ACORDA THERAPEUTICS INC
Form 4
July 06, 2016

FORM 4

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

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

OMB Number:	3235-0287
Expires:	January 31, 2005
Estimated average burden hours per response...	0.5

(Print or Type Responses)

1. Name and Address of Reporting Person *
BLANK BURKHARD

(Last) (First) (Middle)

420 SAW MILL RIVER ROAD

(Street)

ARDSLEY, NY 10502

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
ACORDA THERAPEUTICS INC [ACOR]

3. Date of Earliest Transaction (Month/Day/Year)
07/01/2016

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Chief Medical Officer

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	07/01/2016		A		40,000 (1)	A	$ 0	40,000	D	
Common Stock	07/01/2016		A		10,000 (2)	A	$ 0	50,000	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)	
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount o Number o Shares
Employee Stock Option (right to buy)	$ 25.99	07/01/2016		A		100,000		(3)	07/01/2026	Common Stock	100,00

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
BLANK BURKHARD 420 SAW MILL RIVER ROAD ARDSLEY, NY 10502			Chief Medical Officer	

Signatures

/s/ Blank Burkhard	07/06/2016
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Restricted shares issued under the Company's 2015 Omnibus Incentive Compensation Plan. The shares will vest in four equal installments of 25% each with vest dates of December 1, 2016, December 1, 2017, December 1, 2018 and December 1, 2019.

(2) Restricted shares issued under the Company's 2015 Omnibus Incentive Compensation Plan. The shares will vest 50% on July 1, 2018 and 50% on July 1, 2019.

(3) 25% percent of the shares subject to this option vest on July 1, 2017. The balance of the shares subject to this option vest in equal quarterly installments over the three years thereafter.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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Gross Profit

1,472

5,203

6,675

Selling, general and administrative

2,757

5,286

957

(4)

25

(5)

Explanation of Responses:

108

(6)

(266

)(7)

Explanation of Responses:

8,867

Operating income(loss)

(1,285

)

(83

)

(824

)

(2,192

)

Income from joint venture

1,451

1,451

Other Income (expense):

Other Income

7

7

Interest income

35

35

Interest expense

(543

)

(346

)

(1,278

)(8)

(2,167

)

Interest on preferred stock subject to mandatory redemption

(225

)

(225

)

(733

)

(339

)

(1,278

)

(2,350

)

Loss before income taxes

(567

)

(422

)

(2,102

)

(3,091

)

Income tax benefit

(215

)

(167

)

(9)

(382

)

Net loss

(352

)

(255

)

(2,102

)

(2,709

)

Basic and diluted net loss per common share

$

(0.11

)

$

(0.84

)

Basic and diluted weighted average shares outstanding

3,236

3,236

62

Explanation of Responses:

TRI-S SECURITY CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED
CONSOLIDATED FINANCIAL STATEMENTS

Note A. General

The components of the aggregate purchase price for The Cornwell Group Inc. and subsidiaries are as follows (in thousands):

Term note issued	$ 5,165
Proceeds from convertible Notes issued	6,096
Proceeds from factoring arrangement	2,203
Cash paid at closing	1,919
Cornwell Acquisition Note to seller	250
Transaction cost	402
Total acquisition costs	$ 16,035

In accordance with SFAS No. 141, Business Combinations, the Company has allocated the acquisition costs to the assets and liabilities based upon estimates of fair value as follows (in thousands):

Current assets	$ 5,616
Property and equipment	1,216
Intangible assets	8,515
Long-term assets	129
Goodwill	2,701
Total assets acquired	$ 18,177
Current liabilities	(2,142)
Total liabilities assumed	(2,142)
Net assets acquired	16,035

The intangible assets that make up the amount allocated to intangibles in the purchase price allocation above are developed technology of approximately $95,000; non-compete agreements of approximately $390,000, trademark of approximately $830,000 and customer lists of approximately $7.2 million. The developed technology, non compete, trademark and customer list will be amortized over three, two, forty and seven years, respectively.

The historical financial information has been derived from the respective historical financial statements of Tri-S Security Corporation and The Cornwall Group, Inc. The accompanying unaudited pro forma balance sheet information is presented for illustrative purposes assuming the acquisition has occurred on September 30, 2005. The accompanying unaudited pro forma statements of operations data is presented for illustrative purposes assuming the acquisition had occurred as of January 1, 2005 and 2004, respectively and not necessarily indicative of the results of operations that would have actually occurred if the combination had been completed as of that date, or of future results of operation of the combined company.

63

Note B. Unaudited Pro Forma Condensed Combined Consolidated Balance Sheet

The accompanying unaudited pro forma condensed combined consolidated balance sheet assumes the acquisition occurred as of September 30, 2005 and reflects the following pro forma adjustments:

(1) To record the cost of acquisition for Cornwell, including approximately $1.9 million in cash paid at closing from proceeds of convertible Notes issued prior to September 30, 2005, $6.1 million of convertible Notes issued, $5.2 million of term notes issued, $2.2 million of proceeds from our factoring arrangement, $250,000 of the Cornwell Acquisition Note and $0.4 million in transaction costs.

(2) To record the allocation of the purchase price for the acquisition to the assets and liabilities acquired (in thousands):

Current assets	$ 5,616
Property and equipment	1,216
Intangible assets	8,515
Long-term assets	129
Goodwill	2,701
Total assets acquired	$ 18,177
Current liabilities	(2,142)
Total liabilities assumed	(2,142)
Net assets acquired	16,035

(3) To record the deferred financing fees associated with the term notes and record the Investor Warrants.

Note C. Unaudited Pro Forma Condensed Combined Consolidated Statements of Operations

The accompanying unaudited pro forma condensed combined consolidated statements of operations have been prepared assuming the acquisition occurred as of January 1, 2005 and 2004, respectively and reflects the following pro forma adjustments:

(4) To record the amortization of intangible assets resulting from the allocation of the cost of the acquisition. The acquired intangible assets are being amortized on a straight-line basis over a five-year period.

(5) To record increased depreciation expense based on $166,000 increase in the carrying value of the property and equipment, which is depreciated over five years.

(6) To record the amortization of deferred financing fees over the terms of the term notes.

(7) To record cost savings with regard to Cornwall s employee stock ownership plan which was terminated with the acquisition.

(8) To record additional interest expense related to the issuance of the Notes in the amount of $8,015 with interest calculated based on the effective yield of 14.2% and includes the amortization of the discount, term loans in the amount of $5,165 with interest calculated based on Prime Rate + 4% and the $250 Cornwell Acqusition Note to seller with an interest rate of 5%.

(9) To record the elimination of income tax expense due to the losses incurred by Tri-S. No other tax entries have been recorded as Tri-S has incurred losses over the past few years.

MARKET PRICE OF AND DIVIDENDS ON COMMON STOCK

The common stock and publicly-traded warrants are currently traded on The Nasdaq SmallCap Market under the symbols TRIS and TRISW, respectively. The common stock and publicly-traded warrants first became publicly traded as separate quotations on The Nasdaq SmallCap Market on April 11, 2005. From February 9, 2005, the date of the Initial Public Offering, until April 10, 2005, only the units sold in the Initial Public Offering were publicly traded.

The following table sets forth the quarterly high and low sales prices for the common stock for the periods indicated below, as reported by The Nasdaq SmallCap Market. The stock prices set forth below do not include adjustments for retail mark-ups, markdowns or commissions, and represent inter-dealer prices and do not necessarily represent actual transactions.

	Common Stock	
	High	**Low**
Fourth Quarter of 2005	$ 5.26	$ 4.15
Third Quarterof 2005	5.25	3.60
Second Quarter of 2005	5.24	3.05

As of January 25, 2006, there were approximately 19 holders of record of the common stock. The last reported sale price of the common stock as reported on The Nasdaq SmallCap Market on January 30, 2006 was $4.15.

We have never declared or paid cash dividends on the common stock. We currently intend to retain any earnings for use in our operations and do not anticipate paying cash dividends on the common stock in the foreseeable future. In addition, our Credit Agreement prohibits the payment of cash dividends on the common stock without the Lenders prior written consent.

65

DESCRIPTION OF SECURITIES

The following is a description of our capital stock as set forth in our amended and restated articles of incorporation and amended and restated bylaws, the forms of which have been filed with SEC as exhibits to the registration statement of which this prospectus is a part. The following description of our capital stock does not purport to be complete and is subject to and qualified by our articles of incorporation and bylaws and applicable provisions of Georgia law. For a more complete description of our capital stock, you should carefully review the detailed provisions of applicable Georgia law and our articles of incorporation and bylaws. We will send you a copy of our articles of incorporation and bylaws without charge at your request.

General

Our authorized capital stock consists of 25,000,000 shares of common stock, par value $0.001 per share, and 10,000,000 shares of preferred stock, par value $1.00 per share, of which 1,000,000 shares have been designated as Series A Convertible Preferred Stock, 250,000 shares have been designated as Series B Convertible Preferred Stock, and 100 shares have been designated as Series C Redeemable Preferred Stock.

As of January 25, 2005, there were issued and outstanding 3,338,700 shares of common stock, no shares of Series A Convertible Preferred Stock, no shares of Series B Convertible Preferred Stock and 100 shares of Series C Redeemable Preferred Stock. In addition, the Company has reserved (i) 2,070,000 shares of common stock for issuance upon exercise of the publicly-traded warrants; (ii) 500,000 shares of common stock for issuance in connection with awards issued or to be issued under our 2004 Incentive Stock Option Plan; (iii) 1,669,826 shares of common stock issuable upon conversion of Notes; (iv) 1,085,358 shares of common stock issuable upon exercise of the Investor Warrants and Broker Warrants; and (v) 175,000 shares of common stock issuable upon exercise of the Lender Warrants.

Common Stock

Voting Rights. The holders of common stock are entitled to one vote per share on all matters. The common stock does not have cumulative voting rights, which means that holders of the shares of common stock with a majority of the votes to be cast for the election of directors can elect all directors then being elected.

Dividends. Each share of common stock has an equal and ratable right to receive dividends to be paid from our assets legally available therefor when, as and if declared by our board of directors. We do not anticipate paying cash dividends on the common stock in the foreseeable future. See Market Price of and Dividends on Common Stock.

Conversion. The common stock has no conversion rights.

Liquidation. In the event we dissolve, liquidate or wind up, the holders of common stock are entitled to share equally and ratably in the assets available for distribution after payments are made to our creditors and to the holders of any outstanding preferred stock we may designate and issue in the future with liquidation preferences greater than those of the common stock.

Other. The holders of shares of common stock have no preemptive, subscription or redemption rights and are not liable for further call or assessment. All of the outstanding shares of common stock are, and the shares of common stock offered hereby will be, fully paid and nonassessable.

The common stock and publicly-traded warrants to purchase common stock are listed for quotation on The Nasdaq SmallCap Stock Market under the symbols TRIS and TRISW, respectively.

Preferred Stock

Our board of directors is authorized, without further shareholder action, to divide any or all shares of our authorized preferred stock into series and to fix and determine the designations, preferences and relative participating, optional or other special rights, and qualifications, limitations or restrictions thereon, of any series so established, including voting powers, dividend rights, liquidation preferences, redemption rights and conversion or exchange privileges. As of January 25, 2005, there are issued and outstanding 100 shares of Series C Redeemable Preferred Stock and no shares of either Series A Convertible Preferred Stock or Series B Convertible Preferred Stock. As of the date of this prospectus, our board of directors has no plans, agreements or understandings for the issuance of any shares of preferred stock.

Holders of Series C Redeemable Preferred Stock have no voting rights, except as otherwise required by applicable law. Holders of Series C Redeemable Preferred Stock have no preemptive, conversion or sinking fund rights. In the event of a liquidation, dissolution or winding up of the Company, holders of common stock are not entitled to any liquidation preference and do not share in the assets of the Company.

The Series C Redeemable Preferred Stock has a redemption value of $60,000 per share. We may redeem the outstanding shares of Series C 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 Preferred Stock are entitled to receive cumulative cash dividends at an annual rate of 5% of the redemption value (or $3,000 per share per annum) payable semi-annually on August 31 and February 28 of each year.

Provisions of our Articles of Incorporation and Bylaws and Georgia Law Regarding Shareholders Rights and Related Matters

Shareholders rights and related matters are governed by the Georgia Business Corporation Code and our articles of incorporation and bylaws. The provisions of our articles of incorporation and bylaws and Georgia law summarized below could have the effect of preventing, hindering or delaying a change in control of the Company or a change in management.

Classified Board of Directors; Removal of Directors. We have a classified board of directors which is divided into three classes of directors, serving staggered three-year terms. As a result, approximately one-third of our board of directors are elected each year. In addition, members of the board of directors may only be removed for cause and then only at a special meeting of shareholders called for such purpose by the affirmative vote of at least two-thirds of the then-outstanding shares of common stock. The classification of directors, together with the limitation on the removal of directors, and the ability of the remaining directors to fill any vacancies on the board of directors, has the effect of making it more difficult for shareholders to change the composition of the board of directors.

Advance Notice of New Business and Director Nominations. Our bylaws provide that any shareholder proposals or director nominations must be provided to us in writing at least 120 days before the date of an annual meeting of shareholders or, in the case of a special meeting of shareholders, within ten days after notice of such special shareholders meeting was sent by us to the shareholders. Such provision may preclude shareholders from bringing matters before the shareholders at an annual meeting or from making nominations for directors at an annual meeting.

67

Anti-Takeover Provisions and Georgia Law. The Georgia Business Corporation Code generally restricts a company from entering into specified business combinations with an interested shareholder, which is generally defined as any person or entity that is the beneficial owner of at least 10% of a company s voting stock, for a period of five years after the date on which such shareholder became an interested shareholder, unless:

- its board of directors approves the business combination or the transaction in which the shareholder became an interested shareholder prior to the date the shareholder became an interested shareholder;

- the interested shareholder acquires 90% of the company s voting stock in the same transaction in which it exceeds 10%; or

- subsequent to becoming an interested shareholder, such shareholder acquires 90% of the company s voting stock and the business combination is approved by the holders of a majority of the voting stock entitled to vote thereon.

The business combination statute applies only if a corporation s bylaws specifically provide that it applies. We have elected to be covered by the business combination statute.

The Georgia Business Corporation Code also contains provisions that impose certain fair price and other procedural requirements applicable to specified business combinations with any person who owns 10% or more of the common stock. These statutory requirements restrict business combinations with, and accumulations of shares of voting stock of, certain Georgia corporations. The fair price statute applies only if a corporation elects to be covered by its restrictions. We have elected to be covered by the fair price statute.

Ability to Consider Other Constituencies. Our articles of incorporation permit our board of directors to consider the interests of our employees, customers, suppliers and creditors, the communities in which our offices or other establishments are located and all other factors the directors consider pertinent, in addition to considering the effects of any actions on us and our shareholders, when determining what is in the best interests of our shareholders. Pursuant to this provision, the board of directors may consider numerous subjective factors affecting a proposal, including certain non-financial matters, and on the basis of these considerations may oppose a business combination or other transaction which, viewed exclusively from a financial perspective, might be attractive to some, or even a majority, of our shareholders.

Indemnification and Limitation of Liability

Our articles of incorporation eliminate the personal liability of our directors to the Company or our shareholders for monetary damage for any breach of duty as a director, provided that we do not (and we cannot) eliminate or limit the liability of a director for:

- a breach of duty involving appropriation of a business opportunity of the Company;

- an act or omission which involves intentional misconduct or a knowing violation of law;

- any transaction from which the director receives an improper personal benefit; or

- unlawful corporate distributions.

In addition, if at any time the Georgia Business Corporation Code is amended to authorize further elimination or limitation of the personal liability of a director, then the liability of each of our directors will be eliminated or limited to the fullest extent permitted by such provisions, as so amended, without further action by the shareholders, unless otherwise required. These provisions of the articles of incorporation will limit the remedies available to a shareholder in the event of breaches of any director s duties to such shareholder or the Company.

Explanation of Responses:

Under our bylaws, we must indemnify any director or officer who was, is or is threatened to be made a party to any legal proceeding, whether civil, criminal, administrative or investigative (including any action or suit by or in our right) because such person is or was a director or officer, against liability incurred in such proceeding. Our bylaws do not require such indemnification for any liability incurred in a proceeding in which the director or officer is adjudged liable to us or is subjected to injunctive relief in our favor for:

- any appropriation, in violation of such director s or officer s duties, of any business opportunity of the Company;
- acts or omissions which involve intentional misconduct or a knowing violation of law;
- unlawful corporate distributions; or
- any transaction from which such officer or director received an improper personal benefit.

In addition, our bylaws provide that (i) we must advance funds to pay or reimburse the reasonable expenses incurred by a director or officer who is a party to a proceeding because such person is a director or officer, if such director or officer satisfies the conditions contained in our bylaws, and (ii) we may indemnify and advance expenses to our employees or agents who are not also directors or officers to the same extent that we could to a director.

Furthermore, we afford additional protection to our directors pursuant to indemnification agreements we have entered into with each such person. Pursuant to such agreements, we will indemnify our directors to the fullest extent permitted by applicable law in the event that they are involved or become involved or are threatened to be involved in any investigation, action, claim suit or proceeding, whether civil, criminal, administrative or investigative, by reason of that fact that they are or were serving as an officer or director of the Company or are or were serving at our request as an agent of any other entity.

Transfer Agent and Registrar

Registrar and Transfer Company, located in Cranford, New Jersey, acts as the transfer agent and registrar for the common stock and publicly-traded warrants.

SELLING SHAREHOLDERS

The selling shareholders may use this prospectus for the resale of shares of common stock being registered hereunder for their account, although no selling shareholder is obligated to sell any such shares. Of the 2,930,184 shares of common stock offered by this prospectus, (i) 1,669,826 shares are issuable upon conversion of the Notes; (ii) 834,890 shares are issuable upon exercise of the Investor Warrants; (iii) 250,468 shares are issuable upon exercise of the Broker Warrants; and (iv) 175,000 shares are issuable upon exercise of the Lender Warrants. This prospectus also covers an indeterminate number of additional shares of common stock that may become issuable in connection with the conversion of the Notes or the exercise of the Investor Warrants, Broker Warrants and Lender Warrants by reason of stock splits, stock dividends or other adjustments under certain conditions in accordance with Rule 416 of the Securities Act.

The following table sets forth certain information regarding the selling shareholders and the shares of common stock beneficially owned by each of them. All information contained in the table is as of January 25, 2006. We are not able to estimate the number of shares of common stock that will be held by the selling shareholders after the completion of this offering because those selling shareholders may offer all, some, or none of the shares and because there currently are no agreements, arrangements or understandings with respect to the sale of any of their shares. The selling shareholders are not required to convert the Notes or exercise the Investor Warrants, Broker Warrants or Lender Warrants for shares of common stock. Except as set forth in the table below, none of the selling shareholders is our affiliate. The following table assumes that all of the shares of common stock being registered hereby will be sold.

Selling Shareholders	Shares of Common Stock Beneficially Owned Prior to the Offering (1)	Number of Shares Being Offered		Shares Beneficially Owned After Completion of the Offering(1,2,3) Number	Percent
				0	
Serge Abecassis	0	31,251	(4)	0	
Luis Bauneisten	0	62,500	(5)	0	
Robert V. and Diana C. Belfatto	0	7,813	(6)	0	
Peter Blum	0	15,625	(7)	0	
Sarah Boltz	0	7,813	(8)	0	
Eric Boltz	0	7,813	(9)	0	
Todd L. Borck	0	31,251	(10)	0	
BRE LLC(11)	16,181	150,000	(12)	16,181	
Eliot J. Brody	0	15,625	(13)	0	
Richard A. Bruno	0	31,251	(14)	0	
Capital Growth Financial, LLC(15)	0	86,586	(16)	0	
Vincent Carbone	0	31,251	(17)	0	
Tim Clancy(18)	0	853	(19)	0	
Anthony and Patricia Coleman	0	15,625	(20)	0	
Mercedes Cubillan	0	15,625	(21)	0	
Jeanette Daffern	0	7,813	(22)	0	
Samuel I. D Amato	0	15,625	(23)	0	
Philip Datlof(24)	0	2,068	(25)	0	
Denton Business, Inc.(26)	0	31,251	(27)	0	
Dolin Trust	0	7,813	(28)	0	
Eliot J. Brody Foundation(29)	0	15,625	(30)	0	
Steven Etra	0	31,251	(31)	0	
Marvin C. Folsom	0	15,625	(32)	0	
Ronald Foster	0	31,251	(33)	0	

70

Roberta Frank	0	7,813	(34)	0	
Arlene Freiman	0	7,813	(35)	0	
Frommer Investment Partners	0	15,625	(36)	0	
Michael Galper	0	15,625	(37)	0	
Stacey and Michael Galper	0	15,625	(38)	0	
Garry Newman Family Trust(39)	0	7,813	(40)	0	
Glacier Partners, L.P.	0	93,750	(41)	0	
Dennis A. Gleicher	0	31,251	(42)	0	
Harold Rosenson A/R Revocable Trust(43)	0	31,251	(44)	0	
Edward A. Haymes(45)	0	16,452	(46)	0	
Harold E. and June D. Hodge	0	15,625	(47)	0	
Iroquois Master Fund Ltd.	0	78,126	(48)	0	
Alan L. Jacobs(49)	0	27,546	(50)	0	
Michael Jacobs(51)	0	27,546	(52)	0	
Joan H. Singer Revocable Trust(53)	0	15,625	(54)	0	
Frank Joy(55)	0	1,034	(56)	0	
Leslie Kaciban(57)	0	15,625	(58)	0	
Howard Kaye	0	31,251	(59)	0	
Gary and Sandra Kerner	0	7,813	(60)	0	
Gary Kranz	0	46,875	(61)	0	
Milton Lappoff	0	7,813	(62)	0	
Phillip Lefton(63)	0	10,500	(64)	0	
Charlotte Lefton	0	7,813	(65)	0	
Jerome H. Levitt(66)	3,300	13,770	(67)	3,300	
Lisa Lippman Trust	0	7,813	(68)	0	
Mark Lippman(69)	0	1,066	(70)	0	
Loeb Partners Corporation, and its affiliated entities	0	546,876	(71)	0	
LSQ Funding Group, L.C.(72)	0	25,000	(73)	0	
Leslie Lukoff(74)	0	1,493	(75)	0	
Mark Machi(76)	0	15,625	(77)	0	
Mercantile Capital Partners I LP	0	156,250	(78)	0	
Rob Mills(79)	0	7,813	(80)	0	
Robert Montgomery	0	12,501	(81)	0	
Roger Moouallem(82)	0	1,977	(83)	0	
Bennett Mostel(84)	0	13,997	(85)	0	
Harrison S. Mullin	0	15,625	(86)	0	
Jerry Perlman(87)	0	640	(88)	0	
Philip & Carole Revocable Trust	0	7,813	(89)	0	
Sander B. Ross and Carol F. Ross	0	11,719	(90)	0	
Steve Sadicario(91)	0	3,469	(92)	0	
Carrie Schulman(93)	0	517	(94)	0	
Scott Schneider	0	7,813	(95)	0	
Richard Schultz and Angilee Schultz	0	31,251	(96)	0	
Arnold Schumsky	200,000	78,126	(97)	200,000	2.2 %
Jared Schwalb(98)	0	1,279	(99)	0	
Jay Seewald	0	15,625	(100)	0	
Select Contrarian Value Partners LP(101)	0	468,750	(102)	0	
Bret Shapiro(103)	0	63,975	(104)	0	
Warren M. Shimmerlik	0	11,719	(105)	0	

71

Alan and Suzanne Singer	0	15,625	(106)	0
Allen and Anita Skole	0	15,625	(107)	0
Clara Sola	0	15,625	(108)	0
Southwick Capital, LLC(109)	0	31,251	(110)	0
Eduardo Soto(111)	0	5,998	(112)	0
Gerald and Seena Sperling	0	31,251	(113)	0
Gerald Sperling(114)	0	8,766	(115)	0
Pat and Carmella Troiano	0	7,813	(116)	0
Turn Key Systems & Consulting, Inc.(117)	0	15,625	(118)	0
Michael Weisser	0	15,625	(119)	0
Donald E. Wray	0	31,251	(120)	0
David and Jean Zugman	0	7,813	(121)	0

* Less than 1% of the issued and outstanding shares of common stock as of January 25, 2006.

(1) For purposes of this table, beneficial ownership is determined in accordance with Rule 13d-3 under the Securities Exchange Act of 1934, as amended (the Exchange Act), pursuant to which a selling shareholder is deemed to have beneficial ownership of any shares of common stock that such shareholder has the right to acquire within 60 days of January 25, 2006. The information in this column does not include shares of common stock issuable upon conversion of the Notes or exercise of the Investor Warrants, Broker Warrants or Lender Warrants held by the selling shareholders because the Notes are not convertible, and the Investor Warrants, Broker Warrants and Lender Warrants are not exercisable, until our shareholders approve the issuance of shares of common stock upon such conversion and exercise for purposes of complying with the rules governing the Nasdaq.

(2) Based upon 3,338,700 shares of common stock outstanding as of January 25, 2006. For the purposes of computing the percentage of outstanding shares of common stock held by each selling shareholder named above, any shares which such shareholder has the right to acquire within 60 days of January 25, 2006, are deemed to be outstanding but are not deemed to be outstanding for the purpose of computing the percentage ownership of any other selling shareholder.

(3) Assumes that all shares of common stock being offered and registered hereunder are sold, although the selling shareholders are not obligated to sell any such shares.

(4) Represents 20,834 shares of common stock issuable upon conversion of a Note and 10,417 shares of common stock issuable upon exercise of an Investor Warrant.

(5) Represents 41,667 shares of common stock issuable upon conversion of a Note and 20,833 shares of common stock issuable upon exercise of an Investor Warrant.

(6) Represents 5,209 shares of common stock issuable upon conversion of a Note and 2,604 shares of common stock issuable upon exercise of an Investor Warrant.

(7) Represents 10,417 shares of common stock issuable upon conversion of a Note and 5,208 shares of common stock issuable upon exercise of an Investor Warrant.

(8) Represents 5,209 shares of common stock issuable upon conversion of a Note and 2,604 shares of common stock issuable upon exercise of an Investor Warrant.

(9) Represents 5,209 shares of common stock issuable upon conversion of a Note and 2,604 shares of common stock issuable upon exercise of an Investor Warrant.

(10) Represents 20,834 shares of common stock issuable upon conversion of a Note and 10,417 shares of common stock issuable upon exercise of an Investor Warrant.

(11) BRE is one of our Lenders. We have entered into a Credit Agreement with BRE and LSQ pursuant to which we have borrowed funds pursuant to the term loans and the factoring facility. See Recent Developments Entry into Credit Agreement.

