1996, 1995 AND 1994

(1) Summary of Significant Accounting Policies-(Continued)

differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under Statement 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(h) Use of Estimates

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

(i) Fair Value of Financial Instruments

The carrying values of financial instruments approximate their estimated fair value because of the short maturity of these instruments.

(j) Stock option plans

Prior to January 1, 1996 the Company accounted for its stock option plans in accordance with the provisions of Accounting Principles Board Opinion No. 25 ("APB 25"), "Accounting for Stock Issued to Employees", and related interpretations. As such, compensation expense would be recorded on the date of grant only if the current value of the underlying stock exceeded the exercise price. On January 1, 1996 the Company adopted Statement of Financial Accounting Standards No. 123 ("SFAS 123"), "Accounting for Stock-Based Compensation", which permits entities to recognize as expense over the vesting period the fair value of all stock-based awards on the date of grant. Alternatively, SFAS 123 also allows entities to continue to apply the provisions of APB 25 and provide pro forma net income and pro forma earnings per share disclosures for employee stock option grants made in 1995 and future years as if the fair-value-based method defined in SFAS 123 had been applied. The Company has elected to continue to apply the provisions of APB 25 and provide the pro forma disclosure requirements of SFAS 123.

(2) Note Payable-Bank

In March 1995, the Company entered into a credit facility with a bank. Under this agreement, the Company can borrow up to the lesser of \$500,000 or 70% of the eligible accounts receivable, as defined in the agreement, through February 28, 1997. The interest rate for the bank borrowings is the prime rate plus 1.00% and is payable monthly. The loan is secured by the Company's accounts receivable and all other assets of the Company. No borrowings were outstanding under this credit facility at December 31, 1995 and 1996. The loan agreement requires the Company to meet certain financial ratio tests and prohibits the payment of cash dividends.

Borrowings in 1994 under a previous credit facility with another bank bore interest at the prime rate plus 1 3/4%.

MEDIALINK WORLDWIDE INCORPORATED
 NOTES TO FINANCIAL STATEMENTS-(continued)
 YEARS ENDED DECEMBER 31, 1996, 1995 AND 1994

(3) Lease Commitments

The Company has several noncancelable operating leases for office space expiring at various dates through 2004. As of December 31, 1996, future minimum lease payments under noncancelable operating leases are as follows:

| Year ending December 31, ----- | Amount ----- |
|-----------------------------------|-----------------|
| 1997 | \$762,856 |
| 1998 | 776,198 |
| 1999 | 640,634 |
| 2000 | 509,780 |
| 2001 | 475,940 |
| 2002 | 435,165 |
| Thereafter | 879,965 |
| | ----- |
| | \$4,480,538 |
| | ===== |

Total rent expense for operating leases in the years ended December 31, 1994, 1995 and 1996 was \$368,171, \$326,916 and \$637,807, respectively.

The Company leases copier equipment under capital leases. Minimum future lease payments under capital leases at December 31, 1996 are:

| Year ending December 31, | |
|---|-----------|
| 1997 | 14,963 |
| 1998 | 14,963 |
| 1999 | 17,919 |
| 2000 | 351 |
| | ----- |
| Total minimum lease payments | 48,196 |
| Less amount representing interest | (8,680) |
| | ----- |
| Present value of net minimum lease payments | 39,516 |
| Less current portion | (11,699) |
| | ----- |
| | \$ 27,817 |
| | ===== |

(4) Stockholders' Equity

Stock Split

In July 1996, the Company effected a 1.2 for one stock split. In addition, the Company restated its Certificate of Incorporation to increase its authorized capitalization from 5,000,000 shares of common stock, par value \$.01 per share ("Common Stock"), to 15,000,000 shares. These changes resulted in an increase in Common Stock and corresponding decrease in additional paid-in capital. All per share data and references to numbers of shares have been restated for all periods presented to reflect these changes.

Initial Public Offering

On January 29, 1997 the Company completed a public offering of 2,000,000 shares of its common stock, at a public offering price of \$9 per share (the "Offering"). The net proceeds to the Company of the offering of approximately \$15,600,000 will be used for general corporate purposes and possible acquisitions.

