

TRI-S SECURITY CORP
Form 8-K
May 23, 2006
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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 (Date of earliest event reported): May 23, 2006 (May 17, 2006)

Tri-S Security Corporation

(Exact name of registrant as specified in its charter)

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

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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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.

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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)**

| | Historical | As of March 31, 2006 Pro Forma Adjustments | Pro Forma As adjusted |
|--|------------------|--|--------------------------|
| Assets | | | |
| 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 |
| Total current assets | 11,997 | (321) | 11,676 |
| 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 |
| Total assets | \$ 46,382 | \$ (9,295) | \$ 37,087 |
| Liabilities and Stockholders Equity (Deficit) | | | |
| 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) | |
| Total current liabilities | 25,841 | (8,438) | 17,403 |
| 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 |
| Total liabilities | 37,112 | (10,449) | 26,663 |

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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

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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%

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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%

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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.

TRI-S SECURITY CORPORATION

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

Dated: May 23, 2006

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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.