Fortress International Group, Inc.
Form 10-Q
May 21, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 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 March 31, 2007

or

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

Commission file number: 000-51426

FORTRESS INTERNATIONAL GROUP, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**20-2027651** (I.R.S. Employer Identification No.)
9841 Broken Land Parkway **Columbia, Maryland 21046** (Address of principal executive offices)	**21046** (Zip Code)

(410) 312-9988
(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 Exchange Act during the past 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 o

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

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

As of May 9, 2007, 11,396,713 shares of the registrant's common stock, par value $0.0001 per share, were outstanding.

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FORTRESS INTERNATIONAL GROUP, INC.
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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements
FORTRESS INTERNATIONAL GROUP, INC.
Consolidated Balance Sheet

	(Successor)		(Predecessor)	
	March 31, 2007 (unaudited)	**December 31, 2006 (audited)**	**January 19, 2007 (unaudited)**	**December 31, 2006 (audited)**
Assets				
Current Assets				
Cash and cash equivalents	$ 25,675,952	$ 7,347	$ 1,322,317	$ 2,361,838
Contract and other receivables, net	7,176,323	—	6,261,988	9,960,851
Prepaid expenses and other current assets	722,253	3,750	233,894	125,276
Costs and estimated earnings in excess of billings on uncompleted contracts	661,061	—	1,559,045	480,540
Due from affiliated entities	—	—	—	201,670
Total Current Assets	34,235,589	11,097	9,377,244	13,130,175
Investments held in trust	—	44,673,994	—	—
Property and equipment, net	948,387	—	904,689	810,747
Goodwill	14,713,572	—	—	—
Intangible assets, net	19,866,248	—	—	—
Deferred acquisition costs	—	869,853	—	—
Other assets	410,054	—	64,158	21,190
Deferred tax assets	490,675	490,675	—	—
Income tax recoverable	531,641	—	—	—
Total Assets	$ 71,196,166	$ 46,045,619	$ 10,346,091	$ 13,962,112

The accompanying notes are an integral part of these consolidated financial statements.

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Fortress International Group, Inc.
Consolidated Balance Sheets-Continued

	(Successor)		(Predecessor)	
	March 31, 2007 (unaudited)	**December 31, 2006 (audited)**	**January 19, 2007 (unaudited)**	**December 31, 2006 (audited)**
Liabilities and Stockholders' Equity				
Current Liabilities				
Notes payable-current portion	$ 70,804	$ —	$ 72,808	$ 76,934
Accounts payable and accrued expenses	7,628,509	913,222	6,641,718	8,503,024
Advances from stockholder	—	20,000	—	—
Income taxes payable	—	586,283	—	—
Billings in excess of costs and estitmated earnings on uncompleted contracts	1,081,984	—	1,662,718	1,243,042
Deferred compensation payable	—	—	—	643,571
Total Current Liabilities	8,781,297	1,519,505	8,377,244	10,466,571
Notes payable	10,068,876	—	79,524	81,679
Total Liabilities	18,850,173	1,519,505	8,456,768	10,548,250
Common stock, subject to possible redemption 1,559,220 shares	—	8,388,604	—	—
Interest income on common stock subject to possible redemption	—	541,735	—	—
Total common stock subject to redemption	—	8,930,339	—	—
Commitments and Contingencies	—	—	—	—
Stockholders' Equity				
Preferred stock- $.0001 par value; 1,000,000 shares authorized; no shares issued or outstanding	—	—	—	—
Common stock-- $.0001 par value, 50,000,000 shares authorized; 11,970,713 and 9,550,000 issued; 11,970,713 and 9,550,000 outstanding, respectively (which includes 0 and 1,559,220 shares	1,196	955	—	—

subject to possible redemption, respectively								
Additional paid-in capital		53,553,325		34,819,062		—		—
Treasury stock, at cost 221,000 and 0 shares (sucessor);		(1,221,817)		—		—		—
Retained earnings		13,289		775,758		—		—
Members' equity		—		—		1,889,323		3,732,115
Note receivable from affiliate		—		—		—		(318,253)
Total Stockholders' Equity		52,345,993		35,595,775		1,889,323		3,413,862
Total Liabilities and Stockholders' Equity	$	71,196,166	$	46,045,619	$	10,346,091	$	13,962,112

The accompanying notes are an integral part of these consolidated financial statements.

