BT GROUP PLC
Form 6-K
February 11, 2010

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934

Date of Announcement: 11 February, 2010

BT Group plc

(Translation of registrant's name into English)

BT Centre
81 Newgate Street
London
EC1A 7AJ
England

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F..X... Form 40-F.....

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes ..... No ..X..

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-________

11 February 2010

BT GROUP PLC

RESULTS FOR THE THIRD QUARTER AND NINE MONTHS TO 31 DECEMBER 2009

BT Group plc (BT.L) today announces its results for the third quarter and nine months to 31 December 2009. BT has also made a separate announcement today in relation to the triennial funding valuation of the BT Pension Scheme.

Key points:

- Revenue of £5,198m, down 4%
- Adjusted EBITDA[1] of £1,444m, up 11% largely due to improvement in BT Global Services
- Total underlying costs[2] down 13% in the quarter, savings of £1.6bn achieved in the nine months
- Adjusted earnings per share[1] of 4.6p, up 53%, reported earnings per share up 188%
- Improvement in free cash flow[3] to £305m inflow compared with an outflow of £32m last year
- Pension deficit payment of £525m made in the quarter
- Net debt[4] down nearly £1bn compared with last year to £10.1bn
- Expect to deliver adjusted EBITDA[1] of around £5.7bn and free cash flow[3] of around £1.7bn for the full year

Ian Livingston, Chief Executive, commenting on the results, said:

"These results show that we are making progress. There is still a lot more to be done but our commitment to improved customer service and cost transformation is starting to deliver results and freeing up resources to invest in our future. In particular, we are one of Europe's largest investors in super-fast fibre-based broadband and this will bring huge benefits to our customers and the UK."

[1] Before specific items, leaver costs, net interest on pensions and BT Global Services contract and financial review charges of £336m in Q3 2008/09

[2] Underlying operating costs and capital expenditure, excluding BT Global Services contract and financial review charges of £336m in Q3 2008/09

[3] Before pension deficit payment of £525m but after the cash flows related to specific items

[4] Net debt is reconciled in Note 7

RESULTS FOR THE THIRD QUARTER AND NINE MONTHS TO 31 DECEMBER 2009

Group results

	Third quarter to 31 December			**Nine months to 31 December**		
	2009	2008[1]	Change	**2009**	2008[1]	Change
	£m	£m	%	**£m**	£m	%
Revenue	5,198	5,437	(4)	15,555[2]	15,917	(2)
EBITDA						
- adjusted[3]	**1,444**	1,301	11	**4,251**	4,125	3
- reported	**1,227**	932	32	**3,821**	3,582	7

Operating profit						
- adjusted[3]	**690**	578	19	**2,000**	2,026	(1)
- reported	**473**	209	126	**1,570**	1,483	6
Profit before tax						
- adjusted[4]	**466**	335	39	**1,354**	1,344	1
- reported	**209**	81	158	**756**	1,072	(29)
Earnings per share						
- adjusted[4]	4.6 p	3.0 p	53	13.3 p	13.0 p	2
- reported	2.3 p	0.8 p	188	10.6 p	10.6 p	-
Capital expenditure	**554**	762	(27)	**1,671**	2,330	(28)
Free cash flow[5]						

	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Intangible assets not suject to amortization:				
Goodwill	$ 1,830,316	-	$1,768,861	-
Tradename	$ 60,000	-	$60,000	-
Intangible assets subject to amortization:				
Customer relationships	$ 827,000	$ (7,080)	-	-
Acquired software	$ 234,000	$ (4,007)	-	-
Non-compete	$ 50,600	$ (50,600)	$50,600	$ (50,600)

	Three Months Ended		Six months Ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Amortization expense	$ 11,087	-	$ 11,087	-

Amortization expense for intangible assets for the year ended December 31, 2013 is expected to be approximately $75,837. Amortization expense for each year ended December 31 for 2014 through 2017 is expected to be approximately $129,500.

Note 4 – Inventories

Inventories at June 30, 2013 consisted of the following:

June 30, 2013

Work in process	$ 19,533
Raw materials	295,202
Inventories	$ 314,735

The Company values its inventories at cost with cost determined on a first-in, first-out basis. Obsolete inventory or inventory in excess of its estimated usage is reserved to its estimated market value less cost to sell, if less than its cost. There was no inventory reserve as of June 30, 2013.

