

TRI-S SECURITY CORP  
Form 10-K/A  
April 30, 2007

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**Amendment No. 1 on**  
**Form 10-K/A**

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

For the fiscal year ended December 31, 2006

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-51148

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**Tri-S Security Corporation**

(Exact Name of Registrant as Specified in Its Charter)

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Georgia  
(State or Other Jurisdiction of

Incorporation or Organization)

30-0016962  
(I.R.S. Employer

Identification No.)

Royal Centre One

11675 Great Oaks Way

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Suite 120

Alpharetta, GA 30022

(Address of Principal Executive Offices)

(678) 808-1540

(Registrant's Telephone Number, Including Area Code)

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Securities registered pursuant to Section 12(b) of the Act: common stock, par value \$0.001 per share; and

warrants to purchase common stock, par value \$0.001 per share

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

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

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

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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates completed by reference to the price at which the common equity was last sold as of the last business day of the registrant's most recently completed second fiscal quarter is \$7,379,593.

As of March 25, 2007, 3,503,280 shares of common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: NONE.

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**EXPLANATORY NOTE**

This Amendment No. 1 on Form 10-K/A (this Amendment) amends the Annual Report on Form 10-K for the year ended December 31, 2006 of Tri-S Security Corporation (the Company, we or us) filed with the Securities and Exchange Commission (the SEC) on March 29, 2007 (the Original Report). This Amendment replaces the information previously incorporated by reference in Part III of the Original Report with the actual text for Part III of the Form 10-K. Except for providing the disclosures required by Part III of Form 10-K, this Amendment does not modify or update any disclosures presented in the Original Report. Accordingly, this Amendment does not reflect events occurring after the filing of the Original Report or modify or update those disclosures contained in the Original Report which may have been affected by subsequent events. Information not affected by this Amendment is unchanged and reflects the disclosures made at the time the Original Report was filed. The Original Report, as amended by this Amendment, is referred to herein as the Annual Report.

**PART III**
**Item 10. Directors, Executive Officers and Corporate Governance**  
**Board of Directors**

Our bylaws provide that our board of directors shall consist of between one member and nine members. Our board of directors currently consists of four members, Ronald G. Farrell, Lee K. Toole, James M. Logsdon and Dr. James A. Verbrugge. If we have more than two directors, our articles of incorporation provide for a classified board of directors consisting of three classes of directors, each serving staggered three-year terms. As a result, approximately one-third of our board of directors will be elected each year. Dr. Verbrugge and Messrs. Farrell, Toole and Logsdon serve as directors of the Company as follows: Mr. Logsdon serves as a Class I Director until the 2009 annual meeting of shareholders; Dr. Verbrugge serves as a Class II Director until the 2007 annual meeting of shareholders; and Messrs. Farrell and Toole each serve as Class III Directors until the 2008 annual meeting of shareholders. Messrs. Farrell, Toole and Logsdon and Dr. Verbrugge will serve as directors until the expiration of their applicable terms and until their successors have been elected and qualified or until their earlier death, resignation or removal. This classification of the board of directors may delay or prevent a change in control of the Company.

Set forth below is certain information, as of April 30, 2007, concerning each of the directors of the Company.

<b>Name</b>	<b>Age</b>	<b>Position</b>
Ronald G. Farrell	63	Director
James M. Logsdon	59	Director
Lee K. Toole	70	Director
James A. Verbrugge	66	Director

Certain additional information concerning the individuals named above is set forth below:

**James M. Logsdon** has served as a member of our board of directors, our audit committee and our compensation committee since our initial public offering in February 2005. Mr. Logsdon is a consultant with The Logsdon Group, which Mr. Logsdon founded in March 2004. The Logsdon Group provides tactical and strategic consulting services to business organizations. He served as

President, Chief Operating Officer and a director of Verso Technologies, Inc., a publicly-held technology corporation, from January 2000 until March 2004. From January 1998 to January 2000, Mr. Logsdon served as Vice President and General Manager of Branch Operations East for the Network Services division of GTE Corporation, a global telecommunications corporation. From January 1991 to December 1997, he served as GTE's Vice President, Sales & Marketing Commercial Markets.

**Lee K. Toole** has served as a member of our board of directors, our audit committee and our compensation committee since our initial public offering in February 2005. Mr. Toole founded Toole Consulting Corporation in 1997, which provides consulting services to Lucent Technologies, Inc. and GTE Corporation, among other clients. Mr. Toole retired in 1997 as a senior vice president of GTE Corporation, concluding a 36 year career in the telecommunications industry. During his career, which included 15 years with AT&T, Inc., Mr. Toole served in various executive capacities, including President of GTE China, Senior Vice President Asia Pacific, Vice President Business Development worldwide for wireless networks, and Chairman of the Board of Directors of a joint venture in Argentina which built a nationwide wireless network.

