

CHINA SECURITY & SURVEILLANCE TECHNOLOGY, INC.

Form 10-Q/A

November 01, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A
AMENDMENT NO. 1

(Mark One)

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

For the quarterly period ended: March 31, 2007

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

For the transition period from _____ to _____

Commission File Number: 000-25901

CHINA SECURITY & SURVEILLANCE TECHNOLOGY, INC.

(Exact name of small business issuer as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

98-0509431

(I.R.S. Empl. Ident. No.)

**13/F, Shenzhen Special Zone Press Tower, Shennan Road
Futian District, Shenzhen, China 518034**

(Address of principal executive offices, Zip Code)

(86) 755-8351-0888

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

The number of shares outstanding of each of the issuer's classes of common equity, as of May 10, 2007 is as follows:

Class of Securities	Shares Outstanding
Common Stock, \$0.0001 par value	34,942,206

EXPLANATORY NOTE

China Security & Surveillance Technology, Inc. (the "Company") is filing this Amendment No. 1 on Form 10-Q/A solely to correct for certain typographical error contained in the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2007, as filed with the U.S. Securities and Exchange Commission on May 15, 2007 (the "Original Filing").

The correction is located under "ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS Results of Operations - Three Months Ended March 31, 2007 Compared to Three Months Ended March 31, 2006" contained in the last paragraph of page 21 of the Original Filing, wherein the Company stated that "[t]he remaining 23 projects had not been started as of March 31, 2007, and the value of these backlog projects was approximately \$21.9 million. During the first quarter of 2007, the Company also completed implementation of 31 contracts signed in 2006 (representing all of the contracts that had been signed, but not yet implemented, during 2006), and recognized the revenue of\$22.4 million deferred from 2006 related to those contracts." The sentence has now been corrected to read "[t]he remaining 23 projects had not been finished as of March 31, 2007, and the value of these backlog projects was approximately \$21.9 million. During the first quarter of 2007, the Company also completed implementation of 31 contracts signed in 2006 (representing all of the contracts that had been signed, but not yet fully implemented, during 2006), and recognized the revenue of\$22.4 million deferred from 2006 related to those contracts. "

No other information in the Original Filing is amended hereby. This Form 10-Q/A continues to describe conditions as of the date of the Original Filing, and accordingly, the Company has not updated the disclosures contained herein to reflect events that occurred at a later date.

As required by Rule 12b-15 promulgated under the Securities Exchange Act of 1934, as amended, the Company's principal executive officer and principal financial officer are providing Rule 13a-14(a) certifications in connection with this Form 10-Q/A (but otherwise identical to their prior certifications) and are also furnishing, but not filing, Rule 13a-14(b) certifications in connection with this Form 10-Q/A (but otherwise identical to their prior certifications).

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Special Note Regarding Forward Looking Statements

This Quarterly Report on Form 10-Q, including the following "Management's Discussion and Analysis of Financial Condition and Results of Operations," contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such statements include, among others, those concerning our expected financial performance and strategic and operational plans, as well as all assumptions, expectations, predictions, intentions or beliefs about future events. You are cautioned that any such forward-looking statements are not guarantees of future performance and that a number of risks and uncertainties could cause actual results of the Company to differ materially from those anticipated, expressed or implied in the forward-looking statements. The words "believe," "expect," "anticipate," "project," "targets," "optimistic," "intend," "aim," "will" or similar expressions are intended to identify forward-looking statements. All statements other than statements of historical fact are statements that could be deemed forward-looking statements. Risks and uncertainties that could cause actual results to differ materially from those anticipated include risks related to new and existing products; any projections of sales, earnings, revenue, margins or other financial items; any statements of the plans, strategies and objectives of management for future operations; any statements regarding future economic conditions or performance; uncertainties related to conducting business in China; any statements of belief or intention; any of the factors mentioned in the "Risk Factors" section of our Annual Report on Form 10-K for the year ended December 31, 2006, and other risks mentioned in this Form 10-Q. The Company assumes no obligation and does not intend to update any forward-looking statements, except as required by law.

Use of terms

Except as otherwise indicated by the context, references in this Form 10-Q to "CSST," "we," "us," "our," "our Company," or "the Company" are to China Security & Surveillance Technology, Inc., a Delaware corporation and its consolidated subsidiaries. Unless the context otherwise requires, all references to (i) "Safetech" are to China Safetech Holdings Limited, a British Virgin Islands corporation; (ii) "CSST HK" are to China Security & Surveillance Technology (HK) Ltd., a Hong Kong corporation; (iii) "CSST China" are to China Security & Surveillance Technology (PRC) Ltd., a corporation incorporated in the People's Republic of China; (iv) "Golden" are to Golden Group Corporation (Shenzhen) Limited, a corporation incorporated in the People's Republic of China; (v) "Cheng Feng" are to Shanghai Cheng Feng Digital Technology Co. Ltd.; (vi) "Hongtianzhi" are to Shenzhen Hongtianzhi Electronics Co., Ltd.; (vii) "BVI" are to British Virgin Islands; (viii) "PRC" and "China" are to the People's Republic of China; (ix) "U.S. dollar," "\$" and "US\$" are to United States dollars; (x) "RMB" are to Yuan Renminbi of China; (xi) "Securities Act" are to the Securities Act of 1933, as amended; and (xii) "Exchange Act" are to the Securities Exchange Act of 1934, as amended.