6

Note 5 – Convertible notes payable

On May 21, 2013, the Company and Gerard J. Gallagher, the President and Chief Operating Officer of the Company, agreed to restructure the promissory note held by Mr. Gallagher. As part of this restructuring, Mr. Gallagher agreed to reduce the outstanding principal amount by $307,301, which is reflected as a non-cash item in the accompanying unaudited condensed consolidated statements of cash flows, $1,900,000 in exchange for an immediate payment of $900,000 at the time of closing. The Amended and Restated Convertible Promissory Note provides for eight quarterly principal payments of $25,000 beginning July 1, 2013, a principal payment of $100,000 on January 3, 2014, and the remaining outstanding balance due on July 1, 2015. All amounts due under the note are immediately due and payable upon the occurrence of a "change in control" of the Company (as defined in the promissory note) or the death of Mr. Gallagher. If the Company fails to pay any amount due under the promissory note within five days after the date due, the Company must pay Mr. Gallagher a late charge equal to 5% of the amount due and unpaid. The Company's obligations under the promissory note held by Mr. Gallagher are subordinated to the obligations under a credit facility with Bridge Bank, National Association (see *Note 6 – Credit Facility).*

Upon an "event of default" (as defined in the promissory note) that the Company fails to cure within a period of 60 days following the date of such event of default, Mr. Gallagher will have the right to convert any amount equal to not less than $25,000 but up to an amount equal to the unpaid amount due under the promissory note into that number of shares of the Company's common stock obtained by dividing the amount being converted by a conversion price equal to 125% of the fair market value per share of the Company's common stock. For purposes of the promissory note, the fair market value of a share of the Company's common stock equals the average of the high and low bid prices of the Company's common stock reported daily on the OTCQB marketplace during the twenty day period ending on the date Mr. Gallagher elects to make such conversion. Notwithstanding these conversion rights, the aggregate number of shares of the Company's common stock that may be issued as a result of converting amounts due under the promissory note upon an event of default may not exceed 12% of the issued and outstanding shares of the Company's common stock as of the date Mr. Gallagher initially elects to make such conversion.

The restructured note was recorded at fair market value resulting in a discount of $137,735. The discount is being amortized over the period from the date of issuance to the date the note is due using the effective interest method.

The balance of the notes payable at June 30, 2013 and December 31, 2012 were as follows:

	June 30, 2013	December 31, 2012
Convertible, unsecured promissory note, due 2015 (4.0%), net	$ 871,343	$ 2,457,301
Less: current portion, net	129,000	500,000
Convertible notes payable, long-term, net	$ 742,343	$ 1,957,301

The unamortized discount at June 30, 2013 was $71,000 and $57,657 in convertible notes payable – current and convertible notes payable – long term, respectively.

Scheduled principal repayments on the convertible, unsecured promissory note at June 30, 2013 are as follows:

	June 30, 2013
2013	$ 50,000
2014	200,000
2015	750,000
Total	$ 1,000,000

Note 6 – Credit Facility

On November 8, 2011, the Company and its subsidiaries Innovative Power Systems, Inc., VTC, L.L.C., Total Site Solutions Arizona, LLC, and Alletag Builders, Inc. (together with the Company, collectively, "2011 Borrowers") obtained a credit facility (the "2011 Credit Facility") from Wells Fargo Bank, National Association ("WF, NA") pursuant to a Credit Agreement by and among 2011 Borrowers and WF, NA (the "Credit Agreement"). The 2011 Borrowers' obligations under the 2011 Credit Facility were joint and several. The maximum amount of the 2011 Credit Facility was $2,000,000. The 2011 Credit Facility was subject to a borrowing base of 80% of eligible accounts receivable. Borrowings under the 2011 Credit Facility incurred interest at the London interbank offered rate plus 2.25% per annum.

The 2011 Credit Facility would have matured on November 1, 2012. During the three months ended March 31, 2012, however, the Company failed to comply with the financial covenants requiring (a) a maximum ratio of total liabilities to tangible net worth as set forth in the Credit Agreement; and (b) a minimum debt service coverage ratio as set forth in the Credit Agreement. The 2011 Credit Facility was terminated effective June 28, 2012.

On May 21, 2013, the Company and its subsidiaries Innovative Power Systems, Inc., VTC L.L.C., Total Site Solutions Arizona, LLC, and Alletag Builders, Inc. (together with the Company, collectively, "2013 Borrowers"), obtained a revolving credit facility (the "2013 Credit Facility") from Bridge Bank, National Association ("Lender") pursuant to a Business Financing Agreement by and among Borrowers and Lender (the "Financing Agreement"). The 2013 Borrowers' obligations under the 2013 Credit Facility are joint and several. The obligations under the 2013 Credit Facility are secured by substantially all of the 2013 Borrowers' assets. The maximum amount of the 2013 Credit Facility is $6,000,000. The 2013 Credit Facility is subject to a borrowing base of 80% of eligible accounts receivable, subject to customary exclusions and limitations. Borrowings under the 2013 Credit Facility will bear interest at (1) the greater of (a) the prime rate published by the Lender, which was 3.25% at June 30, 2013 or (b) 3.25%, plus (2) 2.0% per annum. In addition to interest payable on the principal amount of indebtedness outstanding from time to time under the 2013 Credit Facility, the 2013 Borrowers (a) paid a commitment fee of $30,000 to Lender and (b) are required to pay to Lender an annual fee of $30,000. The 2013 Credit Facility matures on May 21, 2015. In the event the Financing Agreement is terminated prior to May 21, 2014, 2013 Borrowers will be required to pay a termination fee equal to $60,000 to Lender; provided that Lender will waive payment of the termination fee if the 2013 Credit Facility is transferred to or refinanced by another facility or division of Lender unless such transfer or refinance is the result of an event of default under the 2013 Credit Facility.

