

TRI-S SECURITY CORP
Form 10-Q
November 14, 2007
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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 September 30, 2007

.. 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)

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

(Address of principal executive offices)

(678) 808-1540

30-0016962
(I.R.S. Employer

Identification No.)

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(Registrant's telephone number, including area code)

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 November 14, 2007: 4,203,280.

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QUARTER ENDED SEPTEMBER 30, 2007

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	September 30, 2007	December 31, 2006
Assets		
Current assets:		
Cash and cash equivalents	\$ 103	\$ 66
Trade accounts receivable, net of allowance of \$710 and \$797, respectively	12,292	13,313
Prepaid expenses and other assets	939	649
Total current assets	13,334	14,028
Property and equipment, less accumulated depreciation	506	597
Goodwill	16,078	16,078
Intangibles, net		
Customer contracts	3,051	4,264
Deferred loan costs	719	1,143
Other	803	991
Total assets	\$ 34,491	\$ 37,101
Liabilities and Stockholders Equity		
Current liabilities:		
Trade accounts payable	\$ 1,755	\$ 1,104
Accrued interest expense	75	400
Accrued expenses	5,305	4,467
Factoring facility and 2007 term loan	9,953	7,506
Income taxes payable	532	1,269
Series C preferred stock subject to mandatory redemption		6,000
10% convertible notes	1,759	
Long-term debt - current portion		284
Total current liabilities	19,379	21,030
Other liabilities:		
10% convertible notes	5,661	7,273
Deferred income taxes	749	1,974
Long-term debt	11	
Accrued interest expense - long term	296	
Series D preferred stock subject to mandatory redemption	1,500	
Total liabilities	27,596	30,277
Stockholders equity:		
Common stock, \$0.001 par value, 25,000,000 shares authorized; 4,248,704 and 3,583,704 shares issued and 4,203,280 and 3,538,280 shares outstanding at September 30, 2007 and December 31, 2006, respectively	4	3
Treasury stock - 45,424 shares at cost	(105)	(105)
Additional paid-in capital	16,295	14,109
Deficit	(9,299)	(7,183)

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Total stockholders' equity		6,895		6,824
Total liabilities and stockholders' equity	\$	34,491	\$	37,101

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		Nine Months Ended	
	September 30, 2007	September 30, 2006	September 30, 2007	September 30, 2006
Revenues	\$ 23,805	\$ 19,984	\$ 65,436	\$ 55,061
Cost of revenues				
Direct labor	15,368	12,523	41,675	34,238
Indirect labor and other support costs	6,517	5,243	17,902	13,976
Amortization of customer contracts	403	409	1,213	1,233
	22,288	18,175	60,790	49,447
Gross profit	1,517	1,809	4,646	5,614
Selling, general and administrative	2,867	2,907	8,389	8,695
Amortization of intangible assets	220	233	676	696
	3,087	3,140	9,065	9,391
Operating loss	(1,570)	(1,331)	(4,419)	(3,777)
Income from investment in Army Fleet Support, LLC, net				384
Other Income (expense):				
Interest expense	(954)	(366)	(1,884)	(2,693)
Interest on Series C redeemable preferred stock	(61)	(75)	(211)	(225)
Gain on sale of investment in Army Fleet Support, LLC				1,903
Other income	1,888	770	2,451	854
	873	329	356	(161)
Loss before income taxes	(697)	(1,002)	(4,063)	(3,544)
Income tax benefit	(850)	(188)	(1,947)	(1,032)
Net income (loss)	\$ 153	\$ (814)	\$ (2,116)	\$ (2,522)
Basic and diluted net income (loss) per common share	\$ 0.04	\$ (0.23)	\$ (0.59)	\$ (0.74)
Basic and diluted weighted average number of common shares	3,661	3,486	3,561	3,415

See accompanying notes to financial statements.

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

	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Cash flow from operating activities:		
Net loss	\$ (2,116)	\$ (2,522)
Adjustments to reconcile net loss to net cash used by operating activities:		
(Gain) on sale of non-core assets		(2,381)
(Income) from investment in Army Fleet Support, LLC, net		(384)
(Gain) on Paragon settlement	(1,888)	
(Gain) on Cornwall settlement	(250)	
Stock issued for services		44
Depreciation and amortization	2,157	2,187
Deferred income tax benefits	(1,225)	(3,356)
Non-cash employee stock option expense	164	300
Non-cash interest expense	573	830
Changes in operating assets and liabilities:		
Trade accounts receivable, net	1,021	760
Prepaid expenses and other assets	(290)	60
Trade accounts payable	651	(251)
Accrued liabilities	1,044	(1,292)
Income taxes payable	(737)	2,350
Net cash used by operating activities	(896)	(3,655)
Cash flow from investing activities:		
Cash distributions from investment in Army Fleet Support, LLC		175
Proceeds from sale of investment in Army Fleet Support, LLC		10,810
Proceeds from disposal of property and equipment		693
Proceeds from sale of home monitoring contracts		608
Purchase of property and equipment	(176)	(177)
Net cash provided (used) by investing activities	(176)	12,109
Cash flow from financing activities:		
Payment on Paragon settlement	(1,250)	
Net payments on factoring facility	(53)	(3,520)
Proceeds (repayments) of term loans	2,500	(5,092)
Deferred financing costs	(65)	(43)
Repayments of capital lease obligations	(23)	
Proceeds from exercise of stock options		9
Deferred initial public offering costs		(111)
Net cash provided (used) by financing activities	1,109	(8,757)

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Net increase (decrease) in cash and cash equivalents		37		(303)
Cash and cash equivalents at beginning of period		66		463
Cash and cash equivalents at end of period	\$	103	\$	160
Supplemental disclosures of cash flow information:				
Interest paid	\$	1,310	\$	1,873
Income taxes paid	\$	15	\$	19