MEDIALINK WORLDWIDE INCORPORATED
 NOTES TO FINANCIAL STATEMENTS-(continued)
 YEARS ENDED DECEMBER 31, 1996, 1995 AND 1994

(4) Stockholders' Equity-(Continued)

Preferred Shares

Annual dividends on the Series A, 10% cumulative convertible preferred stock, Series B, 10% cumulative convertible preferred stock and Series C, 10% cumulative convertible preferred stock are cumulative, commencing July 1, 1989

for Series A and Series B and October 31, 1989 for Series C, until declared and paid at the discretion of the Board of Directors. At December 31, 1996, dividends in arrears on the Series A, Series B and Series C cumulative convertible preferred stock amounted to approximately \$737,312, \$481,150 and \$1,190,011, respectively.

Each share of Series A, Series B and Series C cumulative convertible preferred stock was convertible at any time at the option of the stockholder into 1.2 shares of Common Stock and was automatically converted into 2,111,669 shares of Common Stock upon the closing of the Offering.

Stock Option Plan for Employees

The Company has a stock option plan (the "Stock Option Plan") that provides for the granting of options to employees to purchase shares of the Common Stock. The Company has reserved 670,808 shares for the exercise of these options. The option price under the Plan shall not be less than 85% of the fair market value of such share of Common Stock on the date of the grant as determined by the Company. Under the Stock Option Plan, options issued are exercisable at such times as determined by the Company but no later than ten years after the date of the grant.

Options to purchase 569,594 shares of Common Stock at exercise prices between \$1.25 and \$6.64 per share were granted and are outstanding at December 31, 1996. Twenty percent of the options become exercisable on the date of grant and a further 20% become exercisable on each date of grant anniversary. The options expire between six and ten years from the date of grant. However, upon the termination of employment of any person, the options will expire 90 days after the termination date, but no later than the specified expiration date.

Pursuant to the Stock Option Plan 387,494 options were granted in February, 1996 at an exercise price of \$3.54 with a ten-year term and in July, 1996, 24,000 options were granted at an exercise price of \$6.46 with a five-year term.

Activity under the Stock Option Plan is summarized as follows:

| | Year ended December 31, | | |
|--|-------------------------|----------|----------|
| | 1994 | 1995 | 1996 |
| | ---- | ---- | ---- |
| Outstanding options at January 1, | 262,500 | 213,600 | 251,100 |
| Granted-option of \$1.25 per share in 1994, \$2.29 per share in 1995 and \$3.54 and \$6.46 per share in 1996 | 14,400 | 75,000 | 411,494 |
| Exercised | -- | (4,800) | (3,000) |
| Cancelled and expired | (63,300) | (32,700) | (90,000) |
| | ----- | ----- | ----- |
| Outstanding (in 1996, exercisable at \$1.25 to \$6.46 per share) at end of period | 213,600 | 251,100 | 569,594 |
| | ===== | ===== | ===== |
| Exercisable (in 1996, exercisable at \$1.25 to \$6.46 per share) at end of period | 208,740 | 214,140 | 189,639 |
| | ===== | ===== | ===== |
| Available for grant at end of period | 66,848 | 204,548 | 63,054 |
| | ===== | ===== | ===== |

(4) Stockholders' Equity-(Continued)

Stock Option Plan for Directors

In February 1996, the Company established a stock option plan (the "Directors Stock Option Plan") that provides for the granting of options to non-employee members of the Company's Board of Directors to purchase shares of the Common Stock. The Company has reserved 180,000 shares for the exercise of these options. The option price under the Directors Stock Option Plan shall not be less than the fair market value of such share of Common Stock on the date of the grant as determined by the Company. Under the Directors Stock Option Plan, options issued are exercisable at such times as determined by the Company but no later than fifteen years after the date of the grant.

Options to purchase 62,400 shares of Common Stock at \$3.54 per share were granted to non-employee directors in February 1996 for services rendered prior to 1996. No individual directors' grant exceeded 14,400 shares. The options expire fifteen years from the date of grant. However, upon the termination of board membership of any person, the options will expire 90 days after the termination date, but no later than the specified expiration date.