The 2013 Credit Facility requires that the 2013 Borrowers maintain an asset coverage ratio of at least 1.5 to 1.0. The asset coverage ratio is determined by dividing the Borrowers' unrestricted cash on deposit with Lender and eligible accounts receivable by the 2013 Borrower's obligations under the 2013 Credit Facility. The 2013 Credit Facility requires all Company receivables be deposited in the Lender designated lockbox.

At June 30, 2013, there were $2,000,000 in borrowings outstanding under the 2013 Credit Facility. Borrowing availability was $970,242 at June 30, 2013.

The Company incurred expenses of $153,567 related to obtaining the 2013 Credit Facility. These costs are included in other assets and are being amortized over the life of the 2013 Credit Facility.

Note 7 – Loss Per Share

Set forth in the table below is the reconciliation by quarter of the numerator (net loss) and the denominator (shares) for the computation of basic and diluted net loss per share:

	Numerator Income (Loss)	Denominator Shares	Per Share Amount
Three months ended June 30, 2013:			
Basic net loss	$ (964,679)	14,385,713	$ (0.07)
Effect of dilutve securities:			
Restricted stock	-	-	-
Stock Options	-	-	-
Unsecured convertible note	-	-	-
Diluted net loss	$ (964,679)	14,385,713	$ (0.07)
Three months ended June 30, 2012:			
Basic net loss	$ (2,268,914)	14,147,049	$ (0.16)
Effect of dilutive securities:			
Restricted stock	-	-	-
Stock Options	-	-	-
Unsecured convertible note	-	-	-
Diluted net loss	$ (2,268,914)	14,147,049	$ (0.16)
Six months ended June 30, 2013:			
Basic net loss	$ (987,831)	14,368,354	$ (0.07)
Effect of dilutve securities:			
Restricted stock	-	-	-
Stock Options	-	-	-
Unsecured convertible note	-	-	-
Diluted net loss	$ (987,831)	14,368,354	$ (0.07)
Six months ended June 30, 2012:			
Basic net loss	$ (3,521,003)	14,124,380	$ (0.25)
Effect of dilutve securities:			
Restricted stock	-	-	-
Stock Options	-	-	-
Unsecured convertible note	-	-	-
Diluted net loss	$ (3,521,003)	14,124,380	$ (0.25)

For the three and six months ended June 30, 2013 and 2012, potentially dilutive shares of 3,150,204 and 2,372,169 were excluded from the calculation of dilutive shares because their effect would have been anti-dilutive.

Note 8 – Income Taxes

The Company has made no provision for income taxes for the quarters ended June 30, 2013 and 2012 due to the net losses incurred in the periods.

The Company maintains a full valuation allowance on all of the net deferred tax assets due to the significant negative evidence in regards to future realization of these net deferred tax assets as of June 30, 2013 and 2012.

The Company currently has U.S. net operating loss carryforwards. Upon examination, one or more of these net operating loss carryforwards may be limited or disallowed.

Note 9 – Incentive Compensation Plan

The Company's 2006 Omnibus Incentive Compensation Plan (the "Incentive Plan") is designed to optimize the profitability and growth of the Company through incentives that are consistent with its goals and align the personal interests of plan participants with an incentive for individual performance. The Incentive Plan is further intended to assist the Company in motivating, attracting and retaining plan participants and allowing them to share in successes of the Company. The Incentive Plan permits the Company to award eligible persons nonqualified stock options, restricted stock and other stock-based awards, which will cause the Company's stockholders to experience dilution if and when such shares are ultimately issued.

On January 16, 2013, the Company issued 100,000 stock options to an employee under the Incentive Plan. The options expire 10 years from the grant date and become exercisable when the fair market value of a share of the Company's common stock is $2.00 or more for 20 consecutive business days.

On March 14, 2013, the Company issued 30,000 stock options to an employee under the Incentive Plan. The options expire 10 years from the grant date and vest in equal annual installments on March 31, 2014, 2015, and 2016.

On March 26, 2013, the Company issued 36,667 shares of restricted stock to one of its employees under the Incentive Plan. 16,667 shares vested on March 31, 2013, 6,666 shares vested on July 1, 2013, 6,667 shares will vest on each of July 1, 2014 and 2015, subject to the employee's continued service through the vesting dates.