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Fortress International Group, Inc.
Consolidated Statements of Operations

	(Successor)		(Predecessor)	
	For the Three Months Ended March 31, 2007	For the Three Months Ended March 31, 2006	For the period from January 1, 2007 through January 19, 2007	For the Three Months Ended March 31, 2006
Revenue	$ 8,676,937	$ —	$ 1,412,137	$ 16,280,322
Cost of Revenue	7,205,566	—	1,108,276	13,211,827
Gross Profit	1,471,371	—	303,861	3,068,495
Operating costs and expenses				
Selling, general and administrative	2,637,940	176,202	555,103	1,609,050
Depreciation and amortization	55,431	—	33,660	43,725
Amortization of intangible assets	440,454	—	—	—
Total operating costs and expenses	3,133,825	176,202	588,763	1,652,775
Operating (loss) income	(1,662,454)	(176,202)	(284,902)	1,415,720
Other Income (Expense)				
Interest income	216,171	361,561	4,117	—
Interest (expense)	(117,366)	—	(368)	(4,965)
Income (Loss) Before Income Taxes	(1,563,649)	185,359	(281,153)	1,410,755
Income Tax (Benefit) Expense	(531,641)	63,022	—	—
Net (Loss) Income	$ (1,032,008)	$ 122,337	$ (281,153)	$ 1,410,755
Weighted average number of shares outstanding				
-basic	11,390,487	9,550,000	—	—
diluted	11,390,487	9,550,000	—	—
Weighted average shares outstanding exclusive of shares subject to possible redemption				
-basic	11,390,487	7,990,800	—	—
diluted	11,390,487	7,990,800	—	—
Basic net income (loss) per share				
-Net income	$ (0.09)	$ 0.01	$ —	$ —

Diluted net income (loss) per share								
-Net income	$	(0.09)	$	0.01	$	—	$	—

The accompanying notes are an integral part of these consolidated financial statements.

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Fortress International Group, Inc.
Consolidated Statements of Cash Flow

	(Successor)		(Predecessor)	
	For the Three Months Ended March 31, 2007	For the Three Months Ended March 31, 2006	For the period from January 1, 2007 through January 19, 2007	For the Three Months Ended March 31, 2006
Cash Flows from Operating Activities				
Net income (loss)	$ (1,032,008)	$ 122,337	$ (281,153)	$ 1,410,755
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:				
Depreciation and amortization	55,431	—	33,660	43,725
Amortization of intangibles	529,052	—	—	—
Deferred income taxes	—	(85,070)	—	—
Income tax recoverable	(531,641)	—	—	—
Stock-based compensation	202,359	—	—	—
Interest income on treasury bills	—	(443,947)	—	—
Changes in assets and liabilities, net of effects of acquisitions:				
Contracts and other receivables	(914,335)	—	3,698,863	4,596,154
Costs and estimated earnings in excess of billings on uncompleted contracts	897,984	—	(1,078,505)	(667,678)
Prepaid expenses	(484,607)	24,002	(108,618)	(3,303)
Due from affiliates	—	—	519,923	822
Other assets	(345,896)	—	(42,968)	—
Accounts payable and accrued expenses	73,567	25,054	(1,861,306)	269,533
Billings in excess of costs and estitmated earnings on uncompleted contracts	(580,734)	—	419,676	(940,694)
Income taxes payable	(586,283)	148,092	—	—
Deferred compensation payable	—	—	(643,571)	—
Interest income attributable to common stock subject to possible redemption	—	88,745	—	—
Net Cash (Used in) Provided by Operating Activities	(2,717,111)	(120,787)	656,001	4,709,314
Cash Flows from Investing Activities				
Purchase of property and equipment	(99,129)	—	(127,602)	(3,197)
Decrease in Investments held in Trust fund	44,673,994	—	—	—
	(9,677,683)	—	—	—

