

TRI-S SECURITY CORP
Form 10-Q/A
September 26, 2006
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

AMENDMENT NO. 1

ON

FORM 10-Q/A

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

For the quarterly period ended June 30, 2006

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

For the transition period from _____ to _____

Commission file number 0-51148

TRI-S SECURITY CORPORATION

(Exact name of registrant as specified in its charter)

GEORGIA
(State or other jurisdiction of

incorporation or organization)

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

30-0016962
(I.R.S. Employer

Identification No.)

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(Address of principal executive offices)

(678) 808-1540

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No .

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

Shares of the registrant's common stock, par value \$0.001 per share, outstanding as of September 26, 2006: 3,548,704.

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EXPLANATORY NOTE

This Amendment No. 1 on Form 10-Q/A (the "Amendment") amends the Quarterly Report on Form 10-Q for the quarter ended June 30, 2006 (the "Original Report") of Tri-S Security Corporation (the "Company"). As reported in the Current Report on Form 8-K filed by the Company on September 19, 2006, the Audit Committee of the Company's Board of Directors determined that the Company's consolidated financial statements included in the Original Report and the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2006 should be restated to account for the satisfaction of the beneficial conversion restrictions on the Company's 10% convertible promissory notes.

The restated consolidated financial statements included in the Amendment (the "Restatement") report a net loss of \$59,000 as opposed to a net loss of \$107,000 for the quarter ended June 30, 2006 as reported in the Original Report and a net loss of \$1,708,000 compared to a net loss of \$1,372,000 for the six months ended June 30, 2006 as reported in the Original Report. See Note 2 of the Notes to Financial Statements included in the Amendment. The Amendment amends and restates Items 1, 2 and 4 of Part I and Item 6 of Part II of the Original Report to the extent necessary to reflect the effects of the Restatement. Except for such amendments, the Amendment continues to describe conditions as of the date of the Original Report, and the Company has not modified or updated other disclosures presented in the Original Report affected by subsequent events. Accordingly, the Amendment should be read in conjunction with the Original Report and the Company's filings made with the Securities and Exchange Commission subsequent to the filing of the Original Report.

TRI-S SECURITY CORPORATION

QUARTERLY REPORT ON FORM 10-Q FOR THE

QUARTER ENDED JUNE 30, 2006

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| | June 30, 2006 (Restated, Note 2) | December 31, 2005 |
|--|---|--------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 272 | \$ 463 |
| Trade accounts receivable, net | 8,379 | 10,988 |
| Income taxes receivable | | 20 |
| Prepaid expenses and other assets | 1,216 | 1,084 |
| Total current assets | 9,867 | 12,555 |
| Property and equipment, less accumulated depreciation | 663 | 1,467 |
| Investment in joint venture | | 8,698 |
| Goodwill | 15,692 | 15,615 |
| Intangibles, net | | |
| Customer contracts | 5,166 | 5,990 |
| Deferred loan costs | 1,472 | 1,756 |
| Other | 1,127 | 1,264 |
| Total assets | \$ 33,987 | \$ 47,345 |
| Liabilities and Stockholders Equity | | |
| Current liabilities: | | |
| Trade accounts payable | \$ 1,182 | \$ 1,199 |
| Accrued interest expense | 250 | 100 |
| Accrued expenses | 3,992 | 5,690 |
| Factoring facility | 1,974 | 7,191 |
| Income taxes payable | 2,270 | |
| Series C preferred stock subject to mandatory redemption | 6,000 | |
| Term loans | | 275 |
| Total current liabilities | 15,668 | 14,455 |
| Other liabilities: | | |
| 10% convertible notes | 7,180 | 6,300 |
| Deferred income taxes | 1,935 | 5,069 |
| Term loans | | 4,817 |
| Long-term debt | 281 | 270 |
| Series C preferred stock subject to mandatory redemption | | 6,000 |
| Total liabilities | 25,064 | 36,911 |
| Stockholders equity: | | |
| Common stock, \$0.001 par value, 25,000,000 shares authorized, 3,451,617 and 3,338,700 shares issued and outstanding | 3 | 3 |
| Additional paid-in capital | 13,946 | 13,749 |
| Deficit | (5,026) | (3,318) |

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| | | |
|--|-----------|-----------|
| Total stockholders' equity | 8,923 | 10,434 |
| Total liabilities and stockholders' equity | \$ 33,987 | \$ 47,345 |

See accompanying notes to financial statements.

Table of Contents**Tri-S Security Corporation and Subsidiaries****Consolidated Statements of Operations****Unaudited****(In thousands, except per share data)**

| | Three Months Ended | | Six Months Ended | |
|--|---------------------------|-----------------|---------------------------|-----------------|
| | June 30, | June 30, | June 30, | June 30, |
| | 2006 | 2005 | 2006 | 2005 |
| | (Restated, Note 2) | | (Restated, Note 2) | |
| Revenues | \$ 17,704 | \$ 7,745 | \$ 35,077 | \$ 15,724 |
| Cost of revenues: | | | | |
| Direct labor | 11,144 | 4,122 | 21,715 | 8,338 |
| Indirect labor and other support costs | 4,342 | 2,783 | 8,733 | 6,103 |
| Amortization of customer contracts | 412 | 87 | 824 | 182 |
| | 15,898 | 6,992 | 31,272 | 14,623 |
| Gross profit | 1,806 | 753 | 3,805 | 1,101 |
| Selling, general and administrative | 2,798 | 793 | 5,788 | 1,471 |
| Amortization of intangible assets | 232 | | 463 | |
| | 3,030 | 793 | 6,251 | 1,471 |
| Operating loss | (1,224) | (40) | (2,446) | (370) |
| Income from investment in Army Fleet Support, LLC, net | 108 | 414 | 384 | 1,048 |
| Other income (expense): | | | | |
| Interest income | 1 | 9 | 8 | 21 |
| Interest expense | (633) | (108) | (2,335) | (423) |
| Interest on Series C redeemable preferred stock | (75) | (75) | (150) | (150) |
| Gain on sale of investment in Army Fleet Support, LLC | 1,903 | | 1,903 | |
| Other income | | | 84 | |
| | 1,196 | (174) | (490) | (552) |
| Income (loss) before income taxes | 80 | 200 | (2,552) | 126 |
| Income tax expense (benefit) | 139 | 76 | (844) | 48 |
| Net income (loss) | \$ (59) | \$ 124 | \$ (1,708) | \$ 78 |
| Basic and diluted net income (loss) per common share | \$ (0.02) | \$ 0.04 | \$ (0.51) | \$ 0.02 |
| Basic weighted average number of common shares | 3,410 | 3,315 | 3,379 | 3,192 |
| Diluted weighted average number of common shares | 3,410 | 3,376 | 3,379 | 3,289 |

See accompanying notes to financial statements.

