

Fortress International Group, Inc.
Form 10-K
March 31, 2010

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2009

OR

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

For the transition period from _____ to _____

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.)

7226 Lee DeForest Drive, Suite 209
Columbia, MD
(Address of principal executive offices)

21046
(Zip Code)

Registrant's telephone number, including area code
(410)-423-7438

Securities registered pursuant to Section 12(b) of the Exchange Act:

Title of each class	Name of each exchange on which registered
Common stock, \$.0001 par value per share	NASDAQ Capital Market

Securities registered pursuant to Section 12(g) of the Exchange Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/>	[Do not check if a smaller reporting company]
Smaller reporting company <input checked="" type="checkbox"/>			

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

The aggregate market value of the registrant's voting and non-voting common stock held by non-affiliates of the registrant (without admitting that any person whose shares are not included in such calculation is an affiliate) as of June 30, 2009 was approximately \$6,375,699 based on 5,592,718 shares held by such non-affiliates at the closing price of a share of common stock of \$1.14 as reported on The NASDAQ Capital Market on such date.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Common Stock, par value \$0.0001 per share, outstanding as of March 19, 2010 was 13,361,763 shares.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents (or parts thereof) are incorporated by reference into the following parts of this Annual Report on Form 10-K: Certain information required in Part III of this Annual Report on Form 10-K will be incorporated from the Registrant's Proxy Statement for the 2010 Annual Meeting of Stockholders to be filed within 120 days of the end of the fiscal year ended December 31, 2009.

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Unless the context otherwise requires, when we use the words “Fortress,” “FIGI,” “we,” “us,” “our company,” or “the Company” in this Annual Report on Form 10-K, we are referring to Fortress International Group, Inc., a Delaware corporation, and its subsidiaries, unless it is clear from the context or expressly stated that these references are only to Fortress International Group, Inc.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements in this Annual Report on Form 10-K constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements can be identified by the use of forward-looking terminology, including the words “believes,” “estimates,” “anticipates,” “expects,” “intends,” “may,” “will” or “should,” or, in each case, the negative or other variations or comparable terminology. You should read such statements carefully because they discuss our future expectations, contain projections of our future results of operations or of our financial position, or state other forward-looking information. The factors listed in Item 1A of Part I of this Annual Report on Form 10-K captioned “Risk Factors,” as well as any cautionary language in this Annual Report on Form 10-K, provide examples of risks, uncertainties and events that may cause our actual results to differ materially from the expectations we describe in our forward-looking statements, including but not limited to, statements concerning:

- our mission-critical services business, its advantages and our strategy for continuing to pursue our business;
 - expectations as to our future revenue, margin, expenses, cash flows and capital requirements;
 - expectations as to our materialization of our backlog;
 - the quoting of our common stock on the OTC bulletin board;
 - the amount of cash available to us to execute our business strategy;
 - continued compliance with government regulations;
 - statements about industry trends;
 - geopolitical events and regulatory changes; and
 - other statements of expectations, beliefs, future plans and strategies.

These forward-looking statements are subject to risks and uncertainties, including financial, regulatory, industry growth and trend projections, that could cause actual events or results to differ materially from those expressed or implied by the statements. The most important factors that could prevent us from achieving our stated goals include, but are not limited to, our failure to:

- deliver services and products that meet customer demands and generate acceptable margins;
- increase sales volume by attracting new customers, retaining existing customers and growing the overall number of customers to minimize a significant portion of our revenues being dependent on a limited number of customers;
- manage the risks relating to revenues and backlog under customer contracts, many of which can be cancelled on short notice;
 - manage and meet contractual terms of complex projects;
 - react to the uncertainty related to current economic conditions;
 - attract and retain qualified management and other personnel;
 - increase demand for our services and products;
 - meet all of the terms and conditions of our debt obligations; and
- generate sufficient cash flows to support operations and implement our strategic plan.

Any or all of our forward-looking statements in this Annual Report on Form 10-K may turn out to be wrong. They can be affected by inaccurate assumptions we might make or by known or unknown risks and uncertainties. Many factors mentioned in our discussion in this Annual Report on Form 10-K will be important in determining future results. Consequently, no forward-looking statement can be guaranteed. Actual future results may vary materially.

Except as required by applicable law and regulations, we undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise. Further disclosures that we make on related subjects in our additional filings with the Securities and Exchange Commission should be consulted. For further information regarding the risks and uncertainties that may affect our future results, please review the information set forth below under “Item 1A. RISK FACTORS.”

PART I

Item 1. BUSINESS

Overview

We were incorporated in Delaware on December 20, 2004 as a special purpose acquisition company under the name “Fortress America Acquisition Corporation,” for the purpose of acquiring an operating business that performed services to the homeland security industry. In 2005, we closed our initial public offering, including an over-allotment of 7,800,000 units, with each unit consisting of one share of our common stock and two warrants each to purchase additional shares of common stock, which resulted in gross proceeds of \$46.8 million.