Purchase of TSS/Vortech, net of cash received				
Deferred acquisition costs	(916,983)	—	—	—
Net Cash Provided by (Used in) Investing Activities	33,980,199	—	(127,602)	(3,197)
Cash Flows from Financing Activities				
Payments on notes payable	(12,652)	—	(6,281)	(18,305)
Advances from stockholder	(20,000)	—	—	—
Member distributions	—	—	(1,561,639)	(323,127)
Repurchase of common stock	(5,561,831)	—	—	—
Net Cash (Used in) Provided by Financing Activities	(5,594,483)	—	(1,567,920)	(341,432)
Net Increase (Decrease) in Cash	25,668,605	(120,787)	(1,039,521)	4,364,685
Cash, beginning of period	7,347	992,547	2,361,838	1,737,075
Cash, end of period	$ 25,675,952	$ 871,760	$ 1,322,317	$ 6,101,760
Supplemental disclosure of cash flow information				
Cash paid for interest	$ 654	$ —	$ 368	$ 4,965
Cash paid for taxes	593,166	—	—	—
Supplemental disclosure of non cash Investing Activities				
Issuance of common stock in connection with acquisition of TSS/Vortech	$ 14,211,359	$ —	—	—
Notes payable entered into in connection with acquisition of TSS/Vortech	10,000,000	—	—	—

The accompanying notes are an integral part of these consolidated financial statements.

Fortress International Group, Inc.
Notes to the Consolidated Financial Statements

NOTE A - BASIS OF PRESENTATION

The consolidated financial statements are for the three months ended March 31, 2007 and 2006 for Fortress International Group, Inc. (the "Successor Company", "Fortress" or the "Company") and are for the period January 1, 2007 to January 19, 2007 (the acquisition date) and the three months ending March 31, 2006 for VTC, L.L.C. t/a Total Site Solutions and Vortech, LLC (collectively the "Predecessor Company" or "TSS/Vortech"). The Company has included the results of operations for the acquisition of TSS/Vortech from the acquisition date through March 31, 2007 in the Fortress financial statements.

Except for the balance sheets of the Company and TSS/Vortech as of December 31, 2006, which are derived from audited financial statements, the accompanying consolidated financial statements are unaudited. In the opinion of management, all adjustments necessary for a fair statement of such financial position and results of operations have been included. All such adjustments are of a normal recurring nature. Interim results are not necessarily indicative of results for a full year.

The consolidated financial statements and notes are presented as required by Form 10-Q and do not contain certain information included in the Company's annual financial statements and notes. These financial statements should be read in conjunction with the Company's audited financial statements and the notes thereto filed with the Securities and Exchange Commission ("SEC") in the Company's Annual Report on Form 10-K for the year ended December 31, 2006. The interim financial statements of TSS/Vortech have also been presented in accordance with the requirements of Form 10-Q. Such information should be read in conjunction with the TSS/Vortech financial statements for the year ended December 31, 2006 included in the Fortress International Group, Inc. Form 10-K for the year ended December 31, 2006.