(12) Represents 150,000 shares of common stock issuable upon exercise of a Lender Warrant. If approved the shareholders, the Lender Warrants may be issued by us in lieu of paying a $250,000 fee to the Lenders. See Recent Developments Entry into Credit Agreement.

(13) Represents 10,417 shares of common stock issuable upon conversion of a Note and 5,208 shares of common stock issuable upon exercise of an Investor Warrant.

(14) Represents 20,834 shares of common stock issuable upon conversion of a Note and 10,417 shares of common stock issuable upon exercise of an Investor Warrant.

(15) Capital Growth Financial, LLC (Capital Growth) served as our placement agent in the Private Placement. In connection therewith, we paid to Capital Growth approximately $800,000 in commissions and non-accountable expense reimbursements and issued the Broker Warrants. Capital Growth also served as our lead underwriter in the Initial Public Offering. In connection with the Initial Public Offering, the total underwriters discounts and commissions were $993,000. We also reimbursed the underwriters for expenses incurred by them in connection with the Initial Public Offering. In connection with the Initial Public Offering, we issued to Capital Growth (i) an option to purchase 90,000 shares of our common stock at an exercise price of $7.20 per share of common stock, which option expires on February 8, 2010; and (ii) an option to purchase a warrant exercisable for 90,000 shares of common stock at an exercise price of $.15 per warrant, with the warrant having an exercise price of $7.20 per share of common stock, which option expires on February 8, 2010. We also entered into a Consulting Agreement with Capital Growth pursuant to which it is to provide consulting services to us through February 2007 in exchange for a fee of $24,000.

(16) Represents 86,586 shares of common stock issuable upon exercise of a Broker Warrant.

(17) Represents 20,834 shares of common stock issuable upon conversion of a Note and 10,417 shares of common stock issuable upon exercise of an Investor Warrant.

(18) The Broker Warrant was issued to Mr. Clancy as compensation for placement agent services rendered by Capital Growth, Mr. Clancy s employer, to us in connection with the Private Placement. Mr. Clancy is an affiliate of Capital Growth, a registered broker-dealer. Mr. Clancy has represented to us that, at the time the Broker Warrant was issued to him, he did not have any plans or proposals, directly or with any other person, to distribute the shares of common stock issuable upon exercise of such Broker Warrant.

(19) Represents 853 shares of common stock issuable upon exercise of a Broker Warrant.

(20) Represents 10,417 shares of common stock issuable upon conversion of a Note and 5,208 shares of common stock issuable upon exercise of an Investor Warrant.

(21) Represents 10,417 shares of common stock issuable upon conversion of a Note and 5,208 shares of common stock issuable upon exercise of an Investor Warrant.

(22) Represents 5,209 shares of common stock issuable upon conversion of a Note and 2,604 shares of common stock issuable upon exercise of an Investor Warrant.

(23) Represents 10,417 shares of common stock issuable upon conversion of a Note and 5,208 shares of common stock issuable upon exercise of an Investor Warrant.

(24) The Broker Warrant was issued to Mr. Datlof as compensation for placement agent services rendered by Capital Growth, Mr. Datlof s employer, to us in connection with the Private Placement.

Mr. Datlof is an affiliate of Capital Growth, a registered broker-dealer. Mr. Datlof has represented to us that, at the time the Broker Warrant was issued to him, he did not have any plans or proposals, directly or with any other person, to distribute the shares of common stock issuable upon exercise of such Broker Warrant.

(25) Represents 2,068 shares of common stock issuable upon exercise of a Broker Warrant.

(26) Eduardo Soto exercises on behalf of Denton Business, Inc. sole voting and dispositive power with respect to the shares registered hereby for the account of Denton Business, Inc.

(27) Represents 20,834 shares of common stock issuable upon conversion of a Note and 10,417 shares of common stock issuable upon exercise of an Investor Warrant.

(28) Represents 5,209 shares of common stock issuable upon conversion of a Note and 2,604 shares of common stock issuable upon exercise of an Investor Warrant.

(29) Elliot J. Brody exercises on behalf of the Elliot J. Brody Foundation sole voting and dispositive power with respect to the shares registered hereby for the account of the Elliot J. Brody Foundation.

(30) Represents 10,417 shares of common stock issuable upon conversion of a Note and 5,208 shares of common stock issuable upon exercise of an Investor Warrant.

(31) Represents 20,834 shares of common stock issuable upon conversion of a Note and 10,417 shares of common stock issuable upon exercise of an Investor Warrant.

(32) Represents 10,417 shares of common stock issuable upon conversion of a Note and 5,208 shares of common stock issuable upon exercise of an Investor Warrant.

(33) Represents 20,834 shares of common stock issuable upon conversion of a Note and 10,417 shares of common stock issuable upon exercise of an Investor Warrant.

(34) Represents 5,209 shares of common stock issuable upon conversion of a Note and 2,604 shares of common stock issuable upon exercise of an Investor Warrant.

(35) Represents 5,209 shares of common stock issuable upon conversion of a Note and 2,604 shares of common stock issuable upon exercise of an Investor Warrant.

(36) Represents 10,417 shares of common stock issuable upon conversion of a Note and 5208 shares of common stock issuable upon exercise of an Investor Warrant.

(37) Represents 10,417 shares of common stock issuable upon conversion of a Note and 5,208 shares of common stock issuable upon exercise of an Investor Warrant.

(38) Represents 10,417 shares of common stock issuable upon conversion of a Note and 5,208 shares of common stock issuable upon exercise of an Investor Warrant.

(39) Gary Newman exercises on behalf of the Gary Newman Family Trust sole voting and dispositive power with respect to the shares registered hereby for the account of the Gary Newman Family Trust.

(40) Represents 5,209 shares of common stock issuable upon conversion of a Note and 2,604 shares of common stock issuable upon exercise of an Investor Warrant.

(41) Represents 62,500 shares of common stock issuable upon conversion of a Note and 31,250 shares of common stock issuable upon exercise of an Investor Warrant.

(42) Represents 20,834 shares of common stock issuable upon conversion of a Note and 10,417 shares of common stock issuable upon exercise of an Investor Warrant.

74

(43) Harold Rosenson exercises on behalf of the Harold Rosenson A/R Revocable Trust sole voting and dispositive power with respect to the shares registered hereby for the account of the Harold Rosenson A/R Revocable Trust.

(44) Represents 20,834 shares of common stock issuable upon conversion of a Note and 10,417 shares of common stock issuable upon exercise of an Investor Warrant.

(45) The Broker Warrant was issued to Mr. Haymes as compensation for placement agent services rendered by Capital Growth, Mr. Haymes employer, to us in connection with the Private Placement.

(46) Represents (i) 10,417 shares of common stock issuable upon conversion of a Note; (ii) 5,208 shares of common stock issuable upon exercise of an Investor Warrant; and (iii) 827 shares of common stock issuable upon exercise of a Broker Warrant.

(47) Represents 10,417 shares of common stock issuable upon conversion of a Note and 5,208 shares of common stock issuable upon exercise of an Investor Warrant.

(48) Represents 52,084 shares of common stock issuable upon conversion of a Note and 26,042 shares of common stock issuable upon exercise of an Investor Warrant.

(49) The Broker Warrant was issued to Mr. A. Jacobs as compensation for placement agent services rendered by Capital Growth, Mr. A. Jacob employer, to us in connection with the Private Placement. Mr. A. Jacobs is an affiliate of Capital Growth, a registered broker-dealer. Mr. A. Jacobs has represented to us that, at the time the Broker Warrant was issued to him, he did not have any plans or proposals, directly or with any other person, to distribute the shares of common stock issuable upon exercise of such Broker Warrant.

(50) Represents 27,546 shares of common stock issuable upon exercise of a Broker Warrant.

(51) The Broker Warrant was issued to Mr. M. Jacobs as compensation for placement agent services rendered by Capital Growth, Mr. M. Jacobs employer, to us in connection with the Private Placement. Mr. M. Jacobs is an affiliate of Capital Growth, a registered broker-dealer. Mr. M. Jacobs has represented to us that, at the time the Broker Warrant was issued to him, he did not have any plans or proposals, directly or with any other person, to distribute the shares of common stock issuable upon exercise of such Broker Warrant.

(52) Represents 27,546 shares of common stock issuable upon exercise of a Broker Warrant.

(53) Joan H. Singer exercises on behalf of the Joan H. Singer Revocable Trust sole voting and dispositive power with respect to the shares registered hereby for the account of the Joan H. Singer Revocable Trust.

(54) Represents 10,417 shares of common stock issuable upon conversion of a Note and 5,208 shares of common stock issuable upon exercise of an Investor Warrant.

(55) The Broker Warrant was issued to Mr. Joy as compensation for placement agent services rendered by Capital Growth, Mr. Joy s employer, to us in connection with the Private Placement.

(56) Represents 1,034 shares of common stock issuable upon exercise of a Broker Warrant.

(57) Mr. Kaciban has served as President of Paragon Systems since July 29, 2005 pursuant to an Employment Agreement between Paragon Systems and Mr. Kaciban dated as of July 29, 2005, which provides for: (i) the payment to Mr. Kaciban of a specified base salary, which is guaranteed to increase at a rate of at least 5% per year; (ii) the payment to Mr. Kaciban of an annual performance bonus in an amount equal to up to 30% of his base salary if certain performance milestones are met; (iii) a prohibition against Mr. Kaciban s disclosure of confidential information for a period of two years following the termination of Mr. Kaciban s employment; (iv) the continuation of Mr. Kaciban s base salary for 12 months following the termination of Mr. Kaciban s employment by Paragon Systems without cause or by

75

Mr. Kaciban for good reason ; and (v) certain restrictive covenants which limit Mr. Kaciban s ability to compete with Paragon Systems for a period of one year following the termination of Mr. Kaciban s employment.

(58) Represents 10,417 shares of common stock issuable upon conversion of a Note and 5,208 shares of common stock issuable upon exercise of an Investor Warrant.

(59) Represents 20,834 shares of common stock issuable upon conversion of a Note and 10,417 shares of common stock issuable upon exercise of an Investor Warrant.

(60) Represents 5,209 shares of common stock issuable upon conversion of a Note and 2,604 shares of common stock issuable upon exercise of an Investor Warrant.

(61) Represents 31,250 shares of common stock issuable upon conversion of a Note and 15,625 shares of common stock issuable upon exercise of an Investor Warrant.

(62) Represents 5,209 shares of common stock issuable upon conversion of a Note and 2,604 shares of common stock issuable upon exercise of an Investor Warrant.

(63) The Broker Warrant was issued to Mr. Lefton as compensation for placement agent services rendered by Capital Growth, Mr. Lefton s employer, to us in connection with the Private Placement.

(64) Represents (i) 5,209 shares of common stock issuable upon conversion of a Note; (ii) 2,604 shares of common stock issuable upon exercise of an Investor Warrant; and (iii) 2,687 shares of common stock issuable upon exercise of a Broker Warrant.

(65) Represents 5,209 shares of common stock issuable upon conversion of a Note and 2,604 shares of common stock issuable upon exercise of an Investor Warrant.

(66) The Broker Warrant was issued to Mr. Levitt as compensation for placement agent services rendered by Capital Growth, Mr. Levit s employer, to us in connection with the Private Placement.

(67) Represents (i) 5,209 shares of common stock issuable upon conversion of a Note; (ii) 2,604 shares of common stock issuable upon exercise of an Investor Warrant; and (iii) 5,957 shares of common stock issuable upon exercise of a Broker Warrant.

(68) Represents 5,209 shares of common stock issuable upon conversion of a Note and 2,604 shares of common stock issuable upon exercise of an Investor Warrant.

(69) The Broker Warrant was issued to Mr. Lippman as compensation for placement agent services rendered by Capital Growth, Mr. Lippman s employer, to us in connection with the Private Placement. Mr. Lippman is an affiliate of Capital Growth, a registered broker-dealer. Mr. Lippman has represented to us that, at the time the Broker Warrant was issued to him, he did not have any plans or proposals, directly or with any other person, to distribute the shares of common stock issuable upon exercise of such Broker Warrant.

(70) Represents 1,066 shares of common stock issuable upon exercise of a Broker Warrant.

(71) Represents 364,584 shares of common stock issuable upon conversion of a Note and 182,292 shares of common stock issuable upon exercise of an Investor Warrant.

(72) LSQ is one of our Lenders. We have entered into a Credit Agreement with BRE and LSQ pursuant to which we have borrowed funds pursuant to the term loans and the factoring facility. See Recent Developments Entry into Credit Agreement.

(73) Represents 25,000 shares of common stock issuable upon exercise of a Lender Warrant.

76

(74) The Broker Warrant was issued to Ms. Lukoff as compensation for placement agent services rendered by Capital Growth, Ms. Lukoff s employer, to us in connection with the Private Placement. Ms. Lukoff is an affiliate of Capital Growth, a registered broker-dealer. Ms. Lukoff has represented to us that, at the time the Broker Warrant was issued to him, he did not have any plans or proposals, directly or with any other person, to distribute the shares of common stock issuable upon exercise of such Broker Warrant.

(75) Represents 1,493 shares of common stock issuable upon exercise of a Broker Warrant.

(76) Mr. Machi has served as Vice-President and General Counsel of Paragon Systems since July 29, 2005 pursuant to an Employment Agreement between Paragon Systems and Mr. Machi dated as of July 29, 2005, which provides for: (i) the payment to Mr. Machi of a specified base salary, which is guaranteed to increase at a rate of at least 5% per year; (ii) the payment to Mr. Machi of an annual performance bonus in an amount equal to up to 30% of his base salary if certain performance milestones are met; (iii) a prohibition against Mr. Machi s disclosure of confidential information for a period of two years following the termination of Mr. Machi s employment; (iv) the continuation of Mr. Machi s base salary for 12 months following the termination of Mr. Machi s employment by Paragon Systems without cause or by Mr. Machi for good reason ; and (v) certain restrictive covenants which limit Mr. Machi s ability to compete with Paragon Systems for a period of one year following the termination of Mr. Machi s employment.

(77) Represents 10,417 shares of common stock issuable upon conversion of a Note and 5,208 shares of common stock issuable upon exercise of an Investor Warrant.

(78) Represents 104,167 shares of common stock issuable upon conversion of a Note and 52,083 shares of common stock issuable upon exercise of an Investor Warrant.

(79) Mr. Mills has served as our Chief Financial Office since August 2005. See Management- Executive Compensation Employment Agreement.

(80) Represents 5,209 shares of common stock issuable upon conversion of a Note and 2,604 shares of common stock issuable upon exercise of an Investor Warrant.

(81) Represents 8,334 shares of common stock issuable upon conversion of a Note and 4,167 shares of common stock issuable upon exercise of an Investor Warrant.

(82) The Broker Warrant was issued to Mr. Mouallem as compensation for placement agent services rendered by Capital Growth, Mr. Mouallem s employer, to us in connection with the Private Placement. Mr. Mouallem is an affiliate of Capital Growth, a registered broker-dealer. Mr. Mouallem has represented to us that, at the time the Broker Warrant was issued to him, he did not have any plans or proposals, directly or with any other person, to distribute the shares of common stock issuable upon exercise of such Broker Warrant.

(83) Represents 1,977 shares of common stock issuable upon exercise of a Broker Warrant.

(84) The Broker Warrant was issued to Mr. Mostel as compensation for placement agent services rendered by Capital Growth, Mr. Mostel s employer, to us in connection with the Private Placement. Mr. Mostel is an affiliate of Capital Growth, a registered broker-dealer. Mr. Mostel has represented to us that, at the time the Broker Warrant was issued to him, he did not have any plans or proposals, directly or with any other person, to distribute the shares of common stock issuable upon exercise of such Broker Warrant.

(85) Represents (i) 5,209 shares of common stock issuable upon conversion of a Note; (ii) 2,604 shares of common stock issuable upon exercise of an Investor Warrant; and (iii) 6,184 shares of common stock issuable upon exercise of a Broker Warrant.

77

(86) Represents 10,417 shares of common stock issuable upon conversion of a Note and 5,208 shares of common stock issuable upon exercise of an Investor Warrant.

(87) The Broker Warrant was issued to Mr. Perlman as compensation for placement agent services rendered by Capital Growth, Mr. Perlman s employer, to us in connection with the Private Placement. Mr. Perlman has represented to us that, at the time the Broker Warrant was issued to him, he did not have any plans or proposals, directly or with any other person, to distribute the shares of common stock issuable upon exercise of such Broker Warrant.

(88) Represents 640 shares of common stock issuable upon exercise of a Broker Warrant.

(89) Represents 5,209 shares of common stock issuable upon conversion of a Note and 2,604 shares of common stock issuable upon exercise of an Investor Warrant.

(90) Represents 7,813 shares of common stock issuable upon conversion of a Note and 3,906 shares of common stock issuable upon exercise of an Investor Warrant.

(91) The Broker Warrant was issued to Mr. Sadicario as compensation for placement agent services rendered by Capital Growth, Mr. Sadicario s employer, to us in connection with the Private Placement. Mr. Sadicario has represented to us that, at the time the Broker Warrant was issued to him, he did not have any plans or proposals, directly or with any other person, to distribute the shares of common stock issuable upon exercise of such Broker Warrant.

(92) Represents 3,469 shares of common stock issuable upon exercise of a Broker Warrant.

(93) The Broker Warrant was issued to Ms. Schulman as compensation for placement agent services rendered by Capital Growth, Ms. Schulman s employer, to us in connection with the Private Placement.

(94) Represents 517 shares of common stock issuable upon exercise of a Broker Warrant.

(95) Represents 5,209 shares of common stock issuable upon conversion of a Note and 2,604 shares of common stock issuable upon exercise of an Investor Warrant.

(96) Represents 20,834 shares of common stock issuable upon conversion of a Note and 10,417 shares of common stock issuable upon exercise of an Investor Warrant.

(97) Represents 52,084 shares of common stock issuable upon conversion of a Note and 26,042 shares of common stock issuable upon exercise of an Investor Warrant.

(98) The Broker Warrant was issued to Mr. Schwalb as compensation for placement agent services rendered by Capital Growth, Mr. Schwalb s employer, to us in connection with the Private Placement. Mr. Schwalb has represented to us that, at the time the Broker Warrant was issued to him, he did not have any plans or proposals, directly or with any other person, to distribute the shares of common stock issuable upon exercise of such Broker Warrant.

(99) Represents 1,279 shares of common stock issuable upon exercise of a Broker Warrant.

(100) Represents 10,417 shares of common stock issuable upon conversion of a Note and 5,208 shares of common stock issuable upon exercise of an Investor Warrant.

(101) David Berry exercises on behalf of Select Contrarian Value Partners, L.P. sole voting and dispositive power with respect to the shares registered hereby for the account of Select Contrarian Value Partners, L.P.

(102) Represents 312,500 shares of common stock issuable upon conversion of a Note and 156,250 shares of common stock issuable upon exercise of an Investor Warrant.

78

Explanation of Responses:

(103) The Broker Warrant was issued to Mr. Shapiro as compensation for placement agent services rendered by Capital Growth, Mr. Shapiro s employer, to us in connection with the Private Placement. Mr. Shapiro has represented to us that, at the time the Broker Warrant was issued to him, he did not have any plans or proposals, directly or with any other person, to distribute the shares of common stock issuable upon exercise of such Broker Warrant.

(104) Represents 63,975 shares of common stock issuable upon exercise of a Broker Warrant.

(105) Represents 7,813 shares of common stock issuable upon conversion of a Note and 3,906 shares of common stock issuable upon exercise of an Investor Warrant.

(106) Represents 10,417 shares of common stock issuable upon conversion of a Note and 5,208 shares of common stock issuable upon exercise of an Investor Warrant.

(107) Represents 10,417 shares of common stock issuable upon conversion of a Note and 5,208 shares of common stock issuable upon exercise of an Investor Warrant.

(108) Represents 10,417 shares of common stock issuable upon conversion of a Note and 5,208 shares of common stock issuable upon exercise of an Investor Warrant.

(109) Michael F. Bennett exercises on behalf of Southwick Capital, LLC sole voting and dispositive power with respect to the shares registered hereby for the account of Southwick Capital, LLC. Mr. Bennett beneficially owns greater than 5% of the common stock.

(110) Represents 20,834 shares of common stock issuable upon conversion of a Note and 10,417 shares of common stock issuable upon exercise of an Investor Warrant.

(111) The Broker Warrant was issued to Mr. Soto as compensation for placement agent services rendered by Capital Growth, Mr. Soto s employer, to us in connection with the Private Placement.

(112) Represents 5,998 shares of common stock issuable upon exercise of a Broker Warrant.

(113) Represents 20,834 shares of common stock issuable upon conversion of a Note and 10,417 shares of common stock issuable upon exercise of an Investor Warrant.

(114) The Broker Warrant was issued to Mr. Sperling as compensation for placement agent services rendered by Capital Growth, Mr. Sperling s employer, to us in connection with the Private Placement.

(115) Represents 8,766 shares of common stock issuable upon exercise of a Broker Warrant.

(116) Represents 5,209 shares of common stock issuable upon conversion of a Note and 2,604 shares of common stock issuable upon exercise of an Investor Warrant.

(117) Dave Keenan exercises on behalf of Turn Key Systems & Consulting, Inc. sole voting and dispositive power with respect to the shares registered hereby for the account of Turn Key Systems & Consulting, Inc.

(118) Represents 10,417 shares of common stock issuable upon conversion of a Note and 5,208 shares of common stock issuable upon exercise of an Investor Warrant.

(119) Represents 10,417 shares of common stock issuable upon conversion of a Note and 5,208 shares of common stock issuable upon exercise of an Investor Warrant.

(120) Represents 20,834 shares of common stock issuable upon conversion of a Note and 10,417 shares of common stock issuable upon exercise of an Investor Warrant.

(121) Represents 5,209 shares of common stock issuable upon conversion of a Note and 2,604 shares of common stock issuable upon exercise of an Investor Warrant.

79

PLAN OF DISTRIBUTION

The selling shareholders and any of their assignees and successors-in-interest (but not any pledgee of any such persons) may, from time to time, sell any or all of their shares of common stock on any stock exchange, market or trading facility on which the shares are traded or in private transactions. These sales may be at fixed or negotiated prices. The selling shareholders may use any one or more of the following methods when selling shares:

- ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;
- block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
- an exchange distribution in accordance with the rules of the applicable exchange;
- privately negotiated transactions;
- broker-dealers may agree with a selling shareholder to sell a specified number of such shares at a stipulated price per share;
- broker-dealers may agree with a selling shareholder to sell a specified number of such shares at a stipulated price per share;
- broker-dealers may agree with a selling shareholder to sell a specified number of such shares at a stipulated price per share;
- a combination of any such methods of sale; and
- any other method permitted pursuant to applicable law and not otherwise prohibited by this prospectus.

The selling shareholders may also sell shares under Rule 144 under the Securities Act, if available, rather than under this prospectus.

Notwithstanding any of the foregoing, neither the selling shareholders, nor any of their assignees or successors-in-interest, may use this prospectus to sell (directly or indirectly) any shares of common stock through any put or call options, short sales or other types of hedging transactions with respect to shares of common stock.

Broker-dealers engaged by any selling shareholder may arrange for other broker-dealers to participate in sales. Broker-dealers may receive commissions or discounts from such selling shareholder (or, if any broker-dealer acts as agent for the purchaser of shares, from the purchaser) in amounts to be negotiated. None of the selling shareholders expect these commissions and discounts to exceed what is customary in the types of transactions involved.

The selling shareholders and any broker-dealers or agents that are involved in selling the shares may be deemed to be underwriters within the meaning of the Securities Act in connection with such sales. In such event, any commissions received by such broker-dealers or agents and any profit on the resale of the shares purchased by them may be deemed to be underwriting commissions or discounts under the Securities Act.

80

EXPERTS

Miller Ray Houser & Stewart LLP, an independent registered public accounting firm, has audited our consolidated financial statements at December 31, 2004, 2003 and 2002, and for each of the years in the three-year period ended December 31, 2004, as set forth in their reports. We have included our financial statements in this prospectus and the registration statement in reliance on Miller Ray Houser & Stewart LLP s reports, given on their authority as experts in accounting and auditing.

Rachlin Cohen & Holts LLP, an independent registered public accounting firm, has audited the consolidated financial statements of The Cornwall Group, Inc. at December 31, 2004, 2003, 2002 and 2001, and for each of the years in the four-year period ended December 31, 2004, as set forth in their reports. We have included these financial statements in this prospectus and the registration statement in reliance on Rachlin Cohen & Holts LLP s reports, given on their authority as experts in accounting and auditing.

LEGAL MATTERS

The validity of the shares of common stock offered hereby will be passed upon for us by Rogers & Hardin LLP, Atlanta, Georgia.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any reports, statements or other information we file at the public reference facilities maintained by the SEC at 100 F Street N.E., Washington, D.C. 20049. Please call the SEC at 1-800-SEC-0330 for further information on the operation of public reference facilities maintained by the SEC. SEC filings are also available to the public from commercial document retrieval services and through the web site maintained by the SEC at *www.sec.gov*.

This prospectus is part of a registration statement on Form S-1 that we have filed with the SEC utilizing a shelf registration process. Under the shelf registration process, the selling shareholders may, from time to time, sell the common stock described in this prospectus. We may prepare a prospectus supplement at any time to add, update or change information contained in this prospectus.

As allowed by SEC rules, this prospectus does not contain all the information you can find in the registration statement or the exhibits filed with or incorporated by reference into the registration statement. Whenever a reference is made in this prospectus to an agreement or other document, be aware that such reference is not necessarily complete and that you should refer to the exhibits that are filed with or incorporated by reference into the registration statement for a copy of the agreement or other document. You may review a copy of the registration statement at the SEC s public reference facilities in Washington, D.C., as well as through the web site maintained by the SEC at *www.sec.gov*.

You should read this prospectus and any prospectus supplement together with the registration statement and the exhibits filed with or incorporated by reference into the registration statement. The information contained in this prospectus speaks only as of its date unless the information specifically indicates that another date applies.

We have not authorized any person to give any information or to make any representations that differ from, or add to, the information discussed in this prospectus. Therefore, if anyone gives you different or additional information, you should not rely on it.

INDEX TO FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders

Tri-S Security Corporation

We have audited the accompanying consolidated balance sheet of Tri-S Security Corporation and subsidiary as of December 31, 2004 and the related statements of operations, shareholders equity and cash flows for the year then ended. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Tri-S Security Corporation and subsidiary of December 31, 2004, and the results of their operations and their cash flows for year then ended in conformity with accounting principles generally accepted in the United States.

As discussed in Note 2 to the financial statements, the accompanying 2004 consolidated financial statements have been restated.