On January 19, 2007, we acquired all of the outstanding membership interests of each of VTC, LLC and Vortech, LLC (“TSS/Vortech”) pursuant to a 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”). In connection with the acquisition we simultaneously changed our name to Fortress International Group, Inc.

After our initial acquisition of TSS/Vortech, management continued an acquisition strategy to expand our geographic footprint, add complementary services and diversify and expand our customer base. We acquired substantially all of the assets of Comm Site of South Florida, Inc. (“Comm Site”) on May 7, 2007, 100% of the outstanding and issued capital stock of Innovative Power Systems, Inc. and Quality Power Systems, Inc. (“Innovative”) on September 24, 2007, and 100% of the membership interests of Rubicon Integration, LLC (“Rubicon”) on November 30, 2007. On January 2, 2008, we purchased 100% of the outstanding and issued capital stock of SMLB, Ltd.

On December 29, 2009, in an effort to preserve cash resources and enhance liquidity while maintaining a similar set of professional services subsequently, the Company disposed of substantially all of the assets and liabilities of Rubicon, LLC to its former owners and current management. The disposition resulted in consideration of approximately \$2.0 million.

Our principal executive offices are located at 7226 Lee DeForest Drive, Suite 209, Columbia, Maryland 21046 and our telephone number is 410-423-7300. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements for our annual stockholder’s meetings and all amendments to those reports, are available to you free of charge through the Securities and Exchange Commission’s (“SEC”) website at www.sec.gov or on our website at www.thefigi.com as soon as reasonably practicable after such materials have been electronically filed with, or furnished to, the SEC. Copies of these reports and other information may be inspected and copied at the public reference facilities maintained by the SEC at the SEC Headquarters, Public Reference Section, 100 F Street, N.E., Washington D.C. 20549 on official business days during the hours 10:00 a.m. to 03:00 p.m. or by calling the SEC at 1-800-SEC-0330. Copies are also available upon request and without charge by contacting us at Fortress International Group, Inc., 7226 Lee DeForest Drive, Suite 209, Columbia, Maryland 21046.

Our Business

We consult, plan, design, build and maintain mission-critical facilities such as data centers, trading floors, call centers, network operation centers, communication facilities, laboratories and secure bunkers and we offer expertise for electrical, mechanical, telecommunications, security, fire protection and building automation systems that are critical to the mission-critical facilities lifeblood.

We provide a single source solution for highly technical mission-critical facilities and the infrastructure systems that are critical to their function. Our services include information technology strategic initiatives that drive efficiencies

through the cost of operating a data center, energy and green initiatives, real estate consulting options, capital solutions, technology consulting, engineering and design management, construction management, system installations, operations management, and facilities management and maintenance.

With respect to these critical infrastructure systems that are part of the mission-critical facility, we focus on physical security, network security, redundancies for uninterruptible power supply systems, electrical switch gear, stand-by power generators, heat rejection and cooling systems, fire protection systems, monitoring and control systems, and security systems, as well as the physical environment that houses critical operations. We help our customers to plan for, prevent or mitigate against the consequences of attacks, power outages and natural disasters. We provide our services, directly and indirectly, to both government and private sector customers.

We have obtained a facility clearance from the United States Department of Defense. This clearance enables us to access and service restricted government projects. In addition to the facility clearance, we have successfully cleared approximately one-third of our employees, allowing them individual access to restricted projects and facilities.

Prior Growth Through Acquisitions

Beginning in 2006 and continuing into 2008, we implemented a plan to grow our business, diversify our customer base, and gain additional operational scale. To mitigate business volume fluctuations and customer concentration, we added selling, general and administrative personnel, enabling us to bid and quote up to approximately several hundred million in revenues across our service offerings. We acquired five businesses during the fiscal years 2007 and 2008 that have provided complementary services, extended our geographical footprint and added key customers and personnel. In late 2008 and 2009, our strategic growth through acquisitions was suspended due to the downturn in the economy. In the future, we expect to continue our growth initiatives both internally and through potential acquisitions of smaller specialized mission-critical engineering or IT services firms (primarily in the United States), subject to an improved economic outlook and our ability to obtain financing, if necessary.