NOTE B - RECENT ACCOUNTING PRONOUNCEMENTS

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. Specifically, this Statement sets forth a definition of fair value, and establishes a hierarchy prioritizing the inputs to valuation techniques, giving the highest priority to quoted prices in active markets for identical assets and liabilities and the lowest priority to unobservable inputs. The provisions of SFAS No. 157 are generally required to be applied on a prospective basis, except to certain financial instruments accounted for under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, for which the provisions of SFAS No. 157 should be applied retrospectively. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is evaluating the effect of this statement, if any, on its financial position or results of operations.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities — Including an amendment of FASB Statement No. 115* (SFAS No. 159). SFAS No. 159 permits an entity, at specified election dates, to choose to measure certain financial instruments and other items at fair value. The objective of SFAS No. 159 is to provide entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently, without having to apply complex hedge accounting provisions. SFAS No. 159 is effective for accounting periods beginning after November 15, 2007. The Company is currently assessing the impact of adopting SFAS No. 159 on the consolidated financial statements.

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NOTE C - ACQUISITION OF TSS/VORTECH

On January 19, 2007, the Company acquired all of the outstanding membership interests of TSS/Vortech pursuant to the Second Amended and Restated Membership Interest Purchase Agreement dated July 31, 2006, as amended by the Amendment to the Second Amended and Restated Membership Interest Purchase Agreement dated January 16, 2007 (the “Purchase Agreement”). The closing consideration consisted of (i) $11,000,000 in cash, (ii) the assumption of $154,599 of debt of TSS/Vortech, (iii) 2,602,813 shares of Fortress stock, of which 2,534,988 shares were issued to the selling members and 67,825 shares were issued to Evergreen Capital LLC as partial payment of certain outstanding consulting fees and (iv) $10,000,000 in two convertible, promissory notes of $5,000,000 each bearing interest at 6%.

All of the shares issued to the selling members (2,534,988 shares) were placed into escrow accounts as follows: 2,461,728 into the General Indemnity escrow to secure the rights of Fortress under the acquisition and 73,260 shares into the Balance Sheet escrow subject to TSS/Vortech delivering $1,000,000 in working capital. These shares will be released subject to certain conditions under the respective agreements. Based on a determination of net working capital at the acquisition date, the Company has recorded a payable for approximately $200,000, included in accounts payable and accrued expenses in the March 31, 2007 consolidated balance sheet, expected to be paid to the sellers as a purchase price adjustment. The share price was based upon the average closing price for twenty days prior to the public announcement of the purchase.

Shareholders owning 756,100 shares of Fortress common stock voted against the acquisition and requested to receive the pro rata share of cash in the Trust Fund. The Company remitted approximately $4,342,000 in exchange for these shares.

Upon consummation of the merger approximately $28.9 million was released from the trust account to be used by the Company.

Under the purchase method of accounting, the preliminary purchase price has been allocated to the net tangible and intangible assets acquired and liabilities assumed, based upon preliminary estimates, which assume that historical cost approximates fair value of the assets and liabilities of TSS/Vortech. As such, management estimates that a substantial portion of the excess purchase price will be allocated to non-amortizable intangible assets. These estimates are subject to change upon the finalization of the valuation of certain assets and liabilities and may be adjusted in accordance with the provisions of SFAS No. 141, *Business Combinations*. Management has preliminarily estimated that the transaction will result in $14.7 million of goodwill that is expected to be deductible for income tax purposes. Additionally, management estimated that approximately $20.4 million of the purchase price is allocable to customer-related intangible assets, which include non-contractual customer relationships, order backlog, and trade name. Such intangible assets will be amortized over periods ranging from one to fifteen years based upon factors such as customer relationships and contract periods.

We paid a premium (i.e., goodwill) over the fair value of the net tangible and preliminarily identified intangible assets acquired for a number of reasons, including the following:

- TSS/Vortech has a broad range of experience, contacts and service offerings in the mission critical facility industry. TSS/Vortech has a very experienced and committed management team with strong core competencies. TSS has a significant number of personnel with security clearances which is important in the homeland security industry.

- Our belief in TSS/Vortech’s business model and potential for growth, increasing demand in its industry and its complete service offering when compared to other similar companies. In addition TSS/Vortech can provide a platform to assist us in managing acquisitions in the future.

- TSS/Vortech has been building a national business development organization to expand beyond its current regional presence.