/s/ Miller Ray Houser & Stewart LLP

Atlanta, Georgia

March 15, 2005 (except for Note 2, as to which the date is November 15, 2005)

F-2

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders

Tri-S Security Corporation

We have audited the accompanying balance sheet of Paragon Systems, Inc. (predecessor company to Tri-S Security Corporation) as of December 31, 2003 and the related statements of operations, shareholders equity and cash flows for each of the two years in the period ended December 31, 2003 and the statements of operations, shareholders equity and cash flows for the period from January 1, 2004 to February 27, 2004. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Paragon Systems, Inc, as of December 31, 2003, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2003 and the period from January 1, 2004 to February 27, 2004 and in conformity with accounting principles generally accepted in the United States.

/s/ Miller Ray Houser & Stewart LLP

Atlanta, Georgia

March 15, 2005

Tri-S Security Corporation and Subsidiary

Balance Sheets
(In thousands, except per share data)

	Consolidated December 31, 2004 (restated, Note 2)	Predecessor Basis Paragon Systems, Inc. December 31, 2003
Assets		
Current assets:		
Cash and cash equivalents	$ 313	$ 846
Trade accounts receivable, net	5,312	4,695
Deferred initial public offering costs	633	
Deferred income taxes	200	
Prepaid expenses and other assets	178	172
Total current assets	6,636	5,713
Property and equipment, less accumulated depreciation	325	455
Note receivable officer	100	
Investment in joint venture	8,302	715
Investment in government contracts, net	1,172	
Non-compete agreements, net	318	
Deferred loan costs, net	18	
Goodwill	7,747	
Total assets	$ 24,618	$ 6,883
Liabilities and Stockholders Equity (Deficit)		
Current liabilities:		
Trade accounts payable	$ 351	$ 29
Accrued salaries	774	726
Payroll withholding	347	184
Accrued vacation	612	524
Accrued interest expense	316	
Accrued interest on preferred stock subject to mandatory redemption	250	
Other accrued expenses	689	226
Income taxes payable	212	152
Short-term notes payable	10,798	1,130
Current portion of capital lease obligations	91	87
Total current liabilities	14,440	3,058
Other liabilities:		
Capital lease obligations, less current portion	103	185
Income taxes payable	1,056	
Deferred income taxes	3,287	
Series C preferred stock subject to mandatory redemption	6,000	
Total liabilities	24,886	3,243
Stockholders equity (deficit):		
Preferred stock, $1.00 par value, 10,000,000 shares authorized		
Series A convertible preferred stock 100,000 shares issued and outstanding	460	
Series B convertible preferred stock, 40,000 shares issued and outstanding	196	
Common stock, $1.00 par value, 1,000 shares authorized, 940 shares issued and outstanding		1
Common stock, $0.001 par value, 25,000,000 shares authorized, 827,832 shares issued and outstanding	1	
Additional paid-in capital	115	
Retained earnings (deficit)	(1,040)	3,639
	(268)	3,640
Less treasury stock acquired (60 shares of Paragon Systems, Inc. at December 31, 2003)		
Total stockholders equity (deficit)	(268)	3,640
Total liabilities and stockholders equity (deficit)	$ 24,618	$ 6,883

See accompanying notes to financial statements.

F-4

Tri-S Security Corporation and Subsidiary

Statements of Operations
(In thousands, except per share data)

	Consolidated Year ended December 31, 2004 (restated, Note 2)	Predecessor Basis Paragon Systems, Inc. January 1, 2004 to February 27, 2004	Year ended December 31, 2003	Year ended December 31, 2002
Revenues	$ 25,425	$ 4,705	$ 29,395	$ 21,364
Cost of revenues:				
Direct labor	13,810	2,481	16,070	11,983
Indirect labor and other contract support costs	10,223	2,113	11,151	7,615
Amortization of government contracts	298			
	24,331	4,594	27,221	19,598
Gross profit	1,094	111	2,174	1,766
Selling, general and administrative	2,115	230	1,466	1,179
Operating income (loss)	(1,021)	(119)	708	587
Income from investment in joint venture	1,637			
Other income (expense):				
Interest income	3		12	23
Interest expense	(1,380)	(11)	(30)	(7)
Interest on preferred stock subject to mandatory redemption	(250)			
	(1,627)	(11)	(18)	16
Income (loss) before income taxes	(1,011)	(130)	690	603
Income tax expense (benefit)	(384)		40	
Net income (loss)	$ (627)	$ (130)	$ 650	$ 603
Pro forma income tax expense (benefit)		(49)	262	229
Proforma net income (loss)		$ (81)	$ 428	$ 374
Basic net income (loss) per common share	$ (0.76)			
Diluted net income (loss) per common share	$ (0.76)			
Basic weighted average number of common shares	828			
Diluted weighted average number of common shares	1,269			

See accompanying notes to financial statements.

F-5

Tri-S Security Corporation and Subsidiary

Statements of Shareholders Equity (Deficit)
(In thousands)

	Predecessor Basis Paragon Systems, Inc.			Successor Basis Tri-S Security Corporation								
						Series A Convertible		Series B Convertible				
	Common Stock		Treasury	Common Stock		Preferred Stock		Preferred Stock		Additional Paid-In	Retained Earnings	
	Shares	Cost	Stock	Shares	Cost	Shares	Cost	Shares	Cost	Captial	(Deficit)	Total
Predecessor Basis												
Balance at December 31, 2001	940	$ 1	$								$ 2,386	$ 2,387
Net income											603	603
Balance at December 31, 2002	940	1									2,989	2,990
Net income											650	650
Balance at December 31, 2003	940	1									3,639	3,640
Net income (loss)											(130)	(130)
Balance at February 27, 2004	940	$ 1	$								$ 3,509	$ 3,510
Successor Basis												
Balance at February 27, 2004	940	$ 1			$		$		$	$	$ 3,509	$ 3,510
Reverse capital structure of predecessor	(940)	(1)									(3,509)	(3,510)
Capital structure of successor at December 31, 2003				828	1	100	460	40	196	115	(413)	359
Net loss for year ended December 31, 2004 (restated, Note 2)											(627)	(627)
Balance at December 31, 2004 (restated, Note 2)		$		828	$ 1	100	$ 460	40	$ 196	$ 115	$ (1,040)	$ (268)

See accompanying notes to financial statements

F-6

Tri-S Security Corporation and Subsidiary

Statements of Cash Flows
(In thousands)

	Consolidated Year ended December 31, 2004 (restated, Note 2)	Predecessor Basis For the period January 1, 2004 to February 27, 2004	Paragon Systems, Inc. Year ended December 31, 2003	Year ended December 31, 2002
Cash flow from operating activities:				
Net income (loss)	$ (627)	$ (130)	$ 650	$ 603
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:				
Income from investment in joint venture	(1,637)			
Depreciation and amortization	617	28	175	68
Deferred income tax benefits	(414)			
Changes in operating assets and liabilities:				
Trade accounts receivable, net	544	(1,161)	157	(673)
Prepaid expenses and other assets	393	(499)	10	(5)
Trade accounts payable	(262)	62	(872)	(313)
Accrued salaries	107	(59)	(162)	259
Payroll withholding	(63)	226	(47)	67
Accrued vacation	2	85	181	155
Accrued interest expense	316			
Accrued interest on redeemable preferred stock	250			
Other accrued expenses	(175)	692	(81)	(131)
Income taxes payable	(207)	(111)	152	(127)
Net cash provided (used) by operating activities	(1,156)	(867)	163	(97)
Cash flow from investing activities:				
Acquisition of subsidiary	(2,300)			
Investment in joint venture			(715)	
Proceeds from investment in joint venture	1,437	715		
Proceeds from sale of property and equipment	14			
Purchase of property and equipment	(67)		(427)	(127)
Net cash provided (used) by investing activities	(916)	715	(1,142)	(127)
Cash flow from financing activities:				
Proceeds (repayments) of short-term notes	3,067	(405)	676	454
Proceeds (repayments) of capital lease obligations	(65)	(13)	272	
Deferred initial public offering costs	(599)			
Loan costs	(120)			
Net cash provided (used) by financing activities	2,283	(418)	948	454
Net increase (decrease) in cash and cash equivalents	211	(570)	(31)	230
Cash and cash equivalents at beginning of period	102	846	877	647
Cash and cash equivalents at end of period	$ 313	$ 276	$ 846	$ 877
Supplemental disclosures of cash flow information:				
Interest paid	$ 931	$ 6	$ 30	$ 7
Income taxes paid	$ 224	$	$	$ 127
Issuance of notes and preferred stock in business acquisition	$ 13,706	$	$	$

See accompanying notes to financial statements.

F-7

Tri-S Security Corporation and Subsidiary

Notes to Financial Statements

(dollars in thousands, except per share data)

1. Summary of Significant Accounting Policies

Basis of Presentation

Tri-S was formed in October 2001 for the purpose of acquiring and consolidating electronic and physical security companies in order to take advantage of the operating efficiencies created by a large company. Tri-S has and currently intends to continue to pursue acquisition opportunities in the contract guard services and system integration services segments of the security industry.

On February 27, 2004, Tri-S Security Corporation (Tri-S or the Company) completed the acquisition (the Acquisition) of Paragon Systems, Inc. (Paragon). Tri-S acquired all of the outstanding capital stock of Paragon for a total purchase price of $16,006 payable in cash, redeemable preferred stock, and notes payable.

For periods subsequent to the Acquisition, the accompanying financial statements represent the consolidated statements of Tri-S and its wholly owned subsidiary, Paragon. All intercompany transactions and balances have been eliminated in consolidation.

Tri-S did not have any operating businesses prior to the Acquisition. Expenses consisted primarily of services performed and fees incurred associated with the creation and capitalization of the Company and the pursuit of acquisition opportunities. The financial statements of Paragon, as an operating entity, are the more relevant information available prior to the Acquisition of Paragon by Tri-S. Consequently, the accompanying financial statements present the financial statements of Paragon as the Predecessor prior to the Acquisition and the consolidated financial statements of Tri-S as the Successor subsequent to the Acquisition.

Nature of Operations

The Company provides contract guard services to various Federal government agencies. 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 the prevention of sabotage, terrorist and criminal activities. In connection with providing these services, Paragon assumes responsibility for a variety of functions, including recruiting, hiring, training and supervising security guards deployed to the Federal agencies served as well as paying all guards and providing them with uniforms, employee benefits and workers compensation insurance. Paragon is responsible for preventing the interruption of guard services as a consequence of illness, vacations or resignations.

Revenue Recognition

Revenue is recognized as guard services are provided under contracts with Federal government agencies. Guard services are billed 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 determined as a result of bids submitted in response to formal specifications included in solicitations for bids from government agencies. Hourly and monthly billing rates are developed by accumulating the estimated labor, general and administrative expenses, profit objective and other costs to service a contract over a five year period.

Direct labor includes the regular wages of direct personnel as defined under the contracts and is recorded on an actual basis as it is incurred. Indirect costs include other wages, payroll taxes, union benefits, employee benefits, workers compensation insurance, liability insurance and other costs associated with specific contracts. The wages component of indirect labor includes vacation, training, holiday and sick time. Initial one-time expenses, such as extra training costs to start a new contract, are expensed as incurred.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of expenses during the reporting period. Actual amounts could differ from those estimates.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and accounts receivable. The Company maintains cash and cash equivalents with various financial institutions. The Company s policy is to maintain balances with high credit quality financial institutions. The Company has not sustained material credit losses from instruments held at financial institutions. The Company provides services under contracts with various Federal agencies. The Company maintained an allowance for doubtful accounts of $536 and $50 at December 31, 2004 and 2003, respectively, as a reserve against potential billing adjustments.

Stock Based Compensation

In accordance with the provisions of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, the Company measures stock-based compensation expense as the excess of the market price on date of grant over the amount of the grant. Since the Company grants all stock-based compensation at the market price on the date of grant, no compensation expense is recognized. As permitted, the Company has elected to adopt only the disclosure provisions of SFAS No. 123, *Accounting for Stock-based Compensation*.

The Company has determined pro forma amounts as if the fair value method required by SFAS No. 123, *Accounting for Stock-Based Compensation*, had been applied to its stock-based compensation. See Note 11 for descriptions of the Company s stock-based compensation plans. The fair value of stock options was estimated on the date of grant using the Black-Scholes option pricing model. The pro forma effect on the net loss of the Company for the year ended December 31, 2004 and for the net loss of Tri-S, the Successor Company, for the years ended December 31, 2003 and 2002 as if the fair value of stock-based compensation had been recognized as compensation expense on a straight-line basis over the vesting period of the stock option or purchase right was as follows:

	2004 (restated, Note 2)	**2003**	**2002**
Net loss attributable to common shareholders:			
As reported	$ (627)	$ (217)	$ (136)
Pro forma	$ (627)	$ (218)	$ (138)
Basic and diluted net loss per share attributable to common shareholders:			
As reported	$ (0.76)	$ (0.26)	$ (0.17)
Pro forma	$ (0.76)	$ (0.26)	$ (0.17)

The weighted-average estimated fair value of options granted during 2002 was $0.03 per share. For purposes of computing the pro forma amount above, the minimum value of the options was calculated using a volatility factor of zero, an estimated option life of seven years and a risk-free interest rate assumption of 4.84%.

F-9

Fair Value of Financial Instruments

The carrying amounts of the Company s financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, approximate fair value because of their short maturities. The carrying amounts of the Company s short-term loans and capital lease obligations approximate fair value of these obligations based upon management s best estimates of interest rates that would be available for similar debt obligations at December 31, 2004 and 2003.

Retirement Plan

Substantially all of Paragon s employees are eligible to participate in a 401(k) defined contribution plan. Under the terms of the plan, employees may elect to defer up to ten percent of their compensation subject to Internal Revenue Service limitations. Paragon provides discretionary matching contributions on these deferrals each year based upon determinations by the board of directors. Paragon did not make any matching contributions for 2004, 2003 and 2002.

Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Investment in Joint Venture

In December 2003, Paragon acquired a 10% interest in Army Fleet Support, LLC. The investment is accounted for under the equity method. The cost of the investment was determined as part of the allocation of the purchase price of Paragon (see Note 2). The cost of the joint venture in excess of the net equity of the joint venture is attributed to the value of the joint venture s contract with the federal government and is being amortized over the life of the contract, which is 10 years. The company records income from the investment equal to the Company s share of the net earnings of the joint venture less amortization of the difference between the cost of the joint venture and The Company s share of the net equity of the joint venture. The joint venture asset is increased by the Company s share of the net earnings of the joint venture and decreased by cash received from the joint venture and amortization of the difference between the cost of the joint venture and The Company s share of the net equity of the joint venture. During 2004, subsequent to the Acquisition, the Company received distributions of $1,437 from Army Fleet Support, LLC.

Property and Equipment

Property and equipment are recorded at cost and depreciated over their estimated useful lives using the double-declining balance method. Property and equipment held under capital leases are amortized over the shorter of the lease term or the estimated useful life of the related asset. Upon retirement or sale, the cost of the assets disposed of and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is credited or charged to income. Repairs and maintenance costs are expensed as incurred.

Long-lived Assets Including Goodwill and Other Acquired Intangible Assets

The Company reviews property and equipment and certain identifiable intangibles, excluding goodwill, for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of these assets is measured by comparison of its carrying amounts to future undiscounted cash flows the assets are expected to generate. If property and equipment and certain identifiable intangibles are considered to be impaired, the impairment to be recognized equals the amount by which the carrying value of the asset exceeds its fair market value. The Company has made no adjustments to its long-lived assets in any of the periods presented.

The Company has adopted SFAS No. 142, *Goodwill and Other Intangible Assets*. SFAS No. 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually or sooner whenever events or changes in circumstances indicate that they may be impaired.

SFAS No. 142 also requires that intangible assets with definite lives be amortized over their estimated useful lives and reviewed for impairment whenever events or changes in circumstances indicate an asset s carrying value may not be recoverable in accordance with SFAS No. 144, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of.* The Company is currently amortizing its acquired intangible assets with definite lives over periods ranging from five to nine years. The Company believes no events or changes in circumstances have occurred that would require an impairment test for these assets.

Preferred Stock Subject to Mandatory Redemption

Preferred Stock subject to mandatory redemption is accounted for in accordance with SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*, as freestanding financial instruments having characteristics of both liabilities and equity and, as such, are classified as liabilities in the financial statements. The dividend requirement is recorded as interest expense. Payments and accruals for the dividend requirements are presented in the income statement and the cash flows statement separately from payments and interest due to other creditors.

Income Taxes

Beginning with its S corporation election on January 1, 1999, and prior to its acquisition by Tri-S on February 27, 2004, Paragon was taxed as a subchapter S corporation. All income and losses of Paragon were allocated to the shareholders for inclusion in their respective income tax returns. Prior to its election as a subchapter S corporation, Paragon was taxed as a C corporation and was subject to taxes on income earned prior to its election as an S corporation. Upon election as an S Corporation, Paragon became subject to built in gain taxes which relate to differences between the fair market value and the tax basis of assets as of the date a C corporation elects S status. These taxes paid by the S corporation are deductible by shareholders. The provision for income taxes of Paragon as the Predecessor consists of built-in gains taxes. Paragon s S election was automatically terminated upon its acquisition by Tri-S.

Paragon used the cash basis of accounting for income taxes prior to its acquisition, at which time it was required to change its tax method to the accrual basis. Effective February 28, 2004, the Company will file a consolidated income tax return that includes the accounts of Tri-S and Paragon.

The Company determines its deferred tax provision using the liability method. Under the liability method, deferred income tax assets and liabilities are determined based on differences between financial reporting and income tax bases of assets and liabilities and are measured using the tax rates and laws in effect at the time of such determination. The measurement of deferred tax assets is adjusted by a valuation allowance, if necessary, to recognize the extent to which, based on available evidence, the future tax benefits more likely than not will not be realized.

The accompanying financial statements present the financial statements of Paragon as the Predecessor prior to the Acquisition and the consolidated financial statements of Tri-S as the Successor subsequent to the Acquisition. The Predecessor company was a subchapter S corporation; consequently, pro forma tax expense and pro forma net income per share are presented on the face of the historical statements of operations for the periods presented as the Predecessor.

Recently Issued Accounting Pronouncements

In January 2003, the FASB issued FASB Interpretation (FIN) 46, *Consolidation of Variable Interest Entities*. FIN 46 expands upon existing accounting guidance that addresses when a company should include in its financial statements the assets, liabilities and activities of a variable interest entity. The consolidation requirements of FIN 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements apply to older entities in the first fiscal year or interim period beginning after June 15, 2003. The adoption of FIN 46 did not have any impact on the Company s financial position or results of operations.

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity*. The Statement specifies that instruments within its scope embody obligations of the issuer and that, therefore, the issuer must classify them as liabilities. SFAS No. 150 prohibits entities from restating financial statements for earlier years presented. SFAS No. 150 became effective for the Company at the beginning of the third quarter of 2003. The Company agreed to issue preferred shares subject to mandatory redemption in conjunction with the acquisition as more fully discussed in Note 3. The preferred shares subject to mandatory redemption are accounted for in accordance with SFAS No. 150.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), *Share-Based Payment* (SFAS 123R) which replaces SFAS No. 123, *Accounting for Stock-Based Compensation*, and supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*. SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values beginning with the first interim or annual period after June 15, 2005, with early adoption encouraged. The pro forma disclosures previously permitted under SFAS 123 no longer will be an alternative to financial statement recognition. The Company is required to adopt SFAS 123R in the third quarter of fiscal 2005, beginning July 1, 2005. Under SFAS 123R, the Company must determine the appropriate fair value model to be used for valuing share-based payments, the amortization method for compensation cost and the transition method to be used at date of adoption. The Company is evaluating the requirements of SFAS 123R and the effect that the adoption of SFAS 123R will have on the consolidated results of operations and earnings per share. The Company has not yet determined the method of adoption.

2. Restatement

On October 27, 2005, the Audit Committee determined the Company s consolidated financial statements for the year ended December 31, 2004 should be restated. The restatement is required for the Company s 10% equity interest in Army Fleet Support, LLC, to use the equity method of accounting as required by Account Principles Board Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock* and Statement of Financial Accounting Standards No. 94, *Consolidation of All Majority-Owned Subsidiaries* .

The following tables present the effect of the restatement on the originally reported financial position and results of operations as of and for the year ended December 31, 2004. The originally reported cash flows from operating, investing, and financing activities were not affected.

	December 31, 2004 As Originally Reported	December 31, 2004 Restated
Balance Sheet:		
Current assets	$ 6,636	$ 6,636
Investment in joint venture	6,665	8,302
Other non-current assets	9,680	9,680
Total assets	$ 22,981	$ 24,618
Current liabilities	$ 14,440	$ 14,440
Other non-current liabilities	9,822	10,446
Stockholders equity (deficit)	(1,281)	(268)
Total liabilities and stockholders equity	$ 22,981	$ 24,618
Statement of Operations:		
Revenues	$ 25,425	$ 25,425
Cost of revenues	24,331	24,331
Selling, general and administrative	2,115	2,115
Income from joint venture	0	1,637
Other income (expense)	(1627)	(1627)
Net income (loss) before income taxes	(2,648)	(1,011)
Income tax expense (benefit)	(1,008)	(384)
Net income (Loss)	$ (1,640)	$ (627)
Basic net income (loss) per share	$ (1.98)	$ (0.76)
Diluted net income (loss) per share	$ (1.98)	$ (0.76)

Notes 3, 8, 10, 12 and 16 have been updated to reflect this restatement.

3. Acquisition of Paragon Systems, Inc.

On February 27, 2004, Tri-S completed the Acquisition of Paragon, an Alabama corporation with offices located in Huntsville, Alabama. Tri-S acquired all the outstanding capital stock of Paragon for a total of $16,006, payable in cash, preferred shares subject to mandatory redemption and notes as set forth below. The Acquisition has been accounted for as a purchase transaction in accordance with SFAS No. 141, *Business Combinations*. At the closing of the Acquisition, Tri-S:

- paid $2,300 in cash to the former shareholders of Paragon;
- issued promissory notes to the former shareholders of Paragon in an aggregate principal amount of $7,706 with an annual rate of 7.0%; and
- agreed to issue to the former shareholders of Paragon preferred stock subject to mandatory redemptions, with an aggregate redemption value of $6,000 with an annual rate of 5.0%.

F-13

Simultaneous with the closing of the Acquisition, Paragon sold $4,295 in receivables to LSQ Funding, L.L.C., an unaffiliated company which factors receivables (LSQ). The proceeds of the transaction were utilized as follows:

Cash payment to sellers of Paragon	$ 2,300
Pay off outstanding borrowings under the Paragon line-of-credit	1,175
Additional cash for working capital at Paragon	700
Fees and interest costs	120
	$ 4,295

The purchase price was allocated among tangible and intangible assets acquired and liabilities assumed based on an independent appraisal of fair values at the transaction date. Amounts previously estimated and reported have been adjusted to give effect to the independent appraisal. The change in valuation of the assets acquired did not have any effect on the results of operations previously reported. The following represents the allocation of the purchase price at the time of the acquisition:

Book value of net assets acquired	$ 3,511
Investment in joint venture	8,102
Federal contracts	1,470
Non compete agreements	380
Income tax liabilities	(1,423)
Deferred income tax liabilities	(3,751)
Goodwill	7,717
Allocated purchase price	$ 16,006

The investment in the joint venture was valued based on the expected future distributions from the investment. The joint venture is accounted for in accordance with the equity method of accounting. Federal contracts will be amortized over a period of nine years and non-compete agreements will be amortized over five years. The $7,717 excess of the purchase price over the estimated fair values of the net tangible assets and separately identifiable intangible assets was recorded as goodwill.

Paragon used the cash basis of accounting for income taxes prior to its acquisition, at which time Paragon was required to change its method to the accrual basis. Income taxes as a result of the change in method became due in four annual installments and were recorded as an adjustment of $1,423 to the purchase price of Paragon in accordance with business combination purchase accounting.

As a result of the acquisition of Paragon, the Company recorded a net deferred tax liability of $3,751. This deferred tax liability results from the difference between financial reporting and income tax bases of assets and liabilities purchased.

The following combined pro forma financial information presents the results of operations of the Company as if the Acquisition had occurred at the beginning of each of the periods presented. Adjustments to the combined financial information related to the Acquisition that affect the results of operations include the interest expense associated with the debt and redeemable preferred shares issued in conjunction with the Acquisition and amortization of the fair value of intangible assets. This pro forma information does not purport to be indicative of what would have occurred had the Acquisition occurred as of January 1 or of results of operations that may occur in the future.

	Combined Pro Forma Statements of Operations	
	For the year ended December 31, 2004 (restated)	**For the year ended December 31, 2003**
Revenues	$ 30,130	$ 29,395
Operating loss	$ (1,209)	$ (71)
Net loss	$ (843)	$ (576)
Basic loss per common share	$ (1.02)	$ (0.70)
Diluted loss per common share	$ (1.02)	$ (0.70)

Tri-S did not have an operating business prior to the Acquisition. Expenses consisted primarily of services performed and fees incurred associated with the creation and capitalization of the Company and the pursuit of acquisition opportunities. The financial statements of Paragon, as an operating entity, are the more relevant information available prior to the acquisition of Paragon by Tri-S. Consequently, the combined pro forma financial information represents the financial statements of Paragon as the Predecessor Company prior to the acquisition date of February 27, 2004 combined with the expenses of Tri-S prior to the acquisition date of February 27, 2004.

Tri-S operations for 2003 and 2002 consisted of $347 and $216 of expenses, respectively, associated with the creation and capitalization of the Company and the pursuit of acquisition opportunities. The Company recognized deferred income tax benefits related to these expenditures of $130 and $80 for 2003 and 2002, respectively.

4. Sales to Major Customers

The Company s principal operation is to provide contract guard services to various Federal agencies. Substantially all of the Company s revenues are derived from ten customers. Contracts with five Federal agencies account for approximately 80% of the Company s revenue.

5. Related Party Transactions

Employment Agreements

Upon completion of the Acquisition of Paragon, Tri-S entered into employment agreements with six key employees of Paragon, with agreement terms between one and three years and non-compete terms for an additional four years for two of the employees. The terms and conditions of the agreements were substantially the same as that which the employees were entitled prior to the Acquisition.

On January 1, 2002, Tri-S entered into an employment agreement with Mr. Farrell pursuant to which Mr. Farrell has agreed to serve as Chief Executive Officer and President of the Company until December 31, 2005, which term has been subsequently extended until December 31, 2008. The agreement provides for (i) payment of a specified base salary which increases by 5% per year; (ii) payment of an annual bonus equal to 5% of the Company s income before income taxes for such year plus cash distributions from the joint venture, provided that such bonus may not exceed 150% of Mr. Farrell s base salary for such year; (iii) prohibition against Mr. Farrell s disclosure of confidential information for a period of one year following the termination of his employment; and (iv) continuation of Mr. Farrell s compensation and benefits for the remainder of the term of the employment agreement if his employment is terminated by the Company without cause or by Mr. Farrell for good reason . For the year ending December 31, 2004, Mr. Farrell s salary under his employment agreement is $254,000.