**Dr. James A. Verbrugge** has served as a member of our board of directors, our audit committee and our compensation committee since our initial public offering in February 2005. Dr. Verbrugge is Emeritus Professor of Finance in the Terry College of Business at the University of Georgia. From 1976 to 2001, he was the Chairman of the Department of Banking and Finance in the Terry College of Business, where he held the Chair of Banking from 1992 to 2002. He is a member of the board of directors of each of OneTravel, Inc., Crown Crafts, Inc. and Verso Technologies, Inc. and also serves on the boards of two private companies.

The biographical information for Mr. Farrell is set forth in Item 4.5 of Part I of this Annual Report.

#### Executive Officers

Our board of directors appoints our executive officers on an annual basis to serve until their successors have been elected and qualified, subject to applicable employment agreements. See Item 11 of this Annual Report. There are no family relationships among any of our directors or officers. Set forth below is certain information as of April 30, 2007, concerning each of the executive officers of the Company.

Name	Age	Position
Ronald G. Farrell	63	Chairman of the Board, President and Chief Executive Officer of the Company
Robert K. Mills	43	Chief Financial Officer

The biographical information for Messrs. Farrell and Mills is set forth in Item 4.5 of Part I of this Annual Report.

There are no family relationships among any of our executive officers or directors. No arrangement or understanding exists between any director and any other person pursuant to which any director was selected to serve as a director. To the best of our knowledge, (i) there are no material proceedings to which any director of the Company is a party, or has a material interest, adverse to the Company; and (ii) there have been no events under any bankruptcy act, no criminal proceedings and no judgments or injunctions that are material to the evaluation of the ability or integrity of any of the directors during the past five years.

#### **Audit Committee and Audit Committee Financial Expert**

We have a separately designated standing audit committee of the board of directors established in accordance with Section 3(a)(58)(A) of the Exchange Act. The members of the audit committee are Messrs. Logsdon and Toole and Dr. Verbrugge.

Our board of directors has determined that the audit committee's chairperson, Dr. Verbrugge, is an audit committee financial expert, as such term is defined in Item 401(h) of Regulation S-K. Dr. Verbrugge meets the independence requirements of Rule 4200(a)(15) of the NASD listing standards.

Pursuant to the regulations of the SEC, a person who is determined to be an audit committee financial expert will not be deemed an expert for any purpose, including, without limitation, for purposes of Section 11 of the Securities Act, as a result of being designated or identified as an audit committee financial expert pursuant to Item 401 of Regulation S-K. Furthermore, the designation or identification of a person as an audit committee financial expert pursuant to Item 401 of Regulation S-K does not impose on such person any duties, obligations or liability that are greater than the duties, obligations and liability imposed on such person as a member of the audit committee or the board of directors in the absence of such designation or identification. Moreover, the designation or identification of a person as an audit committee financial expert pursuant to Item 401 of Regulation S-K does not affect the duties, obligations or liability of any other member of the audit committee or board of directors.

#### **Code of Ethics**

The board of directors has adopted a Code of Ethics and Conduct that applies to all of our employees, including our Chief Executive Officer and Chief Financial Officer. We shall provide to any person without charge, upon request, a copy of our Code of Ethics and Conduct. Such requests should be directed to the Secretary of Tri-S Security Corporation at 11675 Great Oaks Way, Suite 120, Alpharetta, Georgia 30022.

#### **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Exchange Act requires the Company's directors and executive officers, and all persons ( Reporting Persons ) who beneficially own more than 10% of the outstanding shares of Common Stock, to file with the SEC initial reports of ownership and reports of changes in ownership of the Common Stock and other equity securities of the Company. Reporting Persons are also required to furnish the Company with copies of all Section 16(a) forms they file. To the Company's knowledge, based solely upon a review of the copies of such forms furnished to the Company for the year ended December 31, 2006, and the information provided to the Company by Reporting Persons of the Company, no Reporting Person failed to file the forms required by Section 16(a) of the Exchange Act on a timely basis.

#### **Item 11. Executive Compensation Compensation Discussion and Analysis**

##### *Overview*

The compensation committee of our board of directors is responsible for overseeing, establishing and administering the Company's executive compensation program, administering the

Company's 2004 Stock Incentive Plan, as amended and restated (the "Incentive Plan"), evaluating the performance of the Company's executive officers and approving all compensation decisions for the Company's executive officers. Accordingly, the compensation committee is responsible for determining whether the compensation paid to each of the Company's Chief Executive Officer, Chief Financial Officer and any other individuals which may be included in the Summary Compensation Table below (collectively, the "Named Executive Officers"), is fair, reasonable and competitive and whether such compensation serves the interest of the Company's shareholders.

The purpose of this Compensation Discussion and Analysis is to present the objectives, policies and practices of the Company's executive compensation program and is intended to provide additional information necessary to understand the Company's compensation decisions with respect to the Named Executive Officers. This Compensation Discussion and Analysis should be read in conjunction with the information presented in the compensation tables included in Item 11 of this Annual Report, the footnotes to those tables and the related disclosure appearing elsewhere in this Annual Report.