The total purchase price paid, including transaction costs of approximately $1.8 million, has been preliminarily allocated as follows:

Cash	$ 11,000,000
Common stock (2,602,813 shares per the purchase agreement)	14,211,359
Convertible notes payable to sellers	10,000,000
Transaction costs	1,773,068
Total purchase price	36,984,427
Purchase price allocation:	
Current assets	9,377,244
Property and equipment	904,689
Intangible assets	20,395,300
Goodwill	14,713,572
Other assets	64,158
Total assets acquired	45,454,963
Current liabilities	8,391,012
Long-term liabilities	79,524
Total liabilities assumed	8,470,536
Net assets acquired	$ 36,984,427

The preliminary estimated value and the weighted-average amortization period of each of the components of intangible assets are as follows:

	Estimated Value	Weighted-Average Amortization Period
Non-contractual customer relationships	$ 16,100,000	8 years
Order Backlog	456,300	1 years
Trade Name	3,839,000	15 years
Total	$ 20,395,300	

Amortization expense totaling $529,052 has been included in the accompanying consolidated statement of operations related to the above intangibles of which $88,598 is included in cost of revenue.

The results of operations for TSS/Vortech have been included in the Consolidated Statements of Income from the acquisition date through March 31, 2007.

Unaudited pro forma results of operations are as follows. The amounts are shown as if the TSS acquisition had occurred on January 1:

	Three months ended March 31, 2007	2006
Proforma revenue	$ 10,089,074	$ 16,280,322
Proforma operating (loss) income	(1,947,356)	710,465
Proforma pretax (loss) income	(1,844,802)	950,248
Proforma net (loss) income	(1,217,569)	627,164
Net (loss) income per share (basic)	(0.09)	0.07
Net (loss) income per share (diluted)	-	0.07

This information is not necessarily indicative of the operational results that would have occurred if the acquisition had been consummated on the dates indicated nor is it necessarily indicative of future operating results of the combined enterprise.

NOTE D - INVESTMENTS HELD IN TRUST

The Company held certain investments in a trust account through January 19, 2007 consisting primarily of short term investments. All such investments have been disposed of as of March 31, 2007.

NOTE E - INCOME (LOSS) PER SHARE

Successor — Basic and diluted net loss per share information is presented in accordance with SFAS No. 128, *Earnings Per Share*. Basic loss per share is calculated by dividing the net loss attributable to common stockholders by the weighted-average common shares outstanding during the period. Diluted loss per share is calculated by dividing net loss attributable to common stockholders by the weighted average common shares outstanding which includes common stock equivalents. The Company's common stock equivalents consists of outstanding warrants. For the three months ended March 31, 2007 and 2006, a total of 15,600,000 common stock equivalents, , were excluded from the calculation of diluted income per share as their impact would have been anti-dilutive. In addition, any impact from the conversion of our convertible notes payable discussed in Note J are excluded from the computation of earnings per share since their conversion would also be anti-dilutive.

Weighted average common shares are calculated as follows:

	(Successor)		(Predecessor)	
	Three Months Ended March 31, 2007	2006	Period from January 1, through January 19, 2007	Three Months Ended March 31, 2006
Net (loss) income allocable to common stockholders not subject to possible redemption	$ (1,032,008)	$ 122,137	$ (281,153)	$ 1,410,755
Weighted average number of shares outstanding - basic	11,390,487	9,550,000	-	-
Weighted average number of shares outstanding - diluted	11,390,487	9,550,000	-	-
Income (loss) per share - basic	$ (0.09)	$ 0.01	-	-
Income (loss) per share - diluted	$ (0.09)	$ 0.01	-	-

No weighted average common shares or income (loss) per share amounts are shown for the Predecessor since the Predecessor was limited liability company whose capital structure consisted of membership interests. As such, no weighted average number of outstanding shares and earnings per share are presented.

