CHINA SECURITY & SURVEILLANCE TECHNOLOGY, INC.
Form 10-Q
August 04, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10–Q

(Mark One)

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

For the quarterly period ended: June 30, 2008

oTRANSITION 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	**98-0509431**

(State or other jurisdiction of incorporation or organization)	(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 x No o

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

The number of shares outstanding of each of the issuer s classes of common equity, as of August 1, 2008 is as follows:

Class of Securities	Shares Outstanding
Common Stock, $0.0001 par value	45,122,541

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

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PART I

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

CHINA SECURITY & SURVEILLANCE TECHNOLOGY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

Expressed in thousands of U.S. dollars

(Except for share and per share amounts)

	June 30, 2008 (Unaudited) USD	December 31, 2007 USD
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 88,595	$ 89,071
Accounts receivable, net	95,950	63,206
Related party receivables	214	549
Inventories, net	40,616	40,606
Prepayments and deposits	4,979	3,225
Advances to suppliers	8,699	2,877
Other receivables	12,090	13,171
Tax refundable	--	92
Deferred tax assets - current portion	128	137
Total current assets	251,271	212,934
Deposits for acquisition of subsidiaries, intangible assets and properties	36,395	46,443
Property, plant and equipment, net	34,436	24,066
Land use rights, net	2,611	1,379
Intangible assets	54,229	39,800
Goodwill	82,349	52,369
Deferred financing cost	132	150
Deferred tax assets - non-current portion	257	262
TOTAL ASSETS	$ 461,680	$ 377,403

See the accompanying notes to condensed consolidated financial statements

CHINA SECURITY & SURVEILLANCE TECHNOLOGY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

Expressed in thousands of U.S. dollars

(Except for share and per share amounts)

	June 30, 2008 (Unaudited) USD	December 31, 2007 USD
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Notes payable - short term	$ 5,380	$ 12,814
Accounts payable	32,916	21,864
Accrued expenses	6,614	5,108
Advances from customers	8,013	8,352
Taxes payable	2,381	4,153
Payable for acquisition of business	6,604	--
Deferred income	1,065	915
Total current liabilities	62,973	53,206
LONG-TERM LIABILITIES		
Notes payable - long term	--	698
Convertible notes payable	132,427	123,701
Total liabilities	195,400	177,605
MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES	34	61
SHAREHOLDERS' 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, 45,122,541 (June 30, 2008) and 42,506,150 (December 31, 2007) shares issued and outstanding	5	4
Additional paid-in capital	149,100	110,254
Retained earnings	89,034	76,802
Statutory reserves	804	804
Accumulated other comprehensive income	27,303	11,873
Total shareholders' equity	266,246	199,737
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 461,680	$ 377,403

See the accompanying notes to condensed consolidated financial statements

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CHINA SECURITY & SURVEILLANCE TECHNOLOGY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

Expressed in thousands of U.S. dollars

(Except for share and per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008 (Unaudited) USD	2007 (Unaudited) USD	2008 (Unaudited) USD	2007 (Unaudited) USD
Revenues	$ 92,740	$ 52,125	$ 164,517	$ 90,576
Cost of goods sold				
(including depreciation and amortization for the three and six months ended June 30, 2008 and 2007 of $203, $286, $0 and $0, respectively)	62,284	37,232	111,805	65,565
Gross profit	30,456	14,893	52,712	25,011
Selling and marketing	2,991	855	5,133	1,458
General and administrative	11,084	3,308	18,246	5,559
(including non-cash employee compensation for the three and six months ended June 30, 2008 and 2007 of $3,108, $6,066, $801 and $1,066, respectively)				
Depreciation and amortization	2,130	1,084	3,947	1,890
Income from operations	14,251	9,646	25,386	16,104
Rental income received from related party	--	129	--	256
Interest income	51	143	106	225
Interest expense	(4,786)	(4,105)	(9,649)	(5,424)
Other income, net	367	226	687	718
Income before income taxes and minority interest	9,883	6,039	16,530	11,879
Minority interest in income of consolidated subsidiaries	6	(7)	31	2

Income taxes		(2,153)		(1,767)		(4,329)		(3,083)
Net income		7,736		4,265		12,232		8,798
Foreign currency translation gain		6,926		1,767		15,430		2,562
Comprehensive income	$	14,662	$	6,032	$	27,662	$	11,360
Net income per share								
Basic	$	0.18	$	0.12	$	0.28	$	0.26
Diluted	$	0.17	$	0.11	$	0.28	$	0.24
Weighted average number of shares outstanding								
Basic		43,600,020		35,770,742		43,169,108		34,429,780
Diluted		44,927,620		38,831,023		43,853,283		36,492,123

See the accompanying notes to condensed consolidated financial statements

CHINA SECURITY & SURVEILLANCE TECHNOLOGY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

SIX MONTHS ENDED JUNE 30, 2008 (UNAUDITED)

Expressed in thousands of U.S. dollars

(Except for share and per share amounts)

	Common Stock		Additional		Accumulated Other	Statutory Surplus	
	Shares	Par Value USD	Paid-in Capital USD	Retained Earnings USD	Comprehensive Income USD	Reserve Fund USD	Total USD
BALANCE AT JANUARY 1, 2008	42,506,150	$ 4	$ 110,254	$ 76,802	$ 11,873	$ 804	$ 199,737
Warrants exercised for cash per Securities Purchase Agreement	57,776	--	277	--	--	--	277
Common stock issued under Equity Incentive Plan	499,001	--	6,066	--	--	--	6,066
Forfeiture of restricted stock under Equity Incentive Plan	(27,845)	--	--	--	--	--	--
Common stock issued in connection with Exclusive Cooperation Agreement with Beijing DM Security & Technology Co., Ltd.	136,378	--	2,041	--	--	--	2,041
Common stock issued for acquisition of Guangdong Stonesonic Digital Technique Co., Ltd.	953,918	1	14,489	--	--	--	14,490
Common stock issued for acquisition of Shenzhen Longhorn Security Technology Co., Ltd.	790,502	--	12,030	--	--	--	12,030
Common stock issued for acquisition of Beijing Aurine Divine Land Technology Co., Ltd.	206,661	--	3,943	--	--	--	3,943
Foreign currency translation	--	--	--	--	15,430	--	15,430
Net income for the period	--	--	--	12,232	--	--	12,232
BALANCE AT JUNE 30, 2008	45,122,541	$ 5	$ 149,100	$ 89,034	$ 27,303	$ 804	$ 266,246

See the accompanying notes to condensed consolidated financial statements

CHINA SECURITY & SURVEILLANCE TECHNOLOGY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Expressed in thousands of U.S. dollars

(Except for share and per share amounts)

	Six Months Ended June 30,	
	2008 (Unaudited) USD	2007 (Unaudited) USD
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 12,232	$ 8,798
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	4,233	1,890
Provision for bad debts	125	--
Amortization of consultancy services	67	60
Amortization of deferred financing cost	18	9
Non-cash employee compensation	6,066	1,066
Redemption accretion on convertible notes	8,726	4,975
Deferred taxes	40	8
Minority interest	(31)	(2)
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(25,839)	(4,217)
Related party receivables	371	(109)
Inventories	11,692	(7,602)
Prepayments & deposits	(24)	(2,549)
Advances to suppliers	(4,826)	(1,176)
Other receivables	(1,207)	(658)
(Decrease) increase in:		
Accounts payable and accrued expenses	4,232	(838)
Advances from customers	(3,007)	(4,310)
Taxes payable	(1,896)	856
Deferred income	91	16
Net cash provided by (used in) operating activities	11,063	(3,783)

Continued

CHINA SECURITY & SURVEILLANCE TECHNOLOGY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

Expressed in thousands of U.S. dollars

(Except for share and per share amounts)