On May 20, 2013, in connection with the acquisition of the Systems Integration business, the Company granted 604,000 stock options to employees hired by the Company in connection with that acquisition. The options expire 10 years from the grant date and vest ratably over three years following the grant date, subject to the employees' continued service through the vesting dates. These grants were not made under the Incentive Plan.

On May 20, 2013, pursuant to the terms of an employment agreement, the Company issued 200,000 options to its Chief Financial Officer. The options expire 10 years from the grant date. 50,000 options vest each of the first two anniversary dates of the grant and 100,000 options vest on the third anniversary of the grant date, subject to the Chief Financial Officer's continued service through the vesting dates. These grants were not made under the Incentive Plan.

For the three months ended June 30, 2013 and June 30, 2012, the Company recorded non-cash compensation expense included in selling, general and administrative expenses of $0.1 million and $0.1 million, respectively and cost of revenue included $26,438 and $9,462, respectively. For the six months ended June 30, 2013 and 2012, the Company recorded non-cash compensation expense included in selling, general and administrative expenses of $0.2 million and $0.1 million, respectively and cost of revenue included $58,571 and $19,083, respectively.

Note 10 – Related Party Transactions

The Company participates in transactions with the following entities affiliated through common ownership and management. The Audit Committee in accordance with its written charter reviews and approves in advance all related party transactions greater than $25,000 and follows a pre-approved process for contracts with a related party for less than $25,000.

Chesapeake Mission Critical, L.L.C. (Chesapeake MC) is 10.32% owned by Thomas P. Rosato, the Company's former Chief Executive Officer, a former member of the Board of Directors and the holder of approximately 12.2% of the Company's outstanding common stock. Chesapeake MC is a manufacturers' representative reselling and servicing mechanical and electrical equipment from original equipment manufacturers.

TPR Group Re Three, LLC (TPR Group Re Three) is 50% owned by Mr. Rosato and Gerard G. Gallagher, the Company's President and Chief Operating Officer and a member of the Board of Directors. TPR Group Re Three leases office space to the Company under the terms of a real property lease to TSS/Vortech. The original lease term expired at December 31, 2011. Prior to expiration, the lease was renegotiated to a full service lease, excluding utilities, at $24 per square foot or an aggregate annual rate of $0.3 million, representing an annual reduction of approximately $0.2 million. The lease is cancellable by either the Company or TPR Group Re Three with six months written notice. The Company obtained an independent appraisal of the original lease, which determined the lease to be at fair value. In May 2013 this lease was extended for an additional three years, at terms consistent with the original lease. Although the Company has not obtained a new independent appraisal covering the renewal terms, the Company believes the terms of the lease renewal to be at fair value on the renewal date.

RF Realty Investments, LLC ("RF Realty") is owned by Mr. Rosato and his family. RF Realty leases office and warehouse space to the Company. The Company obtained an independent appraisal of the lease, which determined the lease to be at fair value. In May 2013 the lease of the office space was cancelled effective July 31, 2013.

The following table sets forth transactions the Company has entered into with the above related parties for the three and six months ended June 30, 2013 and 2012. Cost of revenue represents costs incurred in connection with related parties which provide services to us on contracts for our customers.

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Cost of Revenue				
Chesapeake Mission Critical, LLC	-	116,017	-	116,017

Total	$ -	$ 116,017	$ 0	$ 116,017
Selling, general and administrative				
Office rent paid to RF Realty Investments, LLC	37,998	37,998	76,376	75,996
Office rent paid to TPR Group Re Three, LLC	69,156	69,156	139,004	163,397
Total	$ 107,154	$ 107,154	$ 215,380	$ 239,393

Note 11 – Commitments and Contingencies

The Company is from time to time involved in other litigation incidental to the conduct of the business, none of which is expected to be material to its business, financial condition or operations.

11

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Overview

TSS, Inc. was incorporated in Delaware on December 20, 2004 as a special purpose acquisition company formed under the name "Fortress America Acquisition Corporation" for the purpose of acquiring an operating business that performs services in the homeland security industry. On January 19, 2007, we acquired all of the outstanding membership interests of each of VTC, L.L.C., doing business as "Total Site Solutions" ("TSS"), and Vortech, L.L.C. ("Vortech" and, together with TSS, "TSS/Vortech") and simultaneously changed our name to "Fortress International Group, Inc." The acquisition fundamentally transformed the Company from a special purpose acquisition company to an operating business. 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 100% of the outstanding and issued capital stock of Innovative Power Systems, Inc. and Quality Power Systems, Inc. ("Innovative") on September 24, 2007. On May 20, 2013, we acquired an existing data center services integration business from arvato digital services, LLC. On June 5, 2013, we changed our corporate name to TSS, Inc.