Overview

During the first quarter of 2007, we experienced solid growth in sales. Sales revenue increased from \$14.6 million for the first quarter of 2006 to \$38.5 million for the first quarter of 2007, representing a 163.5% increase. The cost of sales was \$28.3 million. As a result, gross margin (the ratio of gross profit to revenue, expressed as a percentage) for the

first quarter of 2007 was 26.3%.

The following are some highlights for the first quarter of 2007:

- Achieved revenues of \$38.5 million for the first quarter of 2007, up 163.5% from the same quarter of last year.
- Gross margin was 26.3% for the first quarter of 2007, compared to 30.1% for the same period in 2006. Such decrease was mainly due to the increased competition and the Company's strategy to lower its selling price to attract more customers and penetrate into new markets.
- Income from operations was \$6.5 million for the first quarter of 2007, up from \$3.9 million of the same period last year, representing an increase of 66.5%.
- Fully diluted income from operations per share was \$0.19 for the first quarter of 2007.
- Operating margin (the ratio of income from operations to revenues, expressed as a percentage) was 16.8% for the first quarter of 2007, compared to 26.6% during the same period in 2006.
- Net income was \$4.5 million for the first quarter of 2007, up 29.5% from the same period of last year.
- Net margin (the ratio of net income to revenues, expressed as a percentage) was 11.7% for the first quarter of 2007, compared to 24.0% for the same period in 2006.
- Fully diluted net income per share was \$0.13 for the first quarter of 2007.
- Non-cash items included (i) the redemption accretion on convertible notes of \$1.16 million, (ii) depreciation and amortization of \$0.8 million, and (iii) non-cash employee compensation expense of \$0.27 million for the first quarter of 2007. Total non-cash items are \$2.23 million, an increase of \$2.13 million, or 2090.2%, from \$0.1million for the same quarter of last year.

The following table summarizes the Company's non-cash components during the three months ended March 31, 2007 and 2006:

All amounts, other than for share and per share amounts, in thousands of U.S. dollars

<u>Non-cash items</u>	Three Months Ended March 31,		Increase(Decrease)
	2007	2006	
Depreciation and amortization	\$ 806	\$ 102	704
Non-cash employee compensation	265	-	265
Redemption accretion on convertible notes	1,163	-	1,163
Total	2,234	102	2,132
<u>Non-cash items per share - basic</u>			
Depreciation and amortization	\$ 0.0243	\$ 0.0047	0.0196
Non-cash employee compensation	0.0080	-	0.0080
Redemption accretion on convertible notes	0.0351	-	0.0351

Total non-cash items per share - basic	\$	0.0674	\$	0.0047	0.0627
<u>Non-cash items per share - diluted</u>					
Depreciation and amortization	\$	0.0235	\$	0.0047	0.0188
Non-cash employee compensation		0.0077		-	0.0077
Redemption accretion on convertible notes		0.0339		-	0.0339
Total non-cash items per share - diluted	\$	0.0651	\$	0.0047	0.0604

Weighted average number of shares outstanding

Basic	33,108,640	21,591,333
Diluted	34,268,180	21,642,536

Our Business

We manufacture, distribute, install and service security and surveillance products and systems and develop security and surveillance related software in China. Our customers mainly comprise (i) governmental entities (including customs agencies, courts, public security bureaus and prisons), (ii) non-profit organizations (including schools, museums, sports arenas and libraries) and (iii) commercial entities (including airports, hotels, real estate, banks, mines, railways, supermarkets and entertainment venues). These account for approximately 40%, 10% and 50% of revenues, respectively.

A majority of our revenue is derived from the provision of a packaged solution which includes the products, installation and after sale service maintenance to our customers. Because a majority of our revenues is derived from the installation of security and surveillance systems for our customers which are generally non-recurring, our revenues are not concentrated within any one customer or group of customers. Maintenance services in our packaged solution are included for the first year from the date of completion. Our customers have an option to sign up for our maintenance program after the first year.

Our subsidiary Golden has 37 branch offices in provincial cities, Cheng Feng has 22 distribution points and Hongtianshi has 53 distribution points throughout China as our customers are located across the country without any particular concentration in any region.

Recent Developments

On April 2, 2007, our Company and our subsidiary Safetech entered into an Equity Transfer Agreement with Zheng Huang, the sole owner of Chain Star Investments Limited ("Chain Star"), pursuant to which Safetech purchased 100% ownership of Chain Star from Mr. Huang. Chain Star, a Hong Kong company, is a holding company owning 100% of the equity interests in Hongtianshi, a PRC company engaged in the business of manufacturing digital cameras. Pursuant to the terms of the Equity Transfer Agreement, we agreed to pay a total consideration of RMB 250 million (approximately \$32 million) in exchange for 100% ownership of Chain Star, consisting of RMB 125 million (approximately USD\$16 million) in cash and RMB 125 million (approximately \$16 million) in shares of the Company's common stock. Please see our Current Report on Form 8-K filed on April 2, 2007, for more details.

