CHINA SECURITY & SURVEILLANCE TECHNOLOGY, INC.
Form 10-Q/A
December 05, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

FORM 10-Q/A

**Amendment No. 1**

(Mark One)

Q

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

**For the quarterly period ended: September 30, 2008**

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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 registrant 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)

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

Q 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 | Q |
| Non-Accelerated Filer (Do not check if a smaller reporting company) | ¨ | Smaller reporting company | ¨ |

The number of shares outstanding of each of the issuer s classes of common equity, as of October 27, 2008 is as follows:

| Class of Securities | Shares Outstanding |
|---|---|
| Common Stock, $0.0001 par value | 45,843,285 |

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

Yes

¨ No Q

Explanatory Note

This Amendment No. 1 to the Quarterly Report on Form 10-Q for the period ended September 30, 2008 of China Security & Surveillance Technology, Inc. (the "Company") is filed solely to amend Item 2 "Management s Discussion and Analysis of Financial Condition and Results of Operations" to remove the per-share information contained in the text and graphic disclosure of the Company s non-cash components for the three months and nine months ended September 30, 2008 and 2007.

For purposes of this Form 10-Q/A, and in accordance with Rule 12b-15 under the Securities Exchange Act of 1934, as amended, each item of the Form 10-Q for the quarter ended September 30, 2008, as originally filed on October 28, 2008, that was affected by the error has been amended and restated in its entirety. Unless otherwise indicated, this report speaks only as of the date that the original report was filed. No attempt has been made in this Form 10-Q/A to update other disclosures presented in the original report on Form 10-Q. This Form 10-Q/A does not reflect events occurring after the filing of the original Form 10-Q or modify or update those disclosures, including the exhibits to the Form 10-Q affected by subsequent events; however, this Form 10-Q/A includes as exhibits 31.1, 31.2, 32.1 and 32.2 new certifications by the Company s Chief Executive Officer and Chief Financial Officer as required by Rule 12b-15.

**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 are 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 ) since the filing date of our Annual Report on Form 10-K for the year ended December 31, 2007. The words believe, expect, anticipate, project, ta optimistic, intend, aim, will or similar expressions are intended to identify forward-looking statements. All statem 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;
- "Chuang Guan" are to Shenzhen Chuang Guan Intelligence Network Technology Co., Ltd., a corporation incorporated in the People s Republic of China;
- "CSST HK" are to China Security & Surveillance Technology (HK) Ltd., a Hong Kong corporation and an indirect, wholly owned subsidiary of the Company;
- "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;
- "DM" are to Beijing DM Security & Technology Co., Ltd., a corporation incorporated in the People s Republic of China;
- "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;

- "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;
- "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;
- "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;
- "Huge Long" are to Huge Long Limited, a Hong Kong corporation of which we have acquired the beneficial interest of all issued and outstanding capital stock;
- "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;
- "Kit Grant" are to Kit Grant Limited, a Hong Kong corporation and an indirect, wholly owned subsidiary of the Company;
- "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;
- "Long Top" are to Long Top Limited, a Hong Kong corporation and an indirect, wholly owned subsidiary of the Company;

- "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;

- "WDH" are to Shenzhen Wandaiheng Industry Limited, a corporation incorporated in the People's Republic of China;

- "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;

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

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

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

- "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;

- "BVI" are to the British Virgin Islands;

- "PRC" and "China" are to the People's Republic of China;

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

- "RMB" are to Yuan Renminbi of China;

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

- "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 50%, 49% and 1% of our revenues for the three months ended September 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 third quarter of 2008, we acquired Jin Lin. Jin Lin is primarily engaged in professional intelligent security monitoring systems and intelligent transportation system product development in China. We also acquired 100% beneficial interest of all issued and outstanding stock of Huge Long Limited and obtained the exclusive rights to use land plot No. A524-0013 located to the south of Ban Gong Chang Road, Guangming Street, Bao'an District, Shenzhen (the "Industry Park") that is owned by WDH.

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. Under the equity transfer agreement, we agreed to pay RMB68.6 million (approximately $10.0 million) in exchange for 100% ownership of Long Top Limited, consisting of RMB 40 million (approximately $5.8 million) in cash and 268,870 shares of our common stock valued at RMB28.6 million (approximately $4.2 million). 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. 268,870 shares of our common stock will be issued in the fourth quarter of 2008.