TSS provides comprehensive services for the planning, design, development and maintenance of mission-critical facilities and information infrastructure. We also provide a single source solution for highly technical mission-critical facilities such as data centers, operation centers, network facilities, server rooms, security operations centers, communications facilities and the infrastructure systems that are critical to their function. Our services include technology consulting, engineering and design management, construction management, system installations and integration, operations management, and facilities management and maintenance.

Our industry has been and may be further adversely impacted by the current economic environment and tight credit conditions. We have seen larger competitors seek to expand their services offerings including a focus in the mission-critical market. These larger competitors have an infrastructure and support greater than ours, and accordingly, we have experienced some price pressure as some companies are willing to take on projects at lower margins. With certain customers, we have experienced a delay in spending, or deferral of projects to an indefinite commencement date, due to the economic uncertainty or lack of access to capital. Additionally, we rely on certain customers to win contracts and provide business to us under "Master Service Agreements." We cannot be assured they will continue to win contracts and their loss of contracts could have a negative effect on our results.

Although we will closely monitor our proposal pricing and the volume of our contracts, we have seen our margins decrease on certain lines of business and cannot be certain that our current margins will be sustained. Furthermore, given the economic environment, to the extent the volume of our contracts further decreases, we may have to take additional measures to reduce our operating costs through additional reductions in general, administrative and marketing costs, including potential reductions in personnel and related costs.

RESULTS OF OPERATIONS

Quarterly Comparison – Three months ended June 30, 2013 and 2012

Revenue

Revenue decreased $8.6 million to $7.0 million for the three months ended June 30, 2013 from $15.5 million for the same period last year. The decrease primarily relates to a $8.0 million decrease in construction management services as we had a large project in process during the prior year, a $1.0 million decrease in facilities management services due to a project start-up in the prior year, offset by the $0.7 million in revenue from the Systems Integration acquisition in May 2013.

Gross Profit

Gross profit for the three months ended June 30, 2013 was $2.0 million compared to a gross profit of $2.3 million for the same period in the prior year. Gross profit as a percentage of revenue increased to 28.4% in the three months ended June 30, 2013 compared to 15.0% for the same period in the prior year. The increase in gross profit as a percentage of revenue is attributable primarily to the effect in the prior year of the large construction management project mentioned above, and a change in composition of work towards higher margin projects.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the three months ended June 30, 2013 was $2.9 million compared to $2.5 million for the same period in the prior year. The increase was primarily driven by $0.3 million in selling, general and administrative expenses from the acquired Systems Integration business and $0.2 million acquisition costs associated with its purchase in May 2013.

Impairment loss on goodwill

During the second quarter of 2012, conditions existed which indicated that the carrying value of goodwill exceeded the current fair value of our business. We conducted an analysis of the operations in order to identify any impairment in the carrying value of the goodwill and other intangibles related to our business. Analyzing our business using both an income approach and a market approach determined that the carrying value exceeded the current fair value of our business, resulting in goodwill impairment of $2.1 million for the three months ended June 30, 2012.

Year to Date Comparison - Six Months Ended June 30, 2013 and 2012

Revenue

Revenue decreased $8.8 million to $21.1 million for the six months ended June 30, 2013 compared to $29.9 million for the same period in the prior year. The decrease primarily relates to a $13.4 million decrease in construction management services as we had a large project in process during the prior year offset by a $5.0 million facilities management project that occurred during the first quarter 2013 and $0.7 million in revenue from the Systems Integration business acquired in May 2013.

Gross Profit.

Gross profit was $4.7 million for the six months ended June 30, 2013 compared to $4.4 million for the same period in the prior year. Gross profit as a percentage of revenue was 22.5% for the six months ended June 30, 2013 compared to $14.7% for the same period in the prior year. The increase in gross profit as a percentage of revenue is attributable primarily to the effect in the prior year of the large construction management project mentioned above, and a change in composition of work towards higher margin projects.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were $5.6 million for the six months ended June 30, 2013 compared to $5.5 million for the same period last year. The increase was primarily driven by $0.3 million in selling, general and administrative expenses from our Systems Integration business and $0.2 million of acquisition costs associated with its purchase.

Restructuring charges

Restructuring charges, consisting primarily of severance payments and equity based expense of $0.3 million were recognized in the six months ended June 30, 2012. No such charges were recorded in the current year.

Impairment loss on goodwill

During the second quarter of 2012, conditions existed which indicated that the carrying value of goodwill exceeded the current fair value of our business. We conducted an analysis of the operations in order to identify any impairment in the carrying value of the goodwill and other intangibles related to our business. Analyzing our business using both an income approach and a market approach determined that the carrying value exceeded the current fair value of our business, resulting in goodwill impairment of $2.1 million for the six months ended June 30, 2012.