	Six Months Ended June 30,	
	2008 (Unaudited) USD	**2007 (Unaudited) USD**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property, plant and equipment	(5,344)	(1,528)
Additions to intangible assets	(1,087)	(15)
Additions to land use rights	--	(565)
Deposits paid for acquisition of subsidiaries	(3,878)	(14,657)
Deposits refunded for acquisition of subsidiaries	11,898	--
Deposits paid for acquisition of properties and intangible assets	(4,424)	(5,366)
Proceeds from disposal of land use rights and properties	3,379	--
Net cash outflow for acquisition of subsidiaries (net of cash acquired in acquisitions)	(8,927)	(30,275)
Net cash used in investing activities	(8,383)	(52,406)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Due to a director	--	(74)
Issuance of common stock, net of issuing expenses	--	2,318
Warrants exercised	277	--
New borrowings, net of issuing cost	4,274	116,291
Repayment of borrowings	(13,855)	(2,055)
Net cash (used in) provided by financing activities	(9,304)	116,480
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	6,148	513
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(476)	60,804
Cash and cash equivalents, beginning of period	89,071	30,980
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 88,595	$ 91,784

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CHINA SECURITY & SURVEILLANCE TECHNOLOGY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

Expressed in thousands of U.S. dollars

(Except for share and per share amounts)

SUPPLEMENTARY CASH FLOW INFORMATION:

Interest paid	$	899	$	210
Income taxes paid	$	2,364	$	2,696

SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:

136,378 shares of common stock were issued in satisfaction of the equity portion of the purchase price of approximately $2,041 in the establishment of the exclusive cooperation agreement with Beijing DM Security & Technology Co., Ltd. ("DM") on January 18, 2008. (Note 11)

953,918 shares of common stock issuable in satisfaction of the equity portion of the purchase price of approximately $14,490 in the acquisition of Guangdong Stonesonic Digital Technique Co., Ltd. ("Stonesonic") were issued on June 4, 2008. (Note 3)

790,502 shares of common stock issuable in satisfaction of the equity portion of the purchase price of approximately $12,030 in the acquisition of Shenzhen Longhorn Security Technology Co., Ltd. ("Longhorn"), were issued on June 4, 2008. (Note 3)

206,661 shares of common stock issuable in satisfaction of the equity portion of the purchase price of approximately $3,943 in the acquisition of Beijing Aurine Divine Land Technology Co., Ltd.. ("Guanling"), were issued on June 4, 2008. (Note 3)

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, 2008 and for the three and six months ended June 30, 2008 and 2007, have been prepared by CHINA SECURITY & SURVEILLANCE TECHNOLOGY, INC. (the "Company" or "CSST") without 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, 2007, which are included in the Company's Annual Report on Form 10-K for the year ended December 31, 2007, filed with the SEC on March 10, 2008. Amounts as of December 31, 2007 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 Company s financial position as of June 30, 2008, results of operations for the three months and six months ended June 30, 2008 and 2007, and cash flows for the six months ended June 30, 2008 and 2007, have been made. The results of operations for the three months and six months ended June 30, 2008 are not necessarily indicative of the operating results for the full year.

2.

SUMMARY OF SELECTED SIGNIFICANT ACCOUNTING POLICIES

(a)

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 receivables due from one individual customer exceeded 10% of total accounts receivable at June 30, 2008 and December 31, 2007.

(b)

Inventories

Inventories are stated at the lower of cost, determined on a weighted average basis, or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and the estimated costs necessary to make the sale.

When inventories are sold, their carrying amount is charged to expense in the year in which the revenue is recognized. Write-downs for declines in net realizable value or for losses of inventories are recognized as an expense in the year the impairment or loss occurs. There were no declines in net realizable value of inventory for the three and six months ended June 30, 2008 and 2007.

During the three months and six months ended June 30, 2008 and 2007, approximately 40%, 37%, 99% and 81%, of total inventory purchases were from five suppliers, respectively.

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)

(c)

Accounting for Computer Software To Be Sold, Leased or Otherwise Marketed

The Company accounts for software development costs in accordance with Statement of Financial Accounting Standards ("SFAS") No. 86, " *Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed* ." Costs related to establishing the technological feasibility of a software product are expensed as incurred as a part of research and development in general and administrative expenses. Costs that are incurred to produce the finished product after technological feasibility is established are capitalized and amortized over the estimated economic life of 5 years. The Company performs periodic reviews to ensure that unamortized program costs remain recoverable from future revenue.

As of June 30, 2008 and December 31, 2007, unamortized computer software costs were $2,921 and $2,383, respectively. During the three and six months ended June 30, 2008 and 2007, $121, $375, $32 and $63 of amortization expense was charged to income, respectively.

(d)

Revenue Recognition

The Company derives the bulk of its revenue from the supply and installation of security and surveillance equipment and the two deliverables do not meet the separation criteria under Emerging Issues Task Force ("EITF") issue 00-21. 99% of the installation contract amount is recognized as revenue when installation is completed. 1% of the contract amount is deferred and amortized to income over the one-year warranty period.

Revenue from sales of security and surveillance video cameras, surveillance equipment and related products are recognized in accordance with Staff Accounting Bulletin ("SAB") No. 104: "*Revenue Recognition*" ("SAB No. 104"). Revenues are recognized when the following criterias are met:

(i)

Persuasive evidence of an arrangement exists The Company requires evidence of an agreement with a customer specifying the terms and conditions of the products to be delivered typically in the form of a signed contract or purchase order;

(ii)

Delivery has occurred   For product sales, delivery generally takes place when titles to the products are shipped to or accepted by the customer;

(iii)

The fee is fixed or determinable   Fees are fixed or determinable based on the contract or purchase order terms; and

(iv)

Collection is probable   The Company performs a credit review of all customers with significant transactions to determine whether a customer is creditworthy and collection is probable.

Repairs and maintenance service revenue is recognized when the service is performed.

The sales contracts generally provide a one to three-year product warranty to customers from the date of purchase. We estimate the costs of satisfying warranty claims based on an analysis of past experience and provide for the future claims in the period the revenue is recognized. As of June 30, 2008 and December 31, 2007, no material product warranty reserve was accrued. Warranty costs incurred by the Company have not been material.

The Company derives a portion of its revenue from one-year software upgrades. These services are typical post-contract service ("PCS") arrangements according to AICPA Statement of Position ("SOP") 97-2. Under SOP 97-2, PCS revenue may be recognized together with the initial licensing fee on delivery of the software if all of the following conditions are met:

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)

(d)

Revenue Recognition - continued

(i)

The PCS fee is included with the initial licensing fee;

(ii)

The PCS included with the initial license is for one year or less;

(iii)

The estimated cost of providing PCS during the arrangement is insignificant; and

(iv)

Unspecified upgrades/enhancements offered during PCS arrangements historically have been and are expected to continue to be minimal and infrequent.

Revenue from security and surveillance system one year software upgrades is recognized when delivery occurs and the risk of ownership passes to the customers, as the Company believes it meets the conditions in compliance with SOP 97-2.

(e)

Research and Development Costs

Research and development costs are expensed as incurred. Research and development costs included in general and administrative expenses for the three and six months ended June 30, 2008 and 2007 were $287, $346, $87 and $108, respectively.

(f)

Advertising Costs

The Company expenses advertising costs as incurred or the first time advertising takes place. During the three and six months ended June 30, 2008 and 2007, the Company incurred approximately $222, $277, $103 and $203, respectively.

(g)

Retirement Benefits

Retirement benefits in the form of contributions under defined contribution retirement plans to the relevant authorities are charged to the consolidated statements of income as incurred. The retirement benefit expenses (included in selling and marketing and general and administrative expenses) for the three and six months ended June 30, 2008 and 2007 were $248, $466, $73 and $127, respectively.

(h)

Share-based Payments

On February 7, 2007, the Company adopted the 2007 Equity Incentive Plan ("Plan"), which has a five-year term and provides for grants of stock options, stock appreciation rights, performance units, restricted stock units and performance shares. The total number of shares which may be issued under the plan is 8,000,000 shares of common stock. These restricted stocks are share-based payments subject to the provisions of revised Statement of Financial Accounting Standards ("SFAS") No.123, "*Share-Based Payment*" ("SFAS 123 (R)"). The fair values of these restricted stock awards are equal to the market value of the Company's stock on the date of grant, after taking into account certain discounts. Such restricted stock is subject to the risk of forfeiture upon the occurrence of certain events. During the three and six months ended June 30, 2008 and 2007, the Company has recognized $3,108, $6,066, $801 and $1,066 of compensation expense under the Plan, respectively. As of June 30, 2008 and December 31, 2007, there was $41,177 and $39,539 of unrecognized compensation expense related to the nonvested restricted stock, respectively. These expenses are expected to be recognized over a four-year period.