On August 6, 2008, we entered into an equity transfer agreement with the shareholder of Huge Long Limited under which we will acquire all issued and outstanding shares of capital stock of Huge Long Limited through a series of transactions. We acquired 100% beneficial interest (but not record ownership) of all issued and outstanding capital stock of Huge Long Limited and the exclusive right to use the Industry Park on August 6, 2008 (the First Closing ) and will acquire the legal title and record ownership of all issued and outstanding shares of capital stock of Huge Long Limited on or before December 31, 2009 (the Second Closing ). Huge Long Limited has entered into an equity transfer agreement to acquire WDH which will close on or before December 31, 2009. The Second Closing is conditioned upon the acquisition by Huge Long Limited of the legal title of WDH. Under the equity transfer agreement, we agreed to pay a total consideration of RMB146 million (approximately $21.3 million) in exchange for the 100% beneficial interest of Huge Long Limited, consisting of RMB102 million (approximately $14.9 million) in cash and 453,736 shares of our common stock valued at RMB43.8 million (approximately $6.4 million). We have paid RMB80 million (approximately $11.7 million) of the purchase price, the remaining RMB 22 million (approximately $3.2 million) of the cash consideration will be paid at the Second Closing. 453,736 shares of our common stock will be issued in the fourth quarter of 2008.

***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.

***Third Quarter Financial Performance Highlights***

We continued to experience strong demand for our products and services during the third fiscal quarter of 2008 and growth in our revenues, but our net income decreased primarily as a result of the increased non-cash expenses. The security and surveillance product market in China continued to expand in the third 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 intersections, 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 third fiscal quarter financial results also benefited from the consolidation of the four newly acquired companies in 2008, which contributed approximately $12.26 million revenues in aggregate, accounting for approximately 10.3% of the total revenues for the third fiscal quarter of 2008.

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

- *Revenues*: Revenues increased $53.85 million, or 82.3%, to $119.29 million for the third quarter of 2008, from $65.44 million for the same quarter of last year.

- *Gross margin*: Gross margin was 26.8% for the third quarter of 2008, compared to 30.2% for the same period in 2007.

- *Income from operations*: Income from operations increased $2.32 million, or 17.8%, to $15.33 million for the third quarter of 2008, from $13.01 million for the same period last year.

- *Operating margin*: Operating margin (the ratio of income from operations to revenues, expressed as a percentage) was 12.8% for the third quarter of 2008, compared to 19.9% during the same period in 2007.

- *Net income*: Net income decreased $2.55 million, or 21.8%, to $9.15 million for the third quarter of 2008, from $11.70 million for the same period of last year.

- *Net margin*: Net margin (the ratio of net income to revenues, expressed as a percentage) was 7.7% for the third quarter of 2008, compared to 17.9% for the same period in 2007.

- *Fully diluted net income per share*: Fully diluted net income per share was $0.20 for the third quarter of 2008, as compared to $0.29 for the same period last year.

- *Non-cash expenses*: Non-cash expenses included (i) the redemption accretion on convertible notes was $5.36 million for the third quarter of 2008, as compared to $4.36 million for the same period last year, (ii) depreciation and amortization was $2.51 million for the third quarter of 2008, as compared to $1.44 million for the same period last year, and (iii) non cash employee compensation expense was $3.60 million for the third quarter of 2008, as compared to $0.99 million for the same period last year. Total non-cash expenses are $11.47 million for the third quarter of 2008, an increase of $4.68 million, or 68.9%, from $6.79 million for the same period last year.

Our net income for the three months ended September 30, 2008 and 2007 was $9.15 million and $11.70 million, respectively. Our net income for the nine months ended September 30, 2008 and 2007 was $21.38 million and $20.49 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. 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 expenses during the three months ended September 30, 2008 and 2007.

All amounts in millions of U.S. dollars

| | Three Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| **Non-cash expenses** | | **2008** | | **2007** | | **Increase** |
| Depreciation and amortization | $ | 2.28 | $ | 1.44 | $ | 0.84 |
| Depreciation and amortization (including in cost of goods sold) | | 0.23 | | - | | 0.23 |
| Non cash employee compensation | | 3.60 | | 0.99 | | 2.61 |
| Redemption accretion on convertible notes | | 5.36 | | 4.36 | | 1.00 |
| **Total** | $ | 11.47 | $ | 6.79 | $ | 4.68 |

The following table summarizes the Company s non-cash expenses during the nine months ended September 30, 2008 and 2007.