#### *Methodology for Establishing Compensation*

The compensation committee sets and approves all compensation paid to our Named Executive Officers, including salaries, cash bonuses and equity awards. The compensation committee annually reviews the performance of, and makes determinations concerning the compensation for, Ronald G. Farrell, our Chief Executive Officer. Mr. Farrell annually reviews the performance and compensation of the other Named Executive Officers, after which Mr. Farrell presents his conclusions with respect to such performance, and makes recommendations regarding the compensation for such other Named Executive Officers, to the compensation committee for its consideration and approval. The compensation committee has absolute discretion as to whether it approves the recommendations of Mr. Farrell, as it deems appropriate.

The compensation committee meets periodically each year in conjunction with regularly scheduled meetings of the board of directors. The compensation committee also holds special meetings and meets telephonically, as necessary, to discuss extraordinary items. The chairman of the compensation committee regularly reports on compensation committee actions and recommendations at meetings of the board of directors. Each member of the compensation committee is an independent director as determined by the rules of the NASDAQ Stock Market. Membership on the compensation committee is determined by the board of directors.

We have entered into an employment agreement with Mr. Farrell, the material terms of which are discussed below under the heading "Employment Agreements and Post-Termination Payments." Accordingly, the compensation paid to Mr. Farrell is dictated by the terms of his employment agreement. In January 2007, we amended the terms of Mr. Farrell's employment agreement to, among other things, reduce the term of the agreement, prohibit Mr. Farrell from being awarded grants of stock options, restricted stock or other equity incentive awards until January 1, 2008, eliminate our obligation to pay to Mr. Farrell a bonus in the amount of 2% of the value of all acquisitions made by us, and reduce certain travel benefits previously afforded to Mr. Farrell. This amendment was negotiated and approved by the compensation committee after considering several factors, including the compensation of chief executives of similar organizations and Mr. Farrell's previous compensation history. In addition, the compensation committee consulted with financial advisors and certain of our significant shareholders in establishing the terms of the amendment.

***Compensation Philosophy and Objectives***

The objective of our executive compensation program is to attract, retain and motivate qualified executives who contribute to our financial and operational success which ultimately builds value for our shareholders. We believe that, in order to do this effectively, our executive compensation program must:

provide our executives with total compensation opportunities at levels that are competitive for comparable positions and companies with whom we compete for talent;

recognize and reward individual initiative and achievement by providing significant upside opportunities for exceptional performance;

directly link a significant portion of executive compensation to the Company's achievement of short and long term goals and performance and

closely align our executives' interests with those of our shareholders by making stock-based incentives a core element of our compensation program.

***How We Determine and Assess Executive Compensation.***

Historically, executive compensation has been established based upon the market for management talent including feedback from executive recruiters and the salary history of management candidates.

***Elements of our Compensation Program***

We believe that executives' interests should be aligned with those of our shareholders. Accordingly, a substantial portion of executive compensation is at risk and must be earned through cash bonuses and equity grants of restricted stock and stock options. Attainment of bonuses and equity grants is tied to the Company's performance, thus creating incentive for executives to drive company performance, achieve long term objectives and increase stockholder value. Our compensation program consists of the following elements: base salaries, annual cash bonuses, long-term equity incentive awards and benefit programs.

*Base Salaries.* We provide base salaries to our executive officers as compensation for day-to-day responsibilities and sustained performance. Base salaries for our executive officers are determined by evaluating the responsibilities of the position, the experience of the individual, and by reference to the competitive marketplace for managerial talent. In 2006, the increases for the Named Executive Officers approximated ten percent (10%).

*Annual Cash Incentive Bonuses.* In general, we design our annual incentive compensation to reward executives based on the Company's achievement of pre-established performance goals relating to performance criteria which are viewed as important drivers of the Company's success.

The target performance goals are cash flow oriented. For 2006, annual cash incentive bonus opportunities for our executive officers were based on the level of EBITDA, as defined, achieved by the Company. Our chief executive officer receives a bonus of 5% of EBITDA, as defined, and our



chief financial officer receives a bonus of 2% of EBITDA, as defined. During 2006, no performance bonuses were paid to either Named Executive Officer, however, Mr. Mills was paid a retention bonus of \$25,000.

*Equity Compensation.* The compensation committee recognizes the value of equity awards to retain key executive talent and keep executives motivated to meet the company's long-term goals. The compensation committee typically grants options to key employees upon the commencement of their employment. Additional grants of options may occur based on many factors including the performance of the Company as well as the need to provide additional performance incentives to management. The Company does not otherwise have a program, plan or practice of timing equity grants with the release of material non-public information. During 2006, the compensation committee granted to Mr. Mills an option to purchase 100,000 shares of Common Stock, which option was intended to be granted in connection with his hiring in August 2005, and an option to purchase 30,000 shares of Common Stock, which option was part of the broad-based employee incentive options granted by the compensation committee in 2006.