LIQUIDITY AND CAPITAL RESOURCES

Our primary liquidity and capital requirements are to fund working capital for current operations. Our primary source of funds to meet our liquidity and capital requirements include cash on hand, funds generated from operations and borrowings under our revolving credit facility.

We have a $6.0 million revolving credit facility (the "Credit Facility") with Bridge Bank, NA ("Bridge") subject to a borrowing base of 80% of eligible accounts receivable. The Credit Facility matures on May 21, 2014 and is secured by substantially all of the Company's assets. The Credit Facility is designed to provide working capital for general corporate purposes.

On May 21, 2013, we renegotiated a note payable which reduced the outstanding principal amount by $307,301. See Item 1. Financial Statements *Note 5 – Convertible notes payable.*

At June 30, 2013, there were $2.0 million in borrowings outstanding under the Credit Facility of the total available borrowing base of $3.0 million. This represented the highest amount of borrowings during the quarter and six months ended June 30, 2013. At June 30, 2013, there was $970,242 available for borrowing under the Credit Facility.

We believe our cash on hand, borrowings under the Credit Facility and cash flow from operations will provide adequate resources to meet our capital requirements and operational needs for the next twelve months.

OFF BALANCE SHEET ARRANGEMENTS

As of June 30, 2013, we do not have any off balance sheet arrangements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

There have been no material changes to our critical accounting policies and estimates as set forth in the Annual Report for the year ended December 31, 2012 except as noted below. See also Item 1. Financial Statements *Note 1 – Basis for Presentation* regarding Recent Accounting Pronouncements.

13

Accounting for Business Combinations

In accordance with the accounting standard for business combinations, we allocate the purchase price of an acquired business to its identifiable assets and liabilities based on estimated fair values. The excess of the purchase price over the fair value of the assets acquired and liabilities assumed, if any, is recorded as goodwill.

We use all available information to estimate fair values. We typically engage outside appraisal firms to assist in the fair value determination of identifiable intangible assets such as customer contracts, leases and any other significant assets or liabilities and contingent consideration. We adjust the preliminary purchase price allocation, as necessary, up to one year after the acquisition closing date if we obtain more information regarding asset valuations and liabilities assumed.

Revenue Recognition

We recognize revenue when pervasive evidence of an arrangement exists, the contract price is fixed or determinable, services have been rendered or goods delivered, and collectability is reasonably assured. Our revenue is derived from fixed-price contracts, time-and-materials contracts, cost-plus-fee contracts (including guaranteed maximum price contracts), facility service and maintenance contracts, and product shipments.

Revenue from fixed price contracts is recognized on the percentage of completion method. We apply ASC 605-35 Construction-Type and Production-Type Contracts, recognizing revenue on the percentage-of-completion method using costs incurred in relation to total estimated project costs. This method is used because management considers costs incurred and costs to complete to be the best available measure of progress in the contracts. Contract costs include all direct materials, subcontract and labor costs and those indirect costs related to contract performance, such as indirect labor, payroll taxes, employee benefits and supplies.

Revenue on cost-plus-fee contracts is recognized to the extent of costs incurred, plus an estimate of the applicable fees earned. Fixed fees under cost-plus-fee contracts are recorded as earned in proportion to the allowable costs incurred in performance of the contract.

Billings in excess of costs and estimated earnings on uncompleted contracts are classified as current liabilities. Costs and estimated earnings in excess of billings, or work in process, are classified as current assets for the majority of the Company’s projects. Work in process on contracts is based on work performed but not yet billed to customers as per individual contract terms.

Certain of our contracts involve the delivery of multiple elements including design management, system installation and facilities maintenance. Revenues from contracts with multiple element arrangements are recognized as each element is earned based on the relative selling price of each element provided the delivered elements have value to customers on a standalone basis. Amounts allocated to each element are based on its objectively determined fair value, such as the sales price for the service when it is sold separately or competitor prices for similar services.

Revenue and related costs for master and other service agreements billed on a time and materials basis are recognized as the services are rendered based on actual labor hours performed at contracted billable rates, and costs incurred on behalf of the customer. Services are also performed under master and other service agreements billed on a fixed fee basis. Under fixed fee master service and similar type service agreements for facilities and equipment, we furnish various unspecified units of service for a fixed price. These services agreements are recognized on the proportional performance method or ratably over the course of the service period and costs are recorded as incurred in performance.

We recognize revenue from assembled products when the finished product is shipped, and collection of the resulting receivable is reasonably assured. In arrangements where a formal acceptance of products or services is required by the customer, revenue is recognized upon meeting such acceptance criteria.