On April 24, 2007, we entered into a Notes Purchase Agreement with Citadel Equity Fund Ltd. ("Citadel), pursuant to which we issued to Citadel \$50 million principal amount of guaranteed senior unsecured convertible notes due 2012. The notes bear an annual interest rate of 1% which will be paid semi-annual and carry an initial conversion price of \$23.60 per share. If the notes are not converted before their maturity, the notes will be redeemed by the Company on the maturity date at a redemption price equal to 100% of the principal amount of the notes then outstanding plus an additional amount of 15.0% per annum, calculated on a quarterly compounded basis, plus any accrued and unpaid

interest. The net proceeds of the sale of the notes will be used for our working capital and acquisition plan. Please see our Current Report on Form 8-K filed on April 25, 2007 for more details.

On May 11, 2007, our Company and Safetech entered into an Equity Transfer Agreement with Yi Li, the sole owner of Link Billion Investment Limited ("Link Billion"), pursuant to which Safetech purchased 100% ownership of Link Billion from Mr. Li. Link Billion, a Hong Kong company, is a holding company owning 100% of the equity interests in HiEasy Electronic Technology Development Co., Ltd. ("HiEasy"), a PRC company engaged in the business of software development and assembly of DVR systems. Pursuant to the terms of the Equity Transfer Agreement, we will pay total consideration of RMB 40 million (approximately \$5.17 million) and 811,804 shares of our common stock in exchange for 100% ownership of Link Billion. The cash consideration of RMB 40 million was due upon execution of the Equity Transfer Agreement. The Company shall issue all 811,804 shares of the Company's common stock within 90 days after the date of the Equity Transfer Agreement.

Material Opportunities and Challenges

Regulations promulgated by governmental agencies in China relating to security and surveillance industry often create opportunities for us. Currently, there are a number of formal and planned regulatory drivers which the Company believes offer significant growth opportunities. These include the estimated \$6 billion to \$12 billion that the Chinese government expects to spend for security infrastructure in preparation for the 2008 Olympics, along with the planned investment by Shanghai for the 2010 Worlds Fair. In addition, several ordinances have been passed by the Chinese government which require security surveillance systems to be installed in: (1) 660 cities throughout China for street surveillance as part of the Safe City Project "Plan 3111"; (2) all entertainment locations starting from March 1, 2006; (3) all Justice Departments and Courts; and (4) all coal mines in China (currently estimated at 24,000) from the beginning of 2008.

We are actively pursuing near-term acquisition prospects and other strategic opportunities. In the past twelve months, we successfully acquired Cheng Feng and Hongtianshi and the security and surveillance business of Jian Golden An Ke Technology Co. Ltd., Shenzhen Golden Guangdian Technology Co. Ltd., Shenyang Golden Digital Technology Co. Ltd., and Jiangxi Golden Digital Technology Co. Ltd. (referred to herein as the "Four-Related Companies"). In May 2007, we acquired HiEasy. We also expect to close the acquisitions of Changzhou Minking Electronics Inc. Ltd., Hangzhou Tsingvision Intelligence System Co. Ltd., and Shenzhen Wandaiheng Industry Ltd. in 2007 and establish an exclusive cooperation relationship with Shenzhen Chuang Guan Intelligence Network Technology Co., Ltd. ("Chuang Guan") in the second quarter of 2007 under which, among other things, Chuang Guan will subcontract or assign certain of its businesses to us to the extent permitted by applicable PRC laws and regulations.

We have a government policy monitoring group within the Company that regularly monitors changes in governmental regulations affecting the security and surveillance industry in China. If we determine that a new regulation or a change to an existing regulation presents an opportunity for us, we will actively pursue such opportunity. As a result, we act promptly on policy changes and are able to turn them into business opportunities.

We also face the long-term challenge of maintaining our rapid growth. In addition to maintaining the growth of our existing businesses, we will employ an acquisition strategy. In addition, to promote the continued growth of the group, we plan to explore others areas related to the security and surveillance industry (including, but not limited to, the fire and alarm sectors, access control, and related security and surveillance services) and recurring revenue business models within our existing business sectors.

Results of Operations

Three Months Ended March 31, 2007 Compared to Three Months Ended March 31, 2006

The following table summarizes the results of our operations during the three-month periods ended March 31, 2007 and 2006, and provides information regarding the dollar and percentage increase or (decrease) from the three-month period ended March 31, 2007 to the three-month period ended March 31, 2006.

All amounts, other than percentages, in millions of U.S. dollars

Item	3 Months Ended March 31,		Increase (Decrease)	% Increase (% Decrease)
	2007	2006		
Revenue	\$ 38.45	\$ 14.59	\$ 23.86	163.5%
Cost of Goods Sold	28.33	10.20	18.13	