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

| | Six Months Ended June 30, 2006 (Restated, Note 2) | Six Months Ended June 30, 2005 |
|--|--|---|
| Cash flow from operating activities: | | |
| Net income (loss) | \$ (1,708) | \$ 78 |
| Adjustments to reconcile net loss to net cash used by operating activities: | | |
| (Gain) on sale of investment in Army Fleet Support, LLC | (1,903) | |
| (Income) loss from investment in Army Fleet Support, LLC, net | (384) | 1,048 |
| Stock issued for services | 44 | 95 |
| Depreciation and amortization | 1,458 | 340 |
| Deferred income tax benefits | (3,134) | (2,048) |
| Non-cash employee stock option expense | 223 | |
| Non-cash interest expense | 782 | |
| Changes in operating assets and liabilities: | | |
| Trade accounts receivable, net | 2,609 | (430) |
| Income taxes receivable | 2,290 | |
| Prepaid expenses and other assets | (87) | (686) |
| Trade accounts payable | (17) | (302) |
| Accrued liabilities | (1,520) | 366 |
| Net cash used by operating activities | (1,347) | (1,539) |
| Cash flow from investing activities: | | |
| Purchase of property and equipment | (59) | |
| Proceeds from disposal of property and equipment | 693 | 10 |
| Cash distributions from investment in Army Fleet Support, LLC | 175 | 855 |
| Proceeds from sale of investment in Army Fleet Support, LLC | 10,810 | |
| Net cash provided by investing activities | 11,619 | 865 |
| Cash flow from financing activities: | | |
| Net payments on factoring facility | (5,217) | |
| Repayments of term loans | (5,092) | |
| Deferred financing costs | (43) | |
| Proceeds from initial public offering | | 11,079 |
| Repayments of short-term notes | | (9,082) |
| Repayments of capital lease obligations | | (46) |
| Deferred initial public offering costs | (111) | (165) |
| Net cash provided by (used by) financing activities | (10,463) | 1,786 |
| Net increase (decrease) in cash and cash equivalents | (191) | 1,112 |
| Cash and cash equivalents at beginning of period | 463 | 313 |
| Cash and cash equivalents at end of period | \$ 272 | \$ 1,425 |

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Supplemental disclosures of cash flow information:

| | | | | |
|-------------------|----|-------|----|-------|
| Interest paid | \$ | 1,545 | \$ | 1,039 |
| Income taxes paid | \$ | 3 | \$ | 6 |

See accompanying notes to financial statements.

Table of Contents**TRI-S SECURITY CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****June 30, 2006****1. Organization**

Tri-S Security Corporation, a Georgia corporation (Tri-S , the Company or we), was incorporated in October 2001 under the name Diversified Security Corporation. We changed our name to Tri-S Security Corporation on August 16, 2004. We provide contract guard services to (i) various Federal government agencies through our subsidiary, Paragon Systems, Inc., an Alabama corporation with its principal office located in Washington, DC (Paragon Systems); and (ii) commercial and state and local government customers through our subsidiary, The Cornwall Group, Inc. (Cornwall), a Florida corporation with its principal offices located in Miami, Florida.

We provide cost-effective solutions to ensure the safety and security of the assets and personnel of our customers and to continually improve the protection we provide for their personnel, programs, resources and facilities. Our goal is to provide demonstrably superior contract guard services with the highest degree of integrity and responsiveness.

In January 2006, Paragon Systems entered into a Joint Venture Agreement with Southeastern Protective Services, Inc. (Southeastern Protective Services) to form Southeastern Paragon. Paragon Systems owns 49% and Southeastern Protective Services owns 51% of Southeastern Paragon. Southeastern Paragon was formed to bid on certain contracts, and Paragon Systems will be the manager of the contracts awarded to Southeastern Paragon. We will account for the results of Southeastern Paragon in accordance with Accounting Principal Board Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*, and FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities*.

2. Restatement

On September 15, 2006, the Audit Committee determined the Company's consolidated financial statements for the three and six months ended June 30, 2006 should be restated. The restatement is required to properly account for the lifting of the restrictions relating to the beneficial conversion feature of a portion of the 10% Convertible Notes. During the fourth quarter of 2005, the Company issued 10% convertible promissory notes with an aggregate face value of \$8,015,000. Since certain of the restrictions were satisfied in the first quarter of 2006, the Company should have recognized interest expense for the in-the-money portion of the conversion feature of the notes. The recognition of the additional \$620,000 interest expense in the first quarter of 2006 will have the effect of reducing the interest expense recognized in future periods. As a result, interest expense should have been reduced by \$78,000 in the second quarter which has the effect of reducing our loss by \$48,000 for the second quarter. Interest expense for the six months ended June 30, 2006 was increased by \$542,000 which had the effect of increasing our loss for the period by \$336,000.

The following tables present the effect of the restatement relative to the originally reported financial position and results of operations as of and for the three and six months ended June 30, 2006. The originally reported cash flows from operations, investing and financing activities were not affected.

| | Three Months Ended June 30, 2006 | | Six Months Ended June 30, 2006 | |
|--|----------------------------------|-----------|--------------------------------|------------|
| | As | | As | |
| | Previously Reported | Restated | Previously Reported | Restated |
| Selected Consolidated Statement of Operations Items | | | | |
| Interest Expense | \$ (711) | \$ (633) | \$ (1,793) | \$ (2,335) |
| Income/(loss) before income taxes | 2 | 80 | (2,010) | (2,552) |
| Income tax expense/(benefit) | 109 | 139 | (638) | (844) |
| Net loss | (107) | (59) | (1,372) | (1,708) |
| Basic and diluted net loss per common share | \$ (0.03) | \$ (0.02) | \$ (0.41) | \$ (0.51) |

| | June 30, 2006 | |
|--|---------------|----------|
| | As | As |
| | Previously | Restated |
| | Reported | |
| Selected Consolidated Balance Sheet Items | | |
| 10% convertible notes | \$ 6,261 | \$ 7,180 |
| Deferred income taxes | 2,141 | 1,935 |
| Total Liabilities | 24,351 | 25,064 |
| Additional Paid-in-capital | 14,323 | 13,946 |
| Deficit | (4,690) | (5,026) |
| Total shareholders' equity | 9,636 | 8,923 |