Inventory Valuation

We value our inventories at cost with cost determined on a first-in, first-out basis. We write down obsolete inventory or inventory in excess of our estimated usage to its estimated market value less cost to sell, if less than its cost. Inherent in our estimates of market value in determining inventory valuation are estimates related to future demand and technological obsolescence of our products. Any significant unanticipated changes in demand or technological developments could have a significant impact on the value of our inventories and our results of operations and financial position could be materially affected.

Intangible Assets

We recorded goodwill and intangibles with definite lives, including customer relationships and acquired software, in conjunction with the acquisition of the Systems Integration business. These intangible assets are amortized based on their estimated economic lives. Goodwill represents the excess of the purchase price over the fair value of net identified tangible and intangible assets and liabilities acquired, and is not amortized.

GAAP requires us to perform an impairment test of goodwill on an annual basis or whenever events or circumstances make it more likely than not that impairment of goodwill may have occurred. As part of the annual impairment test, we first have the option to make a qualitative assessment of goodwill for impairment. If we are able to determine through the qualitative assessment that the fair value of a reporting unit more likely than not exceeds its carrying value, no further evaluation is necessary. For those reporting units for which the qualitative assessment is either not performed or indicates that further testing may be necessary, we then assess goodwill for impairment using a two-step process. The first step requires comparing the fair value of the reporting unit with its carrying amount, including goodwill. If that fair value exceeds the carrying amount, the second step of the process is not required to be performed, and no impairment charge is required to be recorded. If that fair value does not exceed that carrying amount, we must perform the second step, which requires an allocation of the fair value of the reporting unit to all assets and liabilities of that unit as if the reporting unit had been acquired in a purchase business combination and the fair value of the reporting unit was the purchase price. The goodwill resulting from that purchase price allocation is then compared to the carrying amount with any excess recorded as an impairment charge.

We also review intangible assets with definite lives for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected undiscounted cash flows is less than the carrying value of the related asset, a loss is recognized for the difference between the fair value and carrying value of the intangible asset.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Not applicable.

Item 4. Controls and Procedures.

Our management performed an evaluation under the supervision and with the participation of our Chief Executive Officer (principal executive officer) and our Chief Financial Officer (principal financial officer) of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934, as amended) as of June 30, 2013. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that as of June 30, 2013, our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting for the six months ended June 30, 2013 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting as such term is defined in Rule 13a-15 and 15d-15 of the Exchange Act of 1934, as amended.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

We are not a party to any material litigation in any court, and management is not aware of any contemplated proceeding by any governmental authority against us. From time to time, we are involved in various legal matters and proceedings concerning matters arising in the ordinary course of business. We currently believe that any ultimate liability arising out of these matters and proceedings will not have a material adverse effect on our financial position, results of operations or cash flows.

Item 1A. Risk Factors.

In addition to the other information set forth in this Form 10-Q, you should carefully consider the factors discussed in Part I, "Item 1A: Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2012, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results. The following risk factors also could materially affect our business, financial condition, or future results:

We are not currently in a position to have a registration statement declared effective by the SEC in order to issue any debt or equity securities in the public markets.

On August 5, 2013, we failed to timely file a Form 8-K/A containing audited historical financial statements and unaudited pro-forma financial statements related to the acquisition of the Systems Integration business. The audited financial statements are required under Rule 3-05 of Regulation S-X and the pro-forma financial statements are required under Rule 8-05 of Regulation S-X. Until such time as we are able to file these financial statements for the periods required, we will not be in a position to have the SEC declare effective any registration statement. It may take an extended period of time for us to comply with these requirements, and, during that time, we would be unable to raise capital through the issuance of debt or equity securities in the public markets to fund our operations and any acquisitions. Although we believe our existing cash on hand, our expected cash flows from operations, and borrowings under our credit facility will provide adequate liquidity and working capital to support our operations and capital requirements for the next twelve months, this inability to file a registration statement could adversely affect our liquidity, results of operations and ability to fund any acquisitions.

Our inability to maintain sufficient availability under our revolving credit facility or sufficient access to capital markets to replace that facility would have a significant impact on our business.

We maintain a revolving credit facility with Bridge Bank, National Association. Borrowings under this facility are collateralized by substantially all of our assets. The amount of available borrowings fluctuates based on the underlying asset-borrowing base, which generally is 80% of our trade accounts receivable. In addition to cash on hand and cash flow from operations, the facility provides us with the liquidity we require to meet our operating, investing and financing needs. While we believe we can meet these needs from our operations and available sources of financing for the next 12 months, we can provide no assurances that we will be able to do so long-term. The loss of the use of the facility or the inability to replace the facility when it expires would materially impair our ability to operate our business.

Our acquisition of businesses could negatively impact our profitability and return on invested capital.