All amounts in millions of U.S. dollars

| | Nine Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| **Non-cash expenses** | | **2008** | | **2007** | | **Increase** |
| Depreciation and amortization | $ | 6.23 | $ | 3.33 | $ | 2.90 |
| Depreciation and amortization (including in cost of goods sold) | | 0.52 | | - | | 0.52 |
| Non cash employee compensation | | 9.66 | | 2.06 | | 7.60 |
| Redemption accretion on convertible notes | | 14.09 | | 9.34 | | 4.75 |
| **Total** | $ | 30.50 | $ | 14.73 | $ | 15.77 |

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***Results of Operations***

The following table sets forth key components of our results of operations for the periods indicated, in dollars and as a percentage of revenues.

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

| | Three months ended September 30, | | | | | | Nine months ended September 30, | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 2008 | | | 2007 | | | 2008 | | | 2007 | |
| **Revenues** | $ | 119.29 | 100.0% | $ | 65.44 | 100.0% | $ | 283.81 | 100.0% | $ | 156.01 | 100.0% |
| Cost of goods sold (including depreciation and amortization amounted $0.23 million, $0.52 million, $0 and $0) | | (87.28) | 73.2% | | (45.70) | 69.8% | | (199.09) | 70.1% | | (111.26) | 71.3% |
| **Gross profit** | | 32.01 | 26.8% | | 19.74 | 30.2% | | 84.72 | 29.9% | | 44.75 | 28.7% |
| Selling and marketing | | (3.38) | 2.8% | | (1.46) | 2.2% | | (8.51) | 3.0% | | (2.91) | 1.9% |
| General and administrative | | (7.42) | 6.2% | | (2.84) | 4.4% | | (19.61) | 6.9% | | (7.33) | 4.7% |
| Non cash employee compensation | | (3.60) | 3.0% | | (0.99) | 1.5% | | (9.66) | 3.4% | | (2.06) | 1.3% |
| Depreciation and amortization | | (2.28) | 1.9% | | (1.44) | 2.2% | | (6.23) | 2.2% | | (3.33) | 2.1% |
| **Income from operations** | | 15.33 | 12.8% | | 13.01 | 19.9% | | 40.71 | 14.3% | | 29.12 | 18.7% |
| Other income | | 0.55 | 0.5% | | 0.53 | 0.8% | | 1.37 | 0.5% | | 1.71 | 1.1% |
| Gain on disposal of land use right and properties | | - | 0.0% | | 5.52 | 8.4% | | - | 0.0% | | 5.52 | 3.5% |
| Interest expense, Cash | | (0.59) | 0.5% | | (0.41) | 0.6% | | (1.51) | 0.5% | | (0.85) | 0.5% |
| Redemption accretion on convertible notes | | (5.36) | 4.5% | | (4.36) | 6.7% | | (14.09) | 5.0% | | (9.34) | 6.0% |
| **Income before income taxes** | | 9.93 | 8.3% | | 14.29 | 21.8% | | 26.48 | 9.3% | | 26.16 | 16.8% |
| Income taxes | | (0.78) | 0.6% | | (2.59) | 4.0% | | (5.10) | 1.8% | | (5.67) | 3.6% |
| **Net income** | $ | 9.15 | 7.7% | $ | 11.70 | 17.9% | $ | 21.38 | 7.5% | $ | 20.49 | 13.1% |

**Comparison of the Three Months Ended September 30, 2008 and 2007**

***Revenues***

Our revenues are generated from system installations and manufacturing and distribution of security and safety products. During the three months ended September 30, 2008, we experienced solid growth in revenues. Revenues increased $53.85 million, or 82.3%, to $119.29 million for the three months ended September 30, 2008 from $65.44 million for the three months ended September 30, 2007. The increase in revenues was mainly attributable to growth in the security and surveillance market in China, the increased market demand for our products, our increased brand recognition and the acquisition of four companies in the second and third quarters of 2008. Our strategic efforts to increase our distribution channels during 2007 and 2008 and sufficient working capital from our recent fundraising activities also allowed us to successfully take advantage of the growth in market demand in the third quarter of 2008.

After Jin Lin became our wholly owned subsidiary in the third quarter of 2008, we consolidated its financial result beginning in the third quarters of 2008, which contributed $0.92 million to our revenues in the third quarter of 2008. We consolidated the financial results of Stonesonic, Longhorn and Guanling from April 2008.

Newly acquired subsidiaries including Tsingvision, Stonesonic, Longhorn, Guanling and Jin Lin had revenues of $13.08 million in the third quarter of 2008. As the acquisitions of Hongtianzhi, HiEasy, and Minking had surpassed the one year anniversary, we have included these revenues in our organic growth since the third quarter of 2008. They had revenues of $12.28 million in the third quarter of 2008. Cheng Feng, which we acquired in 2006, had revenues of $6.73 million in the third quarter of 2008.