These directors will be eligible for additional grants of 3,000 shares per year in future years if they continue to serve the Company in that capacity. Such future grants would become exercisable over a three-year period.

Accounting for Stock Option Compensation Expense

The Company applies APB 25 in recording the value of the stock options granted pursuant to its plans. No compensation cost has been recognized for stock options granted under the Stock Option Plan in the financial statements. Had the Company determined compensation cost based on the fair value at the date of grant for its stock options issued in 1995 and 1996 under SFAS 123, the Company's net income would have been reduced to the pro-forma amounts indicated below.

| | | 1995 | 1996 |
|--------------------|-------------|-----------|-----------|
| | | ---- | ---- |
| Net income | As reported | \$381,235 | \$843,628 |
| | Pro forma | \$379,285 | \$814,672 |
| Earnings per share | As reported | \$0.11 | \$0.25 |
| | Pro forma | \$0.11 | \$0.24 |

The fair value of each option grant is estimated using the Black-Scholes option-pricing model with the following assumptions used for the grants in July, 1995, February, 1996 and July, 1996, respectively: dividend yield of 0% for all grants, expected volatility of 0% for all grants, risk free interest rates of 5.98%, 5.29% and 6.55% and expected lives of 6 years, 6 years and 5 years.

Common Stock Warrants

In 1989, the Company issued warrants to purchase 10,110 shares of its Common Stock at \$2.50 per share. Such warrants expired in 1994.

Deferred Compensation Plan

The Company has a 401(k) plan (the "401(k) Plan") covering all eligible employees. The 401(k) Plan is currently funded by voluntary salary deductions by plan members and is limited to the maximum amount that can be

MEDIALINK WORLDWIDE INCORPORATED
 NOTES TO FINANCIAL STATEMENTS-(continued)
 YEARS ENDED DECEMBER 31, 1996, 1995 AND 1994

(4) Stockholders' Equity-(Continued)

deducted for Federal income tax purposes. The Company is not required to make contributions to the 401 (k) Plan; however, employer contributions may be made on a discretionary basis. For the three years ended December 31, 1996, the Company's expenses in connection with the 401(k) Plan were \$20,320, \$27,233 and \$40,404 for 1994, 1995 and 1996, respectively, which is reflected in general and

administrative expenses in the accompanying financial statements.

(5) Income Taxes

The provision for income taxes expense (benefit) consists of the following:

| | Year Ended December 31, | | |
|-----------------|-------------------------|-----------|-----------|
| | 1994 | 1995 | 1996 |
| Current: | | | |
| Federal | \$ 12,393 | \$ 20,000 | \$ 11,660 |
| State and local | 12,627 | 15,782 | 20,760 |
| | 25,020 | 35,782 | 32,420 |
| Deferred: | | | |
| Federal | (783,341) | 221,462 | 463,090 |
| State and local | (264,642) | 74,818 | 149,223 |
| | (1,047,983) | 296,280 | 612,313 |
| | \$(1,022,963) | \$332,062 | \$644,733 |

Income tax expense (benefit) differs from the amount computed by multiplying the statutory rate of 34% to income before income taxes due to the following:

| | Year Ended December 31, | | |
|---|-------------------------|-----------|-----------|
| | 1994 | 1995 | 1996 |
| Income tax expense at statutory rate | \$150,052 | \$242,929 | \$506,043 |
| Increase (reduction) in income taxes resulting from: | | | |
| State and local income taxes, net of Federal income tax benefit | 40,717 | 59,796 | 112,189 |
| Nondeductible expenses | 16,159 | 9,337 | 21,553 |
| Reduction in valuation allowance | (1,242,284) | - | - |
| Other | 12,393 | 20,000 | 4,948 |
| | \$(1,022,963) | \$332,062 | \$644,733 |

MEDIALINK WORLDWIDE INCORPORATED
 NOTES TO FINANCIAL STATEMENTS-(continued)
 YEARS ENDED DECEMBER 31, 1996, 1995 AND 1994

