

Edgar Filing: TSI INC /MT/ - Form 10QSB

TSI INC /MT/  
Form 10QSB  
November 18, 2002

U.S. Securities and Exchange Commission  
Washington, D.C. 20549

Gentlemen,

We are transmitting herewith Form 10-QSB for the quarter ended September 30, 2002 for TSI, Inc.

TSI, Inc.

s/Dawn Mellinger  
Dawn Mellinger  
Accountant

U.S. Securities and Exchange Commission  
Washington, D.C. 20549

FORM 10-QSB

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2002

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from to

Commission file number 0-2054

TSI, INC.

(Exact name of small business issuer as specified in its charter)

Montana 81-0267738  
(State or other jurisdiction of (IRS Employer Identification No.)  
incorporation or organization)

128 Second Street South, Great Falls, Montana 59401  
(Address of principal executive offices)

(406) 727-2600  
(Issuer's telephone number)

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Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Check whether the issuer (1) 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  No

## APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Check whether the registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court. Yes  No

## APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date:

| Class                        | Outstanding at June 30, 2002 |
|------------------------------|------------------------------|
| \$.05 Par Value Common Stock | 10,471,844 Shares            |

Transitional Small Business Disclosure Format (Check One): Yes  ; No

TSI, INC.

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JUNE 30, 2002

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### PART I

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TSI, INC.

CONSOLIDATED BALANCE SHEET

AS OF SEPTEMBER 30, 2002

ASSETS

|                                       |               |
|---------------------------------------|---------------|
| Current Assets                        |               |
| Cash                                  | \$ 23,156,750 |
| Marketable Securities, at Fair Value  | 1,238,550     |
| Receivables - Net                     | 123,887       |
| Deferred Taxes, Current 18,800        |               |
| Total Current Assets                  | 24,537,987    |
| Other Assets                          |               |
| Noncurrent Investments, at Fair Value | 580,809       |
| Other Assets                          | 2,238         |
| Property, Plant and Equipment, Net    | 692,433       |
| TOTAL ASSETS                          | \$ 25,813,467 |

LIABILITIES AND STOCKHOLDERS' EQUITY

|  |            |
|--|------------|
| Current Liabilities  |            |
| Accounts Payable and Accrued Liabilities   | \$ 444,791 |
| Income Taxes Payable   | 83,605     |
| Due to Parent Company  | 299,577    |
| Total Current Liabilities  | 827,973    |
| Provision For Estimated Title and Escrow Losses  | 819,949    |
| Minority Interests   | 390,041    |
| Excess of Fair Value of Net Assets Acquired Over Cost  | 17,810     |
| Deferred Income Taxes  | 126,100    |
| Total Liabilities  | 2,181,873  |
| Stockholders' Equity   |            |
| Common Stock - \$.05 Par Value,<br>30,000,000 shares authorized,<br>10,483,142 shares issued | 524,157    |
| Additional Paid-In Capital   | 19,165,957 |
| Retained Earnings  | 3,801,720  |
| Accumulated Other Comprehensive Income   | 157,176    |
| Treasury Stock, at Cost  | (17,416)   |
| Total Stockholders' Equity   | 23,631,594 |

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TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY

\$ 25,813,467

See Notes to Consolidated Financial Statements

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TSI, INC.

STATEMENTS OF INCOME

|  | For The Three Months<br>Ended<br>September 30,<br>2002 |            | For The Nine Months<br>Ended<br>September 30,<br>2002 |             |
|--|--|------------|---|-------------|
|  | 2002   | 2001       | 2002  | 2001        |
| Operating Revenues   | \$ 601,918   | \$ 705,665 | \$ 1,712,953  | \$5,047,865 |
| Operating Expenses   |  |            |   |             |
| Salaries and Payroll   |  |            |   |             |
| Costs  | 358,184  | 225,340    | 712,647   | 700,617     |
| Depreciation   | 19,746   | 21,463     | 53,747  | 64,388      |
| Other Expenses   | 220,231  | 189,541    | 600,423   | 615,946     |
| Total Expenses   | 598,161  | 436,344    | 1,366,817   | 1,380,951   |
|  | 3,757  | 269,321    | 346,136   | 3,666,914   |
| Amortization of<br>Deferred Credit   | 2,055  | 2,055      | 6,165   | 6,165       |
| Minority Portion of<br>(Income)  | 901  | (1,779)    | (2,874)   | (11,141)    |
|  | 6,713  | 269,597    | 349,427   | 3,661,938   |
| Income Tax Expense   | 15,700   | 95,000     | (87,900)  | (1,450,000) |
| Net Income   | 22,413   | 364,597    | 261,527   | 2,211,938   |
| Other Comprehensive Income (Loss)  |  |            |   |             |
| Increase (Decrease) in<br>Unrealized Holding Gains,<br>Net of Income Taxes | (149,207)  | (122,182)  | (112,147)   | (1,920,739) |
| Comprehensive Income   | \$ (126,794)   | \$242,415  | \$ 149,380  | \$ 291,199  |