Indebtedness of Management

Pursuant to Mr. Farrell s employment agreement with the Company, Mr. Farrell, Chief Executive Officer and President of the Company, would have otherwise been entitled to receive during 2004 an aggregate bonus of $435,000; however, in order to improve the financial position of the Company, he agreed to forfeit $290,000 thereof and accept a cash bonus of $145,000 and a loan for $100,000. In connection with the loan, Mr. Farrell issued a promissory note to the Company dated December 31, 2004 in the principal amount of $100,000, 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 the Company s common stock or any combination thereof.

6. Property and Equipment

Property and equipment are comprised of the following:

	Estimated Useful Life	December 31, Tri-S Security 2004	Paragon Systems 2003
Computer equipment and software	3-5 years	$ 595	$ 212
Vehicles	5 years	236	644
Furniture and fixtures	5-7 years	179	134
		1,010	990
Less accumulated depreciation and amortization		(685)	(535)
Property and equipment, net		$ 325	$ 455

Depreciation expense for Tri-S was $155 for the year ended December 31, 2004. Depreciation expense was $28 for the two months ended February 27, 2004 and $175 and $68, respectively, for the years ended December 31, 2003 and 2002.

7. Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill for the year ended December 31, 2004, are as follows:

Balance as of January 1, 2004	$
Acquisition costs	30
Goodwill acquired during the period	7,717
Balance as of December 31, 2004	$ 7,747

F-16

Information regarding the Company s intangible assets that are being amortized is as follows:

	As of December 31, 2004 Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Federal contracts	$ 1,470	$ 298	$ 1,172
Non-compete agreements	380	62	318
Loan costs	120	102	18
Total	$ 1,970	$ 462	$ 1,508

Federal contracts represent the aggregate value of the contracts with Federal agencies purchased in the Acquisition in February 2004 and are being amortized in proportion to expected cash flows over the expected life of the contracts, which is estimated to be nine years.

Non-compete agreements represent the aggregate value of the non-compete agreements entered into with the certain of the prior owners of Paragon and are being amortized on a straight-line basis over the term of the agreements, which is five years.

Loan costs are the upfront fees paid by the Company to arrange and complete the factoring arrangement with LSQ in February 2004. The fees were capitalized and are being amortized over the 12 month life of the factoring agreement. The amortization of loan costs is reflected as interest expense in the consolidated financial statements of the Company.

Amortization expense of acquisition-related intangible assets for the year ended December 31, 2004 was $462.

Estimated future amortization expense for acquisition-related intangible assets on the Company s December 31, 2004 consolidated balance sheet for the fiscal years ending December 31, is as follows:

2005	$ 471
2006	382
2007	328
2008	199
2009	58
Thereafter	70
	$1,508

8. Investment in Unconsolidated Affiliate

In conjunction with the Paragon Systems, Inc. acquisition on February 27, 2004, the Company acquired a 10% interest in the Army Fleet Service joint venture (see Note 1 and Note 3). The value of the investment in the joint venture at the acquisition date was $8,102 as established through an independent appraisal. The cost of the joint venture in excess of the net equity of the joint venture is attributed to the value of the joint venture s contract with the federal government and is being amortized straight-line over the life of the contract, which is 10 years.

The Company accounts for its investment in the joint venture using the equity method. Accordingly, the investment in the joint venture is increased by the Company s share of the joint venture s earnings and reduced by the cash received from the joint venture and amortization of the difference between the cost of the joint venture and the Company s share of the net equity of the joint venture.

The investment in the joint venture was affected by the following transactions for the 10 months ended December 31, 2004:

Investment in joint venture February 27, 2004	$ 8,102
Company s interest in earnings of the joint venture	2,324
Amortization of the investment in the joint venture	(687)
Cash received form the joint venture	(1,437)
Investment in joint venture December 31, 2004	$ 8,302

Summarized unaudited balance sheet information for the joint venture as of December 31, 2004 is as follows:

Total assets	$ 39,189
Total liabilities	$ 28,200
Equity	10,989
Total liabilities and equity	$ 39,189

Summarized unaudited statement of operations information for the unconsolidated joint venture for the 10 months ended December 31, 2004 is as follows:

Contract revenues	$ 221,132
Operating income	24,805
Net earnings	23,237

9. Debt and Other Obligations

In conjunction with the closing of the Acquisition in February 2004, the Company:

- issued 7% promissory notes to the former shareholders of Paragon in aggregate principal amounts of $6,206 and $1,500;

- issued to the former shareholders of Paragon an aggregate of 100 shares of Series C redeemable preferred stock, with a 5% dividend and an aggregate redemption value of $6,000; and

- repaid outstanding borrowings under the line-of-credit and terminated the line of credit agreement.

In February 2004, Paragon entered into a factoring arrangement and began to sell certain of its accounts receivable to LSQ Funding, LLC (LSQ). LSQ provides advances of up to 85% (90% after July 27, 2004) of eligible accounts receivable in exchange for a funds usage rate equal to prime plus 2.0% on the outstanding funds advanced plus a factoring commission. The factoring commission is equal to a discount of 1.25% (1.00% after February 9, 2005) of gross factored sales plus an invoice service fee of 1.0% depending on days outstanding on factored invoices. For advances in excess of 85% (90% after July 27, 2004) of eligible accounts receivable, an over-advance charge of 0.75% applies. LSQ may require Paragon to repurchase factored receivables for various reasons including uncollectibility or delinquency as defined in the agreement. Because LSQ has recourse to Paragon on factored receivables, accounts receivable are shown gross on the balance sheet and advances are shown as short-term notes payable. The Company s obligations to LSQ are secured by a lien on all of the Company s assets.

Debt and other obligations are summarized as follows:

	December 31, Successor 2004	**Predecessor 2003**
Current:		
Short-term borrowings under line-of-credit	$	$ 1,130
Amounts payable under factoring facility	3,092	
Promissory notes payable, 7.0% due February 15, 2005	6,206	
Promissory notes payable, 7.0% due February 28, 2005	1,500	
	$ 10,798	$ 1,130
Long-term:		
Preferred shares subject to mandatory redemption due February 27, 2007	$ 6,000	$

The promissory notes with an outstanding principal balance of $6,206 were originally due $5,500 on May 31, 2004 and $706 on June 10, 2004. The terms of these notes were amended and restated and were paid in full on February 15, 2005 with the proceeds from an initial public offering of the Company s shares.

The promissory notes with an outstanding principal balance of $1,500 were paid in full on February 28, 2005.

The average amount of borrowings under the factoring facility was $2,599 during 2004 and under the line of credit was $933, $636, and $126 for the two months ended February 27, 2004 and the years ended December 31, 2003 and 2002, respectively.

The Series C redeemable preferred stock is classified as preferred shares subject to mandatory redemption in the financial statements. The shares may be redeemed by the Company at any time but must be redeemed no later than February 27, 2007. As of December 31, 2004 the Company has accrued interest expense of $250 on these shares. The payment of interest is required semi-annually.

F-19

Paragon s payment obligations under the promissory notes issued to the former shareholders of Paragon and the redemption and dividend obligations under the preferred shares subject to mandatory redemption are secured by a pledge to the former shareholders of Paragon of approximately 55% of the capital stock of Paragon.

In July 2004, Paragon entered into a credit agreement with an unaffiliated finance source which allowed Paragon to receive cash advances of $400. Paragon assigned a security interest in various assets of Paragon, including two receivable balances approximating $440 in the aggregate. Borrowings under this agreement were paid in December 2004 and the agreement was terminated. Pursuant to the credit agreement, interest expense at an annualized rate of 12% on the outstanding borrowings was paid on a monthly basis. In addition to the above, Tri-S issued 16,181 warrants to the finance source for the purchase of common stock, at $3.09 per share.

Prior to the Acquisition, Paragon had a line of credit guaranteed by two corporate shareholders allowing draws up to the lesser of $6,000, or 80% of accounts receivable. The line was secured by all accounts receivable and contract rights. Interest was payable on all draws monthly. The amount due as of December 31, 2003 was $1,130. Simultaneous with the closing of the Acquisition, Paragon paid off outstanding borrowings under the line-of-credit and terminated the line-of-credit agreement.

10. Income Taxes

The income tax provision for Paragon, the Predecessor Company, consists of built-in gain taxes. The income tax provision for Tri-S, the Successor Company, consists of deferred federal and state tax benefits of $414 and current Alabama state income tax expense of $30 for the year ended December 31, 2004.

The following is a reconciliation of income taxes for Tri-S for the year ended December 31, 2004 at statutory rates to the provision for income taxes:

Federal tax benefits computed at the statutory rate	$ (344)
State tax benefits, net of federal deduction	(40)
Provision for income taxes	$ (384)

Net deferred tax liabilities at December 31, 2004 for Tri-S results from temporary differences associated with the following:

	December 31, 2004
Deferred tax assets:	
Accounts receivable	200
Total deferred tax assets	200
Deferred tax liabilities:	
Investment in joint venture	(2,688)
Intangible assets	(566)
Depreciation	(33)
Total deferred tax liabilities	(3,287)
Net deferred tax liabilities	$ (3,087)

Paragon used the cash basis of accounting for income taxes prior its acquisition, at which time Paragon was required to change its method to the accrual basis. Income taxes as a result of the change in method became due in four annual installments and were recorded as an adjustment of $1,423 to the purchase price of Paragon in accordance with business combination purchase accounting.

F-20

11. Lease Obligations

Paragon leases real property under operating leases. The leases all terminate in less than one year. Rental expense for Tri-S consolidated was $108 for 2004. Rental expense for Paragon was $21 for the two months ended February 27, 2004, $112 for 2003 and $79 for 2002. Included in rental expense is $1 per month paid to two officers for rental of a building. Rental obligations to the two officers ceases on February 28, 2005. The future minimum amounts due under operating leases are $100 for 2005.

During 2003, Paragon entered into several capital leases for vehicles. The gross amount of assets capitalized under these leases and accumulated depreciation as of December 31, 2004 is $364 and $194, respectively. Depreciation expense of Tri-S consolidated for these assets during 2004 was $95. Depreciation expense for the two months ended February 27, 2004 was $19. Depreciation expense charged for these assets during 2003 was $80.

The total lease obligation as of December 31, 2004 for the capitalized leases and the future minimum lease payments under these leases are as follows:

Year Ending December 31,	
2005	$ 99
2006	106
Total minimum lease payments	205
Less amount representing interest	(11)
Capital lease obligations	194
Less current portion	(91)
Long term portion	$ 103

12. Common and Preferred Stock

Tri-S Security Corporation (Successor Company)

Immediately prior to the initial public offering of its common stock on February 9, 2005, Tri-S entered into an exchange and recapitalization agreement with all of the holders of common stock, convertible preferred stock and holders of rights to acquire common stock. Pursuant to the agreement the Company implemented a reverse stock split of all the outstanding shares of its common stock and stock options and exchanged common stock for all convertible preferred stock. The recapitalization was given retroactive treatment in the financial statements and related disclosures.

As of December 31, 2004, Tri-S is authorized to issue 10 million shares of preferred stock with a par value of $1.00 per share. The board of directors of Tri-S is authorized, without further shareholder action, to divide any or all shares of authorized preferred stock into series and to fix and determine the designations, preferences and relative participating, optional or other special rights, and qualifications, limitations or restrictions thereon, of any series so established, including voting powers, dividend rights, liquidation preferences, redemption rights and conversion or exchange privileges.

As of December 31, 2004, Tri-S had 100,000 shares outstanding of Series A Convertible Preferred Stock, 40,000 shares outstanding of Series B Convertible Preferred Stock and 100 shares outstanding of Series C Redeemable Preferred Stock.

Holders of the Series A Convertible Preferred Stock have no voting rights, except as otherwise required by applicable law, and no preemptive, dividend or sinking fund rights. These shares were converted into an aggregate of 242,718 shares of common stock immediately prior to the initial public offering on February 9, 2005.

Holders of the Series B Convertible Preferred Stock have no voting rights, except as otherwise required by applicable law, and no preemptive, dividend or sinking fund rights. These shares were converted into an aggregate of 129,450 shares of common stock immediately prior to the initial public offering on February 9, 2005.

Holders of Series C Mandatory Redeemable Preferred Stock have no voting rights, except as otherwise required by applicable law. Holders of Series C Mandatory Redeemable Preferred Stock have no preemptive, conversion or sinking fund rights. In the event of a liquidation, dissolution or winding up of the Company, holders of the Series C Preferred Shares are entitled to a liquidation preference and holders of common shares have a secondary liquidation right to the assets of the Company.

The Series C Mandatory Redeemable Preferred Stock has a redemption value of $60,000 per share. The Company may redeem the outstanding shares of Series C Preferred Stock at any time, but must redeem all the outstanding shares of Series C Mandatory Redeemable Preferred Stock no later than February 27, 2007. The holders of the Series C Mandatory Redeemable Preferred Stock are entitled to receive cumulative cash dividends at a rate of 5% of the redemption value per annum (or $3,000 per share per annum).

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. Tri-S has not paid any cash dividends since the inception of the Company.

Paragon Systems, Inc. (Predecessor Company)

As of December 31, 2003, Paragon is authorized to issue 1,000 shares of common stock with a par value of $1.00 per share. At December 31, 2003, 940 shares were issued and outstanding and 60 shares, which were reacquired in a previous year, are presented as treasury stock in the accompanying financial statements for the Predecessor Company.

Income (Loss) Per Share

Basic income (loss) per share is computed by dividing income (loss) available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that would occur if securities or other contracts to issue common stock were exercised or converted into common stock.

F-22

The following table sets forth the computation of the basic and diluted net income (loss) per share (share amounts in thousands):

	Year ended December 31, 2004 (restated, Note 2)
Numerator:	
Net income (loss)	$ (627)
Denominator:	
Weighted average common shares outstanding	828
Denominator for basic calculation	828
Effect of dilutive securities:	
Conversion of Series A Convertible Preferred Stock	243
Conversion of Series B Convertible Preferred Stock	129
Common stock options	65
Common stock warrants	4
Denominator for diluted calculation	1,269
Basic net income (loss) per common share	$ (0.76)
Diluted net income (loss) per common share	$ (0.76)

The diluted net loss per common share is anti-dilutive, consequently the diluted net loss per common share as presented on the face of the financial statements is the same as the basic net loss per common share.

13. Stock Options and Warrants

Non-qualified stock options for 97,087 shares of the common stock of Tri-S were granted on January 1, 2002 with an exercise price of $0.12 per share. These options vest 32,362 shares each on December 31, 2004, 2003 and 2002 and expire in October 2011. As of December 31, 2004 there have been no other options granted and there have been no options forfeited. At December 31, 2004, options for 97,087 shares were outstanding, of which all options were exercisable.

Warrants for 16,181 shares of common stock were issued on July 27, 2004 with an exercise price of $3.09 per share. These warrants were outstanding at December 31, 2004 and will expire on February 9, 2006.

The 2004 Stock Incentive Plan (Stock Incentive Plan) was approved and adopted by the board of directors and shareholders on October 13, 2004. The Stock Incentive Plan is administered by the compensation committee of the board of directors in accordance with and subject to the provisions of the Stock Incentive Plan. The committee has the authority to determine all provisions of incentive awards as the committee may deem necessary or desirable and as consistent with the terms of the Stock Incentive Plan. The maximum number of shares of common stock that are available for issuance under the Stock Incentive Plan is 500,000 all of which are available for future grant. The Stock Incentive Plan will terminate at midnight no later than October 13, 2014, unless terminated earlier by action of the board of directors.

The Stock Incentive Plan provides for the grants of incentive awards to eligible participants, including employees, officers, directors, consultants and independent contractors. These awards include options to purchase shares of common stock that qualify as incentive stock options within the meaning of the Internal Revenue Code, non-qualified options, restricted stock awards, and stock bonuses.

The per share price to be paid by a participant upon exercise of an option is determined by the committee at the time of the option grant, provided that the exercise price for incentive stock options must be equal to the fair market value of common stock on the date of grant and 110% of the fair market value if, at the time the incentive stock option is granted, the participant owns, directly or indirectly, more than 10% of the total combined voting power of all classes of stock of the Company or any parent or subsidiary corporation of the Company. An option will become exercisable at such times and in such installments as may be determined by the committee in its sole discretion at the time of grant, provided that no option may be exercisable after 10 years from its date of grant.

Restricted stock awards are awards of common stock granted to a recipient which are subject to restrictions on transferability and the risk of forfeiture. The committee may impose such restrictions or conditions to the vesting of restricted stock awards, including that the participant remain in the continuous employ or service of the Company for a specified period of time or that the participant or the Company satisfy specified performance goals or criteria.

Stock bonuses are awards of common stock that are not subject to any restrictions other than, if imposed by the committee, restrictions on transferability. Stock bonuses are subject to such terms and conditions as may be determined by the committee.

14. Contingencies

The Company is involved in various legal proceedings, including employee discrimination suits, from time to time in the normal course of business. In management s opinion, the Company is not currently involved in any legal proceedings, individually or in the aggregate, which could have a material effect on the financial condition, results of operations or cash flows of the Company.

15. Subsequent Events

On February 9, 2005, the Company completed an initial public offering of 1,800,000 units, consisting of one share of common stock and one warrant to purchase one share of common stock. After underwriting fees and before other costs of the public offering, the Company received proceeds of $9,592. As of December 31, 2004, the Company had accrued or paid $633 in costs for the public offering. Additionally, the Company incurred approximately $125 of public offering costs subsequent to December 31, 2004. On March 17, 2005, the underwriters exercised their option to purchase 270,000 additional units. After underwriting fees, the Company received proceeds of $1,487 from the additional units.

Incident with the public offering, holders of the Company s existing common stock before the public offering, Series A Convertible Preferred Stock and Series B Convertible Preferred Stock exchanged their shares for a total of 1,200,000 shares of the Company s common stock. Also, 15,000 shares of the Company s common stock were issued to a current shareholder of the Company and 20,000 shares of the Company s common stock were issued to former shareholders of Paragon Systems.

After the initial public offering, 3,305,000 shares of the Company s common stock were issued and outstanding.

16. Selected Quarterly Financial Data (Unaudited)

The following table sets forth, for each quarter in the last two fiscal years, selected data from our statements of operations. The operations of Tri-S prior to February 27, 2004 are combined with the operations of Paragon for all periods presented. Paragon was an S corporation and not subject to income taxes prior to the Acquisition. Pro forma income taxes are provided for Paragon at 38% of income or loss before income taxes for periods prior to the Acquisition.

	First Quarter (restated)	Second Quarter (restated)	Third Quarter (restated)	Fourth Quarter (restated)
2004				
Revenue	$ 7,283	$ 7,468	$ 7,682	$ 7,697
Gross profit (loss)	$ 565	$ 321	$ 446	$ (127)
Net income attributable to common shareholders	$ (62)	$ (338)	$ 571	$ (879)
Diluted net earnings per share attributable to common shareholders	$ (0.07)	$ (0.41)	$ 0.44	$ (1.07)
2003				
Revenue	$ 7,223	$ 6,790	$ 7,753	$ 7,629
Gross profit	$ 679	$ 559	$ 519	$ 417
Net income attributable to common shareholders	$ 198	$ 125	$ 24	$ (136)
Diluted net earnings per share attributable to common shareholders	$ 0.19	$ 0.12	$ 0.02	$ (0.16)

F-25

Tri-S Security Corporation and Subsidiary

Balance Sheets

(In thousands, except per share data)

	Sept 30, 2005 (unaudited)	December 31, 2004
Assets		
Current assets:		
Cash and cash equivalents	$ 2,430	$ 313
Trade accounts receivable, net	5,480	5,312
Deferred initial public offering costs		633
Deferred income taxes	250	200
Prepaid expenses and other assets	590	178
Total current assets	8,750	6,636
Property and equipment, less accumulated depreciation	237	325
Note receivable officer	102	100
Investment in joint venture	8,660	8,302
Intangibles	1,596	1,508
Goodwill	7,747	7,747
Total assets	$ 27,092	$ 24,618
Liabilities and Stockholders Equity (Deficit)		
Current liabilities:		
Trade accounts payable	$ 468	$ 351
Accrued expenses	3,161	2,634
Accrued interest expense	25	566
Note payable to financial institution	1,673	3,092
Short-term notes payable		7,706
Current portion of capital lease obligations	125	91
Total current liabilities	5,452	14,440
Other liabilities:		
Capital lease obligations, less current portion	0	103
Deferred income taxes	3,713	4,343
Series C preferred stock subject to mandatory redemption	6,000	6,000
Long-term notes payable	1,919	0
Total liabilities	17,084	24,886
Stockholders equity (deficit):		
Preferred stock, $1.00 par value, 10,000,000 shares authorized		
Series A convertible preferred stock 100,000 shares issued and outstanding		460
Series B convertible preferred stock, 40,000 shares issued and outstanding		196
Common stock, $0.001 par value, 25,000,000 shares authorized, 3,323,700 and 827,832 shares issued and outstanding at June 30, 2005 and December 31, 2004, respectively	3	1
Additional paid-in capital	11,394	115
Retained earnings (deficit)	(1,389)	(1,040)
Total stockholders equity (deficit)	10,008	(268)
Total liabilities and stockholders equity (deficit)	$ 27,092	$ 24,618

See accompanying notes to financial statements.

F-26

Tri-S Security Corporation and Subsidiary

Statements of Operations
(In thousands, except per share data)

	Three Months Ended Sept 30, 2005 (unaudited)	Three Months Ended Sept 30, 2004 (unaudited)
Revenues	$ 8,063	$ 7,682
Cost of revenues:		
Direct labor	4,403	4,092
Indirect labor and labor related costs	2,803	2,719
Other contract support costs	393	335
Amortization of government contracts	93	108
	7,692	7,254
Gross profit	371	428
Selling, general and administrative	1,286	456
Operating income (loss)	(915)	(28)
Income from joint venture	403	1,422
Other income (expense):		
Interest income	14	
Interest expense	(120)	(364)
Interest on preferred stock subject to mandatory redemption	(75)	(108)
	(181)	(472)
Income (loss) before income taxes	(693)	922
Income tax expense (benefit)	(263)	350
Net income (loss)	$ (430)	$ 572
Pro forma income tax expense (benefit)		
Proforma net income (loss)		
Basic net income (loss) per common share	$ (0.13)	$ 0.69
Diluted net income (loss) per common share	$ (0.13)	0.45
Basic weighted average number of common shares	3,324	828
Diluted weighted average number of common shares	3,324	1,276

See accompanying notes to financial statements.

F-27

	Nine Months Ended Sept 30, 2005 (unaudited)	Nine Months Ended Sept 30, 2004 (unaudited)	Predecessor Basis Paragon Systems, Inc. January 1, 2004 to February 27, 2004
Revenues	$ 23,787	$ 17,728	$ 4,705
Cost of revenues:			
Direct labor	12,741	9,506	2,481
Indirect labor and labor related costs	8,307	6,074	1,892
Other contract support costs	992	718	221
Amortization of government contracts	275	252	
	22,315	16,550	4,594
Gross profit	1,472	1,178	111
Selling, general and administrative	2,757	1,097	230
Operating income (loss)	(1,285)	81	(119)
Income from joint venture	1,451	1,517	
Other income (expense):			
Interest income	35	3	
Interest expense	(543)	(983)	(11)
Interest on preferred stock subject to mandatory redemption	(225)	(210)	
	(733)	(1,190)	(11)
Income (loss) before income taxes	(567)	408	(130)
Income tax expense (benefit)	(215)	155	
Net income (loss)	$ (352)	$ 253	$ (130)
Pro forma income tax expense (benefit)			(49)
Proforma net income (loss)			$ (81)
Basic net income (loss) per common share	$ (0.11)	$ 0.31	
Diluted net income (loss) per common share	$ (0.11)	0.20	
Basic weighted average number of common shares	3,236	828	
Diluted weighted average number of common shares	3,236	1,276	

See accompanying notes to financial statements.

F-28

Tri-S Security Corporation and Subsidiary

Statements of Cash Flows
(In thousands)

	Nine Months Ended Sept 30, 2005 (unaudited)	Nine Months Ended Sept 30, 2004 (unaudited)	For the period January 1, 2004 to February 27, 2004
Cash flow from operating activities:			
Net income (loss)	$ (352)	$ 253	$ (130)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:			
(Income) Loss from Investment in joint venture	(1,451)	(1,517)	0
Depreciation and amortization	481	440	28
Deferred income tax benefits	(1,028)	158	
Common shares issued in exchange for services	95		
Changes in operating assets and liabilities:			
Trade accounts receivable, net	(168)	1,413	(1,161)
Prepaid expenses and other assets	(272)	394	(499)
Trade accounts payable	117	(57)	62
Accrued liabilities	98	59	944
Income taxes payable	138	(224)	(111)
Net cash provided (used) by operating activities	(2,342)	919	(867)
Cash flow from investing activities:			
Acquisition of subsidiary		(2,024)	
Proceeds from sale of property and equipment	10		
Purchase of property and equipment	(44)	(62)	
Cash Disbursements from investment in joint venture	1,092	330	715
Net cash provided (used) by investing activities	1,058	(1,756)	715
Cash flow from financing activities:			
Proceeds from initial public offering	11,079		
Proceeds (repayments) of short-term notes	(9,125)	1,517	(405)
Proceeds (repayments) of capital lease obligations	(69)	(43)	(13)
Deferred initial public offering costs	(245)		
Proceeds from issuance of Warrants	289	0	
Payments for Intangible Assets	0	(426)	
Proceeds from Notes Payable	1,919		
Deferred Financing Costs	(447)		
Net cash provided (used) by financing activities	3,401	1,048	(418)
Net increase (decrease) in cash and cash equivalents	2,117	211	(570)
Cash and cash equivalents at beginning of period	313	102	846
Cash and cash equivalents at end of period	$ 2,430	$ 313	$ 276
Supplemental disclosures of cash flow information:			
Interest paid	$ 1,307	$ 346	$ 6
Income taxes paid	$ 323	$ 170	$

See accompanying notes to financial statements.

F-29

TRI-S SECURITY CORPORATION AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2005

1. Organization

Tri-S Security Corporation, a Georgia corporation (Tri-S , the Company or We) provides contract guard services to various Federal government agencies through our subsidiary, Paragon Systems, Inc., an Alabama corporation with offices located in Huntsville, Alabama (Paragon Systems). We strive to 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.