(5) Income Taxes-(Continued)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets at December 31, 1994, 1995 and 1996 are presented below:

| | 1995 | 1996 |
|---|-----------|-----------|
| | ---- | ---- |
| Deferred tax assets: | | |
| Accounts receivable, principally due to allowance for doubtful accounts | \$46,114 | \$46,290 |
| Leasehold improvements, principally due to differences in amortization | 4,457 | 18,470 |
| Equipment, principally due to differences in depreciation | 33,441 | 36,618 |
| Net operating loss carryforward | 667,691 | 38,012 |
| | ----- | ----- |
| Net deferred tax asset | \$751,703 | \$139,390 |
| | ===== | ===== |

Upon the adoption of Statement 109 in 1993, because of its operating losses and the level of deferred tax assets, the Company could not conclude that it was more likely than not that its deferred tax assets would be realized and, consequently, set up a valuation allowance. At December 31, 1994, 1995 and 1996 based on its earnings for the year and expectations of future earnings, the Company determined that it was more likely than not that its deferred tax assets would be realized and, consequently, in 1994 the Company reversed the remaining valuation allowance.

(6) Foreign Operations

Selected financial information regarding the Company's UK office as of and for the years ended December 31, 1994, 1995 and 1996 is as follows:

| | 1994 | 1995 | 1996 |
|-------------------------|--------------|-------------|--------------|
| | ---- | ---- | ---- |
| Total assets | \$ 393,878 | \$ 560,295 | \$ 1,117,082 |
| | ===== | ===== | ===== |
| Total liabilities | \$ 156,233 | \$ 327,818 | \$ 686,231 |
| | ===== | ===== | ===== |
| Revenues | \$ 834,749 | \$1,484,670 | \$ 2,730,336 |
| | ===== | ===== | ===== |
| Operating (loss) income | \$ (103,341) | \$ (21,606) | \$ 56,871 |
| | ===== | ===== | ===== |

(7) Commitments

On April 30, 1990, the Company entered into an agreement for communications services. The agreement, which was amended and restated on November 1, 1993, was extended on October 31, 1996 until November 1, 1999. The agreement provides for guaranteed minimum payments which currently approximate \$516,000 per year. Charges included in direct costs on the accompanying statement of operations under this agreement amounted to \$497,617, \$526,516 and \$511,961, respectively, for the years ended December 31, 1994, 1995 and 1996, respectively.

MEDIALINK WORLDWIDE INCORPORATED
 NOTES TO FINANCIAL STATEMENTS-(continued)
 YEARS ENDED DECEMBER 31, 1996, 1995 AND 1994

(8) Supplemental Cash Flows Information

Cash paid for interest and income taxes during the years ended December 31, 1994, 1995 and 1996 was as follows:

| | 1994 ---- | 1995 ---- | 1996 ---- |
|--------------|------------------|------------------|-------------------|
| Interest | \$6,205 ===== | \$ - ===== | \$13,010 ===== |
| Income taxes | \$2,868 ===== | \$3,733 ===== | \$28,805 ===== |

In connection with the acquisition of the operations of PR Data Systems, Inc. ("PR Data") in July 1996, the Company issued shares of Common Stock to the sellers valued at \$155,000 and assumed certain of the obligations and liabilities of PR Data as at the closing date with the exception that such obligations and liabilities assumed could not exceed the book value of assets acquired by more than \$372,000.

(9) Unaudited pro forma information

Pro forma net income per common and common equivalent share is calculated using the weighted average number of shares of Common Stock outstanding during the period, plus Common Stock issuable pursuant to options granted under the Stock Option Plan issued at prices below the assumed initial public offering price per share during the twelve-month period immediately preceding the initial filing date of the Company's Registration Statement for its public offering, assuming such Common Stock was outstanding for all periods presented. In addition, shares of Common Stock issuable upon the conversion of all shares of Series A, Series B and Series C Preferred Stock into shares of Common Stock are included in the calculation as if they were outstanding for all periods presented. The weighted average number of common equivalent shares outstanding during the period ended December 31, 1995 and 1996 after reflecting a 1.2 for 1 stock split effective July 31, 1996 was 3,453,109 and 3,439,088, respectively.

(10) Acquisition of PR Data Systems, Inc.