*Benefits Programs.* The Named Executive Officers are entitled to participate in the benefits programs that are available to all full-time employees of the Company, including hospitalization, major medical, disability and group life insurance plans and paid vacation, and are entitled to receive other benefits as may be provided pursuant to the policies of the Company in effect from time to time. In addition, certain other benefits are available to the Company's Chief Executive Officer and Chief Financial Officer, which are described below under the heading Summary Compensation Table.

#### ***Tax and Accounting Considerations***

The accounting and tax treatment of compensation generally has not been a factor in determining the amounts of compensation for our executive officers. However, the compensation committee and management have considered the accounting and tax impact of various program designs to balance the potential cost to us with the benefit/value to the executive.

Section 162(m) of the Internal Revenue Code places a limit of \$1.0 million on the amount of compensation that we may deduct in any year with respect to any one of our named executive officers. It is the compensation committee's intent to maximize deductibility of executive compensation while retaining some discretion needed to compensate executives in a manner commensurate with performance and the competitive landscape for executive talent. All compensation paid to our executive officers in 2006 was fully deductible by the Company.

With the adoption of SFAS No. 123(R), we do not expect accounting treatment of differing forms of equity awards to vary significantly and, therefore, accounting treatment is not expected to have a material effect on the selection of forms of compensation.

#### **Compensation Committee Report**

The following report of the compensation committee on executive compensation shall not be deemed to be soliciting material or to be filed with the SEC nor shall this information be incorporated by reference into any future filing made by us with the SEC, except to the extent that we specifically incorporate it by reference into any such filing.

The compensation committee has reviewed and discussed the Compensation Discussion and Analysis contained in this Annual Report with the Company's management. Based upon that review

and those discussions, the compensation committee has recommended to the board of directors that the Compensation Discussion and Analysis be included in this Annual Report.

Submitted by the Compensation Committee,

James M. Logsdon  
 Lee K. Tools  
 James A. Verbrugge

**Summary Compensation Table**

The following table sets forth all compensation paid to, earned by or accrued for the Named Executive Officers during the year ended December 31, 2006.

Name and Principal Position	Year	Salary	Bonus	Option Awards <sup>(1)</sup>	All Other Compensation	Total
Ronald G. Farrell, Chief Executive Officer	2006	\$ 366,564	\$ 0	\$ 0	\$ 64,484 <sup>(2)</sup>	\$ 431,048
Robert K. Mills, Chief Financial Officer	2006	\$ 199,000	\$ 25,000	\$ 119,324 <sup>(3)</sup>	\$ 50,640 <sup>(4)</sup>	\$ 393,964

- <sup>(1)</sup> Reflects the proportionate amount of the total fair value of option awards granted under the Company's 2004 Incentive Plan (the Incentive Plan), that are recognized by the Company as an expense for financial statement reporting purposes for the fiscal year ended December 31, 2006. The fair value of the awards was determined in accordance with Financial Accounting Standards Board Statement of Financial Accounting Standards No. 123 (revised 2004) *Share-Based Payment* (which we refer to in this Annual Report as FAS 123R). The assumptions used in the calculation of the grant date fair values of the option awards are included in Note 3 to the Company's audited financial statements for the fiscal year ended December 31, 2006 included in the Annual Report.
- <sup>(2)</sup> Includes compensation with respect to insurance (health, dental, life, and long-term disability), automobile expenses, for family medical and business travel reimbursement, and for country club dues.
- <sup>(3)</sup> Mr. Mills was granted 100,000 options on January 13, 2006 with an exercise price of \$4.05, a term of 10 years, and a vesting schedule of 33,333 options vesting on August 8, 2006, 33,333 options vesting on August 8, 2007, and 33,334 options vesting on August 8, 2009. Mr. Mills was also granted 30,000 options on May 11, 2006 with an exercise price of \$3.00, a term of 10 years, and a vesting schedule of 10,000 options vesting immediately, 10,000 options vesting on May 11, 2007, and 10,000 options vesting on May 11, 2008.
- <sup>(4)</sup> Includes compensation for automobile expenses and insurance (health, dental, life, and long-term disability), as well as \$25,000 for moving and relocation expenses.

## Grants of Plan-Based Awards for 2006

Name	Grant Date	Threshold	Estimated Future Payouts Under Equity Incentive Plan Awards <sup>(1)</sup>			Exercise or Base Price of Option Awards (\$/Sh) <sup>(2)</sup>	Grant Date Fair Market Value of Stock and Option Awards <sup>(3)</sup>
			Target	Maximum			
Robert K. Mills	1/13/2006		100,000	100,000 <sup>(4)</sup>	\$ 4.05	\$ 242,000	
Robert K. Mills	5/11/2006		30,000	30,000 <sup>(5)</sup>	\$ 3.00	\$ 45,300	

<sup>(1)</sup> All equity incentive plan awards represent options issued pursuant to the Incentive Plan.