See Notes to Consolidated Financial Statements

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TSI, INC.

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CONSOLIDATED

STATEMENTS OF CASH FLOWS

|   | For The Nine Months Ended<br>September 30, |              |
|---|--|--------------|
|   | 2002                                       | 2001         |
| CASH FLOWS FROM OPERATING ACTIVITIES  |  |              |
| Net Cash From Operations  | \$ 719,397                                 | \$ 743,451   |
| Income Taxes Paid   | (147,150)                                  | -            |
| Net Cash Provided By<br>Operating Activities                                      | \$ 572,247                                 | \$ 743,451   |
| CASH FLOWS FROM INVESTING ACTIVITIES  |  |              |
| Capital Expenditures Paid In Cash   | (42,733)                                   | -            |
| Cash Received on Sales and Redemptions<br>of Property and Equipment               | -  | (4,276)      |
| Cash Used for Purchases of Marketable<br>Securities Available For Sale            | (361,962)                                  | (4,032,968)  |
| Cash Received Upon Dispositions of Marketable<br>Securities Available For Sale    | 1,050,336                                  | 8,390,426    |
| Cash Paid to Jefferson Management Company<br>(in error, which was later returned) | -  | (452,262)    |
| Net Cash Provided<br>Investing Activities   | 645,641                                    | 3,900,920    |
| CASH FLOWS FROM FINANCING ACTIVITIES  |  |              |
| Cash Provided From (To) Parent Company  | (195,859)                                  | (923,800)    |
| Cash Purchases of Treasury Stock  | (6,198)                                    | (9,388)      |
| Net Cash Provided (Used) By<br>Financing Activities                               | (202,057)                                  | (933,188)    |
| NET INCREASE IN CASH  | 1,015,831                                  | 3,711,183    |
| CASH - BEGINNING OF PERIOD  | 22,140,919                                 | 16,867,357   |
| CASH - END OF PERIOD  | \$23,156,750                               | \$20,578,540 |

See Notes to Consolidated Financial Statements

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2002

In the opinion of management, all adjustments necessary (consisting of only normal recurring accruals) have been made to the unaudited financial statements to present fairly the financial position as of September 30, 2002 and the results of the Company's operations for the three months and nine months ended September 30, 2002 and 2001 and cash flows for the nine months ended September 30, 2002 and 2001.

The results of operations for the three months and nine months ended September 30, 2002 and 2001 are not indicative of the results to be expected for the full year.

The consolidated financial statements include the accounts of the company, its wholly owned subsidiaries and its majority owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

M Corp owns approximately 92% of the Company's issued and outstanding common stock.

The Company adopted the provisions of Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities (SFAS No. 115) effective January 1, 1994. In accordance with SFAS No. 115, the Company's portfolios, current and noncurrent, are carried at fair value in the Company's balance sheet at September 30, 2002. The net unrealized holding gains at September 30, 2002, net of the estimated income tax effects and minority interests in the unrealized holding gains, is included in Accumulated Other Comprehensive Income at September 30, 2002 in accordance with the provisions of Financial Accounting Standards NO. 130.