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)

(i)

Income taxes

The Company adopted the provisions of Financial Accounting Standards Board ("FASB") Interpretation No. 48, "*Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109*" ("FIN 48"), on January 1, 2007. The Company did not have any material unrecognized tax benefits and there was no effect on its financial condition or results of operations as a result of implementing FIN 48.

On March 16, 2007, the National People's Congress of the People s Republic of China ("PRC") adopted a new corporate income tax law in its fifth plenary session. The new corporate income tax law unifies the application scope, tax rate, tax deduction and preferential policy for both domestic and foreign-invested enterprises. The new corporate income tax law became effective on January 1, 2008.

(j)

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.

(k)

Earnings Per Share

SFAS No. 128, "*Earnings Per Share*," requires dual presentation of basic and diluted earnings per share ("EPS") with a reconciliation of the numerator and denominator of the basic EPS computation to the numerator and denominator of the diluted EPS computation. Basic EPS excludes dilution. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity.

Earnings per basic share of common stock is based on the weighted average number of shares of common stock outstanding during each respective period. Earnings per diluted share of common stock adds to basic weighted shares the weighted average number of shares issuable under convertible securities, contingent issuances, stock options and warrants outstanding during each respective period, using the if-converted or treasury-stock methods.

The calculation of diluted earnings per share is based on the outstanding warrants for the three and six months ended June 30, 2008 and 2007. As of June 30, 2008 and 2007, warrants were outstanding to acquire 30,006 and 610,015 shares of common stock.

Approximately 5,452,000 shares of common stock underlying convertible notes were not included in the dilutive calculation for the three and six months ended June 30, 2008 and 2007, as the effect would be anti-dilutive.

The Company issued 1,951,081 shares of common stock in connection with business acquisitions in the three months ended June 30, 2008 (note 3). The impact of these shares has been included in dilutive weighted average number of shares from the date of the closing of the acquisitions.

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)

3.

BUSINESS ACQUISITIONS

In the second quarter of 2008, the Company acquired three companies that are engaged in the security and surveillance business in China: Stonesonic, Longhorn and Guanling.

On April 2, 2008, the Company entered into an equity transfer agreement with the shareholder of Kit Grant Limited under which the Company agreed to pay a total consideration of RMB227,038 (approximately $32,299) in exchange for 100% ownership of Kit Grant Limited, the holding company of Stonesonic, consisting of RMB125,000 (approximately $17,809) in cash and 953,918 shares of the Company s common stock valued at RMB102,038 (approximately $14,490). $11,205 of the cash portion of the purchase price was paid as a deposit in the first quarter of 2008. The balance of the cash portion of the purchase price is expected to be paid in the third quarter 2008. The Company issued 953,918 shares of the Company s common stock to the shareholder of Kit Grant Limited and her designees in June 2008. Kit Grant Limited is a holding company with no assets other than 100% of the equity interests of Stonesonic. The acquisition was financed with proceeds from the Company's February Notes and April Notes (as defined in note 14).

The operational control of Stonesonic passed to the Company effective April 2, 2008. The results of Stonesonic s operations from April 2, 2008 through June 30, 2008 are included in the Company's Consolidated Statements of Income and Comprehensive Income.

On April 2, 2008, the Company entered into an equity transfer agreement with the shareholder of Sincere On Limited, the holding company of Longhorn, under which the Company agreed to pay a total consideration of RMB120,558 (approximately $17,151) in exchange for 100% ownership of Sincere On Limited, consisting of RMB36,000 (approximately $5,121) in cash and 790,502 shares of the Company s common stock valued at RMB84,558 (approximately $12,030). RMB36,000 (approximately $5,121) of the cash portion of the purchase price was paid before the execution of the equity transfer agreement. The Company issued 790,502 shares of the Company s common stock to the shareholder of Sincere On Limited and her designees in June 2008. Sincere On Limited is a holding company with no assets other than 100% of the equity interests of Longhorn. The acquisition was financed with proceeds from the Company s February Notes and April Notes (as defined in note 14).

The operational control of Longhorn passed to the Company effective April 2, 2008. The results of Longhorn's operations from April 2, 2008 through June 30, 2008 are included in the Company's Consolidated Statements of Income and Comprehensive Income.

On April 21, 2008, the Company entered into an equity transfer agreement with the shareholder of Sharp Eagle (HK) Limited, the holding company of Guanling, under which the Company agreed to pay a total consideration of RMB39,110 (approximately $5,587) in exchange for 100% ownership of Sharp Eagle (HK) Limited, consisting of RMB12,500 (approximately $1,644) in cash and 206,661 shares of the Company s common stock valued at RMB26,610 (approximately $3,943). RMB12,500 (approximately $1,644) of the purchase price was paid as a deposit in January, 2008. The Company issued 206,661 shares of its common stock to the shareholder of Sharp Eagle (HK) Limited and her designees in June 2008. Sharp Eagle (HK) Limited is a holding company with no assets other than 100% of the equity interests of Guanling. The acquisition was financed with proceeds from the Company's February Notes and April Notes. (as defined in note 14).

The operational control of Guanling passed to the Company effective April 21, 2008. The results of Guanling s operations from April 21, 2008 through June 30, 2008 are included in the Company's Consolidated Statements of Income and Comprehensive Income.

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3.

BUSINESS ACQUISITIONS (CONTINUED)

The following represents the purchase price allocation at the dates of the acquisition of Stonesonic, Longhorn and Guanling based on a preliminary valuation report that is subject to finalization which was prepared by a third party appraisal firm:

	Stonesonic	Longhorn	Guanling	Total
Cash and cash equivalents	$ 1,623	$ 1,660	$ 638	$ 3,921
Other current assets	6,837	2,545	3,652	13,034
Property, plant and equipment	3,533	978	79	4,590
Other assets	1,132	--	--	1,132
Intangible assets	5,947	4,990	690	11,627
Goodwill	17,440	8,415	4,123	29,978
Current liabilities	(3,522)	(1,437)	(3,595)	(8,554)
Long-term liabilities	(691)	--	--	(691)
Total purchase price	$ 32,299	$ 17,151	$ 5,587	$ 55,037

The following table shows supplemental information of the results of operations on a pro forma basis for the three months and six months ended June 30, 2008 and 2007 as if the acquisition of Stonesonic, Longhorn and Guanling had been completed at the beginning of the respective periods of 2008 and 2007:

For the three months ended June 30, 2008 (Unaudited)

	Historical			
	CSST	Stonesonic, Longhorn and Guanling	Pro Forma Adjustments	Pro Forma
Revenues	$ 92,740	$ 711		$ 93,451
Income from operations	$ 14,251	$ (39)	$ (11)	$ 14,201

Net income	$	7,736	$	(61)	$	(11)	$	7,664
Net income per share								
Basic	$	0.18					$	0.17
Diluted	$	0.17					$	0.17

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3.

BUSINESS ACQUISITIONS (CONTINUED)

For the three months ended June 30, 2007 (Unaudited)

	Historical			
	CSST	Stonesonic, Longhorn and Guanling	Pro Forma Adjustments	Pro Forma
Revenues	$ 52,125	$ 5,280		$ 57,405
Income from operations	$ 9,646	$ 1,263	$ (290)	$ 10,619
Net income	$ 4,265	$ 1,051	$ (290)	$ 5,026
Net income per share				
Basic	$ 0.12			$ 0.13
Diluted	$ 0.11			$ 0.12

For the six months ended June 30, 2008 (Unaudited)

	Historical			
	CSST	Stonesonic, Longhorn and Guanling	Pro Forma Adjustments	Pro Forma
Revenues	$ 164,517	$ 7,203		$ 171,720
Income from operations	$ 25,386	$ 246	$ (301)	$ 25,331
Net income	$ 12,232	$ 76	$ (301)	$ 12,007
Net income per share				
Basic	$ 0.28			$ 0.27
Diluted	$ 0.28			$ 0.27

For the six months ended June 30, 2007 (Unaudited)

	Historical			
	CSST	**Stonesonic, Longhorn and Guanling**	**Pro Forma Adjustments**	**Pro Forma**
Revenues	$ 90,576	$ 8,932		$ 99,508
Income from operations	$ 16,104	$ 1,346	$ (580)	$ 16,870
Net income	$ 8,798	$ 1,081	$ (580)	$ 9,299
Net income per share				
Basic	$ 0.26			$ 0.26
Diluted	$ 0.24			$ 0.24

The pro forma adjustments represent the amortization of the intangible assets arising upon the acquisitions of Stonesonic, Longhorn and Guanling.