We were incorporated in Georgia in October 2001 under the name Diversified Security Corporation. We changed our name to Tri-S Security Corporation on August 16, 2004. Our principal executive offices are located at 11675 Great Oaks Way, Suite 120, Alpharetta, GA 30022, and our telephone number at that address is (678) 808-1540.

2. Basis of Presentation

The accompanying 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 management of Tri-S in accordance with the rules and regulations of the Securities and Exchange Commission (the SEC). In the opinion of 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/A for the year ended December 31, 2004 filed with the SEC, as amended by Amendment No. 1 thereto (the Annual Report). 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. Certain balance sheet items as of December 31, 2004 have been reclassified to conform to the presentation as of September 30, 2005.

3. Summary of Significant Accounting Policies

The preparation of financial statements in conformity with GAAP requires us to make certain estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosure of contingent assets and liabilities. We believe the following critical accounting policies affect our more significant estimates and judgments. Actual results may differ from these estimates under different assumptions or conditions.

Revenue Recognition. We record revenue monthly as guard services are provided to our customers under contracts with Federal government agencies. 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 determined as a result of our bids submitted in response to formal specifications included in solicitations for bids from government agencies. Hourly and monthly billing rates are developed by accumulating the estimated labor, general and administrative expenses, our profit objective and other costs to service a contract over a five-year period.

The terms of our contracts with Federal government agencies 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. Differences in interpretation are generally 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. Actual amounts estimated could differ from amounts ultimately collected and these amounts could be material.

Cost of Revenues. Cost of revenues is primarily comprised of labor, related payroll taxes, employee benefits, workers compensation and liability insurance. Labor is recorded on an accrual basis.

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. For some contracts, we assume existing liabilities for accrued vacation. 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.

Goodwill and Other Intangible Assets. We account for goodwill and other intangible assets in accordance with Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets (SFAS No. 142), which requires goodwill and some intangible assets to no longer be amortized. Instead, goodwill will be subject to an annual impairment test. The goodwill impairment test involves a two-step approach. The first step of the test is to compare the fair value of the reporting unit, which is the business of Paragon Systems, to its book value, including goodwill. The fair value of the reporting unit is measured using discounted projected future cash flows. Cash flow estimates include projections of revenues from existing contracts with Federal government agencies, including projected renewals and extensions. The related costs of revenues are based on our historical costs. The projections are subject to the uncertainties of realizing contract renewals and extensions, the pricing of future contracts and reasonable estimates of future labor costs and other costs of revenues.

If the book value exceeds the fair value, then the second step of the goodwill impairment test, used to measure the amount of impairment loss, compares the implied fair value of the reporting unit goodwill with the book value of that goodwill. If the book value exceeds the implied fair value of that goodwill, then an impairment loss will be recognized to the extent of the excess.

SFAS No. 142 also requires that intangible assets with definite lives be amortized over their estimated useful lives and reviewed for impairment whenever events or changes in circumstances indicate an asset s carrying value may not be recoverable in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. We are currently amortizing our acquired intangible assets with definite lives over periods ranging from five to nine years. Amortizable intangible assets consist of the government contracts we acquired in connection with our acquisition of Paragon Systems on February 27, 2004 (the Acquisition) and the non-compete agreements with certain of Paragon Systems former owners. We believe that no events or changes in circumstances have occurred that would require an impairment test for these assets.

Investment in Joint Venture. We account for our 10% equity in Army Fleet Support, LLC, a joint venture which provides logistics support for U.S. Army aviation training at Fort Rucker, Alabama (the Joint Venture), using the equity method of accounting. Accordingly, the investment in the Joint Venture is increased by our share of the Joint Venture s earnings and reduced by the amortization of the investment in the Joint Venture and the cash received from the Joint Venture.

Income Taxes. We account for our income taxes in accordance with SFAS No. 109, Accounting for Income Taxes. Deferred tax assets and liabilities are recognized for the expected tax consequences of

F-31

temporary differences between the tax basis of assets and liabilities and their reported amounts and for operating loss carry forwards.

4. 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 (a Unit) consisting of one share of our common stock, par value $0.001 per share (the Common Stock), and a warrant to purchase one share of Common Stock, at an initial offering price per Unit of $6.00 (the Initial Public Offering). 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 $11,079,000 after underwriting discounts and commissions, offering expenses and consulting fees. As of December 31, 2004, we had accrued or paid $633,000 in aggregate costs for the Initial Public Offering. Since December 31, 2004, we have accrued or paid an additional $205,000 in aggregate costs for the Initial Public Offering.

5. Acquisition of Paragon Systems, Inc.

On February 27, 2004, Tri-S acquired all of the outstanding capital stock of Paragon Systems. At the closing of the 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 (the Series C Redeemable Preferred Stock), 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. We are obligated to redeem the outstanding shares of the Series C Redeemable Preferred Stock no later than February 27, 2007.

6. Common and Preferred Stock

On February 7, 2005, we effected an exchange and recapitalization (the Exchange and Recapitalization) of all outstanding shares of our Common Stock, Series A Convertible Preferred Stock, par value $1.00 per share (the Series A Convertible Preferred Stock), and Series B Convertible Preferred Stock, par value $1.00 per share (the Series B Convertible Preferred Stock), and all rights to acquire our Common Stock pursuant to an Exchange and Recapitalization Agreement dated November 19, 2004, among the Company and all of the holders of the outstanding Common Stock, Series A Convertible Preferred Stock and Series B Convertible Preferred Stock and the holders of all rights to acquire Common Stock. As a result of the Exchange and Recapitalization, all of the outstanding shares of Common Stock, Series A Convertible Preferred Stock and Series B Convertible Preferred Stock were exchanged for an aggregate of 1,200,000 shares of Common Stock. The Exchange and Recapitalization was given retroactive treatment in the financial statements and related disclosures.

As of September 30, 2005, we are authorized to issue ten million shares of preferred stock, par value $1.00 per share (the Preferred Stock). Our Board of Directors (the Board) is authorized, without further shareholder action, to divide any or all shares of authorized Preferred Stock into series and to fix and determine the designations, preferences and relative participating, optional or other special rights, and qualifications, limitations or restrictions thereon, of any series so established, including voting powers, dividend rights, liquidation preferences, redemption rights and conversion or exchange privileges.

As of December 31, 2004, we had outstanding 100,000 shares of Series A Convertible Preferred Stock, 40,000 shares of Series B Convertible Preferred Stock and 100 shares of Series C Redeemable Preferred Stock. In the Exchange and Recapitalization, all of the outstanding shares of Series A Convertible Preferred Stock were exchanged for 242,718 shares of Common Stock and Series B Convertible Preferred

Stock were exchanged for 129,450 shares of Common Stock. As of September 30, 2005, we did not have outstanding any shares of Series A Convertible Preferred Stock or Series B Convertible Preferred Stock, and we had outstanding 100 shares of Series C Redeemable Preferred Stock.

The Series A Convertible Preferred Stock and Series B Convertible Preferred Stock have no voting rights, except as otherwise required by applicable law, and no redemption, preemptive, dividend or sinking fund rights.

The Series C Redeemable Preferred Stock has no voting rights, except as otherwise required by applicable law, and no preemptive, conversion or sinking fund rights. In the event of a liquidation, dissolution or winding up of the Company, holders of the Series C Redeemable Preferred Stock are entitled to a liquidation preference, and the holders of shares of Common Stock have a secondary liquidation right to the assets of the Company. The shares of Series C Redeemable Preferred Stock have a redemption value of $60,000 per share. We may redeem the outstanding shares of the Series C Redeemable Preferred Stock at any time, but must redeem all of the outstanding shares of the Series C Redeemable Preferred Stock no later than February 27, 2007. The holders of the Series C Redeemable Preferred Stock are entitled to receive cumulative cash dividends at a rate of 5% of the redemption value per annum (or $3,000 per share per annum).

We are authorized to issue 25 million shares of Common Stock. The holders of Common Stock are entitled to one vote per share on all matters. The Common Stock does not have cumulative voting 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. We have never paid any cash dividends on the Common Stock.

On March 3, 2005, we issued 15,000 shares of Common Stock to Douglas Ball pursuant to that certain Letter Agreement between the Company and Mr. Ball dated December 7, 2004.

On April 26, 2005, we issued 8,700 shares of Common Stock to a public relations firm in exchange for services rendered by such firm to the Company.

On April 26, 2005, we issued: (i) an aggregate of 20,000 shares of Common Stock to two former shareholders of Paragon Systems pursuant to that certain Agreement Regarding Notes and Preferred Shares among the Company, Paragon Systems and the former shareholders of Paragon Systems dated as of September 29, 2004 and amended on October 6, 2004; (ii) 10,000 shares of Common Stock to an individual in exchange for services rendered by such individual to the Company; and (iii) a three-year option to purchase 25,000 shares of Common Stock at an exercise price of $6.00 per share to a public relations firm in exchange for services rendered by such firm to the Company.

In connection with the foregoing issuances, we recorded general and administrative expense in the amount of $95,000 which represents the fair market value of the shares of Common Stock on the issue dates thereof.

7. Contingencies

Based on currently known facts, we believe there are no claims or litigation pending against us the disposition of which would materially affect our financial position or future operating results, although we cannot be certain as to the ultimate outcome of any such claim or litigation. In addition, exposure to litigation is inherent in our ongoing business and may harm our business in the future.

8. Investment in Army Fleet Support, LLC

In conjunction with the Acquisition of Paragon Systems on February 27, 2004, the Company acquired a 10% interest in the Joint Venture. The value of the investment in the Joint Venture at the acquisition

F-33

date was $8,102,000 as established by an independent appraisal. The Company amortizes the cost of the investment in excess of the net book value using a 10-year life, which approximates the anticipated life of the Joint Venture.

The Company accounts for its investment in the Joint Venture using the equity method. Accordingly, the investment in the Joint Venture is increased by the Company s share of the Joint Venture s earnings and reduced by the amortization of the investment in the Joint Venture and the cash received from the Joint Venture.

The investment in the Joint Venture was effected by the following transactions for the three months ended September 30, 2005 and September 30, 2004 and the nine months ended September 30, 2005 and September 30, 2004:

	Three Months Ended Sept. 30, 2005	**Three Months Ended Sept. 30, 2004**	**Nine Months Ended Sept. 30, 2005**	**Nine Months Ended Sept. 30, 2004**
Investment in Joint Venture beginning	$ 8,495	$ 8,052	$ 8302	$ 8,102
Company s share of earnings in the Joint Venture	609	1,628	2069	1,998
Amortization of the investment in the Joint Venture	(206)	(206)	(618)	(481)
Cash received from the Joint Venture	(238)	(185)	(1093)	(330)
Investment in Joint Venture ending	$ 8,660	$ 9,289	$ 8660	$ 9,289

Summarized unaudited balance sheet information for the Joint Venture as of September 30, 2005 and December 31, 2004 is as follows:

	Sept. 30, 2005	**Dec. 31, 2004**
Total assets	$ 53,693	$ 39,189
Total liabilities	$ 32,940	$ 28,200
Equity	20,753	10,989
Total liabilities and equity	$ 53,693	$ 39,189

Summarized unaudited statement of operations information for the unconsolidated Joint Venture for the three months ended September 30, 2005 and September 30, 2004 and the nine months ended September 30, 2005 and the seven months ended September 30, 2004 is as follows:

	Three Months Ended Sept. 30, 2005	**Three Months Ended Sept. 30, 2004**	**Nine Months Ended Sept. 30, 2005**	**Seven Months Ended Sept. 30, 2004**
Contract revenues	$ 74,008	$ 73,681	$ 221,454	$ 151,656
Operating income	6,299	16,343	20,852	20,065
Net earnings	6,086	16,280	20,687	19,982

9. Debt and Other Obligations

In April 2005, Paragon Systems entered into a new Factoring and Security Agreement with LSQ Funding Group, L.C. (LSQ) which amended Paragon Systems existing factoring agreement with LSQ to increase Paragon Systems available credit line to $6.5 million and to decrease the effective borrowing rate on such credit line.

F-34

During the third quarter, the Company issued convertible promissory notes with an aggregate principal amount at maturity of $2,115,000 and warrants to purchase 220,312 shares of Common Stock for an aggregate purchase price of $2,115,000. The notes were issued at a discount and were priced to yield 14.2% per annum. The face value of the notes is $2,115,000. Interest is payable monthly on the face value of the notes at a rate of 10% per annum. The remainder of the interest will accrue and be paid upon the maturity of the notes. The notes mature three years after issuance in September 2008 and may be prepaid at the option of the Company beginning in September 2006, subject to the satisfaction of certain conditions.

The notes are convertible by the holders thereof at an initial conversion price of $4.80 per share at any time after the Company obtains shareholder approval of the potential issuance in connection with the offering of notes and warrants of more than 20% of the outstanding shares of Common Stock for purposes of complying with the rules governing The Nasdaq Stock Market, Inc. The warrants issued have an exercise price of $4.80 and expire three years from the date of issuance.

The Company issued warrants to purchase 66,094 shares of Common Stock to a placement agent as partial consideration for services rendered. The terms of the warrants issued to the placement agent are similar to the terms of the warrants issued in the offering of the notes in connection with the offering of the notes and warrants.

10. Earnings Per Share

The Company uses the treasury stock method to compute Basic and Diluted Earnings Per Share. For the three months ended Sept 30, 2005 and the nine months ended Sept 30 2005, the Diluted Earnings Per Share equaled the Basic Earnings Per Share because all outstanding options and warrants to purchase Common Stock were anti-dilutive.

11. Subsequent Events

During October 2005, the Company issued convertible promissory notes and warrants under similar terms as the notes and warrants described in Note 8. The Company issued notes with an aggregate principal amount at maturity of $5,900,000 and warrants to purchase 614,583 shares of Common Stock for an aggregate price of $5,900,000.

The Company also issued 184,375 warrants to purchase Common Stock to a placement agent as partial consideration for services rendered in connection with the offering of the notes and warrants. The terms of the warrants are similar to the terms described in Note 8.

On October 18, 2005, the Company and its subsidiaries entered into a credit agreement (the Credit Agreement) with LSQ and BRE LLC (BRE and, together with LSQ, the Lender) to borrow $5,150,000 under two term loans. Term Loan A has a principal amount of $1,650,000, matures on October 1, 2007, and is repayable in equal quarterly installments on the first day of each quarter beginning January 1, 2006. Term Loan B has a principal amount of $3,500,000, matures on October 1, 2009, and is payable in installments of $98,612 on each of October 1, 2006, November 1, 2006 and December 1, 2006 and $295,836 on the first day of each calendar quarter commencing on April 1, 2007. Interest will accrue on both term loans at the Prime Rate as published by the Wall Street Journal plus 4%. Interest is payable on the first day of each month beginning November 1, 2005. The principal amount of the term loans is also payable upon certain events, including the sale of certain assets of the Company.

In connection with the Credit Agreement, the Company, its subsidiaries and Lender entered into a Factoring and Security Agreement (the Factoring Agreement), pursuant to which LSQ will purchase from the Company and its subsidiaries certain accounts receivable at a discount of 0.7% and provide the Company and its subsidiaries 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 the Company provides notice of its intent to terminate. The Factoring Agreement amends and restates that certain Factoring Agreement dated as of April 1, 2005 between LSQ and Paragon.

On October 18, 2005, the Company acquired all of the outstanding capital stock of The Cornwall Group, Inc. (Cornwall) for a total purchase price of $13,500,000. After adjusting for certain working capital items, the net purchase price was $12,753,000. In addition, the Company repaid $1,800,000 of the outstanding balance on Cornwall s line of credit. The consideration paid for the acquisition of Cornwall and the repayment of the working capital facility was approximately $14.3 million in cash plus a $250,000 note, which matures in April 2007 and bears interest at a rate of 5% per annum.

In October 2005, the Company issued 15,000 shares of Common Stock to an individual as payment for services provided to the Company. An expense of $75,000 was recognized in September 2005.

F-36

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors and Stockholders

The Cornwall Group, Inc. and Subsidiaries

Miami, Florida

We have audited the accompanying consolidated balance sheets of the Cornwall Group, Inc. and Subsidiaries (the Company) as of December 31, 2004 and 2003, and the related consolidated statements of income, stockholders equity (deficiency) and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Cornwall Group, Inc. and Subsidiaries as of December 31, 2004 and 2003 and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Ft. Lauderdale, Florida
June 3, 2005

Rachlin
Cohen & Holtz LLP

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Explanation of Responses:

THE CORNWALL GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2004 AND 2003

	2004	2003
ASSETS		
Current Assets:		
Cash	$ 390,001	$ 328,568
Certificate of deposit	500,000	500,000
Accounts receivable, less allowance for doubtful accounts of $254,000 and $265,000 in 2004 and 2003, respectively	4,048,066	4,125,421
Billings in process	514,018	243,750
Deferred tax asset	104,197	92,044
Other current assets	121,610	130,370
Total current assets	5,677,892	5,420,153
Property and Equipment, Net	1,130,912	1,267,260
Other Assets:		
Advances to stockholders	303,859	200,000
Deferred tax asset, net	184,353	201,058
Goodwill	142,366	142,366
Intangible assets, net	212,389	313,137
Deposits and other	284,993	231,514
	1,127,960	1,088,075
	$ 7,936,764	$ 7,775,488
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIENCY)		
Current Liabilities:		
Bank overdraft	$ 63,069	$ 191,176
Accounts payable	174,053	304,184
Accrued liabilities	1,641,026	1,293,729
Line of credit	1,555,000	1,292,000
Current portion of long-term debt	452,186	478,619
Total current liabilities	3,885,334	3,559,708
Due to Stockholder		196,280
Derivative Liability	406,991	562,363
Long-Term Debt, Net	3,245,546	3,694,881
Total liabilities	7,537,871	8,013,232
Commitments and Contingencies		
Stockholders Equity (Deficiency):		
Common stock, $.01 par value; authorized 50,000,000 shares; 13,284,630 shares issued and outstanding	132,846	132,846
Unearned ESOP shares	(2,987,114)	(3,451,511)
Additional paid-in capital	98,141	121,361
Accumulated other comprehensive loss	(406,991)	(562,363)
Retained earnings	3,562,011	3,521,923
Total stockholders equity (deficiency)	398,893	(237,744)
	$ 7,936,764	$ 7,775,488

See notes to consolidated financial statements.

F-38

THE CORNWALL GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2004 AND 2003

	2004	**2003**
Service Revenues	$ 39,185,135	$ 38,182,629
Direct Costs	31,508,616	30,087,534
Gross Margin	7,676,518	8,095,095
General and Administrative Expenses	7,020,316	7,235,966
Income from Operations	656,203	859,129
Other Income (Expense):		
Interest expense	(450,122)	(525,380)
Other income	3,007	15,483
	(447,115)	(509,897)
Income before Provision (Benefit) for Income Taxes	209,088	349,232
Provision (Benefit) for Income Taxes:		
Current	164,000	110,000
Deferred	5,000	(93,000)
	169,000	17,000
Net Income	$ 40,088	$ 332,232

See notes to consolidated financial statements.

F-39

THE CORNWALL GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (DEFICIENCY)

YEARS ENDED DECEMBER 31, 2004 AND 2003

	Common Stock Shares	**Amount**	**Unearned ESOP Shares**	**Additional Paid-In Capital**	**Accumulated Other Comprehensive Loss**	**Retained Earnings**	**Total**
Balance, December 31, 2002	13,284,630	$ 132,846	$ (3,888,538)	$ 160,693	$ (736,597)	$ 3,189,691	$ (1,141,905)
Year Ended December 31, 2003:							
Release of ESOP shares			437,027	(39,332)			397,695
Net income						332,232	332,232
Fair market value adjustment on derivatives					174,234		174,234
Balance, December 31, 2003	13,284,630	132,846	(3,451,511)	121,361	(562,363)	3,521,923	(237,744)
Year Ended December 31, 2004:							
Release of ESOP shares			464,397	(23,220)			441,177
Net income						40,088	40,088
Fair market value adjustment on derivatives					155,372		155,372
Balance, December 31, 2004	13,284,630	$ 132,846	$ (2,987,114)	$ 98,141	$ (406,991)	$ 3,562,011	$ 398,893

See notes to consolidated financial statements.

F-40

THE CORNWALL GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2004 AND 2003

	2004	**2003**
Cash Flows from Operating Activities:		
Net income	$ 40,088	$ 332,232
Adjustments to reconcile net income to net cash provided by operating activities:		
Release of ESOP shares	441,177	397,695
Depreciation	353,485	300,519
Amortization	153,542	163,256
Provision for doubtful accounts	60,355	158,577
Loss on sale of property and equipment	27,405	26,893
Deferred taxes	4,552	(93,001)
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	17,000	(43,530)
Billings in process	(270,268)	3,314
Other current assets	8,760	95,906
Deposits and other	(96,978)	77,272
Increase (decrease) in accounts payable and accrued liabilities	217,166	(136,228)
Net cash provided by operating activities	956,284	1,282,905
Cash Flows from Investing Activities:		
Purchases of property and equipment	(244,542)	(475,675)
Advances to stockholder	(103,859)	
Acquisition of intangible assets	(9,295)	
Net cash used in investing activities	(357,696)	(475,675)
Cash Flows from Financing Activities:		
Net borrowings (repayments) on line of credit	263,000	(733,000)
Principal payments on long-term debt	(475,768)	(472,289)
Repayment of advances from stockholders	(196,280)	
Decrease in bank overdraft	(128,107)	(114,995)
Advances from stockholders		392,077
Net cash used in financing activities	(537,155)	(928,207)
Net Increase (Decrease) in Cash	61,433	(120,977)
Cash, Beginning	328,568	449,545
Cash, Ending	$ 390,001	$ 328,568
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year:		
Interest	$ 449,869	$ 525,380
Income taxes	$	$
Non-Cash Financing Activity:		
Fair market value adjustment on derivatives	$ 155,372	$ 174,234

See notes to consolidated financial statements.

F-41

THE CORNWALL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2004 AND 2003

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Capitalization

Cornwall Holdings, Inc. was incorporated on March 16, 2000 for the purposes of merging five companies under common control into Cornwall Holdings, Inc. as wholly owned subsidiaries. These companies are in the business of providing uniformed security and monitoring services to governmental, commercial and residential customers located in South Florida. Cornwall Holdings Inc. is authorized to issue 50,000,000 shares of $0.01 par value common stock. On March 6, 2002, Cornwall Holdings, Inc. changed its name to The Cornwall Group, Inc. (the Company).

Basis of Presentation

The accompanying consolidated financial statements include the accounts of Vanguard Security, Inc., The Forestville Corporation d/b/a Feick Security, Vanguard Security of Broward, Inc., On Guard Security and Investigations, Inc., Armor Security, Inc., Protection Technologies Corporation and International Monitoring, Inc.

All material intercompany transactions have been eliminated in consolidation.

Certificate of deposit

As of December 31, 2004 the Company had a certificate of deposit in the amount of $500,000 which is pledged as collateral to an irrevocable standby letter of credit issued to protect against potential liabilities stemming from the Company s self insurance plan (see Note 10). The certificate of deposit and the related letter of credit expire in August 2005.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and accounts receivable.

Cash

At various times during the year the Company had deposits in financial institutions in excess of the federally insured limits. At December 31, 2004, the Company had deposits in excess of federally insured limits of approximately $561,000. The Companies maintain their cash with a high quality financial institution, which management believes limits these risks.

Accounts Receivable

The Company services the geographic area of South Florida and extends selective credit based on an evaluation of the customers financial condition. Exposure to losses on receivables varies by customer. The Company monitors exposure to credit losses and maintains allowances for anticipated losses.

Billings in Process

Billings in process represent services performed by the Company before December 31st, but not billed until January of the following year.

Revenue Recognition

Revenue is recognized as services are performed. Costs incurred to install or repair security systems for which the Company also provides monitoring services are deferred and recognized over the term of the customer contract.

Property and Equipment

Property and equipment are stated at cost. Expenditures for improvements are capitalized. Upon sale or retirement, the cost and related accumulated depreciation and amortization is removed from the accounts and the resulting gain or loss, if any, is reflected on the statement of operations. Expenditures for maintenance and repairs are charged to operations as incurred. Depreciation is provided on the straight-line method over the estimated useful lives.

Goodwill

Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets* . SFAS No. 142 requires, among other things, that companies no longer amortize goodwill, but instead test goodwill for impairment at least annually. In addition, SFAS 142 requires that the Company identify reporting units for the purpose of assessing potential future impairments of goodwill, reassess the useful lives of other existing recognized intangible assets and lease amortization of intangible assets with an indefinite useful life. An intangible asset with an indefinite useful life should be tested for impairment in accordance with the guidance in SFAS 142. The principal effect of the adoption of SFAS 142 was to eliminate amortization of the Company s goodwill.

Impairment of Long-Lived Assets

The Company accounts for long-lived assets in accordance with the provisions of Statement of Financial Accounting Standard (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets.* This statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair-value less costs to sell.

Intangible Assets

Intangible assets consist of the following:

Loan Costs

The Company capitalizes costs incurred in obtaining financing. Such costs are being amortized over the remaining term of the financing.

Non-Compete Agreements

Non-compete agreements represent the portion of the purchase price associated with acquisitions allocated to the contractual agreement whereby individual(s) agreed not to compete with the Company for a certain period of time. The cost is being amortized using

F-43

the straight-line method over a period of up to five years, based on the length of the agreement.

Customer Acquisition Costs

From time to time, the Company acquires customer accounts from outside parties. Customer acquisition costs are amortized using the straight-line method over three to five years, based on the length of customer contracts.

Income Taxes

The Company accounts for income taxes under the provisions of Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes* (SFAS 109), which is an asset and liability method of accounting for income taxes. Under this method, deferred tax liabilities and assets are determined based on the difference between the financial statement carrying amounts and tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse.

Use of Estimates

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amount of assets and liabilities as of the date of the balance sheet and operations for the period. Although these estimates are based on management s knowledge of current events and actions it may undertake in the future, they may ultimately differ from actual result s.

The Company provides an accrual for pending workers compensation claims. This estimate is based on historical claims experience and management s judgment. The accrual is periodically reviewed to determine its adequacy and adjusted to reflect current claims experience.

Advertising

Advertising costs are charged to expense as incurred. Advertising expense was approximately $211,000 and $133,000 for the years ended 2004 and 2003 respectively.

Interest Rate Swaps

The Company is exposed to market risk from changes in interest rates. To manage this market risk, the Company may enter into interest rate swaps, in which the Company agrees to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to an agreed upon notional principal amount. The Company has entered into a swap agreement to convert variable rate debt to a fixed rate (see Note 8). Interest payments received and payable under the terms of the interest rate swap agreement are accrued over the period to which the payment relates and the net difference is treated as an adjustment of interest expense related to the underlying liability. Changes in the underlying market value of the remaining swap payments are recognized in income when the underlying liability being hedged is extinguished or partially extinguished to a level less than the notional amount of the interest rate swap. The Company uses derivative financial instruments only to manage interest rate risks.