Acquisitions, including the acquisition of the Systems Integration business involve a number of risks and financial, accounting, managerial and operational challenges, including the following, any of which could adversely affect our growth and profitability:

- Any acquired business, technology, service or product could under-perform relative to our expectations and the price paid for it, or not perform in accordance with our anticipated timetable;
- Acquisitions could cause our financial results to differ from expectations in any given fiscal period, or over the long term;
- Acquisition-related earnings charges could adversely impact operating results;
- Acquisitions could place unanticipated demands on our management, operational resources and financial and internal control systems;
- We may assume unknown liabilities, known contingent liabilities that become realized or known liabilities that prove greater than anticipated, and the realization of any of these liabilities may increase our expenses or adversely affect our financial position;
- As a result of acquisitions, we have in the past recorded significant goodwill and other identifiable intangible assets on our balance sheet, and, if we are not able to realize the value of these assets, we may incur charges relating to the impairment of these assets;
- We could experience difficulty in integrating personnel, operations and financial and other systems and retaining key employees and customers;
- We may be unable to achieve cost savings or other synergies anticipated in connection with an acquisition; and
- In connection with acquisitions, we often enter into post-closing financial arrangements such as purchase price adjustments, earn-out obligations and indemnification obligations, which may have unpredictable financial results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Monthly Period During the Quarter Ended June 30, 2013	Total Shares Purchased	Average Price Paid per Share	Total Shares Purchased as Part of Publically Announced Plans	Approximate Dollar Amount of Shares Yet To Be Purchase Under Plans
April 1, 2012-April 30, 2013	9,240	$ 0.72	-	-
May 1, 2012-May 31, 2013	-	$ -		
June 1, 2012-June 30, 2013	-	$ -	-	-
Total	9,240	$ 0.72		

(a) All of these shares were acquired from associates to satisfy tax withholding requirements upon the vesting of restricted stock.

Item 3. Defaults upon Senior Securities.

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information.

Not applicable.

16

Item 6. Exhibits.

2.1	Asset Purchase Agreement, effective as of May 20, 2013, by and between arvato digital services llc and VTC, L.L.C. (previously filed with the Commission as Exhibit 2.1 to the Company's Current Report on Form 8-K, 2012, and incorporated herein by reference).
3.2	Certificate of Amendment of Second Amended and Restated Certificate of Incorporation of the Company, dated effective June 6, 2013 (previously filed with the Commission as Exhibit 3.1 to the Company's Current Report on Form 8-K filed on June 7, 2013, and incorporated herein by reference).
10.1	Employment Agreement, dated May 13, 2013, between the Company and Maura A. McNerney (previously filed with the Commission as Exhibit 99.3 to the Company's Current Report on Form 8-K filed on May 15, 2013, and incorporated herein by reference).
10.2	Stock Option Agreement, dated as of May 20, 2013, between the Company and Maura A. McNerney (previously filed with the Commission as Exhibit 99.4 to the Company's Current Report on Form 8-K filed on May 15, 2013, and incorporated herein by reference).
10.3	Separation from Employment Agreement and Release, dated May 13, 2013, between the Company and Kenneth D. Schwarz (previously filed with the Commission as Exhibit 99.5 to the Company's Current Report on Form 8-K filed on May 15, 2013, and incorporated herein by reference).
10.4	Business Financing Agreement, dated as of May 21, 2013, by and among Bridge Bank, National Association, the Company, Innovative Power Systems, Inc., and VTC, L.L.C. (previously filed with the Commission as Exhibit 99.1 to the Company's Current Report on Form 8-K filed on May 24, 2013, and incorporated herein by reference).
10.5	Amended and Restated Convertible Promissory Note, dated May 21, 2013, issued by the Company to Gerard J. Gallagher (previously filed with the Commission as Exhibit 99.2 to the Company's Current Report on Form 8-K filed on May 24, 2013, and incorporated herein by reference).
10.6	Amendment to Executive Employment Agreement, effective as of May 21, 2013, between the Company and Gerard J. Gallagher (previously filed with the Commission as Exhibit 99.2 to the Company's Current Report on Form 8-K filed on May 24, 2013, and incorporated herein by reference).
31.1*	Certification of TSS, Inc. Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of TSS, Inc. Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of TSS, Inc. Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS ** XBRL Instance Document
101.SCH ** XBRL Taxonomy Extension Schema
101.CAL ** XBRL Taxonomy Extension Calculation Linkbase
101.DEF ** XBRL Taxonomy Extension Definition Linkbase
101.LAB ** XBRL Taxonomy Extension Label Linkbase
101.PRE** XBRL Taxonomy Extension Presentation Linkbase

*Filed herewith.

**Furnished herewith.

17

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	TSS, INC.
Date: August 14, 2013	By: /s/ Anthony Angelini Anthony Angelini Chief Executive Officer (Principal Executive Officer)
Date: August 14, 2013	By: /s/ Maura McNerney Maura McNerney Chief Financial Officer (Principal Financial Officer)

18