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4.

ACCOUNTS RECEIVABLE

The Company provides an allowance for doubtful accounts related to its receivables. The receivables and allowance balances at June 30, 2008 and December 31, 2007 are as follows:

	June 30, 2008	December 31, 2007
Accounts receivable	$ 96,600	$ 63,494
Less: allowance for doubtful accounts	(650)	(288)
Accounts receivable, net	$ 95,950	$ 63,206

5.

RELATED PARTY RECEIVABLES

The Company had receivables from several companies whose directors and shareholders are also directors or shareholders of the Company. All receivables arise from the rental of real estate properties. The receivables are classified as related party receivables on the balance sheets. The balances as of June 30, 2008 and December 31, 2007 are as follows:

	June 30, 2008	December 31, 2007
Related party receivables	$ 214	$ 549
Less: allowance for doubtful accounts	--	--
Related party receivables, net	$ 214	$ 549

The Company had leased offices to three related parties since January 1, 2004. The leases expired on December 31, 2007. The rental income was RMB990 ($127) and RMB1,980 ($256) for the three and six months ended June 30, 2007, respectively.

6. INVENTORIES

Inventories consist of the following as of June 30, 2008 and December 31, 2007:

	June 30, 2008	December 31, 2007
Raw materials	$ 17,891	$ 9,386
Work in progress	3,469	2,182
Finished goods	10,995	9,761
Installations in process	9,228	19,830
Total	41,583	41,159
Less: allowance for obsolete inventories	(967)	(553)
Inventories, net	$ 40,616	$ 40,606

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7.

PREPAYMENTS AND DEPOSITS

Prepayments and deposits consist of the following as of June 30, 2008 and December 31, 2007:

	June 30, 2008	December 31, 2007
Current portion	$ 4,979	$ 3,225
Non current portion		
- Deposits paid for acquisition of subsidiaries	16,197	22,545
- Deposits paid for acquisition of intangible assets and properties	20,198	23,898
	$ 36,395	$ 46,443

The deposits paid for acquisition of subsidiaries and properties are refundable. There are no commitments to acquire the subsidiaries and properties.

8.

ADVANCE PAYMENTS

The Company has made payments to unrelated suppliers in advance of receiving merchandise. The advance payments are meant to ensure preferential pricing and delivery. The amounts advanced under such arrangements totaled $8,699 and $2,877 as of June 30, 2008 and December 31, 2007, respectively.

9.

PROPERTY, PLANT AND EQUIPMENT

At June 30, 2008 and December 31, 2007, property, plant and equipment, at cost, consist of

	June 30, 2008	December 31, 2007
Buildings	$ 21,013	$ 17,564
Leasehold improvements	2,650	1,029

Plant and equipment	4,607	3,158
Electronic equipment	7,598	2,444
Motor vehicles	4,418	3,113
	40,286	27,308
Less: accumulated depreciation	(5,850)	(3,242)
Property, plant and equipment, net	$ 34,436	$ 24,066

Depreciation expense for the three and six months ended June 30, 2008 and 2007 was $885, $1,520, $228 and $405, respectively.

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10.

LAND USE RIGHTS

Land use rights consist of the following as of June 30, 2008 and December 31, 2007:

	June 30, 2008	December 31, 2007
Cost of land use rights	$ 2,874	$ 1,428
Less: Accumulated amortization	(263)	(49)
Land use rights, net	$ 2,611	$ 1,379

Amortization expense for the three and six months ended June 30, 2008 and 2007 was $15, $21, $12 and $20, respectively.

Amortization expense for the next five years and thereafter is as follows:

2008 (for the remaining 6 months)	$ 31
2009	61
2010	61
2011	61
2012	61
2013	61
Thereafter	2,275
Total	$ 2,611

The Company disposed of land use rights and properties for total consideration of RMB 119,000 (approximately $16,119) in December 2007. The remaining proceeds of RMB 24,000 (approximately $3,379) were received in January 2008.

11. INTANGIBLE ASSETS

	June 30, 2008	December 31, 2007
Trademarks (life of 11 to 25 years)	$ 14,645	$ 12,081
Exclusive cooperation agreements (life of 20 years)	13,632	8,834
Customer base (life of 5 to 10 years)	8,488	7,225
Patents (life of 10 years)	4,541	4,532
Technical know-how (life of 9 to 10 years)	13,239	5,347
Non-compete agreements (life of 5 years)	1,303	1,303
Contracts in progress (life of 2 to 9 months)	410	410
Surveillance software (life of 5 years)	5,507	4,468
Surveillance recording system (life of 5 years)	500	500
Less: accumulated amortization	(8,036)	(4,900)
Intangible assets, net	$ 54,229	$ 39,800

On January 18, 2008, the Company entered into an exclusive cooperation agreement with DM, which is engaged in the business of designing, developing and selling security and surveillance products, pursuant to which the parties have agreed, among other things, that the Company s subsidiary, China Security & Surveillance Technology (PRC) Inc. (CSST PRC) will provide various items to DM, including training services, technology licenses, equipment, consulting services, personnel and other related services. DM will subcontract all its work to CSST PRC or its designees to the extent permitted by the local laws and regulations at no less than 80% of the face value of the contract. DM has agreed to add CSST PRC s name to its marketing materials and its marketing and business development activities will be conducted either in the name of both DM and CSST PRC or through a joint venture established by the parties. The valuation of the agreement was determined by an independent appraisal firm. The Company did not acquire any of the assets or liabilities of DM, and the entire purchase price was allocated to an intangible asset, consisting of an exclusive cooperation relationship. The Company s total cost for entry into the exclusive cooperation agreement amounted to $4,798, after taking into account certain discounts of the shares issued to DM due to the fact that the issued shares are restricted shares. 136,378 restricted shares were issued in January 2008.

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11.

INTANGIBLE ASSETS - CONTINUED

The Company acquired Stonesonic, Longhorn and Guanling during the second quarter of 2008. The valuations and allocation of the intangible assets were determined by a third party appraisal firm.

The amortization expense for the three and six months ended June 30, 2008 and 2007 was $1,433, $2,692, $844 and $1,465, respectively.

Estimated amortization expense for the next five years and thereafter is as follows:

2008 (for the remaining six months)	$	3,234
2009		7,266
2010		6,363
2011		4,796
2012		4,027
Thereafter		28,543
Total	$	54,229

12.

NOTES PAYABLE

The following is a summary of the Company s short-term and long-term notes payable as of June 30, 2008 and December 31, 2007:

	June 30, 2008	December 31, 2007
Bank loans	$ 5,380	$ 13,512
Less: current portion	(5,380)	(12,814)
Long-term portion	$ --	$ 698

On November 15, 2007, the Company entered into a loan agreement with China Citic Bank. The Company borrowed RMB30,000 (approximately $4,374) with an annual interest rate of 7.29%. The loan is due in November 2008, and the interest is payable at the end of each month. The loan agreement requires the Company to use the loan proceeds only for the Company's operations. The loan is guaranteed by the CEO of the Company and subsidiaries of the Company.

The long term note payable is from Shenzhen Ping An Bank. As of June 30, 2008 and December 31, 2007, the liability relating to this loan was RMB 6,900 (approximately $1,006) and RMB8,700 (approximately $1,290), respectively, consisting of a 3-year loan payable to Shenzhen Ping An Bank. This loan was entered into on January 17, 2006 and matures on March 3, 2009, with an annual interest rate of 6.435%. The loan agreement requires the Company to use the loan proceeds only for the construction of the Company s factory. The loan is collateralized by the personal assets of the CEO of one of the Company's subsidiaries.

In January 2008, the Company entered into a loan agreement with Shanghai Pudong Development Bank. The Company borrowed RMB30,000 (approximately $4,374) with an annual interest rate of 6.57%. The loan was due in July 2008, and the interest was payable at the end of each month. The loan was repaid in April 2008.

