

TRI-S SECURITY CORP  
Form 8-K  
May 23, 2006  
Index to Financial Statements

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# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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## FORM 8-K

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CURRENT REPORT

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

Date of report (Date of earliest event reported): May 23, 2006 (May 17, 2006)

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## Tri-S Security Corporation

(Exact name of registrant as specified in its charter)

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Georgia  
(State or other jurisdiction  
of incorporation)

0-51148  
(Commission File Number)

30-0016962  
(IRS Employer  
Identification No.)

Royal Centre One, 11675 Great Oaks Way, Suite 120, Alpharetta, GA  
(Address of principal executive offices)

30022  
(Zip Code)

Registrant's telephone number, including area code: (678) 808-1540

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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)

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- .. 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))
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**Index to Financial Statements**

Item 1.01 Entry into a Material Definitive Agreement.

On May 19, 2006, Tri-S Security Corporation (the Company ) and Paragon Systems, Inc., a wholly-owned subsidiary of the Company ( Paragon ), entered into a Purchase Agreement (the Purchase Agreement ) with L-3 Communications, LP ( L-3 ), pursuant to which L-3 purchased from Paragon on such date Paragon s 10% membership interest (the Interest ) in Army Fleet Support LLC ( Army Fleet ) for a purchase price of \$10,810,000 in cash (the Purchase Price ). Pursuant to the Purchase Agreement and subject to certain limitations set forth therein, the Company and Paragon shall jointly and severally indemnify L-3 and its affiliates from and against any damages caused by the breach of any representation, warranty or covenant made by Paragon in the Purchase Agreement. Also pursuant to the Purchase Agreement, Tri-S shall guaranty Paragon s obligations thereunder.

Immediately prior to the execution of the Purchase Agreement, L-3 was a member of Army Fleet. The amount of the Purchase Price and the terms of the Purchase Agreement were determined as a result of arms length negotiations between Paragon and L-3.

Item 2.01 Completion of Acquisition or Disposition of Assets.

See Item 1.01.

Item 3.02 Unregistered Sale of Equity Securities.

On May 17, 2006, Company issued 62,500 shares of the Company s common stock (the Common Stock ) upon the conversion of a 10% convertible promissory note with an aggregate principal value of \$300,000 at a conversion price of \$4.80 per share. The note was one of a series of convertible promissory notes issued in a private placement transaction conducted by the Company in September and October 2005. The shares were issued without registration under the Securities Act of 1933, as amended (the Securities Act ), in reliance upon the exemptions from registration set forth in Section 4(2) of the Securities Act ( Section 4(2) ) and Regulation D promulgated thereunder ( Regulation D ). The Company based such reliance upon factual representations made by the recipient of such shares to the Company regarding the recipient s investment intent, sophistication and status as an accredited investor, as such term is used in Regulation D, among other things.

Item 9.01 Financial Statements and Exhibits.

- (a) Financial Statements of Business Acquired. None.
- (b) Pro Forma Financial Information. The pro forma financial information required to be filed pursuant to this Item 9.01(b) is set forth in the F-Pages included herein.
- (c) Exhibits.

99.1 Purchase Agreement dated as of May 19, 2006 among Tri-S Security Corporation, Paragon Systems, Inc. and L-3 Communications Integrated Systems, LP.

**Index to Financial Statements**

**INDEX TO FINANCIAL INFORMATION**

<u>Introduction to the unaudited Pro Forma Financial Information</u>	F-2
<u>Unaudited Pro Forma Consolidated Balance Sheet as of March 31, 2006</u>	F-3
<u>Unaudited Pro Forma Consolidated Statement of Operations for the Three Months Ended March 31, 2006</u>	F-4
<u>Unaudited Pro Forma Consolidated Statement of Operations for the Year Ended December 31, 2005</u>	F-5

**Index to Financial Statements**

**Introduction to Pro Forma Financial Information**

Unaudited pro forma financial data

The following unaudited pro forma financial data set forth below as of March 31, 2006 and for the three months ended March 31, 2006 and for the year ended December 31, 2005, give effect to the sale of the 10% investment in the Army Fleet Services, LLC as if the sale had occurred on March 31, 2006 with respect to the unaudited pro forma balance sheet and on January 1, 2006 with respect to the unaudited pro forma statement of operations for the three months ended March 31, 2006 and on January 1, 2005 with respect to the unaudited pro forma statement of operations for the year ended December 31, 2005.

The unaudited pro forma financial data should be read in conjunction with the historical consolidated financial statements and the related notes of Tri-S Security Corporation. These unaudited pro forma financial statements are not necessarily indicative of the results that would actually have occurred had the transactions been consummated at the dates indicated, nor are they necessarily indicative of future operating results or financial position of the combined company.

**Index to Financial Statements****Tri-S Security Corporation and Subsidiary****Pro Forma Balance Sheet****Unaudited****(\$ in thousands)**