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3. Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (GAAP). The financial statements presented are unaudited and have been prepared by our management in accordance with the rules and regulations of the Securities and Exchange Commission (the SEC). In the opinion of our management, all adjustments, consisting of normal recurring accruals, necessary for the fair presentation of the financial position, results of operations and cash flows have been included. For further information, see our audited financial statements and footnotes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2005 (the Annual Report), and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2006, each as filed with the SEC. Disclosure that substantially duplicates the disclosure contained in the footnotes to the audited financial statements included in the Annual Report has been omitted from these Notes.

4. Stock-based Compensation

Effective January 1, 2006, we adopted Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* (SFAS No. 123R), using the modified-prospective-transition approach method. Under this transition method, compensation costs for 2006 include costs for options granted prior to, but not vested at, December 31, 2005, and options vested in 2006. Therefore, results for prior periods have not been restated.

The adoption of SFAS No. 123R decreased net income by approximately \$168,000 and \$223,000 for the three and six months ended June 30, 2006, compared to our previous method of accounting for share-based compensation under Accounting Principal Board Opinion No. 25, *Accounting for Stock Issued to Employees*. In the three and six months ending June 30, 2005, there would not have been any pro-forma expenses under SFAS No. 123R.

As of June 30, 2006, there was approximately \$702,000 of unrecognized compensation cost related to unvested share-based compensation awards granted. We expect to recognize this cost over the next 2.4 years.

The Company issued options to purchase a total of 211,500 shares of its common stock under its option plan on May 11, 2006, with an exercise price equal to the \$3.00 per share market value of the stock on that date.

The weighted average grant-date fair value of options granted during the six months ended June 30, 2006 was computed as approximately \$319,000 or \$1.51 per share under option.

There were no employee stock options granted during the six months ended June 30, 2005.

5. Initial Public Offering

In February 2005, we completed an underwritten initial public offering of 1,800,000 units (plus an additional 270,000 units upon the exercise of the underwriters' over-allotment option), with each unit consisting of one share of our common stock, par value \$0.001 per share, and a warrant to purchase one share of common stock, at an initial offering price per unit of \$6.00. The initial public offering closed with respect to the initial 1,800,000 units on February 14, 2005 and with respect to the additional 270,000 units on March 17, 2005. The aggregate net proceeds to us from the initial public offering were approximately \$10,885,000 after underwriting discounts and commissions, offering expenses and consulting fees.

Table of Contents**6. Acquisition of Paragon Systems, Inc.**

On February 27, 2004, Tri-S acquired all of the outstanding capital stock of Paragon Systems (the Paragon Acquisition). At the closing of the Paragon Acquisition, we: (i) paid \$10.0 million, of which \$2.3 million was paid in cash and \$7.7 million was paid through the issuance of promissory notes (the Paragon Notes), to the former shareholders of Paragon Systems; and (ii) issued 100 shares of our Series C Redeemable Preferred Stock, par value \$1.00 per share, with an aggregate redemption value of \$6.0 million. After the completion of the initial public offering, we repaid the outstanding principal of the Paragon Notes and paid all unpaid, accrued interest thereon. The Series C Redeemable Preferred is redeemable by the Company no later than February 27, 2007.

7. Pro Forma Disclosures Related to Recent Acquisitions

On October 18, 2005, Tri-S acquired all of the outstanding capital stock of Cornwall (the Cornwall Acquisition). At the closing of the Cornwall Acquisition, we paid \$13,500,000, of which \$13,250,000 was paid in cash and \$250,000 was paid through the issuance of a promissory note to the representative of the former shareholders of Cornwall. After adjusting for certain working capital items, the net purchase price for the Cornwall Acquisition was \$12,753,000.

The following unaudited pro forma summary information presents the results of operations of the Company as if the acquisition of The Cornwall Group, Inc. had occurred on January 1, 2005. The proforma results are shown for illustrative purposes only and do not purport to be indicative of the results we would have reported had the acquisition of The Cornwall Group, Inc. occurred On January 1, 2005 or indicative of results that may occur in the future.

Combined Pro Forma Statements of Operations

(in thousands)

| | For the year ended December 31, 2005 | For the year ended December 31, 2004 |
|---|---|---|
| Revenues | \$ 70,870 | \$ 64,610 |
| Operating income | \$ (4,471) | \$ (1,377) |
| Net (loss) | \$ (4,635) | \$ (3,058) |
| Basic and diluted net (loss) per common share | \$ (1.50) | \$ (3.69) |

8. Common and Preferred Stock

On February 8, 2005, pursuant to an Exchange and Recapitalization Agreement, we effected an exchange and recapitalization of our outstanding common stock, Series A Convertible Preferred Stock and Series B Convertible Preferred Stock and rights to acquire our common stock. Pursuant to the Exchange and Recapitalization Agreement, all of our outstanding (i) common stock, Series A Convertible Preferred Stock and Series B Convertible Preferred Stock was exchanged for an aggregate of 1,200,000 shares of common stock and (ii) rights to acquire our common stock were exchanged for rights to purchase an aggregate of 113,269 shares of common stock. The recapitalization was given retroactive treatment in the financial statements and related disclosures.

As of June 30, 2006, we had 100 shares outstanding of Series C Redeemable Preferred Stock.

Holders of the Series C Redeemable Preferred Stock have no voting rights, except that a consent of a majority of the holders of the Series C Redeemable Preferred Stock, voting separately as a class, is required to increase or decrease the number of authorized shares of Series C Redeemable Preferred Stock and except as otherwise required by applicable law. The Series C Redeemable Preferred Stock does not have any preemptive, conversion or sinking fund rights nor does it have any rights or preferences in the event of a liquidation, dissolution or winding-up of the Company.