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12.

NOTES PAYABLE - CONTINUED

On October 15, 2007, the Company entered into a loan agreement with Shanghai Pudong Development Bank. The Company borrowed RMB20,000 (approximately $2,916) with an annual interest rate of 6.561%. The loan was due in October 2008, and the interest was payable at the end of each month. The loan was repaid in the second quarter of 2008.

On February 16, 2007, the Company entered into a loan agreement with Shanghai Pudong Development Bank. The Company borrowed RMB 10,000 (approximately $1,425) with an annual interest rate of 6.39%. The loan was due in March 2008 and was repaid when due.

On February 2, 2007, the Company entered into a loan agreement with Shanghai Pudong Development Bank. The Company borrowed RMB 30,000 (approximately $4,275) with an annual interest rate of 6.12%. The loan was due in February 2008 and was repaid when due.

13.

DEFERRED INCOME

Deferred income balances as of June 30, 2008 and December 31, 2007 were $1,065 and $915, respectively, and represented amounts invoiced but deferred as revenues as an estimated warranty reserve.

14.

CONVERTIBLE NOTES PAYABLE

On February 20, 2007, pursuant to a note purchase agreement and indenture with Citadel Equity Fund Ltd. ("Citadel"), the Company issued to Citadel $60,000 aggregate principal amount of guaranteed senior unsecured convertible notes due 2012 (the "February Notes"). The terms of the February Notes indenture was subsequently amended on each of March 29, 2007 and April 24, 2007. The February Notes financing replaced the existing bridge financing that was closed on February 8, 2007 in which the Company had issued to Citadel $60,000 aggregate principal amount of senior notes. The February Notes bear an interest at 1% per annum. The net proceeds from the sales of the February Notes are and will be used for the Company s working capital and acquisition plans.

Under the February Notes indenture, the February Notes are convertible by the holders thereof at any time on or prior to maturity, into common stock of the Company initially at the conversion price of $18 per share (subject to adjustment in certain circumstances, including semi-annual reset of the conversion price and upon occurrence of certain dilutive events, in each case subject to certain conditions). If the February Notes are not converted before maturity, the February Notes will be redeemed by the Company on the maturity date at a redemption price equal to

100% of the principal amount of the February Notes then outstanding plus an additional amount of 15.0% per annum, calculated on a quarterly compounded basis, plus any accrued and unpaid interest. In addition, if the 45-day variable weighted average price ("VWAP") during the one year period from February 16, 2009 to February 15, 2010 equals or is greater than $30.0 per share of common stock, the Company shall, within one trading day, force holders of the February Notes to convert 50% of the then-outstanding principal amount of the February Notes at the then applicable conversion rate on a pro rata basis (the "February Notes 2010 Mandatory Conversion"). If the 45-day VWAP during the one year period from February 16, 2010 to February 15, 2011 equals or is greater than $35.0 per share of common stock (the "February Notes 2011 Mandatory Conversion Trigger") and the February Notes 2010 Mandatory Conversion had occurred, the Company shall, within one trading day, force holders of the February Notes to convert all of the then-outstanding principal amount of the February Notes at the then applicable conversion price. If the February Notes 2011 Mandatory Conversion Trigger occurs and the February Notes 2010 Mandatory Conversion had not occurred, the Company shall, within one trading day, force holders of the February Notes to convert 50% of the then-outstanding principal amount of the February Notes at the then applicable conversion rate on a pro rata basis.

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14.

CONVERTIBLE NOTES PAYABLE - CONTINUED

On April 24, 2007, pursuant to another note purchase agreement with Citadel, the Company issued to Citadel $50,000 aggregate principal amount of guaranteed senior unsecured convertible notes due 2012 (the "April Notes"). The April Notes bear an interest at 1% per annum. All the net proceeds from the sales of the April Notes are and will be used for the Company's working capital and acquisition plan.

Under the April Notes indenture, the April Notes are convertible, by the holders thereof, at any time on or prior to maturity, into common stock of the Company initially at the conversion price of $23.60 per share (subject to adjustment in certain circumstances, including semi-annual reset of the conversion price and upon occurrence of certain dilutive events, in each case subject to certain conditions). If the April Notes are not converted before maturity, the April Notes will be redeemed by the Company on the maturity date at a redemption price equal to 100% of the principal amount of the April Notes then outstanding plus an additional amount of 15.0% per annum, calculated on a quarterly compounded basis, plus any accrued and unpaid interest. In addition, if the 45-day VWAP during the one year period from February 16, 2009 to February 15, 2010 equals or is greater than $40.0 per share of common stock, the Company shall, within one trading day, force holders of the April Notes to convert 50% of the then-outstanding principal amount of the April Notes at the then applicable conversion rate on a pro rata basis (the "April Notes 2010 Mandatory Conversion"). If the 45-day VWAP during the one year period from February 16, 2010 to February 15, 2011 equals or is greater than $45.00 per share of common stock (the "April Notes 2011 Mandatory Conversion Trigger") and the April Notes 2010 Mandatory Conversion had occurred, the Company shall, within one trading day, force holders of the April Notes to convert all of the then-outstanding principal amount of the April Notes at the then applicable conversion price. If the April Notes 2011 Mandatory Conversion Trigger occurs and the April Notes 2010 Mandatory Conversion had not occurred, the Company shall, within one trading day, force holders of the April Notes to convert 50% of the then-outstanding principal amount of the April Notes at the then applicable conversion rate on a pro rata basis.

The February Notes and April Notes indentures, the notes purchase agreements and certain investor rights agreements between the Company and Citadel entered into in connection with the February Notes and April Notes financings contain various covenants that may limit the Company's discretion in operating its business. In particular, the Company is limited in its ability to merge, consolidate or transfer substantially all of its assets, issue stock of subsidiaries, incur additional debt and create liens on assets to secure debt. In addition, if there is a default, or if the Company does not maintain certain financial covenants or does not maintain borrowing availability in excess of certain pre-determined levels, the February Notes and the April Notes may be accelerated with the balance becoming due and payable immediately and the Company may be unable to incur additional indebtedness, make restricted payments (including paying cash dividends on capital stock) or redeem or repurchase capital stock. As of June 30, 2008 and December 31, 2007, the Company has complied with all the required covenants.

The Company has accreted $4,363, $8,726, $3,812 and $4,975 for the three and six months ended June 30, 2008 and 2007 respectively of the additional redemption amount related to the February Notes and April Notes, which amount included in interest expense.

Approximately $176 of legal fees and other costs directly associated with the issuance of the February Notes and April Notes is recorded as deferred financing costs in the balance sheet at June 30, 2008 and December 31, 2007. The Company is amortizing these financing costs over the life of the February Notes and April Notes. During the three and six months ended June 30, 2008 and 2007, approximately $9, $18, $9 and $9 was amortized to interest expense, respectively.

15.

ISSUANCE OF COMMON STOCK AND WARRANTS

On July 6, 2006, the Company entered into a definitive securities purchase agreement with certain accredited investors relating to the private placement of units, consisting of one share of the Company s common stock and a warrant to purchase one-fifth of one share of common stock.

Such securities purchase agreement was amended on each of July 30, 2006 and July 31, 2006 (as amended, the "Securities Purchase Agreement"). Closing thereunder occurred July 31, 2006. The purchase price of each unit was $3.50 and the exercise price for each whole warrant was set at $4.80. The warrants have a term of five years and include a cashless exercise feature which does not apply when there is an effective registration statement covering the shares underlying the warrants. In addition, the Company had granted a put right to all of the investors which would have allowed the investors to require the Company to repurchase all, but not less than all, of the securities issued pursuant to the Securities Purchase Agreement if the Company had failed to obtain the necessary governmental approvals to consummate the acquisition of Shanghai Cheng Feng Digital Technology Co., Ltd. ("Cheng Feng") on or before December 31, 2006. As such governmental approvals were obtained before December 31, 2006, the put right has terminated.

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15.

ISSUANCE OF COMMON STOCK AND WARRANTS - CONTINUED

Pursuant to the Securities Purchase Agreement, the Company sold 4,634,592 units to certain accredited investors at $3.50 per unit for gross proceeds of $16,200.