On January 19, 2007, we acquired all of the outstanding membership interests of each of VTC, LLC, doing business as Total Site Solutions, and Vortech, LLC, or TSS/Vortech. TSS/Vortech provides comprehensive services for the planning, design, and development of mission-critical facilities and information infrastructure. The closing consideration consisted of (i) \$11.5 million in cash, including acquisition costs of \$1.8 million and net of cash acquired of \$1.1 net of a working capital adjustment per the terms of the purchase agreement, (ii) the assumption of \$0.2 million of debt of TSS/Vortech, (iii) 2,602,813 shares of our common stock, of which 2,534,988 shares were issued to the selling members, 67,825 shares were issued to Evergreen Capital LLC as partial payment of certain outstanding consulting fees, and 574,000 shares were designated for issuance to employees of TSS/Vortech under our 2006 Omnibus Incentive Compensation Plan and (iv) \$10.0 million in two convertible promissory notes of \$5.0 million each, bearing interest at 6%. Simultaneously with the acquisition of TSS/Vortech, we changed our name from “Fortress America Acquisition Corporation” to our current name, “Fortress International Group, Inc.”

Following our initial acquisition of TSS/Vortech, we continued with our acquisition strategy to expand our geographic footprint, add complementary services and diversify and expand our customer base.

On May 7, 2007, we purchased substantially all of the assets of Comm Site of South Florida, Inc. for \$150,000 in cash.

On September 24, 2007, we entered into a stock purchase agreement with Innovative Power Systems, Inc., Quality Power Systems, Inc., or, collectively, Innovative, and the stockholders of Innovative. Based in Virginia, Innovative installs, tests and services specialized uninterruptible power supply systems and backup power supply systems for data centers and mission-critical facilities throughout the Washington D.C. metropolitan area. Pursuant to the stock purchase agreement, we acquired 100% of the issued and outstanding capital stock of Innovative for the aggregate consideration consisting of (i) \$1,614,452 in cash, including acquisition costs of \$112,420, and net of cash acquired of \$244,968, subject to certain adjustment as provided in the purchase agreement, (ii) a promissory note for the aggregate amount of \$300,000 plus interest accruing at 6% annually from the date of the issuance of the promissory note (payable in three years, based on a five-year amortization schedule, as described in note), (iii) 25,155 shares of our common stock, and (iv) additional earn-out amounts if Innovative achieves certain targeted earnings for each of the calendar years 2007-2010, as further described in the purchase agreement.

In 2008, Innovative achieved 2008 earnings targets established in the purchase agreement, entitling the sellers to additional purchase consideration of \$0.4 million which was paid in the second quarter of 2009 per terms of the purchase agreement.

In 2009, Innovative achieved 2009 earnings targets established in the purchase agreement, entitling the sellers to additional purchase consideration of \$0.2 million. Subject to terms and conditions outlined in the purchase agreement, the payment is due in the second quarter of 2010.

On November 30, 2007, we entered into a membership interest purchase agreement with Rubicon Integration, LLC, or Rubicon, a Delaware limited liability company based in Virginia, and each of the members of Rubicon. Rubicon provides consulting, owners' representation and equipment integration services for mission-critical facilities to corporate customers across the United States. Pursuant to the purchase agreement, we acquired 100% of the membership interests of Rubicon for the aggregate consideration consisting of (i) \$4,745,524 in cash, including acquisition costs of \$198,043 and net of cash acquired of \$42,660, (ii) 204,000 shares of our common stock valued at \$1,080,800, (iii) contingent consideration in the form of two unsecured promissory notes in the maximum amount of \$1,500,000 and \$2,000,000, respectively, plus interest accruing at 6% annually from November 30, 2007, the date of the issuance, payable to the sellers upon the achievement of certain operational and financial targets for December 2007 and for the calendar year 2008, respectively, and (iv) additional earn-out amounts, contingent upon the achievement of certain earnings targets by Rubicon for each of the calendar years 2008-2009.

In 2007, Rubicon achieved certain 2007 earnings targets established in the purchase agreement, entitling the sellers to the first contingently issuable note of \$1,517,753, which was due on January 31, 2008. In accordance with terms of the agreement, an additional working capital adjustment of \$90,141 was paid to the sellers on January 31, 2008.

In 2008, Rubicon received contingently issuable notes totaling \$2.0 million by achieving or exceeding certain financial targets defined in the purchase agreement. Approximately \$0.4 million had been paid at December 31, 2008, while the remainder was paid in January 2009.

Additionally in 2008, Rubicon achieved certain 2008 earnings targets established in the purchase agreement, entitling the sellers to an earn-out payment estimated at \$0.5 million at December 31, 2008. In 2009, we delivered the calculation and finalized the 2008 earn-out with the sellers, which resulted in the issuance of an additional \$0.8 million of consideration in the form of \$0.5 million note and payment for the balance. In 2009, Rubicon achieved certain 2009 earnings targets established in the amended purchase agreement, entitling the sellers to an earn-out payment of \$0.2 million

As we sought additional liquidity and to maintain a similar service offering, on December 29, 2009, we sold substantially all of the assets and liabilities of Rubicon for consideration totaling \$2.0 million consisting of 0.8 million in cash proceeds, net of transaction costs, \$0.6 million note receivable and \$0.4 million in forgiveness of actual obligations and potential liabilities related to the 2008 and 2009 earn-outs. Additionally, we are entitled to contingent consideration in the form of an earn-out equal to 7.5% of gross profit on designated projects during a one year period commencing on the close date. At December 31, 2009, the Company had not recorded any contingent consideration associated with the earn-out as it's not reasonably assured and estimable.