The following table shows the revenues recognized in the third quarter of 2008:

(In millions of U.S. dollars)

| | | |
|---|---|---|
| Revenues from the Installation Segment recognized from installation contracts signed before the second quarter of 2008 | $ | 12.91 |
| Revenues from the Installation Segment recognized from installation contracts signed in the third quarter of 2008 | $ | 73.94 |
| Revenues from the Manufacturing Segment recognized from manufacturing contracts signed before the second quarter of 2008 | $ | 2.27 |
| Revenues from the Manufacturing Segment recognized from manufacturing contracts signed in the third quarter of 2008 | $ | 19.16 |
| Revenues from the Distribution Segment recognized from sales contracts signed before the second quarter of 2008 | $ | 1.14 |
| Revenues from the Distribution Segment recognized from sales contracts signed in the third quarter of 2008 | $ | 9.87 |
| Total revenues recognized in the third quarter of 2008 | $ | 119.29 |
| Revenues deferred | $ | 1.06 |
| Backlog of contracts for system installation and manufacturing of security and safety products signed before September 30, 2008 (1) | $ | 65.20 |

(1) We have not included letters of intent, framework agreements and various other agreements in our backlog numbers as they are subject to final binding agreements to be entered into at later dates.

Our revenues are generated from three business segments: Installation Segment, Manufacturing Segment and Distribution Segment. The following table shows the different segments comprising our total revenues for the three months ended September 30, 2008 and 2007.

All amounts, except percentage of revenues, in millions of U.S. dollars

| | Three months ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| **Revenues** | | **2008** | | | **2007** | |
| Installation Segment | $ | 86.85 | 72.8% | $ | 40.81 | 62.4% |

| | | | | | | |
|---|---|---|---|---|---|---|
| Manufacturing Segment | | 21.43 | 18.0% | | 24.63 | 37.6% |
| Distribution Segment | | 11.01 | 9.2% | | -- | -- |
| Total | $ | 119.29 | 100.0% | $ | 65.44 | 100.0% |

For the three months ended September 30, 2008 and 2007, our Installation Segment generated revenues of $86.85 million and $40.81 million which represented 72.8% and 62.4% of our total revenues, respectively. Such increase in revenues was mainly due to the following factors: First, demand for security and surveillance products has grown in China, which we attribute in part to the population in China in general becoming relatively wealthier; as well as increased demand within various industries and organizations, such as residential estates, factories and shopping centers. Second, the Chinese government initiated several programs and regulatory drivers during 2006, such as State Ordinance 458 and the "3111" program, that require many public places, including city-wide surveillance systems, traffic surveillance systems, critical government locations, cyber cafés, bars and discotheques, to install security systems. Third, our strategic efforts to increase our distribution channels during 2007 and 2008 allowed us to successfully take advantage of the growth in market demand in the third quarter of 2008. Fourth, we have been successful in raising sufficient working capital to facilitate expansion in the China market. Finally, our increased brand recognition in 2008 also contributed to the growth in revenue.

For the three months ended September 30, 2008 and 2007, our Manufacturing Segment generated revenues of $21.43 million and $24.63 million, representing 18.0% and 37.6% of our total revenues, respectively. The revenue decreased due to the sales slowdown after the Beijing Olympic Games and the development of the Industry Park.

In the first quarter of 2008, we established a new segment Distribution Segment which generated revenues of $11.01 million, representing 9.2% of our total revenues for the three months ended September 30, 2008.

Management believes that revenues from the Installation Segment will continue to be the Company s major revenue source in the next few years. With the recent acquisitions of Stonesonic, Longhorn, Guanling, Jin Lin and other planned acquisitions, management believes that the percentage of revenues from the Manufacturing Segment and the Distribution Segment will increase in the future.

Management expects growth in all three segments to remain strong for the remainder of 2008 due to (i) continued growth in the security and surveillance market, both within the corporate and government sectors, (ii) better capitalization of the Company to fuel its growth, (iii) continuing enhancement of our branding and profiling in China, and (iv) acquisition strategy intended to boost our market share and competitiveness.

***Cost of goods sold***

Our cost of goods sold is primarily comprised of the costs of our raw materials, labor and overhead. Our cost of goods sold increased $41.58 million, or 91.0%, to $87.28 million for the three months ended September 30, 2008 from $45.70 million during the same period in 2007. This dollar increase was primarily attributable to the increase of our revenues in the third quarter of 2008 as discussed above.