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The Series C Redeemable Preferred Stock has a redemption value of \$60,000 per share. We may redeem the outstanding shares of Series C Redeemable Preferred Stock at any time, but must redeem all the outstanding shares of Series C Redeemable Preferred Stock no later than February 27, 2007. The holders of the Series C Redeemable Preferred Stock are entitled to receive cash dividends at a rate of 5% of the redemption value per annum (or \$3,000 per share per annum) which were accrued as interest expense for the three and six months ended June 30, 2006. However, on February 23, 2006, we filed a complaint against the former shareholders of Paragon Systems, alleging, among other things, that the former shareholders breached certain representations set forth in the Stock Purchase Agreement between Tri-S and the former shareholders of Paragon Systems dated as of February 23, 2004 (the Paragon Purchase Agreement). In the complaint, we seek, among other things, a decree invalidating (i) all the outstanding shares of the Series C Redeemable Preferred Stock, which are held by the former shareholders; and (ii) the Security Agreements entered into between us and the former shareholders in connection with the Paragon Acquisition, pursuant to which we have pledged an aggregate of 40% of the outstanding shares of Paragon Systems to secure our payment obligations under the Series C Redeemable Preferred Stock.

Tri-S is authorized to issue 25 million shares of common stock with a par value of \$0.001 per share. The holders of common stock are entitled to one vote per share on all matters. The common stock does not have cumulative voting rights and no conversion rights. Each share of common stock has an equal and ratable right to receive dividends to be paid from assets legally available when and if declared by the Board of Directors of Tri-S. Tri-S has never paid any cash dividends on common stock.

During the first quarter of 2006, we issued 20,000 shares of common stock for services, at a price of \$4.45 per share, which will be rendered ratably during 2006. For the three and six months ended June 30, 2006, we recorded expense of approximately \$22,000 and \$44,000, respectively, for services rendered during those periods.

During the second quarter of 2006, we issued 20,000 shares of common stock, at a price of \$4.55 per share, to one of the former shareholders of Cornwall pursuant to an employment agreement entered into with such shareholder in connection with the Cornwall Acquisition. Also, during the second quarter of 2006, we issued 62,500 shares of common stock upon conversion of a 10% convertible promissory note with an outstanding principal amount of \$300,000 and a book value of \$240,000. During the first quarter of 2006, we issued 10,417 shares of common stock upon conversion of a 10% convertible promissory note with an outstanding principal amount of \$50,000 and a book value of \$39,300.

9. Investment in Army Fleet Support, LLC

In conjunction with the Paragon Acquisition, we acquired a 10% equity interest in Army Fleet Support, LLC (Army Fleet). The value of our investment in Army Fleet on the date of the Paragon Acquisition was \$8,102,000 as established by an independent appraisal. We amortize the cost of the investment in excess of the net book value thereof using a 10-year life, which approximates the anticipated life of Army Fleet.

We account for our investment in Army Fleet using the equity method of accounting. Accordingly, our investment in Army Fleet is increased by our share of Army Fleet's earnings and reduced by the amortization of our investment in Army Fleet and the cash we receive from Army Fleet with respect to our investment.

During the second quarter of 2006, we sold our 10% interest in Army Fleet. The details of the transaction are as follows:

| | |
|--------------------------|---------------|
| Cash received | \$ 10,810,000 |
| Book value of investment | 8,907,083 |
| Gain on sale | \$ 1,902,917 |

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Our investment in Army Fleet was affected by the following transactions for the three and six months ended June 30, 2006 and 2005:

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|------------------|------------------|------------------|
| | June 30, 2006 | June 30, 2005 | June 30, 2006 | June 30, 2005 |
| Investment in Army Fleet beginning | \$ 8,974 | \$ 8,536 | \$ 8,698 | \$ 8,302 |
| Company's share of earnings in Army Fleet | 177 | 620 | 659 | 1,460 |
| Amortization of the investment in Army Fleet | (69) | (206) | (275) | (412) |
| Cash received from Army Fleet | (175) | (455) | (175) | (855) |
| Sale of investment in Army Fleet | (8,907) | | (8,907) | |
| Investment in Army Fleet ending | \$ | \$ 8,495 | \$ | \$ 8,495 |

Summarized unaudited balance sheet information for Army Fleet as of December 31, 2005 is as follows:

| | Dec. 31, 2005 |
|------------------------------|---------------|
| Total assets | \$ 60,735 |
| Total liabilities | \$ 42,761 |
| Equity | 17,974 |
| Total liabilities and equity | \$ 60,735 |

10. Debt and Other Obligations**Factoring Agreement**

On October 18, 2005, we entered into a Credit Agreement (the "Credit Agreement") with LSQ Funding Group, L.C. ("LSQ") and BRE LLC ("BRE" and, together with LSQ, our "lenders"), pursuant to which we borrowed \$1,650,000 pursuant to a term loan with a maturity date of October 1, 2007 ("Term Loan A") and \$3,500,000 pursuant to a term loan with a maturity date of October 1, 2009 ("Term Loan B" and, together with Term Loan A, the "Term Loans"). During the second quarter of 2006, the Term Loans were paid in full.

In connection with the Credit Agreement, we entered into a Factoring and Security Agreement (the "Factoring Agreement") with LSQ, pursuant to which LSQ will purchase from us from time to time certain accounts receivable at a discount of 0.7% and provide us with a professional accounts receivable management service for a funds usage fee of the prime rate plus 1.0% on the funds advanced on the outstanding accounts receivable purchased. The Factoring Agreement has a \$6,000,000 initial purchase limit and a four-year term which will automatically renew unless we provide notice of our intent to terminate. The Factoring Agreement amends and restates this Factoring Agreement dated as of April 1, 2005 between LSQ and Paragon Systems, pursuant to which LSQ purchased from Paragon Systems from time to time certain accounts receivable at a discount of 0.7% under a factoring facility with a funds usage fee equal to the prime rate plus 1.00%, a \$6,500,000 initial purchase limit and a one-year term subject to annual renewal.

Pursuant to the Credit Agreement, we also entered into (i) a Guaranty Agreement pursuant to which we unconditionally and irrevocably guarantee to the lenders the prompt payment and performance of all of our obligations, indebtedness and liabilities to the lenders, whether currently existing or subsequently arising (the "Obligations"); and (ii) a Security Agreement, pursuant to which we granted to the lenders a security interest in substantially all of our assets to secure all of the Obligations. Additionally, we have entered into a Pledge Agreement pursuant to which we have pledged to the lenders the capital stock of Paragon Systems to secure all of our obligations under the Credit Agreement and related documents.