<sup>(2)</sup> The exercise price of option awards is the closing price of the common stock on the date the award was granted.

<sup>(3)</sup> This column shows the full grant date fair value of options awarded to the Named Executive Officers in 2006 and accounted for in accordance with SFAS 123R. Generally, the full grant date fair value is the amount the Company would expense in its financial statements over the award's vesting schedule. For option awards, fair value is calculated using the Black-Scholes option pricing model as of the date of grant. For additional information on the valuation assumptions, refer to note three of the Company's financial statements for the year ended December 31, 2006 included elsewhere in this Annual Report. These amounts reflect the Company's accounting expense and do not correspond to the actual value that will be recognized by the Named Executive Officers.

<sup>(4)</sup> (3) Mr. Mills was granted 100,000 options on January 13, 2006 with an exercise price of \$4.05, a term of 10 years, and a vesting schedule of 33,333 options vesting on August 8, 2006, 33,333 options vesting on August 8, 2007, and 33,334 options vesting on August 8, 2009.

<sup>(5)</sup> Mr. Mills was granted 30,000 options on May 11, 2006 with an exercise price of \$3.00, a term of 10 years, and a vesting schedule of 10,000 options vesting immediately, 10,000 options vesting on May 11, 2007, and 10,000 options vesting on May 11, 2008.

## Outstanding Equity Awards At 2006 Fiscal Year-End

The table below shows outstanding equity awards held by our Named Executive Officers for fiscal year ended December 31, 2006.

Name	Number of Securities Underlying Unexercised Options		Option Awards Number of Securities Underlying Unexercised Options		Option Exercise Price	Option Expiration Date
	Exercisable	Unexercisable	Exercisable	Unexercisable		
Robert K. Mills	33,333	66,667 <sup>(1)</sup>	\$ 4.05	1/13/2016		
	10,000	20,000 <sup>(2)</sup>	\$ 3.00	5/11/2016		

(1) Options granted 1/13/2006 and the remaining unvested options vest 33,333 on 8/6/2007 and 33,334 on 8/6/2008.

(2) Options granted 5/11/2006 and the remaining unvested options vest 10,000 on 5/11/2007 and 10,000 on 5/11/2008.

As of December 31, 2006, Mr. Mills had 43,333 of exercisable options. 33,333 became vested and exercisable on August 8, 2006 and has an exercise price of \$4.05 each. Mr. Mills had another 10,000 options vest and became exercisable on May 11, 2006 and has an exercise price of \$3.00.

## 2006 Option Exercises and Stock Vested

The following table sets forth the options exercised by our Named Executive Officers during the fiscal year ended December 31, 2006.

Name	Option Awards	
	Number of Shares	Value Realized
	Acquired on Exercise	on Exercise
Ronald G. Farrell	97,087 <sup>(1)</sup>	\$ 221,358 <sup>(2)</sup>

(1) Mr. Farrell was granted 97,087 stock options on January 1, 2002 with a 10 year life. The grant had a vesting schedule of one-third of the underlying shares on each of January 1, 2003, 2004, and 2005. The exercise price was \$0.12 for each option. The options were exercised on December 22, 2006 with a market value of \$2.40 each or \$233,009 in total.

(2) Reflects the value as calculated by the difference between the market price of our common stock on the date of exercise and the exercise price of the stock options.

## Director Compensation

The following table summarizes the compensation for director fees paid to or accrued for the non-employee directors for the fiscal year ended December 31, 2006.

Name	Fees Earned or		
	Paid in Cash	Option Awards	Total
Lee K. Toole <sup>(1)</sup>	\$ 23,750	\$ 18,875	\$ 42,625
James A. Logsdon <sup>(2)</sup>	\$ 23,750	\$ 18,875	\$ 42,625
James A. Verbrugge <sup>(3)</sup>	\$ 23,750	\$ 18,875	\$ 42,625

We compensate each member of our board of directors for their service on our board of directors at an annual rate of \$10,000 per year plus \$1,250 for each Board meeting and committee meeting attended by such member. We reimburse our board of directors members for reasonable expenses incurred by them in attending such meetings of the board of directors and any committees of the board of directors of which they are members. Members of our board of directors are also eligible to receive stock options granted pursuant to our Stock Incentive Plan.

(1) Mr. Toole was granted 12,500 options on May 11, 2006. They are 10 year options with 4,166 options vesting on May 11, 2006, 4,166 options vesting on May 11, 2007, and 4,168 vesting on May 11, 2008. They had an exercise price of \$3.00. The fair value of the options in accordance with FAS 123R was \$18,875 on the grant date. As of December 31, 2006, Mr. Toole had 4,166 of vested and exercisable stock options.