Sales to outside concerns, interest revenues and segment operating profit for the Company's reportable segments were as follows for the quarter ended September 30, 2002:

|                            | Sales to<br>Outside<br>Concerns | Interest<br>Revenues | Segment<br>Operating<br>Profit |
|----------------------------|---------------------------------|----------------------|--------------------------------|
| Financial Holding Company  | \$ 17,725                       | \$ 10,079            | \$ (95,787)                    |
| Title Insurance Operations | 462,071                         | 17,576               | 142,136                        |
| Rental Properties          | 94,467                          | -                    | (42,592)                       |
| Consolidated               | \$ 574,263                      | \$ 27,655            | \$ 3,757                       |

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TSI, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF THE INCOME STATEMENT

SEPTEMBER 30, 2002

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A summary of the period to period changes in items included in the statements of income is shown below.

|            | COMPARISON    |         | OF             |         |
|------------|---------------|---------|----------------|---------|
|            | THREE MONTHS  |         | NINE MONTHS    |         |
|            | ENDED         |         | ENDED          |         |
|            | SEPTEMBER 30, |         | SEPTEMBER 30,  |         |
|            | 2002 AND 2001 |         | 2002 AND 2001  |         |
|            | INCREASES     |         | (DECREASES)    |         |
| Revenues   | \$ (103,746)  | (14.7%) | \$ (3,334,911) | (66.1%) |
| Expenses   | 161,817       | 37.1%   | (14,134)       | (1.0%)  |
| Net Income | (342,483)     | (93.9%) | (1,950,410)    | (88.2%) |

Revenues decreased \$3,334,911 for the first nine months of 2002 (\$103,746 decrease for the third quarter of 2002) as compared to this time frame in 2001. This decrease is primarily due to a decrease in the security sales (\$2,881,718). The majority of the decrease in security sales revenue came from the sale of WesterFed. A commission fee of seven percent of gross proceeds from the sales of WesterFed stock, in connection with a merger of WesterFed, was paid to Paul J. McCann, a member of the controlling shareholders group, who played an active part in connection therewith. Other factors for the change in revenues include: decrease in interest and dividend income of \$337,725 (59.6%), decrease in rent of \$27,914 (8.9%), and a decrease in title revenues of \$64,700 (5.1%). Operating expenses decreased \$14,133 in the first nine months of 2002 (1%) in the third quarter of 2002, compared to this time frame in 2001. This is due mainly to the decrease in depreciation of \$10,641 (16.5%) and a reduction in other expenses of \$15,523 (3%). The provision for income tax expense decreased by \$1,362,100 (93.9%) in the first nine months of 2002 as compared to this time frame in 2001. This change was primarily due to the substantial decrease in income from security sales.

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OTHER INFORMATION

SEPTEMBER 30, 2002

ITEM 1 LEGAL PROCEEDINGS

None

ITEM 2 CHANGES IN SECURITIES AND USE OF PROCEEDS

None

ITEM 3 DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5 OTHER INFORMATION

None

ITEM 6 EXHIBITS AND REPORTS ON FORM 8-K

None

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SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TSI, INC.  
Registrant

Date: November 15, 2002

s/Lori Olson  
Lori Olson,  
Assistant Secretary-Treasurer

Date: November 15, 2002

s/Dawn Mellinger  
Dawn Mellinger,  
Accountant



CERTIFICATION

I, Paul J. McCann, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of TSI, Inc.
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in quarterly annual report, fairly present in all material respects the financial condition, results of operations and cash flows of TSI, Inc. as of, and for, the periods presented in this annual report.
4. TSI, Inc.'s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for TSI, Inc. We have:
  - a. designed such disclosure controls and procedures to ensure that material information relating to TSI, Inc., including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared.
  - b. evaluated the effectiveness TSI, Inc. disclosure controls and procedures as of a date with 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c. presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. TSI, Inc.'s other certifying officers and I have disclosed, based on our most recent evaluation, to TSI, Inc. auditors and the audit committee of TSI, Inc. board of directors (or persons performing the equivalent functions):
  - a. all significant deficiencies in the design or operation of internal controls which could adversely affect TSI, Inc.'s ability to record, process, summarize and report financial data, and I have identified for TSI, Inc.'s auditors any material weaknesses in internal controls; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in TSI, Inc.'s internal control; and
6. TSI, Inc.'s other certifying officers and I have indicated

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in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Based on my knowledge all of the above is true and correct.

Date: November 15, 2002

s/Paul J. McCann  
Paul J. McCann

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CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of TSI, Inc. on Form 10-QSB for the period ending September 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Paul J. McCann, Representative of Diversified Realty, Inc., certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of Diversified Realty, Inc.

Date: November 15, 2002

s/Paul J. McCann  
Paul J. McCann,  
Representative

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