Net proceeds to the Company from the sale of all of the units pursuant to the Securities Purchase Agreement were approximately $14,900, 57,776, 128,571 and 482,856 warrants were exercised at $4.80 per share during the three and six months ended June 30, 2008 and 2007, respectively.

In conjunction with execution of the Securities Purchase Agreement, the Company also executed a registration rights agreement under which it was obligated to file registration statements on Form S-4 and Form S-1, or any other available form, to register the shares and the shares underlying the warrants for resale, within 45 days and 55 days after the closing date, respectively. The Company was obligated to use its best efforts to cause the registration statement to be declared effective within 150 days of the closing date, and was liable for payment of penalties to the purchasers in the event the registration statement had not declared effective within the 150-day period. The Company filed the registration statements on Form S-4 and Form S-1 on October 3, 2006 and October 23, 2006 which were declared effective on November 13, 2006 and November 15, 2006, respectively.

The Company also issued warrants to purchase 324,421 shares of its common stock with an exercise price of $4.20 to two private placement agents as commission for their services in connection with the private placement. 97,326, and 324,421 of such warrants were exercised using the cashless exercise feature during the three and six months ended June 30, 2007.

A summary of the status of the Company s warrants issued in 2006 as described above, and the changes during the three months ended June 30, 2008 and 2007, is presented below:

	2008		2007	
	Shares	Weighted Average Exercise Prices	Shares	Weighted Average Exercise Prices
Outstanding at April 1	30,006	$ 4.80	835,912	$ 4.28
Granted	--	--	--	--
Exercised	--	--	(225,897)	(4.34)
Outstanding at June 30	30,006	4.80	610,015	4.23
Warrants exercisable at June 30	30,006	$ 4.80	610,015	$ 4.23

A summary of the status of the Company s warrants issued in 2006 as described above, and the changes during the six months ended June 30, 2008 and 2007, is presented below:

	2008			2007		
	Shares		Weighted Average Exercise Prices	Shares		Weighted Average Exercise Prices
Outstanding at January 1	87,782	$	4.80	1,417,292	$	4.40
Granted	--		--	--		--
Exercised	(57,776)		(4.80)	(807,277)		(4.50)
Outstanding at June 30	30,006		4.80	610,015		4.23
Warrants exercisable at June 30	30,006	$	4.80	610,015	$	4.23

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16.

EQUITY INCENTIVE PLAN

On February 7, 2007, the Company adopted the 2007 Equity Incentive Plan, which has a five-year term and provides for grants of stock options, stock appreciation rights, performance units, restricted stock units and performance shares. The total number of shares which may be issued under the plan is 8,000,000 shares of common stock. As of June 30, 2008 and December 31, 2007, the shares issued vest over a four-year period, and at issue resulted in total deferred compensation of $51,401 and $43,698, respectively. The fair values of these restricted stock awards are equal to the fair value of the Company's stock on the date of grant. Such restricted stock is subject to the risk of forfeiture upon the occurrence of certain events. During the three and six months ended June 30, 2008 and 2007, the Company has recognized $3,108, $6,066, $801 and $1,066 of compensation expense under the plan, respectively. As of June 30, and December 31, 2007, there was $41,177 and $39,539 of unrecognized compensation expense related to the nonvested restricted stock, respectively. This cost is expected to be recognized over a four-year period.

The following table summarizes the status of the Company s nonvested restricted stock awards during the three months ended June 30, 2008 and 2007:

	Nonvested Restricted Stock and Stock Unit Awards 2008		**Nonvested Restricted Stock and Stock Unit Awards 2007**	
	Number of Shares	Weighted Average Grant Date Fair Values	Number of Shares	Weighted Average Grant Date Fair Values
Outstanding at April 1	2,225,216	$ 17.27	1,030,181	$ 10.63
Granted	317,501	16.10	40,300	12.91
Vested	(184,244)	(16.84)	(65,702)	(10.75)
Forfeited	(5,333)	(14.09)	(28,900)	(12.24)
Outstanding at June 30	2,353,140	$ 17.15	975,879	$ 10.67

The following table summarizes the status of the Company s nonvested restricted stock awards during the six months ended June 30, 2008 and 2007:

	Nonvested Restricted Stock and Stock Unit Awards	**Nonvested Restricted Stock and Stock Unit Awards**

	2008			2007		
	Number of Shares	Weighted Average Grant Date Fair Values		Number of Shares	Weighted Average Grant Date Fair Values	
Outstanding at January 1	2,241,471	$	17.39	--	$	--
Granted	499,001		15.56	1,092,400		10.71
Vested	(359,487)		(16.85)	(87,621)		(10.66)
Forfeited	(27,845)		(12.37)	(28,900)		(12.24)
Outstanding at June 30	2,353,140	$	17.15	975,879	$	10.67

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17.

CONSOLIDATED SEGMENT DATA

Segment information is consistent with how management reviews the businesses, makes investing and resource allocation decisions and assesses operating performance. The Company has set up a new segment for distribution of security and safety products and realigned its management and segment reporting structure effective January 1, 2008. The segment data presented reflects this new segment structure. The Company reports financial and operating information in the following three segments:

(a)

System installation: designs, sells, installs, services and monitors electronics security systems to residential, commercial, industrial and governmental customers (the "Installation Segment");

(b)

Manufacturing of security and safety products: designs, manufactures and sells security and safety products, including intrusion security, access control and video management systems (the "Manufacturing Segment"); and

(c)

Distribution of security and safety products: sells security and safety products, including intrusion security, access control and video management systems (the "Distribution Segment").

The Company also provides general corporate services to its segments and these costs are reported as "Corporate and others."

Selected information in the new segment structure is presented in the following tables for the three and six months ended June 30, 2008 and 2007:

Revenues by segment for the three months ended June 30, 2008 and 2007 are as follows:

Revenues (1)	**2008**	**2007**
Installation Segment	$ 62,151	$ 39,362
Manufacturing Segment	20,363	12,763

Distribution Segment		10,226		--
	$	92,740	$	52,125

Revenues by segment for the six months ended June 30, 2008 and 2007 are as follows:

Revenues (1)		**2008**		**2007**
Installation Segment	$	121,691	$	73,393
Manufacturing Segment		28,491		17,183
Distribution Segment		14,335		--
	$	164,517	$	90,576

(1) Revenues by operating segments exclude intercompany transactions.

CHINA SECURITY & SURVEILLANCE TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Expressed in thousands of U.S. dollars

(Except for share and per share amounts)

17.

CONSOLIDATED SEGMENT DATA - (CONTINUED)

Income by segment for the three months ended June 30, 2008 and 2007 are as follows:

Income from operations:		**2008**		**2007**
Installation Segment	$	17,545	$	8,947
Manufacturing Segment		2,165		2,124
Distribution Segment		(203)		--
Corporate and others [1]		(5,256)		(1,425)
Income from operations		14,251		9,646
Corporate other income		367		355
Corporate interest income		51		143
Corporate interest expense		(4,786)		(4,105)
Income before income taxes and minority interest		9,883		6,039
Minority interest in loss of consolidated subsidiaries		6		(7)
Income taxes		(2,153)		(1,767)
Net income	$	7,736	$	4,265

Income by segment for the six months ended June 30, 2008 and 2007 are as follows:

Income from operations:		**2008**		**2007**
Installation Segment	$	32,519	$	17,429
Manufacturing Segment		3,252		1,965

Distribution Segment		387		--
Corporate and others [1]		(10,772)		(3,290)
Income from operations		25,386		16,104
Corporate other income		687		974
Corporate interest income		106		225
Corporate interest expense		(9,649)		(5,424)
Income before income taxes and minority interest		16,530		11,879
Minority interest in loss of consolidated subsidiaries		31		2
Income taxes		(4,329)		(3,083)
Net income	$	12,232	$	8,798

(1) Includes non-cash compensation, professional fees and consultancy fees for the Company.

CHINA SECURITY & SURVEILLANCE TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Expressed in thousands of U.S. dollars

(Except for share and per share amounts)

17.