On January 2, 2008, we entered into a stock purchase agreement with SMLB, Ltd, or SMLB, an Illinois corporation which provides professional construction management services for mission-critical facilities, and each of the stockholders of SMLB, for the acquisition of SMLB. Pursuant to the purchase agreement we acquired 100% of the issued and outstanding capital stock of SMLB for an aggregate consideration consisting of (i) \$2,000,000 in cash, subject to certain adjustment to be determined within 60 days of the closing of the acquisition, (ii) an unsecured promissory note for an aggregate amount of \$500,000, plus interest accruing at 6% annually from the date of the issuance, (iii) an aggregate of 96,896 shares of common stock of the Company, to be held in escrow pursuant to a certain indemnity escrow agreement, and (iv) additional earn-out amounts, contingent upon the achievement of certain operational and financial targets by SMLB for each of the calendar years 2008 and 2009 and subject to satisfaction of any outstanding indemnification obligations by the sellers. The note referred to above was reduced for working capital adjustments in accordance with terms of the purchase agreement. The adjusted note is payable in three years, based on a five-year amortization schedule, with \$24,118 plus accrued interest payable on each of January 2, 2009 and January 2, 2010 and the balance of \$72,336 plus accrued interest payable on January 2, 2011. The January 2, 2009 scheduled payment was not made, as the note was adjusted in the fourth quarter of 2008.

As indicated above, we suspended our strategic plan to grow our business through acquisitions because of the downturn in the economy. Currently, we are not actively evaluating the disposition of any material assets and liabilities.

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Mission-Critical IT Industry

IT facilities and other high technology environments are much more complex than standard facilities and require a larger capital investment. Errors and delays in the planning, design, construction or installation of such facilities can involve significant costs. As a result, companies, building owners and managers are increasingly seeking project managers and construction firms with specialized expertise and experience in designing, building and maintaining critical IT infrastructure and systems.

We pursue opportunities in the growing mission-critical IT market in both the government and private sectors through our single source solution offerings. We believe there are significant barriers to entry for new competitors in the mission-critical IT market, including customer requirements for firms with substantial IT project experience, deep and broad professional and IT construction management offerings and, for homeland defense and intelligence agency work, facility and security clearances. Through our facilities integration services, we have the ability, directly and through subcontractor relationships, to provide all services and coordinate the efforts of all personnel involved in a mission-critical project, to meet crucial occupancy deadlines, and to complete all required services with minimal disruption.

We believe energy initiatives are significant to the overall industry with a growing focus on corporate citizenship with regard to the environment and opportunities to increase profitability. We believe the macro trend of rising energy costs adds further incentive to incorporate green initiatives as potential returns to customers are greater, while the payback periods on their investments is shortened. We address this growing trend with a specialized focus on green initiatives and a thorough understanding of the Leadership in Energy and Environmental Design (LEEDS) Certification which is a third party certification and benchmark for the design, construction and operation of high performance green buildings. We understand the LEEDS design requirements and their contribution to the environment and potential profitability enhancements.

Service Offerings

The company has developed a menu of unique consulting and service options to assist and partner with owners of mission-critical facilities to develop strategies that enable them to cope with the complexities facing mission-critical facility infrastructure systems. These solutions begin with strategies for the IT assets that are being housed in the facility, through power, cooling and heat rejection issues and disaster recovery backup systems. We help them develop total cost of ownership models that enable them to design and build the most efficient data centers based on their available capital. Our solutions involve all aspects of the life cycle of the data center and are described in more detail below.

Technology Consulting

Energy and Green Solutions. We have developed services that can identify energy savings for the customer on both the supply side from utility sources and demand side in terms of consumption of an existing data center.

Supply side services include:

- Competitive utility rate analysis in deregulated areas;
- Obtaining energy certificates and carbon offset certificates for capital expenditures on both renewable energy based initiatives as well as replacement initiatives; and
- Participation in demand response programs.

Demand side initiatives include:

- Energy audits;
- Facility consolidation; and
- Performance based contracting initiatives that create capital from energy savings on replacement projects.

IT Solutions. These services are partially performed by our in-house staff and done in conjunction with our teaming partners and include:

- Data center strategic planning;
- Data center optimization;
- Virtualization and consolidation of servers and storage devices; and
- Data center relocation planning and implementation.

Real Estate Solutions. These services include:

- Assisting customers with disposal and acquisition of mission-critical assets;
- Site assessments, evaluation and selection;

- - Conceptual design and in depth budget and cost analysis;
 - Financial modeling and market research;
 - Utility assessment;