NOTE 2. ADVANCES TO STOCKHOLDER

At December 31, 2004, and 2003, the balance in advances to stockholder was approximately $304,000 and $200,000, respectively. These advances are unsecured, bear interest at 6% per annum and have no stated repayment terms

NOTE 3. PROPERTY AND EQUIPMENT

	Estimated Useful Lives (Years)	2004	2003
Field equipment	5-7	$ 907,857	$ 817,826
Computer equipment	5	676,088	536,303
Building	31	412,259	412,259
Furniture and fixtures	7	251,482	243,651
Vehicles	4	204,578	347,868
Land	-	90,000	90,000
Leasehold improvements	5	63,324	58,220
		2,605,588	2,506,127
Less accumulated depreciation		1,474,676	1,238,867
		$ 1,130,912	$ 1,267,260

Depreciation expense was approximately $353,000 and $301,000 for the years ended December 31, 2004 and 2003, respectively.

NOTE 4. INTANGIBLE ASSETS

	Estimated Useful Lives (Years)	2004	2003
Customer acquisition costs	3	$ 555,462	$ 546,167
Non-compete agreements	3-5	362,000	362,000
Loan costs	10	56,428	56,428
		973,890	964,595
Less accumulated amortization		761,501	651,458
		$ 212,389	$ 313,137

Amortization expense for intangibles for the years ended December 31, 2004 and 2003 amounted to approximately $154,000 and $163,000, respectively. Estimated amortization expense for the succeeding fiscal years is as follows:

Year ending December 31:	
2005	$ 108,000
2006	68,000
2007	4,000
2008	4,000
2009	4,000
Thereafter	24,000
	$ 212,000

F-45

NOTE 5. ACCRUED LIABILITIES

	2004	2003
Accrued payroll	$ 973,385	$ 838,123
Income taxes payable	315,472	119,549
Accrued insurance claims	143,900	143,900
Accrued payroll taxes	143,167	131,276
Sales tax payable	51,955	51,043
Accrued other	13,147	9,838
	$ 1,641,026	$ 1,293,729

NOTE 6. LINE OF CREDIT

The Company maintains a revolving line of credit agreement with a local financial institution. The available funding is limited by a borrowing base, which is comprised of a percentage of accounts receivable, as defined, up to a maximum of $2,400,000. The line bears interest at the one-month London Interbank Offered rate plus 2.75% (5.17% at December 31, 2004) and expires on June 30, 2005. The line is collateralized by substantially all of the Company s assets and is personally guaranteed by the Company s principal stockholders. The line also requires the maintenance of certain total liabilities to tangible net worth and debt service coverage ratios. As of December 31, 2004, the Company had $1,555,000 outstanding under the line of credit.

During March 2005, the line was renewed through June 2006 with substantially the same terms.

NOTE 7. LONG-TERM DEBT

	2004	2003
Loan payable to bank, interest at 1-month LIBOR plus 1.75% (4.17% at December 31, 2004) and principal payments of $35,648 payable monthly through November 8, 2012. However, the Company has entered into an interest rate swap agreement whereby the Company pays an effective fixed interest rate of 7.17% (see Note 8). The loan is secured by all assets of the Company, a guarantee from certain stockholders and a pledge agreement with certain stockholders pledging the Investment Accounts held by them with the bank.	$ 3,428,950	$ 3,856,728
Note payable to bank; interest at prime plus .5% (5.75% at December 31, 2004); principal of $1,198 plus accrued interest due monthly through December 2022. The loan is secured by a mortgage on real property and is guaranteed by certain stockholders of the Company.	258,750	273,125
Various notes payable bearing interest ranging from 0% to 7.99% through April 2005; with monthly payments of principal and interest; collateralized by vehicles.	10,032	43,647
	3,697,732	4,173,500
Less current portion	452,186	478,619
Long-term portion	$ 3,245,546	$ 3,694,881

F-46

The maturities of long-term debt are as follows:

Year ending December 31:	
2005	$ 452,186
2006	442,154
2007	442,154
2008	442,154
2009	442,154
Thereafter	1,476,930
	$ 3,697,732

NOTE 8. INTEREST RATE SWAP

The Company entered into an interest rate swap agreement with its new lender to hedge its interest rate exposure on the Company s variable rate loan (see Note 7). The interest rate swap became effective November 13, 2002 and terminates on November 8, 2012, the maturity date of the loan. The notational amount of the interest rate swap is the balance outstanding on the loan on the payment date, which is the last day of each month. The interest rate swap agreement involves the exchange of amounts based on a fixed interest rate for amounts based on a variable interest rate over the life of the loan agreement without an exchange of the notational amount upon which the payments are based. The Company, as the fixed rate payer, incurs an interest rate of 7.17%. The lender, the variable rate payer, pays at a rate equal to U.S. dollar LIBOR on the payment date. During 2004 and 2003, the Company made interest payments of approximately $216,000 and $242,000, respectively, under swap agreements. At December 31, 2004, the estimated fair value of the interest rate swap was approximately $407,000 and is reflected as a derivative liability with a corresponding balance in accumulated other comprehensive loss in the accompanying consolidated financial statements.

NOTE 9. EMPLOYEE STOCK OWNERSHIP PLAN (ESOP)

The Company sponsors a leveraged employee stock ownership plan (ESOP) that covers all employees who work 1,000 or more hours per year. The Company loaned the ESOP $5,000,000 that it obtained through bank financing (see Note 7) for the purposes of acquiring 5,000,000 shares of the Company s common stock (the ESOP shares) from existing stockholders. The ESOP shares initially were pledged as collateral for the debt. As the debt is repaid, shares are released from collateral and allocated to active employees, based on the proportion of debt service paid during the year. The Company accounts for its ESOP in accordance with Statement of Position 93-6, *Employers Accounting for Employee Stock Ownership Plans.* Accordingly, the Company reports in its balance sheet the debt of the ESOP and Unearned ESOP Shares, which are the ESOP shares pledged as collateral for the debt. As shares are released from collateral, the Company reports compensation expense based on the average market price of the shares during the year.

Dividends on allocated ESOP shares are recorded as a reduction of retained earnings; dividends on unallocated ESOP shares are recorded as a reduction of debt and accrued interest. The Company did not declare dividends subsequent to the effective date of the ESOP. ESOP compensation expense was approximately $441,000 and $398,000 for the years ended December 31, 2004 and 2003, respectively.

F-47

The ESOP shares were as follows as of December 31:

	2004	2003
Allocated shares	1,548,489	1,111,462
Shares released for allocation	464,397	437,027
Unearned shares	2,987,114	3,451,511
Total ESOP shares	5,000,000	5,000,000
Fair value of unearned shares	$ 2,837,759	$ 3,140,875

NOTE 10. SELF-INSURANCE FUNDS

The Company is a member of the Florida Retail Federation Self-Insurers Fund (the Fund). The Company is responsible for the payment of claims billed to the Fund up to a maximum based on a percentage of its Annual Standard Premium. The Annual Standard Premium is determined by the Fund based upon the total compensation paid as adjusted for historical claims experience and a factor for future claims and is subject to audit at the end of each year. The Company is required to make twelve payments totaling 21.8% of the Annual Standard Premium to the Fund to cover administrative expenses and taxes. The Company maintains claims fund deposits of $44,500 with the Fund at December 31, 2004. As of December 31, 2004, there were approximately $144,000 of pending claims, which were not paid by the Company, and which have been accrued in the accompanying consolidated financial statements. The Company has an irrevocable standby letter of credit issued to protect against potential liabilities stemming from the Company s self insurance plan, which is collateralized by a $500,000 certificate of deposit (see Note 1).

NOTE 11. COMMITMENTS AND CONTINGENCIES

Leases

On March 1, 2003, the Company entered into a lease agreement for its new office facility. The lease matures on April 30 2008 with an option to extend the lease through April 30, 2010. Monthly rent payments starting on May 1, 2003 are $6,902 and increase yearly at fixed amount up to $8,241 in 2010. The Companies also leases various equipment and vehicles under non-cancelable operating leases expiring through April 2009. Office facility and equipment rent expense for the years ended December 31, 2004 and 2003 was approximately $791,000 and $648,000, respectively.

Approximate future minimum lease payments under non-cancelable office and equipment lease agreements are as follows:

Year ending December 31:	
2005	$ 359,000
2006	271,000
2007	216,000
2008	45,000
2009	2,000
	$ 893,000

Litigation

The Company, from time to time, is involved in litigation arising during the ordinary course of business. Based on currently available information, management believes that the resolution of

F-48

pending claims will not have a material adverse effect on the Companies operating results or financial position.

NOTE 12. INCOME TAXES

The (benefit from) provision for income taxes consists of the following:

	2004	2003
Current:		
Federal	$ 140,000	$ 94,000
State	24,000	16,000
	$ 164,000	$ 110,000
Federal	$ 4,000	$ (79,000)
State	1,000	(14,000)
	$ 5,000	$ (93,000)

The net effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes are reflected in deferred income taxes.

Significant components of the Company s deferred income tax assets and liabilities are as follows:

	2004	2003
Current Deferred Tax Assets:		
Accounts Receivable, due to allowance for doubtful accounts	$ 100,287	$ 88,134
Self-insurance reserve	3,910	3,910
	104,197	92,044
Long-Term Deferred Tax Assets:		
ESOP Compensation	$ 123,197	$ 117,904
Intangible assets, due to differences in amortization	101,854	93,801
Property and equipment, due to differences in depreciation and amortization	(26,156)	14,426
Goodwill, due to differences in amortization	(14,542)	(25,073)
	184,353	201,058
	$ 288,550	$ 293,102

No valuation allowance has been recorded as the Company believes that it is more likely than not that the deferred tax assets will be realized.

F-49

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors and Stockholders
The Cornwall Group, Inc.
Miami, Florida

We have audited the accompanying consolidated balance sheets of The Cornwall Group, Inc. and Subsidiaries (the Company) as of December 31, 2002 and 2001, and the related consolidated statements of operations, stockholders deficiency and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Cornwall Group, Inc. and Subsidiaries as of December 31, 2002 and 2001, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

/s/ RACHLIN, COHEN AND HOLTZ, LLP
Miami, Florida
April 10, 2003

THE CORNWALL GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2002 AND 2001

	2002	2001
ASSETS		
Current Assets:		
Cash	$ 449,545	$ 82,633
Certificate of deposit	500,000	
Accounts receivable, less allowance for doubtful accounts of $265,000 and $502,000 in 2002 and 2001, respectively	4,240,468	3,550,299
Billings in process	247,064	787,719
Other current assets	226,276	170,041
Total current assets	5,663,353	4,590,692
Property and Equipment, Net	1,118,997	1,092,090
Other Assets:		
Advances to stockholders	395,797	1,002,674
Deferred tax assets	3,700	2,900
Goodwill	142,366	142,366
Intangible assets, net	476,393	451,234
Deposits and other	308,786	222,856
	1,327,042	1,822,030
	$ 8,109,392	$ 7,504,812
LIABILITIES AND STOCKHOLDERS DEFICIENCY		
Current Liabilities:		
Bank overdraft	$ 306,171	$
Line of credit	2,025,000	1,689,592
Current portion of long-term debt	500,843	509,657
Accounts payable	209,188	221,685
Accrued liabilities	1,515,405	1,371,785
Total current liabilities	4,556,607	3,792,719
Derivative Liability	736,597	511,735
Long-Term Debt, Net	4,144,946	4,676,290
Total liabilities	9,438,150	8,980,744
Commitments and Contingencies		
Stockholders Deficiency:		
Common stock, $.01 par value; authorized 50,000,000 shares; 13,284,630 shares issued and outstanding	132,846	132,846
Unearned ESOP shares	(3,955,931)	(4,323,331)
Additional paid-in capital	228,086	228,086
Accumulated other comprehensive loss	(736,597)	(511,735)
Retained earnings	3,002,838	2,998,202
Total stockholders deficiency	(1,328,758)	(1,475,932)
	$ 8,109,392	$ 7,504,812

See notes to consolidated financial statements.

F-51

THE CORNWALL GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

YEARS ENDED DECEMBER 31, 2002 AND 2001

	2002	**2001**
Service Revenues	$ 36,071,594	$ 34,232,610
Direct Costs	28,049,915	26,579,883
Gross Margin	8,021,679	7,652,727
General and Administrative Expenses	7,549,668	7,571,771
Income from Operations	472,011	80,956
Other Income (Expense):		
Interest expense	(571,478)	(444,398)
Interest income	33,000	66,489
Other income	9,652	15,549
	(528,826)	(362,360)
Loss before Provision (Benefit) for Income Taxes	(56,815)	(281,404)
Provision (Benefit) for Income Taxes:		
Current	(60,651)	(106,075)
Deferred	(800)	120,437
	(61,451)	14,362
Net Income (Loss)	$ 4,636	$ (295,766)

See notes to consolidated financial statements.

F-52

THE CORNWALL GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS DEFICIENCY

YEARS ENDED DECEMBER 31, 2002 AND 2001

	Common Stock Shares	Amount	Unearned ESOP Shares	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total
Balance, December 31, 2000	13,284,630	$ 132,846	$ (4,775,277)	$ 228,086	$	$ 3,293,968	$ (1,120,377)
Year Ended December 3l, 2001:							
Release of ESOP shares			451,946				451,946
Net loss						(295,766)	(295,766)
Fair market value adjustment on derivatives					(511,735)		(511,735)
Balance, December 31, 2001	13,284,630	132,846	(4,323,331)	228,086	(511,735)	2,998,202	(1,475,932)
Year Ended December 31, 2002:							
Release of ESOP shares			367,400				367,400
Net income						4,636	4,636
Fair market value adjustment on derivatives					(224,862)		(224,862)
Balance, December 31, 2002	13,284,630	$ 132,846	$ (3,955,931)	$ 228,086	$ (736,597)	$ 3,002,838	$ (1,328,758)

See notes to consolidated financial statements.

F-53

THE CORNWALL GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2002 AND 2001

	2002	**2001**
Cash Flows from Operating Activities:		
Net income (loss)	$ 4,636	$ (295,766)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	265,890	253,603
Provision for doubtful accounts	331,865	431,726
Amortization	188,805	187,668
Loss (gain) on sale of property and equipment	38,609	(3,866)
Accrued interest on stockholder advances	(33,000)	(57,800)
Release of ESOP shares	367,400	451,946
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(1,022,034)	358,140
Billings in process	540,655	(38,467)
Other current assets	(56,235)	(148,861)
Deposits and other	(85,930)	(61,939)
Deferred taxes	(800)	120,437
Increase (decrease) in accounts payable and accrued liabilities	131,123	(167,075)
Net cash provided by operating activities	670,984	1,029,746
Cash Flows from Investing Activities:		
Purchases of property and equipment	(309,123)	(217,183)
Purchase of certificate of deposit	(500,000)	
Acquisition of intangible assets	(213,964)	
Proceeds from sale of property and equipment	14,953	
Net cash used in investing activities	(1,008,134)	(217,183)
Cash Flows from Financing Activities:		
Principal payments on long-term debt	(577,394)	(505,519)
Bank overdraft	306,171	(185,027)
Net borrowings (repayments) of line of credit	335,408	(33,923)
Net repayments from (advances to) stockholders	639,877	(15,661)
Proceeds from sale of property and equipment		10,200
Net cash provided by (used in) financing activities	704,062	(729,930)
Net Increase in Cash	366,912	82,633
Cash, Beginning	82,633	
Cash, Ending	$ 449,545	$ 82,633
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year:		
Interest	$ 552,976	$ 446,998
Income taxes	$	$
Non-Cash Financing Activity:		
Fair market value adjustment on derivatives	$ 224,862	$ 511,735

See notes to consolidated financial statements.

F-54

THE CORNWALL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2002 AND 2001

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Capitalization

Cornwall Holdings, Inc., was incorporated on March 16, 2000 for the purposes of merging five companies under common control into Cornwall Holdings, Inc. as wholly owned subsidiaries. These companies are in the business of providing uniformed security and monitoring services to governmental, commercial and residential customers located in South Florida. Cornwall Holdings Inc., is authorized to issue 50,000,000 shares of $0.01 par value common stock. On March 6, 2002, Cornwall Holdings, Inc. changed its name to The Cornwall Group, Inc. (the Company).

Basis of Presentation

The accompanying consolidated financial statements include the accounts of Vanguard Security, Inc., The Forestville Corporation d/b/a Feick Security, Vanguard Security of Broward, Inc., On Guard Security and Investigations, Inc., Armor Security, Inc., Protection Technologies Corporation and International Monitoring, Inc.

All material intercompany transactions have been eliminated in consolidation.

Certificate of deposit

As of December 31, 2002 the Company had a certificate of deposit in the amount of $500,000 which is pledged as collateral to an irrevocable standby letter of credit issued to protect against potential liabilities stemming from the Company s self insurance plan (see Note 10). The certificate of deposit and the related letter of credit expire in August 2003.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and accounts receivable.

Cash

At December 31, 2002, as well as at various times during the year, the Company had bank balances at one financial institution in the South Florida area that exceeded FDIC insurance limits. At December 31, 2002, uninsured cash balances were approximately $467,000. Because of the stature and high credit quality of this bank, such credit risk is considered to be minimal.

Accounts Receivable

The Company services the geographic area of South Florida and extends selective credit based on an evaluation of the customers financial condition. Exposure to losses on receivables varies by customer. The Company monitors exposure to credit losses and maintains allowances for anticipated losses.

Billings in Process

Billings in process represent services performed by the Company before December 31, but not billed until January of the following year.

Revenue Recognition

Revenue is recognized as services are performed. Costs incurred to install or repair security systems for which the Company also provides monitoring services are deferred and recognized over the term of the customer contract.

Property and Equipment

Property and equipment are stated at cost. Expenditures for improvements are capitalized. Upon sale or retirement, the cost and related accumulated depreciation and amortization is removed from the accounts and the resulting gain or loss, if any, is reflected on the statement of operations. Expenditures for maintenance and repairs are charged to operations as incurred. Depreciation is provided on the straight-line method over the estimated useful lives.

Goodwill

On October 23, 1998, one of the Company s subsidiaries was acquired in a business combination accounted for as a purchase resulting in goodwill of $181,100. Goodwill was being amortized on the straight-line method over fifteen years.

In June 2001, the Financial Accounting Standards Board issued SFAS No. 142, *Goodwill and Other Intangible Assets* . SFAS No. 142 requires companies to account for goodwill and other intangibles in the following manner. Intangible assets which are acquired shall be recognized and measured based on fair value. Recognized intangible assets are to be amortized over their useful life. Goodwill and intangible assets determined to have an indefinite life are not amortized. Intangible assets that are not amortized and goodwill shall be tested for impairment annually. The provisions of SFAS No. 142 are to be applied in fiscal years beginning after December 15, 2001. The Company adopted SFAS No. 142 on January 1, 2002 and performed an impairment test on goodwill. The test performed revealed that goodwill was not impaired and no impairment loss was recorded. If goodwill is determined to be impaired, the loss would be included as part of operations in the accompanying consolidated statement of operations.

Intangible Assets

Intangible assets consist of the following:

Loan Costs

The Company capitalizes costs incurred from obtaining financing. Such costs are being amortized over the remaining term of the financing.

Non-Compete Agreements

Non-compete agreements represent the portion of the purchase price associated with acquisitions allocated to the arrangement whereby individual(s) agreed not to compete with the Company for a certain period of time. The cost is being amortized on the straight-line method over a period of up to five years, based on the length of the agreement.

F-56

Customer Acquisition Costs

From time to time, the Company acquires customer accounts from outside parties, Customer acquisition costs are amortized on the straight-line method over three to five years, based on the length of customer contracts.

Income Taxes

The Company accounts for income taxes under the provisions of Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes* (SFAS 109), which is an asset and liability method of accounting for income taxes. Under this method, deferred tax liabilities and assets are determined based on the difference between the financial statement carrying amounts and tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse.

Use of Estimates

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amount of assets and liabilities as of the date of the balance sheet and operations for the period. Although these estimates are based on management s knowledge of current events and actions it may undertake in the future, they my ultimately differ from actual results.

The Company provides an accrual for pending workers compensation claims. This estimate is based on historical claims experience and management s judgment. The accrual is periodically reviewed to determine its adequacy and adjusted to reflect current claims experience.

Advertising

Advertising costs, which amounted to $166,500 and $236,072 for the years ended 2002 and 2001 respectively, are expensed as incurred.

Interest Rate Swaps

The Company is exposed to market risk from changes in interest rates. To manage this market risk, the Company may enter into interest rate swaps, in which the Company agrees to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to an agreed upon notional principal amount. The Company has entered into a swap agreement to convert variable rate debt to a fixed rate (see Note 8). Interest payments received and payable under the terms of the interest rate swap agreement are accrued over the period to which the payment relates and the net difference is treated as an adjustment of interest expense related to the underlying liability. Changes in the underlying market value of the remaining swap payments are recognized in income when the underlying liability being hedged is extinguished or partially extinguished to a level less than the notional amount of the interest rate swap. The Company uses derivative financial instruments only to manage interest rate risks.

NOTE 2. ADVANCES TO STOCKHOLDER

At December 31, 2002, and 2001, the balance in advances to stockholder was $395,797 and $1,002,674, respectively. These advances are unsecured, bear interest at 6% per annum and have no stated repayment terms.

F-57

NOTE 3. PROPERTY AND EQUIPMENT

	Estimated Useful Lives (Years)	2002	2001
Field equipment	7	$ 638,590	$ 618,976
Building	31	412,259	402,450
Vehicles	4	369,565	403,047
Computer equipment	5	347,283	380,506
Furniture and fixtures	7	237,829	203,818
Land		90,000	90,000
Leasehold improvements	5	13,515	8,500
		2,109,041	2,107,297
Less accumulated depreciation		990,044	1,015,207
		$ 1,118,997	$ 1,092,090

NOTE 4. GOODWILL AND INTANGIBLE ASSETS

In accordance with SFAS No. 142, no amortization of goodwill was recorded in 2002. The Company s net income for the year ended December 31, 2001 would not have been materially different had the Company not amortized goodwill.

Goodwill at December 31, 2002 and 2001 amounted to $142,366 as there were no adjustments to goodwill in 2002. The Company performed an impairment test on goodwill on January 1, 2002 (date of adoption of SFAS No. 142) and the fair value of the reporting unit (On Guard Security and Investigations, Inc.) exceeded its carrying value. Therefore, no impairment loss was recorded.

Intangible assets consist of the following:

	Estimated Useful Lives (Years)	Gross Carrying Amount	Accumulated Amortization	Net
Balance December 31, 2002:				
Customer acquisition costs	3	$ 540,232	$ 175,218	$ 365,014
Non-compete agreements	3-5	362,000	306,579	55,421
Loan costs	15	56,428	470	55,958
		$ 958,660	$ 482,267	$ 476,393
Balance December 31, 2001:				
Customer acquisition costs	3	$ 382,696	$ 84,794	$ 297,902
Non-compete agreements	3-5	362,000	231,172	130,828
Loan costs	15	25,004	2,500	22,504
		$ 769,700	$ 318,466	$ 451,234

Amortization expense for intangibles for the years ended December 31, 2002 and 2001 amounted to $188,805 and $187,668, respectively. Estimated amortization expense for the succeeding fiscal years is as follows:

Year ending December 31:	
2003	$ 168,900
2004	110,000
2005	110,000
2006	34,000
2007	25,700
Thereafter	27,800
	$ 476,400

NOTE 5. ACCRUED LIABILITIES

	2002	**2001**
Accrued payroll	$ 927,452	$ 799,887
Accrued payroll taxes	312,288	257,970
Accrued insurance claims	142,300	134,000
Sales tax payable	74,168	54,245
Accrued other	30,197	31,783
Accrued vacation	29,000	34,200
Accrued income taxes		59,700
	$ 1,515,405	$ 1,371,785

NOTE 6. LINE OF CREDIT

The Company had a revolving line of credit available from a bank totaling $2,400,000, interest at prime which expired on June 30, 2002. The bank extended the maturity date until the Company located a new lender. On November 13, 2002, the Company entered into a $2,400,000 revolving credit line agreement with a new lender. The line bears interest at LIBOR plus 2.75% (4.13% at December 31, 2002) payable monthly and matures on May 31, 2004. The line is collateralized by substantially all of the Company s assets and is personally guaranteed by the Company s principal stockholders. As of December 31, 2002, the Company had $2,025,000 outstanding under the line of credit.

F-59

NOTE 7. LONG-TERM DEBT

	2002	2001
Loan payable to bank, interest at 1-month LIBOR plus 1.75% (3.13% at December 31, 2002) and principal payments of $35,648 payable monthly through November 8, 2012. However, the Company has entered into an interest rate swap agreement whereby the Company pays an effective fixed interest rate of 7.17% (see Note 8). The loan is secured by all assets of the Company, a guarantee from certain stockholders and a pledge agreement with certain stockholders pledging the Investment Accounts held by them with the bank. At December 31, 2002, the Company was not in compliance with one of its debt covenants under the loan agreement. However, the Company received a waiver from the bank through and including December 31, 2003	$ 4,277,777	$
Loan payable to bank, interest at Eurodollar Fixed Period Rate plus 1.55% (3.6562% at December 31, 2001) and principal payments of $27,777 payable monthly through July 5, 2015. The loan is secured by a guarantee from certain stockholders, a pledge agreement with certain stockholders pledging the Investment Accounts held by them with the bank, and 5,000,000 shares of stock pledged by the ESOP as collateral (see Note 8). This note was refinanced with a new lender in November 2002.		4,527,791
Mortgage payable to bank; interest at prime plus .5%; principal of $1,198 plus accrued interest due monthly through December 2022. The loan is secured by the property and is guaranteed by certain stockholders of the Company. An additional $30,840 was drawn on this mortgage in January 2003.	256,660	

F-60

	2002	2001
Mortgage payable to bank; interest fixed at 7.75%; principal and interest payments of $2,767 due monthly through December 2008. The loan is secured by the property and is guaranteed by the stockholders of the Company. This note was refinanced with a new lender in December 2002.		257,481
Note payable to bank; interest at prime (4.75% at December 31, 2002); principal and interest payments of $9,721 due monthly through March 2004. The loan is secured by substantially all of the Company s assets and guaranteed by the stockholders of the Company. The outstanding balance due under this note was paid off during November 2002.		245,502
Various notes payable bearing interest ranging from 0% to 10.5% through April 2005; with monthly payments of principal and interest; collateralized by vehicles	111,352	155,173
	4,645,789	5,185,947
Less current portion	500,843	509,657
Long-term portion	$ 4,144,946	$ 4,676,290

The maturities of long-term debt are as follows:

Year ending December 31:	
2003	$ 500,843
2004	484,303
2005	452,668
2006	442,154
2007	442,154
Thereafter	2,323,667
	$ 4,645,789

NOTE 8. INTEREST RATE SWAP

The Company entered into a new interest rate swap agreement with its new lender in an attempt to hedge its interest rate exposure on the Company s variable rate loan (see Note 7). The interest rate swap became effective November 13, 2002 and terminates on November 8, 2012, the maturity date of the loan. The notational amount of the interest rate swap is the balance outstanding on the loan on the payment date, which is on the last day of each month. The interest rate swap agreement involves the exchange of amounts based on a fixed interest rate for amounts based on a variable interest rate over the life of the loan agreement without an exchange of the notational amount upon which the payments are based. The Company, as the fixed rate payer, has an interest rate of 7.17%. The lender, the variable rate payer, pays at a rate equal to U.S. dollar LIBOR on the payment date. The Company has made interest payments totaling approximately $33,000 under the terms of the interest rate swap. During 2002, the Company made interest payments of approximately $222,000 under a swap agreement with its previous lender. At June 30, 2002, the estimated fair value of the interest rate swap was $736,597 and is reflected as a derivative liability with a corresponding balance in accumulated other comprehensive loss in the accompanying consolidated financial statements. The consolidated balance sheet and consolidated statements of stockholders deficiency has been restated to reflect the proper derivative liability and other comprehensive loss that existed at December 31, 2001 under the previous swap agreement.