CONSOLIDATED SEGMENT DATA - (CONTINUED)

Non-cash employee compensation by segment for the three months ended June 30, 2008 and 2007 are as follows:

Non cash employee compensation:		**2008**		**2007**
Installation Segment	$	468	$	380
Manufacturing Segment		620		210
Distribution Segment		345		--
Corporate and others		1,675		211
	$	3,108	$	801

Non-cash employee compensation by segment for the six months ended June 30, 2008 and 2007 are as follows:

Non cash employee compensation:		**2008**		**2007**
Installation Segment	$	904	$	503
Manufacturing Segment		1,178		281
Distribution Segment		692		--
Corporate and others		3,292		282
	$	6,066	$	1,066

Total assets by segment at June 30, 2008 and December 31, 2007 are as follows:

Total assets:		**June 30, 2008**		**December 31, 2007**
Installation Segment	$	203,355	$	152,495
Manufacturing Segment		163,345		146,683
Distribution Segment		41,400		--
Corporate and others [1]		53,580		78,225
	$	461,680	$	377,403

(1) Includes deposit paid for acquisition of subsidiaries, properties and intangible assets.

CHINA SECURITY & SURVEILLANCE TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Expressed in thousands of U.S. dollars

(Except for share and per share amounts)

17.

CONSOLIDATED SEGMENT DATA - (CONTINUED)

Depreciation and amortization by segment for the three months ended June 30, 2008 and 2007 are as follows:

Depreciation and amortization:		**2008**		**2007**
Installation Segment	$	811	$	429
Manufacturing Segment		1,079		641
Distribution Segment		403		--
Corporate and others		40		14
	$	2,333	$	1,084

Depreciation and amortization by segment for the six months ended June 30, 2008 and 2007 are as follows:

Depreciation and amortization:		**2008**		**2007**
Installation Segment	$	1,678	$	939
Manufacturing Segment		1,693		931
Distribution Segment		704		--
Corporate and others		158		20
	$	4,233	$	1,890

18.

SUBSEQUENT EVENTS

Acquisition of Shenzhen Jin Lin Technology Co., Ltd. (Jin Lin)

On July 7, 2008, the Company entered into an equity transfer agreement under which the Company agreed to pay RMB68,582 (approximately $10,000) in exchange for 100% ownership of Long Top Limited, consisting of RMB 40,000 (approximately $5,830) in cash and shares of the Company s common stock valued at RMB28,582 (approximately $4,170). In July 2008, the Company paid RMB13,000 (approximately $1,900) of the cash portion of the purchase price, the remaining RMB27,000 (approximately $3,930) of the cash consideration will be paid upon Long Top Limited and Jin Lin s achievement of certain financial thresholds. The number of shares of common stock issuable in satisfaction of the equity portion of the purchase price is 268,870, which will be issued in the third quarter of 2008.

Long Top Limited is a holding company, the only assets of which are 100% of the equity of Jin Lin. The results of operations of Jin Lin will be included in the Company s consolidated financial statements beginning July 7, 2008.

Private placement transaction to certain non-U.S. investors

On July 23, 2008, the Company consummated a private placement transaction in which it issued 722,544 units to certain non-U.S. investors for an aggregate gross cash purchase price of $10,000 at per share price of $13.84. Each unit consists of one share of the Company s common stock and a warrant to purchase one-fifth of one share of common stock. The exercise price for each whole warrant is $19.23. The warrants have a term of 3 years and include a cashless exercise feature.

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. Such statements include, among others, those concerning our expected financial performance and strategic and operational plans, our future operating results, our expectations regarding the market for security and surveillance products, our expectations regarding the continued growth of the security and surveillance market, 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 our actual results to differ materially from those anticipated, expressed or implied in the forward-looking statements. These risks and uncertainties include, but not limited to, the factors mentioned in the Risk Factors section of our Annual Report on Form 10-K for the year ended December 31, 2007, and other risks mentioned in this Form 10-Q or in our other reports filed with the Securities Exchange Commission (the SEC). The words believe, expect, anticipa project, targets, optimistic, intend, aim, will or similar expressions are intended to identify forwarc statements. All statements other than statements of historical fact are statements that could be deemed forward-looking statements. 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 CSR, we, us, our, our Company, Company are to China Security & Surveillance Technology, Inc., a Delaware corporation and its consolidated subsidiaries. Unless the context otherwise requires, all references to

.

Cheng Feng are to Shanghai Cheng Feng Digital Technology Co. Ltd., a corporation incorporated in the People s Republic of China and an indirect, wholly owned subsidiary of the Company;

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Chuang Guan are to Shenzhen Chuang Guan Intelligence Network Technology Co., Ltd., a corporation incorporated in the People s Republic of China;

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CSST HK are to China Security & Surveillance Technology (HK) Ltd., a Hong Kong corporation and an indirect, wholly owned subsidiary of the Company;

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CSST PRC are to China Security & Surveillance Technology (PRC) Inc., a corporation incorporated in the People s Republic of China and a direct, wholly owned subsidiary of the Company;

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DM are to Beijing DM Security & Technology Co., Ltd., a corporation incorporated in the People s Republic of China;

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Golden are to Golden Group Corporation (Shenzhen) Limited, a corporation incorporated in the People s Republic of China and an indirect, wholly owned subsidiary of the Company;

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Guanling are to Beijing Aurine Divine Land Technology Co., Ltd., a corporation incorporated in the People s Republic of China and an indirect, wholly owned subsidiary of the Company;

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HiEasy are to HiEasy Electronic Technology Development Co., Ltd., a corporation incorporated in the People s Republic of China and an indirect, wholly owned subsidiary of the Company;

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Hongtianzhi are to Shenzhen Hongtianzhi Electronics Co., Ltd., a corporation incorporated in the People s Republic of China and an indirect, wholly owned subsidiary of the Company;

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Jin Lin are to Shenzhen Jin Lin Technology Co., Ltd., a corporation incorporated in the People s Republic of China and an indirect, wholly owned subsidiary of the Company;

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Kit Grant are to Kit Grant Limited, a Hong Kong corporation and an indirect, wholly owned subsidiary of the Company;

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Longhorn are to Shenzhen Longhorn Security Technology Co., Ltd., a corporation incorporated in the People s Republic of China and an indirect, wholly owned subsidiary of the Company;

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Long Top are to Long Top Limited, a Hong Kong corporation and an indirect, wholly owned subsidiary of the Company;

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Minking are to Changzhou Minking Electronics Co., Ltd., a corporation incorporated in the People s Republic of China and an indirect, wholly owned subsidiary of the Company;

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Tsingvision are to Hangzhou Tsingvision Intelligence System Co., Ltd., a corporation incorporated in the People s Republic of China and an indirect, wholly owned subsidiary of the Company;

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Safetech are to China Safetech Holdings Limited, a British Virgin Islands corporation and a wholly owned subsidiary of the Company;

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Sharp Eagle are to Sharp Eagle (HK) Limited, a Hong Kong corporation and an indirect, wholly owned subsidiary of the Company;

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Sincere On are to Sincere On Limited, a Hong Kong corporation and an indirect, wholly owned subsidiary of the Company;

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Stonesonic are to Guangdong Stonesonic Digital Technique Co., Ltd., a corporation incorporated in the People's Republic of China and an indirect, wholly owned subsidiary of the Company;

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BVI are to the British Virgin Islands;

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PRC and China are to the People s Republic of China;

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U.S. dollar, $ and US$ are to United States dollars;

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RMB are to Yuan Renminbi of China;

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Securities Act are to Securities Act of 1933, as amended; and

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Exchange Act are to the Securities Exchange Act of 1934, as amended.

Overview of Our Business

China Security & Surveillance Technology, Inc. is a Delaware holding company whose China-based operating subsidiaries are primarily engaged in manufacturing, distributing, installing and servicing security and surveillance products and systems and developing security and surveillance related software in China. Our customers are mainly comprised of (i) commercial entities (including airports, hotels, real estate, banks, mines, railways, supermarkets and entertainment venues); (ii) governmental entities (including customs agencies, courts, public security bureaus and prisons), and (iii) non-profit organizations (including schools, museums, sports arenas and libraries). These account for approximately 55%, 44% and 1% of our revenues for the three months ended June 30, 2008, respectively.

Our sales network covers most of China s populated areas and we do not rely on any particular region for our business. Our subsidiaries collectively have more than 150 branch offices and distribution points.

