

CHINA SECURITY & SURVEILLANCE TECHNOLOGY, INC.
Form 10-Q
July 26, 2010

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

FORM 10 Q

(Mark One)

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

For the quarterly period ended: **June 30, 2010**

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: **001-33774**

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T

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(§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer Accelerated Filer
Non-Accelerated Filer (Do not check if a smaller reporting company) Smaller reporting company

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 July 22, 2010 is as follows:

Class of Securities	Shares Outstanding
<u>Common Stock, \$0.0001 par value</u>	<u>86,652,168</u>

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PART I
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

CHINA SECURITY & SURVEILLANCE TECHNOLOGY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF JUNE 30, 2010 (UNAUDITED) AND DECEMBER 31, 2009

Expressed in thousands of U.S. dollars
(Except for share and per share amounts)

ASSETS

	June 30, 2010	December 31, 2009
Cash and cash equivalents	\$ 208,067	\$ 154,483
Accounts receivable, net	318,912	251,604
Inventories, net	80,392	70,141
Prepayments and deposits	4,891	4,706
Advances to suppliers	71,562	39,399
Other receivables	30,908	26,692
Deferred tax assets - current portion	5	13
Total current assets	714,737	547,038
Deposits paid for acquisition of subsidiaries, properties and intangible assets	37,467	7,199
Plant and equipment, net	74,320	75,447
Land use rights, net	7,738	7,733
Intangible assets	51,786	54,677
Goodwill	79,511	79,511
Deferred financing cost	2,597	1,953
TOTAL ASSETS	\$ 968,156	\$ 773,558

Continued

CHINA SECURITY & SURVEILLANCE TECHNOLOGY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)
AS OF JUNE 30, 2010 (UNAUDITED) AND DECEMBER 31, 2009

Expressed in thousands of U.S. dollars
(Except for share and per share amounts)

LIABILITIES AND EQUITY

	June 30, 2010	December 31, 2009
CURRENT LIABILITIES		
Notes payable	\$ 149,464	\$ 57,116
Obligations under product financing arrangements short term	7,723	5,184
Guaranteed senior unsecured notes payable short term	36,557	35,701
Accounts and bills payable	76,300	68,817
Accrued expenses	19,413	26,762
Advances from customers	31,607	27,503
Taxes payable	23,499	14,835
Payable for acquisition of businesses, properties and land use rights	4,683	5,105
Deferred income	2,407	1,868
Total current liabilities	351,653	242,891
LONG TERM LIABILITIES		
Obligation under product financing arrangements long term	8,884	6,541
Guaranteed senior unsecured notes payable long term	25,493	43,988
Net deferred tax liabilities	403	773
Total liabilities	386,433	294,193
EQUITY		
Preferred stock, \$0.0001 par value; 10,000,000 shares authorized, 0 shares issued and outstanding		
Common stock, \$0.0001 par value; 290,000,000 shares authorized 86,297,168 (June 30, 2010) and 67,866,730 (December 31, 2009) shares issued and outstanding	9	7
Additional paid-in capital	362,977	285,025
Retained earnings	187,062	165,982
Statutory surplus reserve fund	804	804
Accumulated other comprehensive income	30,887	27,565
Total equity of the Company	581,739	479,383
Noncontrolling interest	(16)	(18)
Total equity	581,723	479,365
TOTAL LIABILITIES AND EQUITY	\$ 968,156	\$ 773,558

