

TRI-S SECURITY CORP
Form 10-Q
August 14, 2006
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2006

.. TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT
For the transition period from _____ to _____

Commission file number 0-51148

TRI-S SECURITY CORPORATION

(Exact name of registrant as specified in its charter)

GEORGIA
(State or other jurisdiction of
incorporation or organization)

30-0016962
(I.R.S. Employer
Identification No.)

11675 Great Oaks Way, Suite 120, Alpharetta, Georgia 30022

(Address of principal executive offices)

(678) 808-1540

(Registrant's telephone number, including area code)

Edgar Filing: TRI-S SECURITY CORP - Form 10-Q

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 No .

Indicate by check mark whether registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes No .

Shares of the registrant's common stock, par value \$0.001 per share, outstanding as of August 11, 2006: 3,451,617.

Table of Contents

TRI-S SECURITY CORPORATION
QUARTERLY REPORT ON FORM 10-Q FOR THE
QUARTER ENDED JUNE 30, 2006

INDEX

	Page No.
PART I. FINANCIAL INFORMATION	
ITEM 1. FINANCIAL STATEMENTS:	
<u>Consolidated Balance Sheets</u>	
June 30, 2006 and December 31, 2005	2
<u>Consolidated Statements of Operations</u>	
Three and Six Months Ended June 30, 2006 and 2005	3
<u>Consolidated Statements of Cash Flows</u>	
Six Months Ended June 30, 2006 and 2005	4
<u>Notes to Consolidated Financial Statements</u>	5
ITEM 2. <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	13
ITEM 3. <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	17
ITEM 4. <u>CONTROLS AND PROCEDURES</u>	17
PART II. OTHER INFORMATION	17
ITEM 1. <u>LEGAL PROCEEDINGS</u>	17
ITEM 1A. <u>RISK FACTORS</u>	18
ITEM 3. <u>DEFAULT UPON SENIOR SECURITIES</u>	18
ITEM 6. <u>EXHIBITS</u>	19
<u>SIGNATURES</u>	20
<u>EXHIBIT INDEX</u>	E-1

Table of Contents**Tri-S Security Corporation and Subsidiaries****Consolidated Balance Sheets****Unaudited****(In thousands, except per share data)**

	June 30, 2006	December 31, 2005
Assets		
Current assets:		
Cash and cash equivalents	\$ 272	\$ 463
Trade accounts receivable, net	8,379	10,988
Income taxes receivable		20
Prepaid expenses and other assets	1,216	1,084
Total current assets	9,867	12,555
Property and equipment, less accumulated depreciation	663	1,467
Investment in joint venture		8,698
Goodwill	15,692	15,615
Intangibles, net		
Customer contracts	5,166	5,990
Deferred loan costs	1,472	1,756
Other	1,127	1,264
Total assets	\$ 33,987	\$ 47,345
Liabilities and Stockholders Equity		
Current liabilities:		
Trade accounts payable	\$ 1,182	\$ 1,199
Accrued interest expense	250	100
Accrued expenses	3,992	5,690
Factoring facility	1,974	7,191
Income taxes payable	2,270	
Series C preferred stock subject to mandatory redemption	6,000	
Term loans		275
Total current liabilities	15,668	14,455
Other liabilities:		
10% convertible notes	6,261	6,300
Deferred income taxes	2,141	5,069
Term loans		4,817
Long-term debt	281	270
Series C preferred stock subject to mandatory redemption		6,000
Total liabilities	24,351	36,911
Stockholders equity:		
Common stock, \$0.001 par value, 25,000,000 shares authorized, 3,451,617 and 3,338,700 shares issued and outstanding	3	3
Additional paid-in capital	14,323	13,749

Edgar Filing: TRI-S SECURITY CORP - Form 10-Q

Deficit	(4,690)	(3,318)
Total stockholders' equity	9,636	10,434
Total liabilities and stockholders' equity	\$ 33,987	\$ 47,345

See accompanying notes to financial statements.

Table of Contents**Tri-S Security Corporation and Subsidiaries****Consolidated Statements of Operations****Unaudited****(In thousands, except per share data)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Revenues	\$ 17,704	\$ 7,745	\$ 35,077	\$ 15,724
Cost of revenues:				
Direct labor	11,144	4,122	21,715	8,338
Indirect labor and other support costs	4,342	2,783	8,733	6,103
Amortization of customer contracts	412	87	824	182
	15,898	6,992	31,272	14,623
Gross profit	1,806	753	3,805	1,101
Selling, general and administrative	2,798	793	5,788	1,471
Amortization of intangible assets	232		463	
	3,030	793	6,251	1,471
Operating loss	(1,224)	(40)	(2,446)	(370)
Income from investment in Army Fleet Support, LLC, net	108	414	384	1,048
Other income (expense):				
Interest income	1	9	8	21
Interest expense	(711)	(108)	(1,793)	(423)
Interest on Series C redeemable preferred stock	(75)	(75)	(150)	(150)
Gain on sale of investment in Army Fleet Support, LLC	1,903		1,903	
Other income			84	
	1,118	(174)	52	(552)
Income (loss) before income taxes	2	200	(2,010)	126
Income tax expense (benefit)	109	76	(638)	48
Net income (loss)	\$ (107)	\$ 124	\$ (1,372)	\$ 78
Basic and diluted net income (loss) per common share	\$ (0.03)	\$ 0.04	\$ (0.41)	\$ 0.02
Basic weighted average number of common shares	3,410	3,315	3,379	3,192
Diluted weighted average number of common shares	3,410	3,376	3,379	3,289

See accompanying notes to financial statements.

Table of Contents**Tri-S Security Corporation and Subsidiaries****Consolidated Statements of Cash Flows****Unaudited****(In thousands)**

	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Cash flow from operating activities:		
Net income (loss)	\$ (1,372)	\$ 78
Adjustments to reconcile net loss to net cash used by operating activities:		
(Gain) on sale of investment in Army Fleet Support, LLC	(1,903)	
(Income) loss from investment in Army Fleet Support, LLC, net	(384)	1,048
Stock issued for services	44	95
Depreciation and amortization	1,458	340
Deferred income tax benefits	(2,928)	(2,048)
Non-cash employee stock option expense	223	
Non-cash interest expense	240	
Changes in operating assets and liabilities:		
Trade accounts receivable, net	2,609	(430)
Income taxes receivable	2,290	
Prepaid expenses and other assets	(87)	(686)
Trade accounts payable	(17)	(302)
Accrued liabilities	(1,520)	366
Net cash used by operating activities	(1,347)	(1,539)
Cash flow from investing activities:		
Purchase of property and equipment	(59)	
Proceeds from disposal of property and equipment	693	10
Cash distributions from investment in Army Fleet Support, LLC	175	855
Proceeds from sale of investment in Army Fleet Support, LLC	10,810	
Net cash provided by investing activities	11,619	865
Cash flow from financing activities:		
Net payments on factoring facility	(5,217)	
Repayments of term loans	(5,092)	
Deferred financing costs	(43)	
Proceeds from initial public offering		11,079
Repayments of short-term notes		(9,082)
Repayments of capital lease obligations		(46)
Deferred initial public offering costs	(111)	(165)
Net cash provided by (used by) financing activities	(10,463)	1,786
Net increase (decrease) in cash and cash equivalents	(191)	1,112
Cash and cash equivalents at beginning of period	463	313
Cash and cash equivalents at end of period	\$ 272	\$ 1,425

Edgar Filing: TRI-S SECURITY CORP - Form 10-Q

Supplemental disclosures of cash flow information:

Interest paid	\$	1,545	\$	1,039
Income taxes paid	\$	3	\$	