	<b>Historical</b>	<b>As of March 31, 2006 Pro Forma Adjustments</b>	<b>Pro Forma As adjusted</b>
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 245		\$ 245
Trade accounts receivable, net	10,022		10,022
Income taxes receivable	321	(321)(a)	
Note receivable - officer	102		102
Prepaid expenses and other assets	1,307		1,307
<b>Total current assets</b>	<b>11,997</b>	<b>(321)</b>	<b>11,676</b>
Property and equipment, less accumulated depreciation	1,384		1,384
Investment in AFS, LLC	8,974	(8,974)(b)	
Goodwill	15,615		15,615
Intangibles			
Customer contracts	5,578		5,578
Deferred loan costs	1,639		1,639
Other	1,195		1,195
<b>Total assets</b>	<b>\$ 46,382</b>	<b>\$ (9,295)</b>	<b>\$ 37,087</b>
<b>Liabilities and Stockholders Equity (Deficit)</b>			
Current liabilities:			
Trade accounts payable	\$ 1,407		\$ 1,407
Accrued interest expense	175		175
Accrued Expenses	4,430		4,430
Income taxes payable		2,372 (a)	2,372
Factoring facility	9,008	(5,989)(c)	3,019
Series C preferred stock subject to mandatory redemption	6,000		6,000
Current portion of term loans	4,821	(4,821)(c)	
<b>Total current liabilities</b>	<b>25,841</b>	<b>(8,438)</b>	<b>17,403</b>
Other liabilities:			
10% convertible notes	6,379		6,379
Deferred income taxes	4,622	(2,011)(a)	2,611
Term loans			
Long term debt	270		270
	11,271	(2,011)	9,260
<b>Total liabilities</b>	<b>37,112</b>	<b>(10,449)</b>	<b>26,663</b>

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Stockholders' equity:

Common stock, \$0.001 par value, 25,000,000 shares authorized, 3,369,117 shares issued and outstanding at March 31, 2006	3		3
Additional paid-in capital	13,850		13,850
Retained deficit	(4,583)	1,154 (d)	(3,429)
Total stockholders' equity	9,270	1,154	10,424
Total liabilities and stockholders' equity	\$ 46,382	\$ (9,295)	\$ 37,087

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- (a) Reflects estimated tax effects of the sale of the investment in the AFS, LLC including the income tax expense on the gain on the sale and the reclass of deferred income taxes to taxes payable.
- (b) eliminates the Investment in AFS, LLC asset due to the sale of the asset
- (c) adjustment to reflect the repayment of the term loans and a portion of the debt outstanding under the factoring facility
- (d) reflects the gain on the sale of the investment in the FS, LLC net of the reduction in the income for the investment in the AFS, LLC

F-3

Index to Financial Statements

## Tri-S Security Corporation and Subsidiary

## Pro Forma Statement of Operations

Unaudited

(In thousands, except per share data)

	Three Months Ended March 31, 2006		
	Historical	Pro Forma Adjustments	Pro Forma As adjusted
Revenues	\$ 17,373		\$ 17,373
Cost of revenues:			
Direct labor	10,571		10,571
Indirect labor and other contract support costs	4,391		4,391
Amortization of government contracts	412		412
	15,374		15,374
Gross profit	1,999		1,999
Selling, general and administrative	2,990		2,990
Amortization	231		231
	3,221		3,221
Operating income (loss)	(1,222)		(1,222)
Income from investment in AFS, LLC	276	(276)(a)	
Other income (expense):			
Gain on Sale of 10% interest in AFS, LLC		2,112(b)	2,112
Interest income	7		7
Interest expense	(1,082)		(1,082)
Interest on preferred stock subject to mandatory redemption	(75)		(75)
Other income/(expense)	84		84
	(1,066)	2,112	1,046
Income (loss) before income taxes	(2,012)	1,836	(176)
Income tax expense (benefit)	(747)	682(c)	(65)
Net income (loss)	\$ (1,265)	\$ 1,154	\$ (111)
Basic and diluted net income (loss) per common share	\$ (0.38)		\$ (0.03)
Basic and diluted weighted average number of common shares	3,349		3,349

(a) elimination of income from investment in AFS, LLC

(b) recognition of the gain on the sale of the investment in the AFS, LLC

(c) income tax effect of the gain on the sale of the investment in AFS, LLC net of the elimination of the income from the investment in the AFS, LLC at an effective tax rate of 37.1%





Index to Financial Statements

## Tri-S Security Corporation and Subsidiary

## Pro Forma Statement of Operations

Unaudited

(In thousands, except per share data)

	Year Ended December 31, 2005		
	Historical	Pro Forma Adjustments	Pro Forma As adjusted
Revenues	\$ 41,985		\$ 41,985
Cost of revenues:			
Direct labor	24,406		24,406
Indirect labor and other contract support costs	14,054		14,054
Amortization of government contracts	677		677
	39,137		39,137
Gross profit	2,848		2,848
Selling, general and administrative	6,133		6,133
Amortization	279		279
	6,412		6,412
Operating income (loss)	(3,564)		(3,564)
Income from Joint Venture	1,777	(1,777)(a)	
Other income (expense):			
Gain on Sale of 10% interest in AFS, LLC		2,508(b)	2,508
Interest income	44		44
Interest expense	(1,383)		(1,383)
Interest on preferred stock subject to mandatory redemption	(300)		(300)
Other income/(expense)	(266)		(266)
	(1,905)	2,508	603
Income (loss) before income taxes	(3,692)	731	(2,961)
Income tax expense (benefit)	(1,414)	280(c)	(1,134)
Net income (loss)	\$ (2,278)	\$ 451	\$ (1,827)
Basic and diluted net income (loss) per common share	\$ (0.74)		\$ (0.59)
Basic and diluted weighted average number of common shares	3,097		3,097

(a) elimination of income from investment in AFS, LLC

(b) recognition of the gain on the sale of the investment in the AFS, LLC

(c) income tax effect of the gain on the sale of the investment in AFS, LLC net of the elimination of the income from the investment in the AFS, LLC at an effective tax rate of 38.3%



**Index to Financial Statements**

**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.

**TRI-S SECURITY CORPORATION**

By: /s/ Robert Mills  
Robert Mills, Chief Financial Officer

Dated: May 23, 2006

**Index to Financial Statements**

**EXHIBIT INDEX**

99.1 Purchase Agreement dated as of May 19, 2006 among Tri-S Security Corporation, Paragon Systems, Inc. and L-3 Communications Integrated Systems, LP.