NOTE 9. EMPLOYEE STOCK OWNERSHIP PLAN (ESOP)

The Company sponsors a leveraged employee stock ownership plan (ESOP) that covers all employees who work 1,000 or more hours per year. The Company loaned the ESOP $5,000,000 that it obtained through bank financing (see Note 7) for the purposes of acquiring 5,000,000 shares of the Company s common stock (the ESOP shares) from existing stockholders. The ESOP shares initially were pledged as collateral for the debt. As the debt is repaid, shares are released from collateral and allocated to active employees, based on the proportion of debt service paid during the year. The Company accounts for its ESOP in accordance with Statement of Position 93-6, *Employers Accounting for Employee Stock Ownership Plans.* Accordingly, the Company reports in its balance sheet the debt of the ESOP and Unearned ESOP Shares, which are the ESOP shares pledged as collateral for the debt. As shares are released from collateral, the Company reports compensation expense based on the average market price of the shares during the year. Dividends on allocated ESOP shares are recorded as a reduction of retained earnings; dividends on unallocated ESOP shares are recorded as a reduction of debt and accrued interest. The Company did not declare dividends subsequent to the effective date of the ESOP. ESOP compensation expense was $367,400 and $451,946 for the years ended December 31, 2002 and 2001, respectively.

The ESOP shares were as follows as of December 31:

	2002	**2001**
Allocated shares	676,669	224,723
Shares released for allocation	434,793	451,946
Unearned shares	3,888,538	4,323,331
Total ESOP shares	5,000,000	5,000,000
Fair value of unearned shares	$ 3,110,831	$ 4,323,331

NOTE 10. SELF-INSURANCE FUNDS

The Company is a member of the Florida Retail Federation Self-Insurers Fund (the Fund). The Company is responsible for the payment of claims billed to the Fund up to a maximum based on a percentage of its Annual Standard Premium. The Annual Standard Premium is determined by the Fund based upon the total compensation paid as adjusted for historical claims experience and a factor for future claims and is subject to audit at the end of each year. The Company is required to make twelve payments totaling 21.8% of the Annual Standard Premium to the Fund to cover administrative expenses and taxes. The Company maintains claims fund deposits of $44,500 with the Fund at December 31, 2002. As of December 31, 2002, there was approximately $142,300 of pending claims, which were not paid by the Company, and which have been accrued in the accompanying consolidated financial statements. The Company has a irrevocable standby letter of credit issued to protect against potential liabilities stemming from the Company s self insurance plan, which is collateralized by a $500,000 certificate of deposit (see Note 1).

NOTE 11. COMMITMENTS AND CONTINGENCIES

Leases

The Company leased office facilities from a related entity on a month-to-month basis through December 31, 2002 paying a monthly rental of approximately $10,500. On March 1, 2003, the Company entered into a lease agreement with a third party for its new office facility. The lease matures on April 30, 2008 with an option to extend the lease through April 30, 2010. Monthly rent payments starting on May 1, 2003 are $6,902 and increase yearly at fixed amount up to $8,241 in 2010. The Companies also leases various equipment and vehicles under non-cancelable operating leases expiring through 2006. Office facility and equipment rent expense for the years ended December 31, 2002 and 2001 was approximately $568,000 and $479,000, respectively.

Approximate future minimum lease payments under non-cancelable office and equipment lease agreements are as follows:

Year ending December 31:	
2003	$ 220,000
2004	162,000
2005	101,000
2006	93,000
2006	92,000
Thereafter	31,000
	$ 699,000

Litigation

The Company, from time to time, is involved in litigation arising during the ordinary course of business. Based on currently available information, management believes that the resolution of pending claims will not have a material adverse effect on the Companies operating results or financial position.

NOTE 12. INCOME TAXES

The (benefit from) provision for income taxes consists of the following:

	2002	**2001**
Current:		
Federal	$ (56,899)	$ (91,068)
State	(9,479)	(15,007)
	$ (66,378)	$ (106,075)
Deferred:		
Federal	$ (680)	$ 102,371
State	(120)	18,066
	$ (800)	$ 120,437

F-63

The net effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes are reflected in deferred income taxes. Significant components of the Company s deferred income tax assets and liabilities are as follows:

	2002	**2001**
Current Deferred Income Tax Assets:		
Amortization	$ 66,700	$ 48,200
State net operating loss carry forward	35,900	5,900
Self-insurance reserve	3,200	
	105,800	54,100
Current Deferred Income Tax Liabilities:		
Allowance for doubtful accounts	(93,600)	(36,800)
Depreciation	(8,500)	(8,700)
Self-insurance reserve		(5,700)
	(102,100)	(51,200)
Valuation Allowance		
	$ 3,700	$ 2,900

F-64

THE CORNWALL GROUP, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED BALANCE SHEET

SEPTEMBER 30, 2005

(In Thousands)

ASSETS	
Current Assets:	
Cash	$ 37
Certificate of deposit	592
Accounts receivable, less allowance for doubtful accounts of $265	3,590
Billings in process	668
Deferred tax asset	109
Due from related parties and stockholders	1,114
Other current assets	231
Total current assets	6,341
Property and Equipment, Net	1,050
Other Assets:	
Deferred tax asset	344
Goodwill	142
Intangible assets, net	238
Deposits and other	130
	854
	$ 8,245
LIABILITIES AND STOCKHOLDERS EQUITY	
Current Liabilities:	
Bank overdraft	$ 161
Accounts payable	247
Accrued liabilities	1,354
Line of credit	2,024
Current portion of long-term debt	477
Total current liabilities	4,263
Due to Stockholder	190
Derivative Liability	339
Long-Term Debt, Net	2,946
Total liabilities	7,738
Commitments and Contingencies	
Stockholders Equity	
Common stock, $.01 par value; authorized 50,000 shares; 13,285 shares issued and outstanding	133
Unearned ESOP shares	(2,656)
Additional paid-in capital	85
Accumulated other comprehensive loss	(339)
Retained earnings	3,307
Treasury stock, 29 shares at cost	(23)
Total stockholders equity	507
	$ 8,245

See notes to unaudited consolidated financial statements.

F-65

THE CORNWALL GROUP, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENT OF INCOME

NINE MONTHS ENDED SEPTEMBER 30, 2005 AND 2004

(In Thousands)

	2005	**2004**
Service Revenues	$ 28,885	$ 29,305
Direct Costs	23,682	23,896
Gross Margin	5,203	5,409
General and Administrative Expenses	5,286	4,912
Income (Loss) from Operations	(83)	497
Other Income (Expense):		
Interest expense	(346)	(338)
Other income	7	
	(339)	(338)
Income (Loss) Before Provision (Benefit) for Income Tax	(422)	835
Provision (Benefit) for Income Taxes:		
Current	(4)	129
Deferred	(163)	
	(167)	129
Net Income (Loss)	$ (255)	$ 706

See notes to unaudited consolidated financial statements.

F-66

THE CORNWALL GROUP, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

NINE MONTHS ENDED SEPTEMBER 30, 2005

(In Thousands)

	Common Stock Shares	**Amount**	**Unearned ESOP Shares**	**Additional Paid-In Capital**	**Accumulated Other Comprehensive Loss**	**Retained Earnings**	**Treasury Stock**	**Total**
Balance, December 31, 2004	13,285	$ 133	$ (2,987)	$ 98	$ (407)	$ 3,562	$	$ 399
Nine Months Ended September 30, 2005:								
Release of ESOP shares			331	(13)				318
Net loss						(255)		(255)
Treasury stock redemptions							(23)	(23)
Fair market value adjustment on derivatives					68			68
Balance, September 30, 2005	13,285	$ 133	$ (2,656)	$ 85	$ (339)	$ 3,307	(23)	$ 507

See notes to unaudited consolidated financial statements.

F-67

THE CORNWALL GROUP, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS

NINE MONTHS ENDED SEPTEMBER 30, 2005 AND 2004

(In Thousands)

	2005	2004
Cash Flows from Operating Activities:		
Net income (loss)	$ (255)	$ 30
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	178	149
Provision for doubtful accounts	15	26
Amortization	81	66
Release of ESOP shares	317	348
Deferred taxes	(163)	
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	108	752
Billings in process	(154)	(696)
Other current assets	(110)	(50)
Deposits and other	156	(2)
Increase in accounts payable and accrued liabilities	(214)	(153)
Net cash provided by (used in) operating activities	(41)	470
Cash Flows from Investing Activities:		
Increase in certificate of deposit	(92)	
Purchases of property and equipment	(99)	(212)
Advances to stockholder	(475)	(51)
Acquisition of intangible assets	(106)	
Net cash used in investing activities	(772)	(263)
Cash Flows from Financing Activities:		
Net borrowings on line of credit	469	353
Principal payments on long-term debt	(274)	(365)
Net repayments from stockholders	190	
Treasury stock purchase	(23)	
Increase in bank overdraft	98	
Net cash provided by (used in) financing activities	460	(12)
Net Increase (Decrease) in Cash	(353)	195
Cash, Beginning	390	341
Cash, Ending	$ 37	$ 536
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year:		
Interest	$ 331	$ 338
Income taxes	$	$

See notes to unaudited consolidated financial statements.

F-68

THE CORNWALL GROUP, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2005
(In Thousands)

(1) BASIS OF PRESENTATION

The financial information for the nine months ended September 30, 2005 and 2004 is unaudited. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the financial information for the period indicated has been included. For further information regarding the Company s accounting policies, refer to the Consolidated Financial Statements and related notes included elsewhere in this Form 8-K. Operating results for interim periods are not necessarily indicative of results to be expected for a full year.

(2) RECENT ACCOUNTING PRONOUNCEMENTS

In December 2004, the Financial Accounting Standards Boards (FASB) issued its final standard on accounting for share-based payments (SBP), FASB Statement No. 123R (revised 2004), Share-Based Payment. The Statement requires companies to expense the value of employee stock options and similar awards. Under FAS 123R, SBP awards result in a cost that will be measured at fair value on the awards grant date, based on the estimated number of awards that are expected to vest. Compensation cost for awards that vest would not be reversed if the awards expire without being exercised. The effective date for public companies is interim and annual periods beginning after January 1, 2006, and applies to all outstanding and unvested SBP awards at a company s adoption. Management does not anticipate that this Statement will have a significant impact on the Company s consolidated financial statements.

(3) INCOME TAXES

The Company accounts for income taxes under the provisions of Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes* (SFAS 109), which is an asset and liability method of accounting for income taxes. Under this method, deferred tax liabilities and assets are determined based on the difference between the financial statement carrying amounts and tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. The deferred tax asset was approximately $452 as of September 30, 2005.

(4) INTEREST RATE SWAPS

The Company is exposed to market risk from changes in interest rates. To manage this market risk, the Company may enter into interest rate swaps, in which the Company agrees to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to an agreed upon notional principal amount. The Company has entered into a swap agreement to convert variable rate debt to a fixed rate. Interest payments received and payable under the terms of the interest rate swap agreement are accrued over the period to which the payment relates and the net difference is treated as an adjustment of interest expense related to the underlying liability. Changes in the underlying market value of the remaining swap payments are recognized in income when the underlying liability being hedged is extinguished or partially extinguished to a level less than the notional amount of the interest rate swap. The Company uses derivative financial instruments only to manage interest rate risks.

During the nine months ended September 30, 2005, the Company made interest payments of approximately $102 under the swap agreement. At September 30, 2005, the estimated fair value of the

THE CORNWALL GROUP, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
SEPTEMBER 30, 2005
(In Thousands)

(4) INTEREST RATE SWAPS (Continued)

interest rate swap was approximately $338 and is reflected as a derivative liability with a corresponding balance in accumulated other comprehensive loss in the accompanying consolidated financial statements.

(5) ACCRUED LIABILITIES

Accrued payroll	$ 565
Income taxes payable	252
Accrued insurance claims	135
Accrued payroll taxes	300
Sales tax payable	53
Accrued other	49
	$ 1,354

(6) EMPLOYEE STOCK OWNERSHIP PLAN (ESOP)

The Company sponsors a leveraged employee stock ownership plan (ESOP) that covers all employees who work 1,000 or more hours per year. The Company loaned the ESOP $5,000 that it obtained through bank financing for the purposes of acquiring 5,000 shares of the Company s common stock (the ESOP shares) from existing stockholders. The ESOP shares initially were pledged as collateral for the debt. As the debt is repaid, shares are released from collateral and allocated to active employees, based on the proportion of debt service paid during the year. The Company accounts for its ESOP in accordance with Statement of Position 93-6, Employers Accounting for Employee Stock Ownership Plans. Accordingly, the Company reports in its balance sheet the debt of the ESOP and Unearned ESOP Shares, which are the ESOP shares pledged as collateral for the debt. As shares are released from collateral, the Company reports compensation expense based on the average market price of the shares during the year.

Dividends on allocated ESOP shares are recorded as a reduction of retained earnings; dividends on unallocated ESOP shares are recorded as a reduction of debt and accrued interest. The Company did not declare dividends subsequent to the effective date of the ESOP. ESOP compensation expense was approximately $266 for the nine months ended September 30, 2005.

The ESOP shares were as follows as of September 30, 2005:

Allocated shares	2,013
Shares released for allocation	333
Unearned shares	2,654
Total ESOP shares	5,000

THE CORNWALL GROUP, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
SEPTEMBER 30, 2005
(In Thousands)

(6) EMPLOYEE STOCK OWNERSHIP PLAN (ESOP) (Continued)

Leases

The Company leases various office facilities from a third party, which mature at various dates through April 30, 2008. One lease agreement includes an option to extend the lease through April 30, 2010. Monthly rent payments, which increase yearly at fixed amounts, range from $2 to $9 per month at September 30, 2005. The Companies also lease various equipment and vehicles under non-cancelable operating leases expiring through April 2009. Office facility and equipment rent expense for the nine months ended September 30, 2005 was approximately $643.

Approximate future minimum lease payments under non-cancelable office and equipment lease agreements for the succeeding fiscal years are as follows:

Year ending September 30:	
2006	$ 269
2007	203
2008	162
2009	34
2010	2
	$ 670

Litigation

The Company, from time to time, is involved in litigation arising during the ordinary course of business. Based on currently available information, management believes that the resolution of pending claims will not have a material adverse effect on the Companies operating results or financial position.

(8) INCOME TAXES

The benefit from income taxes consists of the following:

	2005	**2004**
Current:		
Federal	$ 4	$ 129
State		
	$ 4	$ 129
Deferred:		
Federal	$ 139	$
State	24	
	$ 163	$

F-71

THE CORNWALL GROUP, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
SEPTEMBER 30, 2005
(In Thousands)

(8) INCOME TAXES (Continued)

The net effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes are reflected in deferred income taxes.

Significant components of the Company s deferred income tax assets and liabilities are as follows:

Current Deferred Tax Assets:	
Accounts receivable, due to allowance for doubtful accounts	$ 105
Self-insurance reserve	4
	109
Long-Term Deferred Tax Assets:	
Deferred state tax	$ (10)
Charitable contribution carryover	1
NOL carryover	243
ESOP compensation	92
Amortization	112
Depreciation	(76)
Goodwill basis difference	(18)
	344
Total Deferred Tax Asset	$ 453

(9) SUBSEQUENT EVENT

In October 2005, the Company completed a Stock Purchase Agreement with TRI-S Security Corporation, a Georgia corporation (the Purchaser) whereby the Purchaser acquired all the outstanding common stock, including all unallocated ESOP shares, from the stockholders of the Company.

Following the closing of the acquisition, the Company repaid all of its outstanding debt, which was subject to certain prepayment penalties of approximately $342.

F-72

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 13. Other Expenses of Issuance and Distribution

The following table sets forth the costs and expenses, other than the underwriting discounts and commissions, payable by us in connection with the issuance and distribution of the common stock being registered hereby. All amounts are estimates except the SEC.

SEC registration fee	$ 1,300
Printing and engraving expenses	15,000
Legal fees and expenses	50,000
Accounting fees and expenses	20,000
Blue Sky fees and expenses (including legal fees)	10,000
Miscellaneous	3,700
Total	$ 100,000

Item 14. Indemnification of Directors and Officers

Our amended articles of incorporation eliminate the personal liability of our directors to the Company or our shareholders for monetary damage for any breach of duty as a director, provided that we cannot eliminate or limit the liability of a director for:

- a breach of duty involving appropriation of a business opportunity of the Company;
- an act or omission which involves intentional misconduct or a knowing violation of law;
- any transaction from which the director receives an improper personal benefit; or
- unlawful corporate distributions.

In addition, if at any time the Georgia Business Corporation Code is amended to authorize further elimination or limitation of the personal liability of a director, then the liability of each of our directors shall be eliminated or limited to the fullest extent permitted by such provisions, as so amended, without further action by the shareholders, unless otherwise required.

Our amended bylaws require us to indemnify any director or officer who was or is a party or is threatened to be made a party, to any threatened, pending or completed action, suit or proceeding whether civil, criminal, administrative or investigative (including any action or suit by or in our right) because such person is or was one of our directors or officers, against liability incurred by the director of officer in such proceeding except for any liability incurred in a proceeding in which the director or officer is adjudged liable to us or is subjected to injunctive relief in our favor for:

- any appropriation, in violation of such director s or officer s duties, of any business opportunity of the Company;
- acts or omissions which involve intentional misconduct or a knowing violation of law;
- unlawful corporate distributions; or
- any transaction from which such officer or director received an improper personal benefit.

Our board of directors also has the authority to extend to employees and agents the same indemnification rights held by directors. Indemnified persons would also be entitled to have us advance expenses prior to the final disposition of the proceeding. If it is ultimately determined that they are not entitled to indemnification, however, such amounts would be repaid. Insofar as indemnification for liability

arising under the Securities Act may be permitted to our officers and directors pursuant to these provisions, the SEC has informed us that in its opinion such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

We have entered into separate indemnity agreements with each of our directors whereby we agree to indemnify them and to advance them expenses in a manner and subject to terms and conditions similar to those set forth in our amended articles of incorporation and amended bylaws.

Item 15. Recent Sales of Unregistered Securities

During the last three years, we have issued unregistered securities to a limited number of individuals, as described below. None of these transactions involved any underwriters, underwriting discounts or commissions, or any public offering, and we believe that each transaction was exempt from the registration requirements of the Securities Act by virtue of Section 4(2) thereof, Regulation D promulgated thereunder (Regulation D) or Rule 701 pursuant to compensatory benefit plans and contracts relating to compensation as provided under such Rule 701 of the Securities Act. The recipients of securities in each such transaction represented their intention to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof. In each instance, the recipients were accredited investors, as that term is defined in Rule 501 of Regulation D, or were employees or independent contractors of ours. All recipients had adequate access, through their relationships with us, to information about us. Set forth below is a description of the issuances of unregistered securities made by the Company since its inception.

- On November 11, 2001, we issued 2,500,000 shares of common stock to our founder, Mr. Farrell for aggregate consideration of $100,000, 50% of which was paid by Mr. Farrell by means of issuing a promissory note in favor of the Company and 50% of which was paid by Mr. Farrell by providing services to us with a market value of at least $50,000.

- On December 31, 2001, we issued 10,000 shares of Series B Convertible Preferred Stock to Richard Kendall, an accredited investor, for a purchase price of $5.00 per share.

- On January 1, 2002, we issued to Mr. Farrell, pursuant to that certain Employment Agreement dated as of January 1, 2002, a ten-year option to purchase 300,000 shares of common stock at an exercise price of $.04 per share, vesting 100,000 shares on each of December 31, 2002, December 31, 2003 and December 31, 2004.

- On March 21, 2002, we issued 20,000 shares of Series B Convertible Preferred Stock to Douglas F. Ball, an accredited investor, for a purchase price of $5.00 per share.

- On March 30, 2002, we issued (i) 4,500 shares of common stock to Rodney A. Taylor in exchange for executive search services Mr. Taylor provided to us; (ii) 4,500 shares of common stock to Kenneth E. Moore in exchange for executive search services Mr. Moore provided to us; (iii) 9,000 shares of common stock to Michael McKinzie in exchange for executive search services Mr. McKinzie provided to us; and (iv) 25,000 shares of common stock to Timothy J. McGaughey in exchange for legal services Mr. McGaughey provided to us.

- On April 29, 2002, we issued 10,000 shares of Series B Convertible Preferred Stock to Robert Parker, an accredited investor, for a purchase price of $5.00 per share.

- On November 11, 2002, we issued (i) 10,000 shares of Series A Convertible Preferred Stock to Bryant W. Scott, an accredited investor, for a purchase price of $5.00 per share; (ii) 10,000 shares of Series A Convertible Preferred Stock to Harold E. Hodge, an accredited investor, for a purchase price of $5.00 per share; and (iii) 10,000 shares of Series A Convertible Preferred Stock to June D. Hodge, an accredited investor, for a purchase price of $5.00 per share.

- On May 12, 2003, we issued 5,000 shares of Series A Convertible Preferred Stock to Mr. Parker, an accredited investor, for a purchase price of $5.00 per share.

- On July 3, 2003, we issued (i) 5,000 shares of Series A Convertible Preferred Stock to Ms. Hodge, an accredited investor, for a purchase price of $5.00 per share; and (ii) 5,000 shares of Series A Convertible Preferred Stock to Mr. Hodge, an accredited investor, for a purchase price of $5.00 per share.

- On August 20, 2003, we issued (i) 50,000 shares of Series A Convertible Preferred Stock to Michael F. Bennett, an accredited investor, for a purchase price of $5.00 per share; and (ii) 15,000 shares of Series A Convertible Preferred Stock to Southwick Capital, LLC, an accredited investor, for a purchase price of $5.00 per share.

- On March 3, 2004, we issued 10,000 shares of Series B Convertible Preferred Stock to Mr. Bennett, an accredited investor, for a purchase price of $5.00 per share.

- On March 3, 2004, we issued 15,000 shares of common stock to Mr. Bennett in exchange for consulting services rendered by such individual to us.

- In July 2004, we issued a warrant to purchase 50,000 shares of common stock with an exercise price of $1.00 per share to BRE LLC in connection with entering into our credit agreement.

- On February 8, 2005, pursuant to the Exchange and Recapitalization Agreement between us and all the holders of our common stock, Series A Convertible Preferred Stock and Series B Convertible Preferred Stock, and all holders of rights to acquire our common stock, 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 in which 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..

- On March 3, 2005, we issued 15,000 shares of common stock to Douglas Ball pursuant to that certain Letter Agreement between us and Mr. Ball.

- On April 6, 2005, we issued 8,700 shares of common stock to Barretto Pacific Corporation in exchange for public relations services rendered by it to us.

- On April 26, 2005, we issued 10,000 shares of common stock to an individual in exchange for services rendered by such individual us.

- On April 26, 2005, we issued an aggregate of 20,000 shares of common stock to Charles Keathley and Robert Luther, two former shareholders of Paragon Systems, pursuant to that certain Agreement Regarding Notes and Preferred Shares among us, Paragon Systems and the former shareholders of Paragon Systems, dated as of September 29, 2004 and amended on October 6, 2004.

- On April 26, 2005, we a three-year warrant to purchase 25,000 shares of Common Stock at an exercise price of $6.00 per share to a public relations firm in exchange for services rendered by the firm to the Company.

- On August 1, 2005, we issued to Leslie Kaciban in connection with his employment agreements with Paragon Systems and pursuant to our 2004 Stock Incentive Plan a five-year qualified stock option to purchase 50,000 shares of common stock at an exercise price of $4.27 per share which vests and first becomes exercisable with respect to one-third of the underlying shares of common stock on each of August 1, 2006, August 1, 2007 and August 1, 2008.

II-3

- On August 1, 2005, we issued to Mark Machi in connection with his employment agreements with Paragon Systems and pursuant to our 2004 Stock Incentive Plan a five-year qualified stock option to purchase 50,000 shares of common stock at an exercise price of $4.27 per share which vests and first becomes exercisable with respect to one-third of the underlying shares of common stock on each of August 1, 2006, August 1, 2007 and August 1, 2008.

- On September 2, 2005, we issued to accredited investors Notes with an aggregate principal amount of $1,015,000 and Investor Warrants to purchase an aggregate of 105,72 8 shares of common for an aggregate purchase price of $1,015,000.

- On September 30, 2005, we issued to accredited investors Notes with an aggregate principal amount of $1,100,000 and Investor Warrants to purchase an aggregate of 114,528 shares of common for an aggregate purchase price of $1,100,000.

- On October 12, 2005, we issued to accredited investors Notes with an aggregate principal amount of $4,325,000 and Investor Warrants to purchase an aggregate of 450,519 shares of common for an aggregate purchase price of $4,325,000.

- On October 14, 2005, we issued to accredited investors Notes with an aggregate principal amount of $1,575,000 and Investor Warrants to purchase an aggregate of 164,062 shares of common for an aggregate purchase price of $1,575,000.

- On December 21, 2005, we issued to our placement agent in the Private Placement and such agent s employees Broker Warrants to purchase an aggregate of 250,468 shares of common stock in exchange for services rendered to us in the Private Placement.