On June 27, 2006, Paragon Systems executed a Guaranty of Joint Venture (the "JV Guaranty") pursuant to which Paragon Systems unconditionally guarantees to LSQ the prompt payment and performance of all obligations, indebtedness and liabilities, whether currently

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existing or subsequently arising, of Southeastern Paragon (the JV Obligations). The JV Obligations include the obligations, indebtedness and liabilities of Southeastern Paragon to LSQ under that certain Factoring and Security Agreement between Southeastern Paragon and LSQ dated as of June 27, 2006 (the JV Factoring Agreement), pursuant to which LSQ will purchase from Southeastern Paragon from time to time certain accounts receivable at a discount of 0.7% and provide Southeastern Paragon with a professional accounts receivable management service for a funds usage fee equal to the prime rate plus 1.0% on the funds advanced on the outstanding accounts receivable purchased. The JV Factoring Agreement has a \$1,000,000 initial purchase limit and a one-year term which will automatically renew unless Southeastern Paragon provides notice of its intent to terminate.

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Convertible Notes

During September and October 2005, we issued in a private placement transaction 10% convertible promissory notes (10% Notes) with an aggregate principal amount of \$8,015,000 and warrants to purchase 834,896 shares of common stock for a total purchase price of \$8,015,000. The 10% Notes and warrants were issued in four closings between September 2, 2005 and October 14, 2005. The face value of the 10% Notes is \$8,015,000. Interest is payable monthly on the face value of the 10% Notes at a rate of 10% per annum. The gross proceeds from the offering of 10% Notes and warrants was allocated to the 10% Notes and warrants in accordance with Emerging Issue Tax Force 98-5 Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios (EITF 98-5). In accordance with EITF 98-5, \$6,107,000 of the gross proceeds was allocated to the 10% Notes and \$1,908,000 was allocated to additional paid in capital related to the warrants and the beneficial conversion feature. The conversion of the 10% Notes was restricted at the issue date because of the need for a shareholder vote to approve the contingently issuable shares as well as certain other restrictions. In February 2006, the shareholders approved the shares issuable upon conversion of the 10% Notes. Accordingly, approximately \$1.1 million of the in-the-money beneficial conversion feature was recorded to increase the book value of the 10% Notes. Of the \$1.1 million of in-the-money beneficial conversion feature, approximately \$700 thousand was recorded as interest expense during the quarter ended March 31, 2006 and approximately \$400 thousand was recorded as a reduction to additional paid in capital because of additional conversion restrictions associated with a certain portion of the 10% Notes. The remaining discount on the 10% Notes relative to face value will be amortized to interest expense over the remaining life of the 10% Notes. The 10% Notes mature three years after issuance and may be prepaid at the option of the Company after one year after the issuance thereof subject to the satisfaction of certain conditions.

The 10% Notes are convertible by the holders at an initial conversion price of \$4.80 per share subject to certain restrictions. The warrants issued have an exercise price of \$4.80 and expire three years from the date of issuance.

During the second quarter of 2006, 62,500 shares of common stock were issued upon conversion of 10% convertible promissory note with an aggregate principal amount of \$300,000. During the first quarter of 2006, 10,417 shares of common stock were issued upon conversion of 10% convertible promissory note with an aggregate principal amount of \$50,000.

11. Net Loss per Share

Basic net loss per share is computed by dividing net loss available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted net loss per share gives effect to all potentially dilutive securities. For the three and six months ended June 30, 2006, the effect of the Company's warrants and stock options were not included in the computation of diluted earnings per share as their effect was anti-dilutive.

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12. Related Party Transactions

Note Receivable from Chief Executive Officer

Pursuant to the employment agreement between Tri-S and Ronald G. Farrell, our Chief Executive Officer and President, Mr. Farrell was entitled to receive during 2004 an aggregate bonus of \$435,000. However, in order to improve the financial position of the Company prior to our initial public offering, Mr. Farrell agreed to forfeit \$290,000 of such bonus and accept a cash bonus of \$145,000. At the time Mr. Farrell agreed to such change in his compensation, we had already paid to Mr. Farrell \$245,000 with respect to his 2004 bonus. Accordingly, Mr. Farrell has agreed to repay to us \$100,000 pursuant to the terms of a promissory note issued by Mr. Farrell to us dated December 31, 2004, which bears interest at a rate of 2.48% per year and is payable on December 31, 2006. The note may be prepaid at any time without penalty and may be paid, at the election of Mr. Farrell, in cash or shares of common stock or any combination thereof. The note is included in Other Assets on our balance sheet as of June 30, 2006.

Employment Agreement

Pursuant to the employment agreement between us and Mr. Farrell, Mr. Farrell has agreed to serve as our Chief Executive Officer and President until December 31, 2011. The agreement provides for (i) payment of a specified base salary which increases by 10% per year; (ii) payment of an annual incentive bonus equal to 5% of our operating income for such year (which income includes dividends and distributions made to us with respect to our interest in Army Fleet), provided that such bonus may not exceed 100% of Mr. Farrell's base salary for such year; (iii) prohibitions against Mr. Farrell's disclosure of confidential information, solicitation of our employees and participation in a business competitive with our business during his employment and for a period of one year following the termination of his employment; (iv) payment of an acquisition bonus equal to 2% of the value of all acquisitions made by us; and (v) continuation of Mr. Farrell's compensation and benefits for the remainder of the term of his employment agreement if his employment is terminated by us without cause or by Mr. Farrell for good reason or upon a change of control of the Company. Pursuant to Mr. Farrell's employment agreement, we also provide certain other benefits and expense reimbursements to Mr. Farrell which are consistent with his position as our Chief Executive Officer. Mr. Farrell is also entitled to participate in any employee benefit plan, stock option plan and other fringe benefit plan at the discretion of our board of directors.

13. Subsequent Event

On July 21, 2006, Cornwall sold certain home monitoring customer contracts of International Monitoring, Inc., a wholly-owned subsidiary of Cornwall (International Monitoring), to an unrelated party for a purchase price of approximately \$680,000, subject to a 10% reduction thereof for customer attrition. Additional customer contracts will be sold to the purchaser if certain provisions are met which qualify each account. In addition, the purchaser will service all accounts not sold under a separate servicing agreement.