See the accompanying notes to condensed consolidated financial statements

CHINA SECURITY & SURVEILLANCE TECHNOLOGY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2010 AND 2009

Expressed in thousands of U.S. dollars
(Except for share and per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenues	\$ 168,354	\$ 141,915	\$ 288,544	\$ 238,331
Cost of goods sold (including depreciation and amortization for the three and six months ended June 30, 2010 and 2009 of \$248, \$502, \$238 and \$479, respectively)	124,994	110,899	216,205	182,289
Gross profit	43,360	31,016	72,339	56,042
Selling and marketing	3,131	3,034	5,845	5,748
General and administrative (including non-cash employee compensation for the three and six months ended June 30, 2010 and 2009 of \$5,055, \$13,381, \$4,358 and \$8,576, respectively)	12,670	12,500	28,992	24,007
Depreciation and amortization	3,005	2,910	5,985	5,732
Income from operations	24,554	12,572	31,517	20,555
Interest income	53	57	131	86
Interest expense	(3,064)	(6,580)	(5,359)	(12,617)
Other income, net	394	1,000	640	1,229
Income before income taxes	21,937	7,049	26,929	9,253
Income taxes	(4,130)	(551)	(5,847)	(753)
Net income	17,807	6,498	21,082	8,500
Add: Net (income) loss attributable to the noncontrolling interest	(4)	3	(2)	14
Net income attributable to the Company	17,803	6,501	21,080	8,514
Foreign currency translation gain (loss)	3,198	(162)	3,322	(108)
Comprehensive income attributable to the Company	21,001	6,339	24,402	8,406
Comprehensive income (loss) attributable to the noncontrolling interest	4	(3)	2	(14)
COMPREHENSIVE INCOME	\$ 21,005	\$ 6,336	\$ 24,404	\$ 8,392

NET INCOME PER SHARE
ATTRIBUTABLE

**TO THE COMPANY'S COMMON
SHAREHOLDERS**

BASIC	\$	0.25	\$	0.14	\$	0.31	\$	0.19
DILUTED	\$	0.23	\$	0.13	\$	0.29	\$	0.17
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING								
BASIC		71,480,000		45,455,000		67,993,000		45,411,000
DILUTED		76,006,000		50,022,000		72,209,000		49,694,000

See the accompanying notes to condensed consolidated financial statements

CHINA SECURITY & SURVEILLANCE TECHNOLOGY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2010 (UNAUDITED)

Expressed in thousands of U.S. dollars
(Except for share and per share amounts)

	Common Stock		The Company's Shareholders					Noncontrolling Interest	Total Equity
	Shares	Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Statutory Surplus Reserve Fund			
BALANCE AT									
JANUARY 1, 2010	67,866,730	\$ 7	\$ 285,025	\$ 165,982	\$ 27,565	\$ 804	(18)	\$ 479,365	
Common stock issued in public offering, net of offering costs	17,250,000	2	64,571	--	--	--	--	64,573	
Issuance of restricted stock under Equity Incentive Plan and recognition of stock-based compensation	1,180,438	--	13,381	--	--	--	--	13,381	
Foreign currency translation gain	--	--	--	--	3,322	--	--	3,322	
Net income for the period	--	--	--	21,080	--	--	2	21,082	
BALANCE AT									
JUNE 30, 2010	86,297,168	\$ 9	\$ 362,977	\$ 187,062	\$ 30,887	\$ 804	(16)	\$ 581,723	

See the accompanying notes to condensed consolidated financial statements

CHINA SECURITY & SURVEILLANCE TECHNOLOGY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009 (UNAUDITED)

Expressed in thousands of U.S. dollars
(Except for share and per share amounts)

	Six Months Ended June 30,	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 21,082	\$ 8,500
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Provision for doubtful accounts	--	1,396
Depreciation and amortization	6,487	6,211
Amortization of consultancy services	--	11
Amortization of deferred financing cost	563	221
Non-cash employee compensation	13,381	8,576
Redemption accretion on convertible notes	--	10,952
Debt discount amortization	1,681	--
Deferred taxes	(361)	45
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(65,925)	(30,919)
Inventories	(9,866)	(2,733)
Prepayments and deposits	(159)	910
Advances to suppliers	(31,947)	(19,685)
Other receivables	(4,070)	4,104
(Decrease) increase in:		
Accounts and bills payable, and accrued expenses	(392)	(91)
Advances from customers	3,953	31,526
Taxes payable	8,582	(1,077)
Deferred income	529	(192)
Net cash (used in) provided by operating activities	(56,462)	17,755
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to plant and equipment	(846)	(2,698)
Additions to intangible assets	(807)	(1,402)
Deposits paid for acquisition of subsidiaries	(30,229)	(250)
Payments for business acquisitions	(422)	(3,356)
Net cash inflow from acquisition of subsidiaries	--	273
Net cash used in investing activities	(32,304)	(7,433)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issue of common stock, net of issuing expenses	64,573	--
Proceeds from borrowings, net of issuance costs	141,533	40,978
Repayment of borrowings	(49,899)	(8,774)
Repayment of guaranteed senior unsecured notes payable	(19,320)	--
Proceeds from borrowings from obligations under product financing arrangements, net of issuance costs	6,293	891
Repayment of obligation under product financing arrangements	(2,671)	(1,443)
Net cash provided by financing activities	140,509	31,652
NET INCREASE IN CASH AND CASH EQUIVALENTS	51,743	41,974
Effect of exchange rate changes on cash and cash equivalents	1,841	(284)