Item 16. Exhibits and Financial Statement Schedules

(a) Exhibits.

The exhibits filed with this registration statement or incorporated herein by reference are set forth on the Exhibit Index set forth elsewhere herein.

(b) Financial Statement Schedules.

Any schedules required to be filed with this registration statement are set forth on the Index to Financial Statements set forth elsewhere herein.

Item 17. Undertaking

The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price

II-4

represent no more than 20 percent change in the maximum aggregate offering price set forth in the Calculation of Registration Fee table in the effective registration statement;

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(4) That, for the purpose of determining liability under the Securities Act of 1933 to any purchaser:

(i) If the Registrant is relying on Rule 430B:

(A) Each prospectus filed by a Registrant pursuant to Rule 424(b)(3) shall be deemed to be part of the registration statement as of the date the filed prospectus was deemed part of and included in the registration statement; and

(B) Each prospectus required to be filed pursuant to Rule 424(b)(2), (b)(5) or (b)(7) as part of a registration statement in reliance on Rule 430B relating to an offering made pursuant to Rule 415(a)(1)(i), (vii) or (x) for the purpose of providing the information required by Section 10(a) of the Securities Act of 1933 shall be deemed to be part of and included in the registration statement as of the earlier of the date such form of prospectus is first used after effectiveness or the date of the first contract of sale of securities in the offering described in the prospectus. As provided in Rule 430B, for liability purposes of the issuer and any person that is at that date an underwriter, such date shall be deemed to be a new effective date of the registration statement relating to the securities in the registration statement to which the prospectus relates, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such effective date, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such effective date.

(ii) If the registrant is subject to Rule 430C, each prospectus filed pursuant to Rule 424(b) as part of a registration statement relating to an offering, other than registration statements relying on Rule 430B or other than prospectuses filed in reliance on Rule 430A, shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use.

That, for the purpose of determining liability of a Registrant under the Securities Act of 1933 to any purchaser in the initial distribution of the securities, each undersigned Registrant undertakes that in a primary offering of securities of an undersigned Registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned Registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:

(i) Any preliminary prospectus or prospectus of an undersigned Registrant relating to the offering required to be filed pursuant to Rule 424;

(ii) Any free writing prospectus relating to the offering prepared by or on behalf of an undersigned Registrant or used or referred to by an undersigned Registrant;

(iii) The portion of any other free writing prospectus relating to the offering containing material information about an undersigned Registrant or its securities provided by or on behalf of an undersigned Registrant; and

(iv) Any other communication that is an offer in the offering made by an undersigned Registrant to the purchaser.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Alpharetta, State of Georgia, on February 1, 2006.

TRI-S SECURITY CORPORATION

By: /s/ RONALD G. FARRELL
Ronald G. Farrell
Chairman and Chief Executive Officer

KNOW ALL MEN BY THESE PRESENTS, that each of the undersigned officers and directors of Tri-S Security Corporation hereby constitutes and appoints Ronald G. Farrell his attorney-in-fact and agent, with full power of substitution and resubstitution for him in any and all capacities, to sign any or all amendments or post-effective amendments to this registration statement, and to file the same, with exhibits thereto and other documents in connection therewith or in connection with the registration of the shares of common stock under the Securities Act of 1933, with the Securities and Exchange Commission, granting unto such attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary in connection with such matters as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that such attorney-in-fact and agent or his substitute may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities and on the date indicated.

Name	Title	Date
/s/ RONALD G. FARRELL Ronald G. Farrell	Chairman of the Board and Chief Executive Officer	February 1, 2006
/s/ ROBERT K. MILLS Robert K. Mills	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	February 1, 2006
/s/ JAMES M. LOGSDON James M. Logsdon	Director	February 1, 2006
/s/ LEE K. TOOLE Lee K. Toole	Director	February 1, 2006
/s/ JAMES A. VERBRUGGE James A. Verbrugge	Director	February 1, 2006

II-7

EXHIBIT INDEX

Exhibit No.	Description	Method of Filing
1.1	Form of Underwriting Agreement entered into in connection with the Initial Public Offering.	Incorporated by reference to Exhibit 1.1 to the Company s Registration Statement on Form S-1 (No. 333-119737).
2.1	Stock Purchase Agreement dated February 23, 2004, among the Company and Charles Keathley, Robert Luther, Harold Bright and John Wilson.	Incorporated by reference to Exhibit 2.1 to the Company s Registration Statement on Form S-1 (No. 333-119737).
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 Representative s Option for the Purchase of Warrants.	Incorporated by reference to Exhibit 4.1 to the Company s Registration Statement on Form S-1 (No. 333-119737).
4.2	Form of Representative s Option for the Purchase of Common Stock.	Incorporated by reference to Exhibit 4.2 to the Company s Registration Statement on Form S-1 (No. 333-119737).
4.3	Specimen Common Stock Certificate.	Incorporated by reference to Exhibit 4.3 to the Company s Registration Statement on Form S-1 (No. 333-119737).
4.4	Form of Warrant Agreement.	Incorporated by reference to Exhibit 4.4 to the Company s Registration Statement on Form S-1 (No. 333-119737).
4.5	Form of Warrant Issuable to Underwriters Upon Exercise of Option.	Incorporated by reference to Exhibit 4.5 to the Company s Registration Statement on Form S-1 (No. 333-119737).
4.6	Specimen Warrant Certificate.	Incorporated by reference to Exhibit 4.6 to the Company s Registration Statement on Form S-1 (No. 333-119737).
4.7	Specimen Unit Certificate.	Incorporated by reference to Exhibit 4.7 to the Company s Registration Statement on Form S-1 (No. 333-119737).

4.8	Form of 10% Callable Convertible Promissory Note issued by the Company in connection with the private placement of securities conducted on September 2, 2005.	Incorporated by reference to Exhibit 4.1 to the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 2005.
4.9	Form of Warrant to purchase shares of the Company s common stock issued by the Company in connection with the private placement of securities conducted on September 2, 2005.	Incorporated by reference to Exhibit 4.2 to the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 2005.
4.10	Form of Registration Rights Agreement entered into by the Company and the investors signatory thereto in connection with the private placement of securities conducted on September 2, 2005.	Incorporated by reference to Exhibit 4.3 to the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 2005.
4.11	Form of 10% Callable Convertible Promissory Note issued by the Company in connection with the private placement of securities conducted on September 30, 2005, October 12, 2005 and October 14, 2005.	Incorporated by reference to Exhibit 4.4 to the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 2005.
4.12	Form of Warrant to purchase shares of the Company s common stock issued by the Company in connection with the private placement of securities conducted on September 30, 2005, October 12, 2005 and October 14, 2005.	Incorporated by reference to Exhibit 4.5 to the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 2005.
4.13	Form of Registration Rights Agreement entered into by the Company and the investors signatory thereto in connection with the private placement of securities conducted on September 30, 2005, October 12, 2005 and October 14, 2005.	Incorporated by reference to Exhibit 4.6 to the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 2005.
5.1	Opinion of Rogers & Hardin LLP	To be filed by amendment.
10.1	Factoring and Security Agreement dated as of February 27, 2004, between Paragon Systems, Inc. and LSQ Funding Group, L.L.C.	Incorporated by reference to Exhibit 10.1 to the Company s Registration Statement on Form S-1 (No. 333-119737).
10.2	Assignment of Contract Proceeds dated as of February 27, 2004, between Paragon Systems, Inc. and LSQ Funding Group, L.L.C.	Incorporated by reference to Exhibit 10.2 to the Company s Registration Statement on Form S-1 (No. 333-119737).
10.3	Assignment of Factoring Credit Balances dated as of July 27, 2004, among Paragon Systems, Inc., LSQ Funding Group, L.L.C. and BRE LLC.	Incorporated by reference to Exhibit 10.3 to the Company s Registration Statement on Form S-1 (No. 333-119737).
10.4	Promissory Note dated July 27, 2004, made by Paragon Systems, Inc. in favor of BRE LLC in principal amount of $400,000.	Incorporated by reference to Exhibit 10.4 to the Company s Registration Statement on Form S-1 (No. 333-119737).

10.5	Security Agreement dated July 27, 2004, between Paragon Systems, Inc. and BRE LLC.	Incorporated by reference to Exhibit 10.5 to the Company s Registration Statement on Form S-1 (No. 333-119737).
10.6	Agreement Regarding Notes and Preferred Shares dated as of September 29, 2004, among the Company, Paragon Systems, Inc., Harold Bright, Charles Keathley, Robert Luther and John Wilson.	Incorporated by reference to Exhibit 10.6 to the Company s Registration Statement on Form S-1 (No. 333-119737).
10.7	Letter Agreement dated October 6, 2004, between the Company, Paragon Systems, Inc., Charles Keathley and Robert Luther.	Incorporated by reference to Exhibit 10.7 to the Company s Registration Statement on Form S-1 (No. 333-119737).
10.8	Consent Agreement to Extend Promissory Notes dated as of September 7, 2004 among the Company, Paragon Systems, Inc., Harold Bright and John Wilson.	Incorporated by reference to Exhibit 10.8 to the Company s Registration Statement on Form S-1 (No. 333-119737).
10.9	Promissory Note dated February 24, 2004, made by the Company in favor of Harold Bright in the principal amount of $526,900.	Incorporated by reference to Exhibit 10.9 to the Company s Registration Statement on Form S-1 (No. 333-119737).
10.10	Amended and Restated Promissory Note dated September 29, 2004, made by the Company in favor of Charles Keathley in principal amount of $2,983,750.	Incorporated by reference to Exhibit 10.10 to the Company s Registration Statement on Form S-1 (No. 333-119737).
10.11	Amended and Restated Promissory Note dated September 29, 2004, made by the Company in favor of Robert Luther in principal amount of $1,462,450.	Incorporated by reference to Exhibit 10.11 to the Company s Registration Statement on Form S-1 (No. 333-119737).
10.12	Promissory Note dated February 24, 2004, made by the Company in favor of Tom Wilson in the principal amount of $526,900	Incorporated by reference to Exhibit 10.12 to the Company s Registration Statement on Form S-1 (No. 333-119737).
10.13	Amended and Restated Promissory Note dated September 29, 2004, made by Paragon Systems, Inc. in favor of Charles Keathley, both individually and as agent for Robert Luther, Harold Bright and John Wilson, in principal amount of $706,507.	Incorporated by reference to Exhibit 10.13 to the Company s Registration Statement on Form S-1 (No. 333-119737).
10.14	Pledge and Assignment of Stock and Security Agreement dated September 29, 2004, between the Company and Charles Keathley.	Incorporated by reference to Exhibit 10.14 to the Company s Registration Statement on Form S-1 (No. 333-119737).
10.15	Pledge and Assignment of Stock and Security Agreement dated September 29, 2004, between the Company and Robert Luther.	Incorporated by reference to Exhibit 10.15 to the Company s Registration Statement on Form S-1 (No. 333-119737).
10.16	Promissory Note dated February 24, 2004, made by the Company in favor of Harold Bright in principal amount of $143,700.	Incorporated by reference to Exhibit 10.16 to the Company s Registration Statement on Form S-1 (No. 333-119737).

10.17	Promissory Note dated February 24, 2004, made by the Company in favor of Charles Keathley in principal amount of $813,750.	Incorporated by reference to Exhibit 10.17 to the Company s Registration Statement on Form S-1 (No. 333-119737).
10.18	Promissory Note dated February 24, 2004, made by the Company in favor of Robert Luther Bright in principal amount of $398,850.	Incorporated by reference to Exhibit 10.18 to the Company s Registration Statement on Form S-1 (No. 333-119737).
10.19	Promissory Note dated February 24, 2004, made by the Company in favor of John Wilson in principal amount of $143,700.	Incorporated by reference to Exhibit 10.19 to the Company s Registration Statement on Form S-1 (No. 333-119737).
10.20	Security Agreement dated February 24, 2004, between the Company and Harold Bright.	Incorporated by reference to Exhibit 10.20 to the Company s Registration Statement on Form S-1 (No. 333-119737).
10.21	Security Agreement dated February 24, 2004, between the Company and Charles Keathley.	Incorporated by reference to Exhibit 10.21 to the Company s Registration Statement on Form S-1 (No. 333-119737).
10.22	Security Agreement dated February 24, 2004, between the Company and Robert Luther.	Incorporated by reference to Exhibit 10.22 to the Company s Registration Statement on Form S-1 (No. 333-119737).
10.23	Security Agreement dated February 24, 2004, between the Company and John Wilson.	Incorporated by reference to Exhibit 10.23 to the Company s Registration Statement on Form S-1 (No. 333-119737).
10.24	Employment Agreement dated January 1, 2002, between the Company and Ronald G. Farrell. Represents an executive compensation plan or arrangement.	Incorporated by reference to Exhibit 10.24 to the Company s Registration Statement on Form S-1 (No. 333-119737).
10.25	Employment Agreement dated February 24, 2004, between Paragon Systems, Inc. and Charles Allbritten. Represents an executive compensation plan or arrangement.	Incorporated by reference to Exhibit 10.25 to the Company s Registration Statement on Form S-1 (No. 333-119737).
10.26	Employment Agreement dated February 24, 2004, between Paragon Systems, Inc. and Harold Bright. Represents an executive compensation plan or arrangement.	Incorporated by reference to Exhibit 10.26 to the Company s Registration Statement on Form S-1 (No. 333-119737).
10.27	Employment Agreement dated February 24, 2004, between Paragon Systems, Inc. and Carla J. Cilyok. Represents an executive compensation plan or arrangement.	Incorporated by reference to Exhibit 10.27 to the Company s Registration Statement on Form S-1 (No. 333-119737).
10.28	Employment Agreement dated February 24, 2004, between Paragon Systems, Inc. and Charles Keathley. Represents an executive compensation plan or arrangement.	Incorporated by reference to Exhibit 10.28 to the Company s Registration Statement on Form S-1 (No. 333-119737).

10.29	Employment Agreement dated February 24, 2004, between Paragon Systems, Inc. and Robert N. Luther. Represents an executive compensation plan or arrangement.	Incorporated by reference to Exhibit 10.29 to the Company s Registration Statement on Form S-1 (No. 333-119737).
10.30	Employment Agreement dated February 24, 2004, between Paragon Systems, Inc. and John T. Wilson. Represents an executive compensation plan or arrangement.	Incorporated by reference to Exhibit 10.30 to the Company s Registration Statement on Form S-1 (No. 333-119737).
10.31	Form of Exchange and Recapitalization Agreement among the Company and the holders of the Company s outstanding common stock, Series A Convertible Preferred Stock and Series B Convertible Preferred Stock.	Incorporated by reference to Exhibit 10.31 to the Company s Registration Statement on Form S-1 (No. 333-119737).
10.32	Office Lease Agreement dated November 2003, between Paragon Systems, Inc. and Southpark Office Centre.	Incorporated by reference to Exhibit 10.32 to the Company s Registration Statement on Form S-1 (No. 333-119737).
10.33	Lease Agreement dated October 7, 2003, between Paragon Systems, Inc. and Gwen Reed for 2319 Market Place, Huntsville, Alabama.	Incorporated by reference to Exhibit 10.33 to the Company s Registration Statement on Form S-1 (No. 333-119737).
10.34	Lease Agreement dated October 7, 2003, between Paragon Systems, Inc. and Gwen Reed for 3317 Triana Boulevard, Huntsville, Alabama.	Incorporated by reference to Exhibit 10.34 to the Company s Registration Statement on Form S-1 (No. 333-119737).
10.35	Office Services Agreement, between the Company and Interactive Offices Mansell, LLC.	Incorporated by reference to Exhibit 10.35 to the Company s Registration Statement on Form S-1 (No. 333-119737).
10.36	Building Lease Agreement dated June 29, 1996, between Paragon Systems, Inc. and Charles Keathley and Robert Luther.	Incorporated by reference to Exhibit 10.36 to the Company s Registration Statement on Form S-1 (No. 333-119737).
10.37	Agreement dated May 5, 2003, among Paragon Systems, Inc. and International Union of Security, Police and Fire Professionals of America.	Incorporated by reference to Exhibit 10.37 to the Company s Registration Statement on Form S-1 (No. 333-119737).
10.38	Agreement dated December 16, 2003 among Paragon Systems Inc. and International Union, Security, Police, and Fire Professionals of America.	Incorporated by reference to Exhibit 10.38 to the Company s Registration Statement on Form S-1 (No. 333-119737).
10.39	Agreement dated March 1, 2002, between Paragon Systems, Inc. and International Technical and Professional Employees Union, AFL-CIO.	Incorporated by reference to Exhibit 10.39 to the Company s Registration Statement on Form S-1 (No. 333-119737).
10.40	Agreement dated December 1, 2003 between Paragon Systems, Inc. and United Union of Security Guards.	Incorporated by reference to Exhibit 10.40 to the Company s Registration Statement on Form S-1 (No. 333-119737).

10.41	Joint Venture limited Liability Company Agreement for Army Fleet Support, LLC.	Incorporated by reference to Exhibit 10.41 to the Company s Registration Statement on Form S-1 (No. 333-119737).
10.42	2004 Stock Incentive Plan.	Incorporated by reference to Exhibit 10.42 to the Company s Registration Statement on Form S-1 (No. 333-119737).
10.43	Form of Indemnification Agreement.	Incorporated by reference to Exhibit 10.43 to the Company s Registration Statement on Form S-1 (No. 333-119737).
10.44	Paragon Systems, Inc. 401(k) Profit Sharing Plan, as amended.	Incorporated by reference to Exhibit 10.44 to the Company s Registration Statement on Form S-1 (No. 333-119737).
10.45	Federal Government Contract # DAAH01-00-C-0057.	Incorporated by reference to Exhibit 10.45 to the Company s Registration Statement on Form S-1 (No. 333-119737).
10.46	Federal Government Contract # TFTC-00-22, as amended.	Incorporated by reference to Exhibit 10.46 to the Company s Registration Statement on Form S-1 (No. 333-119737).
10.47	Federal Government Contract # DTCG-84-01-N-AA8002, as amended.	Incorporated by reference to Exhibit 10.47 to the Company s Registration Statement on Form S-1 (No. 333-119737).
10.48	Federal Government SubContract # DASG60.	Incorporated by reference to Exhibit 10.48 to the Company s Registration Statement on Form S-1 (No. 333-119737).
10.49	Federal Government Contract # 223-02-8304, as amended.	Incorporated by reference to Exhibit 10.49 to the Company s Registration Statement on Form S-1 (No. 333-119737).
10.50	Federal Government Contract # DTCG84-03-F-3N4005.	Incorporated by reference to Exhibit 10.50 to the Company s Registration Statement on Form S-1 (No. 333-119737).
10.51	Federal Government Contract # NS-7790.	Incorporated by reference to Exhibit 10.51 to the Company s Registration Statement on Form S-1 (No. 333-119737).
10.52	Federal Government Contract # 600-00-60012.	Incorporated by reference to Exhibit 10.52 to the Company s Registration Statement on Form S-1 (No. 333-119737).

10.53	Federal Government Contract # 0600-03-60006.	Incorporated by reference to Exhibit 10.53 to the Company s Registration Statement on Form S-1 (No. 333-119737).
10.54	Federal Government Contract # DACW38-03-D-0002.	Incorporated by reference to Exhibit 10.54 to the Company s Registration Statement on Form S-1 (No. 333-119737).
10.55	Federal Government Contract # GS-07F-0418K, as amended.	Incorporated by reference to Exhibit 10.55 to the Company s Registration Statement on Form S-1 (No. 333-119737).
10.56	Federal Government Contract # GS-07F-0418K, as amended.	Incorporated by reference to Exhibit 10.56 to the Company s Registration Statement on Form S-1 (No. 333-119737).
10.57	Federal Government Contract # AFR-RHG-05-C-001.	Incorporated by reference to Exhibit 10.57 to the Company s Registration Statement on Form S-1 (No. 333-119737).
10.58	Form of Market Stand-Off Agreement.	Incorporated by reference to Exhibit 10.58 to the Company s Registration Statement on Form S-1 (No. 333-119737).
10.59	Consulting Agreement dated March 25, 2002 between the Company and Douglas Ball.	Incorporated by reference to Exhibit 10.59 to the Company s Registration Statement on Form S-1 (No. 333-119737).
10.60	Employment Agreement dated March 25, 2002 between the Company and Douglas Ball.	Incorporated by reference to Exhibit 10.60 to the Company s Registration Statement on Form S-1 (No. 333-119737).
10.61	Letter Agreement dated December 7, 2004 between the Company and Douglas Ball.	Incorporated by reference to Exhibit 10.61 to the Company s Registration Statement on Form S-1 (No. 333-119737).
10.62	Letter Agreement dated November 30, 2004 among the Company, Charles Keathley and Robert Luther.	Incorporated by reference to Exhibit 10.62 to the Company s Registration Statement on Form S-1 (No. 333-119737).
10.63	Letter Agreement dated December 14, 2004 among the Company, Harold Bright and John Wilson.	Incorporated by reference to Exhibit 10.63 to the Company s Registration Statement on Form S-1 (No. 333-119737).
10.64	Amendment No. 1 to Employment Agreement between the Company and Ronald G. Farrell. Represents an executive compensation plan of agreement.	Incorporated by reference to Exhibit 10.64 to the Company s Registration Statement on Form S-1 (No. 333-119737).

10.65	Form of Consulting Agreement among the Company, Capital Growth Financial, LLC and Bathgate Capital Partners LLC.	Incorporated by reference to Exhibit 10.65 to the Company s Registration Statement on Form S-1 (No. 333-119737).
10.66	Promissory Note made by Ronald G. Farrell in favor of the Company dated December 31, 2004.	Incorporated by reference to Exhibit 10.66 to the Company s Registration Statement on Form S-1 (No. 333-119737).
10.67	Amendment to Credit Agreement, dated as of December 30, 2005, 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 January 6, 2006.
10.68	Amendment to Pledge Agreement, dated as of October 19, 2005 but executed on December 30, 2005, among the Company, LSQ Funding Group, L.C. and BRE LLC.	Incorporated by reference to Exhibit 99.2 to the Company s Current Report on Form 8-K filed on January 6, 2006.
10.69	Employment Agreement between Paragon Systems, Inc. and Leslie Kaciban dated July 29, 2005.	Incorporated by reference to Exhibit 99.1 to the Company s Current Report on Form 8-K filed on August 4, 2005.
10.70	Tri-S Security Corporation 2004 Stock Incentive Plan.	Incorporated by reference to Exhibit 10.42 to the Company s Registration Statement on Form S-1, as amended (No. 333-119737).
10.71	Form of Qualified Stock Option Agreement.	Incorporated by reference to Exhibit 4.2 to the Company s Registration Statement on Form S-8 (No. 333-129097).
10.72	Form of Non-Qualified Stock Option Agreement.	Incorporated by reference to Exhibit 4.3 to the Company s Registration Statement on Form S-8 (No. 333-129097).
10.73	Employment Agreement between Paragon Systems, Inc. and Mark Machi dated July 29, 2005.	Incorporated by reference to Exhibit 99.2 to the Company s Current Report on Form 8-K filed on August 4, 2005.
10.74	Lease Agreement between the Company and V.V. Georgia, L.P. dated June 2005.	Incorporated by reference to Exhibit 10.2 to the Company s Quarterly Report for the quarter ended June 30, 2005.
10.75	Letter Agreement dated August 10, 2005 between the Company and Ronald G. Farrell. Represents an executive compensation arrangement or plan.	Incorporated by reference to Exhibit 10.3 to the Company s Quarterly Report for the quarter ended June 30, 2005.
10.76	Letter Agreement between the Company and E. Wayne Stallings dated August 12, 2005.	Incorporated by reference to Exhibit 99.1 to the Company s Current Report on Form 8-K filed on August 18, 2005.

10.77	Earnest Money Escrow Agreement dated as of August 30, 2005, among the Company, The Cornwall Group, Inc., the Shareholder Representative and Berman Renert Vogl & Mandler, P.A.	Incorporated by reference to Exhibit 99.2 to the Company s Current Report on Form 8-K filed on September 2, 2005.
10.78	Promissory Note dated October 18, 2005 in principal amount of $250,000 made by the Company in favor of the Shareholder Representative.	Incorporated by reference to Exhibit 99.2 to the Company s Current Report on Form 8-K filed on October 24, 2005.
10.79	Credit Agreement dated as of October 18, 2005 among the Company, its subsidiaries, LSQ Funding Group, L.C. and BRE LLC.	Incorporated by reference to Exhibit 99.3 to the Company s Current Report on Form 8-K filed on October 24, 2005.
10.80	Factoring and Security Agreement dated as of October 18, 2005 among the Company, its subsidiaries and LSQ Funding Group, L.C	Incorporated by reference to Exhibit 99.4 to the Company s Current Report on Form 8-K filed on October 24, 2005.
10.81	Security Agreement dated as of October 18, 2005 among the Company, its subsidiaries, LSQ Funding Group, L.C. and BRE LLC	Incorporated by reference to Exhibit 99.5 to the Company s Current Report on Form 8-K filed on October 24, 2005.
10.82	Pledge Agreement dated as of October 18, 2005 among the Company, LSQ Funding Group, L.C. and BRE LLC	Incorporated by reference to Exhibit 99.6 to the Company s Current Report on Form 8-K filed on October 24, 2005.
10.83	Guaranty Agreement dated as of October 18, 2005 among the Company, its subsidiaries, LSQ Funding Group, L.C. and BRE LLC	Incorporated by reference to Exhibit 99.7 to the Company s Current Report on Form 8-K filed on October 24, 2005.
10.84	Employment Agreement between The Cornwall Group, Inc. and David H. Shopay dated October 18, 2005	Incorporated by reference to Exhibit 99.8 to the Company s Current Report on Form 8-K filed on October 24, 2005.
10.85	Escrow Agreement dated as of October 18, 2005 among the Company, SunTrust Bank and the Shareholder Representative.	Incorporated by reference to Exhibit 99.9 to the Company s Current Report on Form 8-K filed on October 24, 2005.
10.86	Factoring Agreement dated April 2005 between Paragon Systems, Inc. and LSQ Funding Group, L.L.C.	Incorporated by reference to Exhibit 10.1 to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2005.
10.87	Summary of Compensation Arrangements of Board of Directors of the Company.	Incorporated by reference to Exhibit 10.3 to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2005.
21.1	Subsidiaries of the Registrant.	Filed herewith.

23.1	Consent of Miller Ray & Houser LLP (Tri-S Security Corporation).	Filed herewith.
23.2	Consent of Miller Ray & Houser LLP (Paragon Systems, Inc.).	Filed herewith.
23.3	Consent of Rachlin, Cohen and Holtz, LLP	Filed herewith.
24.1	Powers of Attorney (included on the signature page hereto).	Filed herewith.