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

This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Management's Discussion and Analysis of Financial Condition and Results of Operations contained in the Annual Report.

You should carefully review the information contained in this Quarterly Report on Form 10-Q for the quarter ended June 30, 2006 (this Quarterly Report) and should particularly consider any risks and other factors that we set forth in this Quarterly Report and in other reports or documents that we file from time to time with the SEC. Except for historical information contained herein, this Quarterly Report contains 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 (the Exchange Act), including statements of our expectations as to future events and our future financial performance. In some cases, you can identify those so-called forward-looking statements by words such as may, will, should, expects, plan, anticipates, believes, estimates, predicts, potential, or continue or the negative of those words and other comparable words. You should be aware that those statements are only our predictions, which are being made as of the date hereof. Actual events or results may differ materially. In evaluating those statements, you should specifically consider various factors, including the risks outlined below. Those factors may cause our actual results to differ materially from any of our forward-looking statements. We undertake no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

Overview

We provide contract guard services to government and commercial customers. These guard services include providing uniformed and armed guards for access control, personnel protection, plant security, theft prevention, surveillance, vehicular and foot patrol, crowd control and prevention of sabotage, terrorist and criminal activities. In connection with providing these services, we assume responsibility for a variety of functions, including recruiting, hiring, training and supervising security guards deployed to the customers we serve as well as paying all guards and providing them with uniforms, employee benefits and workers' compensation insurance. We are responsible for preventing the interruption of guard services as a consequence of illness, vacations or resignations.

Critical Accounting Policies

The following discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires us to make judgments regarding estimates that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures. We base our judgments on historical experience and on various assumptions that we believe are reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. We believe our judgments and related estimates regarding the following accounting policies are critical in the preparation of our consolidated financial statements.

Revenue Recognition. Revenue is recorded monthly as guard services are provided to our customers under contracts. We bill guard services in arrears at hourly or monthly rates based on the number of hours worked under some contracts and as fixed monthly amounts under other contracts. Hourly and monthly rates are based on contractual terms.

The terms of our contracts are complex and may be subject to differing interpretations. We make estimates and judgments about terms of the contracts in providing services and in billing and recording revenue. At times, our Federal contracts require interpretations. Typically, differences in interpretation are resolved on a mutual basis in discussions with the government agency involved. The resolution of differences may result in a determination that amounts previously billed are not in accordance with contract terms and adjustments of amounts initially recorded as revenue may be material.

Contracts with Federal government agencies may be subject to cessation of funding. Cessation of funding may result in amounts billed and recorded as revenue as being uncollectible. We work with the appropriate government agency to resolve funding issues. When funding issues become known, we make estimates and judgments about the extent of potential losses and adjust revenues accordingly. Amounts estimated could differ from amounts ultimately collected and these amounts could be material. During 2004, 2005 and 2006, none of our contracts have been subject to cessation of funding.

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Cost of Revenues. Cost of revenues is primarily comprised of labor, related payroll taxes, employee benefits, workers compensation, liability insurance, and the pro rata portion of the costs of customer contracts required.

We make estimates and judgments of amounts recorded for accruals of labor related costs. Expenses most subject to estimation and judgment are accrued vacation and workers compensation costs. The terms of vacation policies may be complex and subject to interpretation. Workers compensation insurance is subject to retroactive audit. Actual amounts could differ from the amounts initially recorded.

Impairment of Long-lived Assets, Goodwill and Intangible Assets. We evaluate impairment of long-lived assets, including property and equipment and intangible assets with finite lives, whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the asset, then an impairment loss is recognized. Measurement of an impairment loss for long-lived assets is based on discounted cash flows and the fair value of an asset.

Investment in Army Fleet. We account for our 10% equity in Army Fleet, a joint venture which provides logistics support for U.S. Army aviation training at Fort Rucker, Alabama, using the equity method of accounting. Accordingly, our investment in Army Fleet is increased by our share of Army Fleet's earnings and reduced by the amortization of our investment in Army Fleet and the cash we receive from Army Fleet with respect to our investment.

SFAS No. 123(R). On January 1, 2006, we adopted SFAS No. 123R using the modified-prospective-transition approach method. The adoption increased our net loss by \$223,000 for the six months ended June 30, 2006 compared to our previous method of accounting for share-based compensation under Accounting Principal Board Opinion No. 25, *Accounting for Stock Issued to Employees*. The adoption of SFAS No. 123(R) would have not have changed our net loss for the six months ended June 30, 2005. We will incur approximately \$702,000 of expense over a weighted average of 2.4 years for all unvested options.

Restatement. On September 15, 2006, the Audit Committee determined the Company's consolidated financial statements for the three and six months ended June 30, 2006 should be restated. The restatement is required to properly account for the lifting of the restrictions relating to the beneficial conversion feature of a portion of the 10% Convertible Notes. During the fourth quarter of 2005, the Company issued 10% convertible promissory notes with an aggregate face value of \$8,015,000. Since certain of the restrictions were satisfied in the first quarter of 2006, the Company should have recognized interest expense for the in-the-money portion of the conversion feature of the notes. The recognition of the additional \$620,000 interest expense in the first quarter of 2006 will have the effect of reducing the interest expense recognized in future periods. As a result interest expense should have been reduced by \$78,000 in the second quarter which has the effect of reducing our loss by \$48,000 for the second quarter. For the six month period, interest expense was increased by \$542,000. The effect of the restatement does not impact the Company's liquidity position as it represents a non cash interest charge.