(2) Mr. Logsdon was granted 12,500 options on May 11, 2006. They are 10 year options with 4,166 options vesting on May 11, 2006, 4,166 options vesting on May 11, 2007, and 4,168 vesting on May 11, 2008. They had an exercise price of \$3.00. The fair value of the options in accordance with FAS 123R was \$18,875 on the grant date. As of December 31, 2006, Mr. Logsdon had 4,166 of vested and exercisable stock options.

(3) Mr. Verbrugge was granted 12,500 options on May 11, 2006. They are 10 year options with 4,166 options vesting on May 11, 2006, 4,166 options vesting on May 11, 2007, and 4,168 vesting on May 11, 2008. They had an exercise price of \$3.00. The fair value of the options in accordance with FAS 123R was \$18,875 on the grant date. As of December 31, 2006, Mr. Verbrugge had 4,166 of vested and exercisable stock options.



**Employment Agreement and Post-Termination Payments.**

Pursuant to the employment agreement, as amended, between us and Mr. Farrell, Mr. Farrell has agreed to serve as our Chief Executive Officer and President until June 30, 2010. The agreement provides for (i) payment of a specified base salary which increases by 10% per year; (ii) payment of an annual incentive bonus equal to 5% of our EBITDA, as defined, for such year, provided that such bonus may not exceed 100% of Mr. Farrell's base salary for such year; (iii) prohibitions against Mr. Farrell's disclosure of confidential information, solicitation of our employees and participation in a business competitive with our business during his employment and for a period of one year following the termination of his employment; and (iv) continuation of Mr. Farrell's compensation and benefits for the remainder of the term of his employment agreement if his employment is terminated by us without cause or by Mr. Farrell for good reason or upon a change of control of the Company. Pursuant to Mr. Farrell's employment agreement, we also provide certain other benefits and expense reimbursements to Mr. Farrell which are consistent with his position as our Chief Executive Officer. Mr. Farrell is also entitled to participate in any employee benefit plan, stock option plan and other fringe benefit plan at the discretion of our board of directors.

Pursuant to the employment agreement, as amended between us and Ron Farrell, the following post-termination payments would be payable to Mr. Farrell as of December 31, 2006 if such termination event occurred:

	Salary	Health and Welfare Benefits	Other
Termination due to death of the executive	\$ 626,000	\$ 41,000	\$ 27,000
Termination with cause	0	0	0
Termination without cause	1,607,000	82,000	63,000
Termination due to change of control	1,607,000	82,000	63,000

The term "cause" means gross negligence, gross malfeasance or willful disregard for duty in the performance of the Employment Agreement, other than as a result of Executive's part shall be considered willful, unless done, or omitted to be done, by him not in good faith and without reasonable belief that this action or omission was in the best interest of the Corporation.

The phrase "change of control" refers to the sale of the company, removal of executive as Chairman of Board, or one person or group gaining a majority 51% interest in the company or a majority of the members of the board of directors of the company.

**Compensation Committee Interlocks and Insider Participation**

Our compensation committee consists of Messrs. Toole and Logsdon and Dr. Verbrugge. None of the members of our compensation committee has ever been, at any time since the time of our formation, one of our officers or employees. None of our executive officers currently serves or in the past has served as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving on our board of directors or compensation committee.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters  
Equity Compensation Plan Information**

The following table sets forth information regarding equity compensation plans under which our common stock is authorized for issuance as of December 31, 2006.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans
Equity compensation plans approved by security holders: (1)	500,000	\$ 3.48	1,000,000
Equity compensation plans not approved by security holders: (2)	748,737	\$ 5.36	0



Total	1,248,737	\$ 4.61	256,500
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- (1) Represents options available for grant pursuant to our 2004 Stock Incentive Plan, which was approved by our shareholders on October 13, 2004 and then amended in 2006 to include an additional 1,000,000 shares for a total of 1,500,000 shares.
- (2) Includes options and warrants to purchase common stock granted under plans not approved by our shareholders. The material features of such plans are set forth below:
- (a) On January 1, 2002, we issued Ronald G. Farrell pursuant to an employment agreement between Mr. Farrell and the Company an option to purchase 300,000 shares of common stock at an initial exercise price of \$0.04 per share, which became exercisable as to 100,000 shares on each of December 31, 2002, December 31, 2003 and December 31, 2004, and expires on January 1, 2012. Upon the Exchange and Recapitalization, this option was exchanged for an option to purchase 97,087 shares of common stock at an exercise price of \$0.12 per share.
  - (b) In July 2002, we issued to one of our lenders a warrant to purchase 50,000 shares of common stock at an initial exercise price of \$1.00 per share exercisable in its entirety on the date of grant. Upon the Exchange and Recapitalization, this option was exchanged for an option to purchase 16,181 shares of common stock at an exercise price of \$2.09 per share.
  - (c) On February 8, 2005, we issued to our underwriters for our initial public offering options to purchase an aggregate of 180,000 shares of common stock at an exercise price of \$7.08 per share, which options expire on February 8, 2010.
  - (d) On February 8, 2005, we issued to our underwriter for our initial public offering options to purchase an aggregate of 180,000 warrants, each exercisable for one share of common stock. The options have an exercise price of \$.15 per warrant and, upon issuance, the warrants will have an exercise price of \$7.20 per share. The options and warrants, if issued, expire on February 8, 2010.
  - (e) On April 26, 2005, we issued to a public relations firm in exchange for services rendered by the firm to us a warrant to purchase 25,000 shares of common stock at an exercise price of \$6.00 per share. The warrant expires on April 26, 2008.
  - (f) On December 21, 2005, we issued to our placement agent for our private placement which occurred in September and October 2005 warrants to purchase an aggregate of 250,469 shares of common stock at an exercise price of \$4.80 per share. The warrants expire on December 21, 2008.