Cash and cash equivalents, beginning of period	154,483	47,779
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 208,067	\$ 89,469

Continued

**CHINA SECURITY & SURVEILLANCE TECHNOLOGY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009**

**Expressed in thousands of U.S. dollars
(Except for share and per share amounts)**

SUPPLEMENTARY CASH FLOW INFORMATION:	Six Months Ended June 30,	
	2010	2009
	(Unaudited)	(Unaudited)
Interest paid	\$ 3,157	\$ 1,333
Income taxes paid	\$ 735	\$ 1,077

SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:

139,573 shares of common stock were issued in satisfaction of a payable of approximately \$906 related to the acquisition of DIT Industry (H.K.) Limited (DIT) in February 2009.

341,228 shares of common stock were issued in satisfaction of the purchase price of approximately \$1,669 in the acquisition of Shenzhen Coson Electronic Co. Ltd. (Coson) in February 2009. Additionally, the Company recorded a liability in the amount of \$1,170 representing the estimated fair value of contingent consideration, to be payable in cash, issued in the acquisition.

See the accompanying notes to condensed consolidated financial statements

CHINA SECURITY & SURVEILLANCE TECHNOLOGY, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Expressed in thousands of U.S. dollars
(Except for share and per share amounts)

1. BASIS OF PRESENTATION

The accompanying financial statements, as of June 30, 2010 and for the three and six months ended June 30, 2010 and 2009, have been prepared by CHINA SECURITY & SURVEILLANCE TECHNOLOGY, INC. (the Company) without an audit. Pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC), certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP) have been condensed or omitted pursuant to such rules and regulations. These financial statements should be read in conjunction with the financial statements and the notes thereto included in the Company's audited annual financial statements for the year ended December 31, 2009, which are included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009, filed with the SEC on March 2, 2010, as amended on March 10, 2010. Amounts as of December 31, 2009 are derived from these audited consolidated financial statements.

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Actual results could differ from these estimates.

In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position as of June 30, 2010, results of operations for the three and six months ended June 30, 2010 and 2009, and cash flows for the six months ended June 30, 2010 and 2009, have been made. The results of operations for the three and six months ended June 30, 2010 are not necessarily indicative of the operating results for the full year.

2. SUMMARY OF SELECTED SIGNIFICANT ACCOUNTING POLICIES

(a) Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Management makes these estimates using the best information available at the time the estimates are made; however actual results could differ materially from those estimates.

(b) Fair Value Measurement

Accounting Standards Codification (ASC) 820 *Fair Value Measurements and Disclosures*, which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The statement clarifies that the exchange price is the price in an orderly transaction between market participants to sell the asset or transfer the liability in the market in which the reporting entity would transact for the asset or liability, that is, the principal or most advantageous market for the asset or liability. It also emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and that market participant assumptions include assumptions about risk and effect of a restriction on the sale or use of an asset.

This ASC establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three

levels of the fair value hierarchy are described below:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2: Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability; and

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

At June 30, 2010, the Company has no financial assets or liabilities subject to recurring fair value measurements.

**CHINA SECURITY & SURVEILLANCE TECHNOLOGY, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**Expressed in thousands of U.S. dollars
(Except for share and per share amounts)**

2. SUMMARY OF SELECTED SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Fair Value Measurement - continued

The Company's financial instruments include cash and cash equivalents, accounts receivable, deposits, other receivables, accounts and bills payable, notes payable, obligations under product financing arrangements, and guaranteed senior unsecured notes payable. Management estimates that the carrying amounts of the non related party financial instruments approximate their fair values due to their short-term nature.

(c) Accounts Receivable

Trade receivables are recognized and carried at the original invoice amount less allowance for any uncollectible amounts. An estimate for doubtful accounts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

No trade receivable due from any single individual customer exceeds 10% of total accounts receivable at June 30, 2010 and December 31, 2009.

From time to time, the Company enters into receivable factoring agreements. The Company accounts for those arrangements under ASC 860 *Transfer and Servicing*. These arrangements are without recourse, the receivables are