The following tables present the effect of the restatement relative to the originally reported financial position and results of operations as of and for the three and six months ended June 30, 2006. The originally reported cash flows from operations, investing and financing activities were not affected.

| | Three Months Ended | | Six Months Ended | |
|--|---------------------|-----------|---------------------|------------|
| | June 30, 2006 | | June 30, 2006 | |
| | As | As | As | As |
| | Previously Reported | Restated | Previously Reported | Restated |
| Selected Consolidated Statement of Operations Items | | | | |
| Interest Expense | \$ (711) | \$ (633) | \$ (1,793) | \$ (2,335) |
| Income/(loss) before income taxes | 2 | 80 | (2,010) | (2,552) |
| Income tax expense/(benefit) | 109 | 139 | (638) | (844) |
| Net loss | (107) | (59) | (1,372) | (1,708) |
| Basic and diluted net loss per common share | \$ (0.03) | \$ (0.02) | \$ (0.41) | \$ (0.51) |

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| | June 30, 2006 | |
|--|------------------------------|----------------|
| | As Previously Reported | As Restated |
| Selected Consolidated Balance Sheet Items | | |
| 10% convertible notes | \$ 6,261 | \$ 7,180 |
| Deferred income taxes | 2,141 | 1,935 |
| Total Liabilities | 24,351 | 25,064 |
| Additional Paid-in-capital | 14,323 | 13,946 |
| Deficit | (4,690) | (5,026) |
| Total shareholders' equity | 9,636 | 8,923 |

Results of Operations - Three Months Ended June 30, 2006 Compared to Three Months Ended June 30, 2005

Revenue increased \$10.0 million to \$17.7 million, or 130%, for the three months ended June 30, 2006, as compared to revenue of \$7.7 million for the three months ended June 30, 2005. The increase in revenue is primarily due to the Cornwall Acquisition, which generated \$10.1 million of additional revenue in the second quarter 2006.

Cost of revenue increased \$8.9 million to \$15.9 million, or 127%, for the three months ended June 30, 2006, as compared to cost of revenue of \$7.0 million for the three months ended June 30, 2005. Our cost of revenues increased primarily due to costs associated with the service contracts acquired as part of the Cornwall Acquisition.

Our gross profit increased by \$1.0 million to \$1.8 million for the three months ended June 30, 2006, as compared to gross profit of \$753,000 for the three months ended June 30, 2005. Our gross margin percentage increased to 10.2% for the three months ended June 30, 2006 compared to 9.7% for the three months ended June 30, 2005.

Selling, general and administrative expenses, which include payroll and related expenses for administrative personnel, occupancy costs at the office locations, consulting and professional fees, and other miscellaneous office and corporation expenses, increased \$2.2 million to \$3.0 million, or 275%, for the three months ended June 30, 2006, as compared to \$793,000 for the three months ended June 30, 2005. The \$2.2 million increase was due to \$1.4 million of selling, general and administrative expenses incurred by Cornwall. The remainder of the increase was due to costs incurred to support our anticipated growth at Paragon Systems and due to the establishment of a corporate headquarters as a result of our growth and initial public offering.

Income with respect to our equity interest in Army Fleet decreased \$306,000 for the three months ended June 30, 2006, as compared to the three months ended June 30, 2005. For the three months ended June 30, 2006, we recognized \$177,000 of net earnings with respect to our equity interest in Army Fleet less \$69,000 of related amortization expense, for a net result of \$108,000. For the three months ended June 30, 2005, we recognized \$620,000 of net earnings with respect to our equity interest in Army Fleet less \$206,000 of amortization expense, for a net result of \$414,000.

For the three months ended June 30, 2006, the Company recognized a gain of \$1.9 million for the sale of its investment in Army Fleet.

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Interest expense increased \$603,000, or 558%, to \$711,000 for the three months ended June 30, 2006, as compared to interest expense of \$108,000 for the three months ended June 30, 2005. The increase is due primarily to the interest associated with the 10% convertible notes and the Term Loans payable to LSQ, which did not exist in the quarter ending June 30, 2005. Also increased borrowings under our Factoring Agreement with LSQ contributed to the increase in interest expense.

Income before income taxes for the three months ended June 30, 2006 resulted in a tax expense of \$109,000, while income before income taxes for the three months ended June 30, 2005 resulted in a tax expense of \$76,000.

Results of Operations - Six Months Ended June 30, 2006 Compared to Six Months Ended June 30, 2005.

Revenue increased \$19.4 million to \$35.1 million, or 124%, for the six months ended June 30, 2006, as compared to revenue of \$15.7 million for the six months ended June 30, 2005. The increase in revenue is primarily due to the Cornwall Acquisition, which generated \$20.1 million of additional revenue for the six months ended June 30, 2006, offset by a \$0.7 million reduction in revenue at Paragon Systems as the result of two contract expirations.

Cost of revenue increased \$16.7 million to \$31.3 million, or 114%, for the six months ended June 30, 2006, as compared to cost of revenue of \$14.6 million for the six months ended June 30, 2005. Our cost of revenues increased primarily due to costs associated with the service contracts acquired as part of the Cornwall Acquisition.

Our gross profit increased by \$2.7 million to \$3.8 million for the six months ended June 30, 2006, as compared to gross profit of \$1.1 million for the six months ended June 30, 2005. Our gross margin percentage increased to 10.8% for the six months ended June 30, 2006 compared to 7.0% for the six months ended June 30, 2005.

Selling, general and administrative expenses, which include payroll and related expenses for administrative personnel, occupancy costs at the office locations, consulting and professional fees, and other miscellaneous office and corporation expenses, increased \$4.8 million to \$6.3 million, or 323%, for the six months ended June 30, 2006, as compared to \$1.5 million for the six months ended June 30, 2005. The \$4.8 million increase was due to \$3.4 million of selling, general and administrative expenses incurred by Cornwall. The remainder of the increase was due to costs incurred to support our anticipated growth at Paragon Systems and due to the establishment of a corporate headquarters as a result of our growth and initial public offering.

Income with respect to our equity interest in Army Fleet decreased \$664,000 for the six months ended June 30, 2006, as compared to the six months ended June 30, 2005. For the six months ended June 30, 2006, we recognized \$659,000 of net earnings with respect to our equity interest in Army Fleet less \$275,000 of related amortization expense, for a net result of \$384,000. For the six months ended June 30, 2005, we recognized \$1.5 million of net earnings with respect to our equity interest in Army Fleet less \$412,000 of amortization expense, for a net result of \$1.1 million.

For the six months ended June 30, 2006, the Company recognized a gain of \$1.9 million for the sale of its investment in Army Fleet.

Interest expense increased \$1.9 million, or 452%, to \$2.3 million for the six months ended June 30, 2006, as compared to interest expense of \$423,000 for the six months ended June 30, 2005. The increase is due primarily to the interest associated with the 10% Notes, including the beneficial conversion feature interest and the term loans with LSQ, which did not exist in the quarter ending March 31, 2005. Also increased borrowings on factoring facility with LSQ contributed to the increase in interest expense.

Loss before income taxes for the six months ended June 30, 2006 resulted in a tax benefit of \$844,000, while income before income taxes for the six months ended June 30, 2005 resulted in a tax provision of \$48,000.