#### Beneficial Ownership

The following table sets forth information regarding the beneficial ownership of the common stock as of April 26, 2007 by (i) each person or group of persons known to us to beneficially own more than 5% of the outstanding shares of common stock; (ii) each of our directors; (iii) each of our Named Executive Officers; and (iv) all our executive officers and directors as a group. All beneficial



ownership information reported below is based upon publicly available information and certain additional information known to us.

Name of Beneficial Owner	Common Stock <sup>(1)</sup>	
	Number of Shares Beneficially Owned	Percent of Class <sup>(2)</sup>
Ronald G. Farrell	860,724 <sup>(3)</sup>	24.3%
Kaizen Management, L.P. <sup>(4)</sup>	351,332 <sup>(5)</sup>	9.9%
Michael F. Bennett	194,984 <sup>(6)</sup>	5.8
James A. Logsdon	8,333 <sup>(7)</sup>	*
Robert K. Mills	61,145 <sup>(8)</sup>	*
L. K. Toole	8,333 <sup>(9)</sup>	*
James A. Verbrugge	8,333 <sup>(10)</sup>	*
All directors and executive officers as a group (5 persons)	946,869 <sup>(11)</sup>	24.3%

Director of the Company

Officer of the Company

\* Less than 1% of the issued and outstanding shares of the common stock.

(1) Unless otherwise noted, all of the shares shown are held by individuals or entities possessing sole voting and investment power with respect to such shares. Shares not outstanding but deemed beneficially owned by virtue of the right of a person or member of a group to acquire them within 60 days of April 30, 2007, are treated outstanding only when determining the amount and percentage owned by such individual or group.

(2) In accordance with regulations of the SEC, the percentage calculations are based on 3,503,280 shares of common stock issued and outstanding as of April 26, 2007, plus shares of common stock which may be acquired within 60 days of April 30, 2007 by each individual or group listed.

(3) Includes 711,974 shares of common stock held by R.G.F. Investments, Inc., a corporation in which Mr. Farrell is the sole shareholder, officer and director, over which shares Mr. Farrell may be deemed to have sole investment and voting power and 97,087 shares of common stock held by Mr. Farrell's spouse, over which shares Mr. Farrell disclaims beneficial ownership.

(4) On December 4, 2006, a Schedule 13D was jointly filed by the following reporting persons: Kaizen Management, L.P.; Kaizen Capital, L.L.C.; Select Contrarian Value Partners, L.P. and David W. Barry. The principal business office of such reporting persons is 4200 Montrose Blvd., Suite 510, Houston, Texas 77006.

(5) Includes 89,336 shares of common stock. Additionally, the reporting person owns a 10% convertible promissory note which is convertible into 312,500 shares of common stock and a warrant which is exercisable into 156,250 shares of common stock. Pursuant to the terms of the note and warrant, the note may not be converted, and the warrant may not be exercised, if such conversion or exercise would result in the reporting person owning greater than 9.99% of the common stock.

- (6) Includes 36,408 shares of common stock held by Southwick Capital, LLC, a limited liability company controlled by Mr. Bennett, over which shares Mr. Bennett may be deemed to have shared investment and voting power.
- (7) Represents 8,333 shares of common stock issuable upon exercise of an option.
- (8) Represents 5,208 shares of common stock issuable upon conversion of a 10% convertible promissory note with an aggregate value of \$25,000 purchased and 2,604 shares of common stock issuable upon exercise of a warrant held by Mr. Mills, and 43,333 shares of common stock issuable upon exercise of an option.
- (9) Represents 8,333 shares of common stock issuable upon exercise of an option.
- (10) Represents 8,333 shares of common stock issuable upon exercise of an option.
- (11) Represents 86,145 shares of common stock issuable upon exercise of an option.

**Item 13. Certain Relationships and Related Transactions and Director Independence**  
**Related Party Transactions**

*Employment Agreements*

A description of the employment agreements between each of the Named Executive Officers and us is set forth in Item 11 of this Annual Report.