NOTE F - EMPLOYEE STOCK-BASED COMPENSATION

On January 17, 2007, the stockholders of the Company approved the Fortress International Group, Inc. 2006 Omnibus Incentive Compensation Plan (the "Plan"). Under the Plan, the Company reserved 2.1 million shares of the Company's common stock for issuance to employees and directors through incentive stock options, or non-qualified stock options or through restricted stock units. Pursuant to the Plan, on January 19, 2007 the Company issued of 574,000 shares of restricted stock with grant date value of $5.44 per share in connection with the acquisition of TSS. The restricted stock units have a vesting period of three years.

We are accounting for these grants of restricted stock in accordance with SFAS No. 123(R), *Share Based Payment,* which requires that compensation costs related to share-based payment transactions be recognized in financial statements. Under the fair value recognition provisions of SFAS No. 123(R), the Company recognizes stock-based compensation based upon the fair value of the stock-based awards taking into account the effects of the employees expected exercise and post-vesting employment termination behavior. The Company recognized $202,359 ($.02 per basic and diluted share) of stock-based compensation expense for the three months ended March 31, 2007, which is included in selling, general and administrative expense.

The Company did not grant any stock-based awards to employees prior to fiscal year 2007.

NOTE G - COMMON STOCK REDEMPTION

Prior to the consummation of the acquisition of TSS/Vortech, the Company announced and implemented a common stock repurchase program under which it may purchase up to 3,000,000 shares of common stock. Through March 31, 2007, the Company paid approximately $1.2 million in cash to redeem 221,000 shares of common stock at an average price of $5.53 per share.

On January 19, 2007, the Company announced that it would repurchase shares of those shareholders that voted against the acquisition of TSS and requested that their 756,100 shares be redeemed at the then per share trust value of $5.74 per share (including deferred interest of $0.38 per share). This program was completed in January 2007.

NOTE H - INCOME TAXES

The Company's effective tax rates are based upon the effective tax to be applicable to the full fiscal year. As of March 31, 2007, the Company had a net deferred tax asset of approximately $0.5 million. TSS/Vortech is a limited liability company and incurred no material income taxes prior to the acquisition.

Effective January 1, 2007, the Company was required to adopt FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 prescribes a more-likely-than-not threshold of financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition of income tax assets and liabilities, classification of current and deferred tax assets and liabilities, accounting for interest and penalties associated with tax positions, accounting for income taxes in interim periods and income tax disclosures. Since inception and through January 1, 2007, the adoption date of this standard, the Company was in essence a "blank check" company with no substantive operations. The Company files its tax returns as prescribed by the tax laws of the jurisdictions in which it operates. The Company's 2004 through 2006 tax years are still subject to examination by the IRS. Various state jurisdiction tax years remain open to examination. As a result, management has concluded that the adoption of this standard had no material effect on its financial position or results of operations.

Management is in the process of evaluating the various tax positions associated with the acquisition of TSS/Vortech and is of the opinion that any deferred tax liabilities that would ultimately result from uncertain tax positions related to these entities would be covered by indemnification provisions provided in the acquisition agreements or would result in an adjustment to goodwill.

NOTE I - CONVERTIBLE PROMISSORY NOTES

In connection with the TSS/Vortech acquisition, the Company entered into two convertible promissory notes payable totaling $10,000,000. The notes bear interest at six percent per year and have a term of five years. Interest only is payable during the first two years of each note with principal payments commencing on the second anniversary (January 19, 2009) and continuing throughout the balance of the term of the notes in equal quarterly installments totaling $833,333. At any time after the sixth month following the closing of the acquisition, the notes are convertible by the selling members into shares of our common stock at a conversion price of $7.50 per share. At any time after the sixth month following the closing of the acquisition, the notes are automatically convertible if the average closing price of our common stock for 20 consecutive trading days equals or exceeds $7.50 per share.