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Liquidity and Capital Resources

As of June 30, 2006, we had \$272,000 of cash on hand. Cash used by operating activities was \$1.3 million for the six months ended June 30, 2006. This resulted primarily due to a net loss for the six months ended June 30, 2006 of \$1.4 million. In addition, during the six months ended June 30, 2006, cash flows from investing activities had a positive impact of \$11.6 million due primarily to the \$10.8 million proceeds from the sale of investment in Army Fleet, which was offset by cash flows used by financing activities related to the reduction of debt obligations of \$10.3 million.

The funds advanced to us and outstanding under our Factoring Agreement during the first quarter of 2006 and as of March 31, 2006 exceeded the maximum availability thereunder based on the collateral formula in the Factoring Agreement with our lenders. However, during the second quarter of 2006, we reduced the outstanding debt under the Credit Agreement by selling our investment in Army Fleet and using all the proceeds from the sale to reduce our obligations under the Term Loans and the Factoring Agreement. As of June 30, 2006, the Company was in compliance with our Credit Agreement and Factoring Agreement.

The Series C Redeemable Preferred Stock outstanding at December 31, 2005 is redeemable on February 28, 2007 for an aggregate value of \$6.0 million. All of the outstanding Series C Redeemable Preferred Stock was issued in connection with the Paragon Acquisition and is held by the former shareholders of Paragon Systems. On February 26, 2006, we filed a complaint against the former shareholders of Paragon Systems alleging, among other things, that the former shareholders breached certain representations set forth in the Paragon Purchase Agreement, pursuant to which the Paragon Acquisition was consummated on February 27, 2004, and that certain former shareholders committed fraud in connection with the Paragon Acquisition. In the complaint we seek, among other things, an award of damages against the former shareholders and a decree invalidating all of the outstanding shares of the Series C Redeemable Preferred Stock. Accordingly, we exercised our right of offset under the Paragon Purchase Agreement and did not pay the \$150,000 interest payment which was otherwise due in respect of the Series C Redeemable Preferred Stock on February 28, 2006. In the event that our complaint is unsuccessful and we are required to repay the Series C Redeemable Preferred Stock on February 28, 2007, we will need to raise additional debt and/or equity capital or sell assets to satisfy the obligation.

Our liquidity position in the future will be determined by our ability to generate cash from operations and our borrowing availability under the Factoring Agreement and future financings.

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Item 4. Controls and Procedures

In the Original Report, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by the Original Report, our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) or 15d-15(e) of the Exchange Act) were effective. This conclusion was reached after our Chief Executive Officer and Chief Financial Officer evaluated our disclosure controls and procedures as of the end of the period covered by the Original Report, as required by paragraph (b) of Rules 13a-15 or 15d-15 of the Exchange Act.

In connection with preparing the restated consolidated financial statements included in the Amendment, our Chief Executive Officer and Chief Financial Officer further evaluated our disclosure controls and procedures as of the end of the period covered by the Original Report and concluded that such disclosure controls and procedures were ineffective because the financial statements included in the Original Report did not account for the satisfaction of the beneficial ownership restriction on the Company's 10% convertible promissory notes.

During the quarter ended June 30, 2006, there was not any change in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rules 13a-15 or 15d-15 of the Exchange Act that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 6. Exhibits.

The exhibits required to be filed with this Quarterly Report are set forth on the Exhibit Index included herein.

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SIGNATURE

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

Date: September 26, 2006

TRI-S SECURITY CORPORATION

/s/ Ronald G. Farrell
Ronald G. Farrell

Chairman of the Board and Chief Executive Officer

(duly authorized signatory and Principal Executive Officer)

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| Exhibit No. | Description | Method of Filing |
|--------------------|--|--|
| 3.1 | Amended and Restated Articles of Incorporation. | Incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1 (No. 333-119737). |
| 3.2 | Amended and Restated Bylaws. | Incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-1 (No. 333-119737). |
| 4.1 | Form of Warrant to purchase 150,000 shares of the Company's common stock issued to BRE LLC. | Incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed on May 2, 2006. |
| 4.2 | Form of Warrant to purchase 25,000 shares of the Company's common stock issued to LSQ Funding Group, L.C. | Incorporated by reference to Exhibit 99.2 to the Company's Current Report on Form 8-K filed on May 2, 2006. |
| 10.1 | Agreement between International Monitoring, Inc. and Devcon Security Services Corporation dated March 2, 2006. | Incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed on March 8, 2006. |
| 10.2 | Amendment and Forbearance Agreement dated as of March 29, 2006 by and among the Company, its subsidiaries, LSQ Funding Group, L.C. and BRE LLC. | Incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed on April 4, 2006. |
| 10.3 | Agreement to sell certain real property located in Fort Lauderdale, Florida. | Incorporated by reference to Exhibit 10.92 to the Company's Annual Report on Form 10-K for the year ended December 31, 2005 |
| 10.4 | Letter Agreement dated April 10, 2006 between International Monitoring, Inc. and Devcon Security Services Corporation. | Incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2006. |
| 10.5 | Purchase Agreement dated as of May 19, 2006 among Tri-S Security Corporation, Paragon Systems, Inc. and L-3 Communications Integrated Systems, LP. | Incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed on May 23, 2006. |
| 10.6 | Summary of Board Compensation. | Incorporated by reference to Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2006. |
| 10.7 | Guaranty of Joint Venture Executed by Paragon Systems, Inc. on June 27, 2006. | Incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed on June 30, 2006. |
| 10.8 | Waiver, Consent and Amendment among Tri-S Security Corporation, its subsidiaries, LSQ Funding Group, L.C. and BRE LLC dated as of June 27, 2006. | Incorporated by reference to Exhibit 99.2 to the Company's Current Report on Form 8-K filed on June 30, 2006. |
| 31.1 | Rule 13a-14(a)/15d-14(a) Certification of the Company's Chief Executive Officer. | Filed herewith. |
| 31.2 | Rule 13a-14(a)/15d-14(a) Certification of the Company's Chief Financial Officer. | Filed herewith. |
| 32.1 | Section 1350 Certification of the Company's Chief Executive Officer. | Filed herewith. |
| 32.2 | Section 1350 Certification of the Company's Chief Financial Officer. | Filed herewith. |