*Indebtedness of Management*

Pursuant to Mr. Farrell's employment agreement with us, Mr. Farrell, our Chief Executive Officer and President, 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 prior to our initial public offering, he agreed to forfeit \$290,000 of such bonus and accept a cash bonus of \$145,000. At the time Mr. Farrell agreed to such change in his compensation, we had already paid to Mr. Farrell \$245,000 with respect to his 2004 bonus. Accordingly, Mr. Farrell agreed to repay to us \$100,000 pursuant to the terms of a promissory note issued by Mr. Farrell to us dated December 31, 2004, which bears interest at a rate of 2.48% per year and was payable on December 31, 2006. The note was paid in full in December of 2006 by tender of 45,424 shares of common stock, in accordance with the terms of the note.

*Exchange and Recapitalization*

Pursuant to the Exchange and Recapitalization, R.G.F. Investments, Inc. (of which Mr. Farrell is the sole director, officer and shareholder) and its affiliates exchanged 2,500,000 shares of common stock held by them immediately prior to the recapitalization for 809,061 shares of common stock upon completion of the Exchange and Recapitalization. In connection with the Exchange and Recapitalization, Mr. Farrell also exchanged an option to purchase 300,000 shares of common stock at an exercise price of \$0.04 per share for an option to purchase 97,087 shares of common stock at an exercise price of \$0.12 per share.

**Indemnification Agreements**

We have entered into indemnification agreements with our directors pursuant to which we will indemnify them to the fullest extent permitted by applicable law if 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 were or are serving as an officer or director of the Company or were or are serving at our request as an agent of any other entity.

**Private Placement**

Robert K. Mills, our Chief Financial Officer, invested \$25,000 in our 2005 private placement and was issued a 10% convertible promissory note in principal amount of \$25,000 and a warrant to purchase 2,604 shares of common stock.

Michael F. Bennett, who owns more than 5% of the outstanding shares of common stock, invested \$100,000 in our 2005 private placement through Southwick Capital LLC, which is controlled by Mr. Bennett. In connection with the 2005 private placement, we issued to Southwick Capital LLC a 10% convertible promissory note in principal amount of \$100,000 and a warrant to purchase 10,416 shares of common stock.

**Review, Approval or Ratification of Transactions with Related Persons**

It is an unwritten policy and practice of the board of directors, which is not otherwise evidenced, that all transactions which would be required to be reported pursuant to this Item 13 must be reviewed and approved by the audit committee before the Company enters into such transaction.

**Director Independence**

The board of directors has determined that three of the four members of the Board Messrs. Logsdon, Toole and Verbrugge are independent under the rules and regulations of The Nasdaq Stock Market LLC.

**Item 14. Principal Accountant Fees and Services**

On July 20, 2004, we engaged Miller Ray Houser & Stewart LLP ( MRH&S ) as our independent registered public accounting firm to audit our financial statements in preparation for our initial public offering and for the year ended December 31, 2004. On December 21, 2005, we engaged Tauber & Balsler, P.C. ( Tauber ) as our independent registered public accounting firm to audit our financial statements for the years ended December 31, 2005, and December 31, 2006.

	Miller, Ray, Houser & Stewart LLP		Tauber & Balsler, P.C.	
	Year ended	Year ended	Year ended	Year ended
	December 31,	December 31,	December 31,	December 31,
	2005	2006	2005	2006
Audit Fees	\$ 34,541	\$ 0	\$ 220,674	\$ 179,052
Audit Related Fees (1)	\$ 10,175	\$ 0	\$ 0	\$ 14,000
Tax Fees (2)	\$ 2,000	\$ 0	\$ 0	\$ 0
All Other Fees (3)	\$ 5,850	\$ 5,555	\$ 0	\$ 16,600

Total Fees	\$ 52,566	\$ 5,555	\$ 220,674	\$ 209,652
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- (1) These fees relate primarily to due diligence pertaining to acquisitions, audits of employee benefit plans, and accounting consultations.
- (2) These fees relate to 2005 tax return extensions.
- (3) These fees relate primarily for consents related to consultation services, SEC registration statements and special transactions

**Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditors**

The audit committee is required to pre-approve the audit and non-audit services performed by the Company's independent auditors. The audit committee has adopted a policy which provides for general pre-approval of specified Audit, Audit-Related, Tax and Other Services that do not exceed enumerated dollar amounts. The policy also provides that, unless a type of service to be provided by the independent auditors has received general pre-approval, it will require specific pre-approval by the audit committee.

The audit committee has determined the Audit, Audit-Related, Tax and Other Services that are the basis for general pre-approval by the audit committee. The enumerated dollar amounts at which such general pre-approval will apply are currently under consideration by the audit committee. Until the audit committee has determined such enumerated dollar amounts, all services performed by the Company's independent auditors will require the specific pre-approval of the audit committee.

**SIGNATURE**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report on Form 10-K/A to be signed on its behalf by the undersigned, thereunto duly authorized.

**TRI-S SECURITY CORPORATION**

By: /s/ Robert K. Mills  
Robert K. Mills  
*Chief Financial Officer*

Date: April 30, 2007