In the second quarter of 2008, we acquired three companies that are engaged in the security and surveillance business in China: Stonesonic, Longhorn and Guanling.

On April 2, 2008, we purchased 100% ownership of Kit Grant Limited which is a holding company that owns all the outstanding equity of Stonesonic. Stonesonic is a leading monitoring equipment solutions provider in China that has a broad array of large flat panel display equipment. Under the equity purchase agreement, we agreed to pay a total consideration of RMB227.0 million (approximately $32.3 million) in exchange for 100% ownership of Kit Grant Limited, consisting of RMB125 million (approximately $17.8 million) in cash and 953,918 shares of our common stock valued at RMB102.04 million (approximately $14.5 million). Please see our Current Report on Form 8-K filed on April 8, 2008 for more details.

On April 2, 2008, we acquired 100% ownership of Sincere On Limited which is a holding company that owns all the outstanding equity of Longhorn. Longhorn specializes in the manufacture and installation of security alarm systems in China. Under the equity purchase agreement, we agreed to pay a total consideration of RMB120.6 million (approximately $17.2 million) in exchange for 100% ownership of Sincere On Limited, consisting of RMB36.0 million (approximately $5.1 million) in cash and 790,502 shares of our common stock valued at RMB84.56 million (approximately $12.0 million). Please see our Current Report on Form 8-K filed on April 8, 2008 for more details.

On April 21, 2008, we acquired 100% ownership of Sharp Eagle (HK) Limited which is a holding company that owns all the outstanding equity of Guanling. Guanling is the appointed sales agent of Panasonic, Axis Communications and Samsung in China, for closed-circuit surveillance systems, public broadcasting equipments and plasma TV. Under the agreement, we agreed to pay a total consideration of RMB 39.1 million (approximately $5.6 million) in exchange for 100% ownership of Sharp Eagle, consisting of RMB 12.5 million (approximately $1.6 million) in cash and 206,661 shares of our common stock valued at RMB 26.6 million (approximately $3.9 million). Please see our Current Report on Form 8-K filed on April 25, 2008 for more details.

Recent Developments

On July 7, 2008, we acquired 100% ownership of Long Top Limited which is the holding company that owns all the outstanding equity of Jin Lin. Jin Lin is engaged in professional intelligent security monitoring systems and intelligent transportation system product development. Under the equity transfer agreement, we agreed to pay RMB68.6 million (approximately $10.0 million) in exchange for 100% ownership of Jin Lin, consisting of RMB 40.0 million (approximately $5.8 million) in cash and 268,870 shares of our common stock valued at RMB28.6 million (approximately $4.2 million). In July, 2008, the Company has paid RMB13.0 million (approximately $1.9 million) of the cash portion of the purchase price, the remaining RMB27.0 million (approximately $3.9 million) of the cash consideration will be paid upon Long Top and Jin Lin s achievement of certain financial thresholds. The equity portion of the purchase price is expected to be issued in the third quarter of 2008. Please see our Current Report on Form 8-K filed on July 11, 2008 for more details.

On July 23, 2008, we consummated a private placement transaction in which it issued 722,544 units to certain non-U.S. investors for an aggregate gross cash purchase price of $10 million at per share price of $13.84. Each unit consists of one share of our common stock and a warrant to purchase one-fifth of one share of common stock. The exercise price for each whole warrant is $19.23. The warrants have a term of 3 years and include a cashless exercise feature.

Reportable Operating Segments

Segment information is consistent with how management reviews the businesses, makes investing and resource allocation decisions and assesses operating performance. The Company has set up a new segment for distribution of security and safety products and realigned its management and segment reporting structure effective January 1, 2008. During 2008, we set up a new segment Distribution Segment. The Company reports financial and operating information in the following three segments:

(a) System installation: designs, sells, installs, services and monitors electronics security systems to residential, commercial, industrial and governmental customers (the Installation Segment);

(b) Manufacturing of security and safety products: designs, manufactures and sells security and safety products, including intrusion security, access control and video management systems (the Manufacturing Segment); and

(c) Distribution of security and safety products: sells security and safety products, including intrusion security, access control and video management systems (the Distribution Segment).

The Company also provides general corporate services to its segments and these costs are reported as Corporate and others.

Second Quarter Financial Performance Highlights

We continued to experience strong demand for our products and services during the second fiscal quarter of 2008 and growth in our revenues and net income. The security and surveillance product market in China continued to expand in the second quarter of 2008 due, in part, to several programs and regulatory drivers initiated by the Chinese government, such as State Ordinance 458 and the Safe City program, which require many public places, including city-wide surveillance systems, traffic conjunctions, critical government locations, cyber cafés, bars and discotheques, to install security systems. In addition, the economic development in China and the fact that the population in China in general is becoming relatively wealthier also contributed to increased demand for security and surveillance products within various industries and organizations, such as residential estates, factories and shopping centers. Our second fiscal quarter financial results also benefited from the consolidation of the three newly acquired companies, which contributed approximately $11.0 million revenues in aggregate, accounting for approximately 11.9% of the total revenues of the second fiscal quarter of 2008.

The following are some financial highlights for the second quarter of 2008:

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Revenues: Revenues increased $40.61 million, or 77.9%, to $92.74 million for the second quarter of 2008, from $52.13 million for the same quarter of last year.

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Gross margin: Gross margin was 32.8% for the second quarter of 2008, compared to 28.6% for the same period in 2007.

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Income from operations: Income from operations increased $4.60 million, or 47.7%, to $14.25 million for the second quarter of 2008, from $9.65 million for the same period last year.

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Operating margin: Operating margin (the ratio of income from operations to revenues, expressed as a percentage) was 15.4% for the second quarter of 2008, compared to 18.5% during the same period in 2007.

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Net income: Net income increased $3.47 million, or 81.3%, to $7.74 million for the second quarter of 2008, from $4.27 million for the same period of last year.

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Net margin: Net margin (the ratio of net income to revenues, expressed as a percentage) was 8.3% for the second quarter of 2008, compared to 8.2% for the same period in 2007.

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Fully diluted net income per share: Fully diluted net income per share was $0.17 for the second quarter of 2008, as compared to $0.11 for the same period last year.

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Non-cash items: Non-cash items included (i) the redemption accretion on convertible notes was $4.36 million for the second quarter of 2008, as compared to $3.82 million for the same period last year, (ii) depreciation and amortization was $2.33 million for the second quarter of 2008, as compared to $1.08 million for the same period last year, and (iii) non-cash employee compensation expense was $3.11 million for the second quarter of 2008, as compared to $0.80 million for the same period last year. Total non-cash items are $9.80 million for the second quarter of 2008, an increase of $4.10 million, or 71.9%, from $5.70 million for the same period last year.

Our net income for the three months ended June 30, 2008 and 2007 was $7.74 million and $4.27 million, respectively. Our net income for the six months ended June 30, 2008 and 2007 was $12.23 million and $8.80 million, respectively. Our net income was materially impacted by depreciation and amortization of long-lived assets in the subsidiaries we acquired, non-cash employee compensation recognized pursuant to SFAS 123 (R) and redemption accretion on convertible notes. In the table below, we have presented a non-GAAP financial disclosure to provide a quantitative analysis of the impact of the depreciation and amortization of long-lived assets in the subsidiaries we acquired, non-cash employee compensation and redemption accretion on convertible notes on our net income and net income per share. Because these items do not require the use of current assets, management does not include these items in its analysis of our financial results or how we allocate our resources. Because of this, we deemed it meaningful to provide this non-GAAP disclosure of the impact of these significant items on our financial results.

The following table summarizes the Company s non-cash components during the three months ended June 30, 2008 and 2007.

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

	Three Months Ended June 30,				Increase
Non-cash items		**2008**		**2007**	**(Decrease)**
Depreciation and amortization	$	2.13	$	1.08	1.05
Depreciation and amortization (included in cost of goods sold)		0.20		--	0.20
Non-cash employee compensation		3.11		0.80	2.31
Redemption accretion on convertible notes		4.36		3.82	0.54
Total	$	9.80	$	5.70	
Non-cash items per share - basic					
Depreciation and amortization	$	0.05	$	0.03	0.02
Non-cash employee compensation					