Principal payments are due on the above notes as follows:

Year ending March 31,	Amount

2008	$	-
2009		833,334
2010		3,333,333
2011		3,333,333
2012		2,500,000

NOTE J - RELATED PARTY TRANSACTIONS

The Company participates in transactions with the following entities affiliated through common ownership and management.

S3 Integration LLC. S3 Integration LLC (S3 Integration) is owned 15% by each by the Company's Chief Executive Officer and President. S3 Integration provides commercial security systems design and installation services as a subcontractor to the Company.

Chesapeake Tower Systems, Inc. Chesapeake Tower Systems, Inc. (Chesapeake) is 100% owned by the Company's Chief Executive Officer. On February 28, 2007 Chesapeake sold substantially all of its assets to an unrelated entity and, except for an office space sublease agreement, does not engage in any business with the Company. Chesapeake was a manufacturer's representative and distributor of mechanical and electrical equipment, which Chesapeake sold to the Company. In addition, the Company acted as a subcontractor to Chesapeake for certain equipment installation on project-by-project basis.

CTS Services, LLC (CTS) is 55% owned by the Company's Chief Executive Officer. CTS is a mechanical contractor that acts as a subcontractor to the Company for certain projects. In addition, CTS utilizes the Company as a subcontractor on projects as needed.

L.H. Cranston Acquisition Group, Inc. L.H. Cranston Acquisition Group, Inc. is 25% owned by the Company's Chief Executive Officer. L.H. Cranston Acquisition Group is a mechanical, electrical and plumbing contractor that acts, directly or through its Subsidiary L.H. Cranston and Sons, Inc., as subcontractor to the Company on a project-by-project basis.

Telco P&C, LLC. Telco P&C, LLC is 55% owned by the Company's Chief Executive Officer. Telco P&C is a specialty electrical installation company that acts as a subcontractor to the Company. The Company has also acted as a subcontractor to Telco as needed.

Automotive Technologies, Inc. Automotive Technologies, Inc., 60% owned by the Company's Chief Executive Officer and provides vehicle maintenance and repair services to the Company.

TPR Group Re Three LLC. As of November 1, 2006, TPR Group LLC Re Three (TPR Group Re Three) is owned 50% each by the Company's Chief Executive Officer and its President. TPR Group Re Three leases office space to the Company under the terms of a real property lease to TSS/Vortech.

The following table sets forth transactions the Company has entered into with the above related parties for the three months ended March 31, 2007 and 2006.

	2007	**2006**
Revenue		
CTS Services, LLC	$ 37,840	$ 45,486
Chesapeake Tower Systems, Inc.	429	7,147
Cost of Revenue		
Chesapeake Tower Systems, Inc.	100,327	71,484
CTS Services, LLC	239,428	784,544
S3 Integration, LLC	88,179	-
LH Cranston & Sons, Inc.	10,777	95,303
Telco P&C, LLC	29,282	1,575

Office rent paid on Chesapeake sublease agmt	46,950	39,142
Office rent paid to TPR Group Re Three, LLC	100,984	-
Vehicle repairs to Automotive Technologies, Inc.	4,442	-
Accounts receivable/(payable):		
CTS Services, LLC	64,402	22,202
CTS Services, LLC	(344,733)	(426,274)
Telco P&C, LLC	(3,147)	1,575
LH Cranston & Sons, Inc.	(10,777)	(4,546)

NOTE K - SEGMENT ACCOUNTING

The Company reviewed its services by unit to determine if any unit of the business is subject to risks and returns that are different than those of other units in the Company. Based on this review, the Company has determined that all units of the Company are providing comparable services to its clients, and the Company has only one reportable segment.

NOTE L - COMMITMENTS

Employment Agreements

On January 19, 2007, the Company entered into employment agreements with its Chairman, Chief Executive Officer and President and a consulting agreement (the agreements) with an entity controlled by the Vice-Chairman who each have been serving in that capacity since then. The employment agreements were filed as part of a curr