On July 18, 1996 the company entered into an asset purchase agreement (the "Agreement") with PR Data and its stockholders. Under the terms of the Agreement the Company acquired all of PR Data's tangible and intangible assets for cash of \$120,000 and through the issuance of 24,000 shares of the Company's Common Stock valued at \$155,000. The Company also assumed certain of the obligations and liabilities of PR Data as at the closing date with the exception that such obligations and liabilities assumed could not exceed the book value of assets acquired by more than \$372,000.

The Company also entered into non-compete agreements with the principal officers and stockholders of PR Data. These agreements are for periods of five years and provide for quarterly payments aggregating \$410,000 during this period. The non-compete asset and the present value of the related payment obligation at December 31, 1996 is \$285,332 and \$306,977, respectively.

The purchase price exceeds the fair value of the assets acquired and liabilities assumed by approximately \$677,000 which has been allocated to goodwill. In addition, the non-compete agreements have been recorded as an intangible asset at the present value of the related payments, calculated using the Company's estimated borrowing rate at the time of 9.5%. Goodwill is being amortized over 15 years and the non-compete agreements are being amortized over 5 years.

MEDIALINK WORLDWIDE INCORPORATED
 NOTES TO FINANCIAL STATEMENTS-(continued)
 YEARS ENDED DECEMBER 31, 1996, 1995 AND 1994

(10) Acquisition of PR Data Systems, Inc.-(Continued)

Immediately following the acquisition, the Company converted certain of the liabilities of PR Data that it assumed, which were payable to a former stockholder of PR Data, into a note in the amount of \$330,000. This note bears interest at 8% and is payable in equal quarterly installments over seven years. Aggregate principal payments under this note after December 31, 1996 are as follows:

| Period ----- | Amount ----- |
|--------------------------|-----------------|
| 1997 | \$47,143 |
| 1998 | 41,341 |
| 1999 | 44,749 |
| 2000 | 48,437 |
| 2001 | 52,430 |
| 2002 | 56,752 |
| 2003 | 30,241 |
| | ----- |
| Total principal payments | 321,093 |
| Less: current portion | 47,143 |
| | ----- |
| | \$273,950 |
| | ===== |

The Company has accounted for this acquisition as a purchase. The information for the year ended December 31, 1996 contained in the accompanying 1996 financial statements reflect the operating results of PR Data subsequent to July 18, 1996.

The following unaudited pro forma summary presents the Company's results of operations as if the acquisition had occurred as of the beginning of fiscal 1995, after giving effect to certain adjustments, including the amortization of values assigned to the non-compete agreement and goodwill. These pro forma results have been prepared for comparative purposes only and do not purport to

be indicative of what would have occurred had the acquisition been made as of that date or of the results which may occur in the future:

| | Year ended December 31, ----- | |
|--|----------------------------------|---------------|
| | 1995 ---- | 1996 ---- |
| Net revenues | \$ 12,237,144 | \$ 16,687,172 |
| Net income | \$ 374,122 | \$ 831,991 |
| Pro forma net income per common and common equivalent share | \$ 0.11 | \$ 0.24 |

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

MEDIALINK WORLDWIDE INCORPORATED

By: /s/ LAURENCE MOSKOWITZ
Laurence Moskowitz,
Chairman of the Board, Chief Executive Officer and
President

By: /s/ J. GRAEME MCWHIRTER
J. Graeme McWhirter
Executive Vice President, Assistant Secretary and
Chief Financial Officer

Dated: April 25, 1997

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/S/ LAURENCE MOSKOWITZ
Laurence Moskowitz, Chairman
of the Board, Chief Executive
Officer and President April 25, 1997

/S/ DAVID DAVIS
David Davis, Director
Senior Vice President/International April 26, 1997

/S/ HAROLD FINELT
Harold Finelt, Director April 25, 1997

/S/ DONALD KIMELMAN
Donald Kimelman, Director April 29, 1997

/S/ JAMES J. O'NEILL
James J. O'Neill, Director April 25, 1997

/S/ GERALD P. RODEEN
Gerald P. Rodeen, Director April 25, 1997

/S/ THEODORE WM. TASHLIK
Theodore Wm. Tashlik, Director April 25, 1997

/S/ PAUL SAGAN
Paul Sagan, Director April 29, 1997

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