***Gross profit and gross margin***

Our gross profit is equal to the difference between our revenues and our cost of goods sold. Our gross profit increased $12.27 million, or 62.2%, to $32.01 million for the three months ended September 30, 2008 from $19.74 million for the same period last year. Gross margin for the three months ended September 30, 2008 was 26.8%, as compared to 30.2% for the same period of 2007.

The following table shows the different segment components comprising our gross margin during the three months ended September 30, 2008 and 2007.

| | **Three months ended September 30,** | |
|---|---|---|
| **Gross Margin** | **2008** | **2007** |
| Installation Segment | 25.7% | 31.8% |
| Manufacturing Segment | 32.2% | 27.3% |
| Distribution Segment | 25.1% | -- |
| Total | 26.8% | 30.2% |

For the three months ended September 30, 2008, gross margins of the Installation Segment and Manufacturing Segment were approximately 25.7% and 32.2%, respectively, compared to 31.8% and 27.3% for the same period last year. Gross margin of our newly established segment Distribution Segment was 25.1% in the third quarter of 2008.

The decreased gross margin in the Installation segment was primarily due to the gradual increase in outsourcing of physical installation to the third party contractors. The increase in our gross margin of the Manufacturing segment is primarily driven by the increased economies of scale.

***Selling and marketing expenses***

Our selling and marketing expenses are composed primarily of sales commissions, the cost of advertising and promotional materials, salaries and fringe benefits of sales personnel, after-sale support services and other sales related costs. Our selling and marketing expenses increased $1.92 million, or 131.5%, to $3.38 million for the three months ended September 30, 2008 from $1.46 million for the same period in 2007. This dollar increase was primarily attributable to the consolidation of the financial results of Stonesonic, Longhorn, Guanling and Jin Lin, which incurred selling and marketing expenses associated with sales of their products. As a percentage of revenues, our selling and marketing expenses increased to 2.8% for the three months ended September 30, 2008 from 2.2% for the same period in 2007. The percentage increase was mainly due to the hiring of additional staff and the increased cost in promotion of our products to new customers.

***General and administrative expenses***

Our general and administrative expenses consist of the costs associated with staff and support personnel who manage our business activities and professional fees paid to third parties. Our general and administrative expenses increased $4.58 million, or 161.3%, to $7.42 million for the three months ended September 30, 2008 from $2.84 million for the same period in 2007. As a percentage of revenues, general and administrative expenses increased to 6.2% for the three months ended September 30, 2008 from 4.4% for the same period in 2007. The dollar and percentage increase was mainly due to the consolidation of the financial results of Stonesonic, Longhorn, Guanling, and Jin Lin, the hiring of additional staff, the increased costs in connection with documenting and testing our internal controls and professional expenses related to the costs of these newly acquired subsidiaries becoming part of a public reporting company.

***Non cash employee compensation***

Non cash employee compensation for the three months ended September 30, 2008 increased to $3.60 million from $0.99 million for the same period in 2007. Such increase was primarily because we granted shares of restricted stock to our employees, directors and consultant with a vesting period of four years under the 2007 Equity Incentive Plan in 2007 and 2008. Such costs are generally recognized over a four-year period.

***Depreciation and amortization***

Our depreciation and amortization costs increased $1.07 million, or 74.3%, to $2.51 million (amounted $0.23 million of depreciation and amortization included in cost of goods sold) for the three months ended September 30, 2008 from $1.44 million for the same period in 2007. Such dollar increase was primarily due to the recent corporate acquisitions. As a percentage of revenues, depreciation and amortization expenses decreased to 2.1% for the three months ended September 30, 2008 from 2.2% for the same period in 2007. Such percentage decrease was primarily due to the increase in incremental revenue in this quarter.

***Income from operations***

Our income from operations increased $2.32 million, or 17.8%, to $15.33 million for the three months ended September 30, 2008 from $13.01 million for the same period in 2007. As a percentage of revenues, income from operations decreased to 12.8% for the three months ended September 30, 2008 from 19.9% for the same period in 2007. Such percentage decrease was primarily due to the increase in our selling and marketing expenses as well as the general and administrative expenses and non cash employee compensation as discussed above.

The following table shows the different segments comprising our income from operations for the three months ended September 30, 2008 and 2007.

All amounts, except percentage of income from operations, in millions of U.S. dollars

| | Three months ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| **Income from operations** | | **2008** | | | **2007** | |
| Installation Segment | $ | 18.69 | 121.9% | $ | 9.99 | 76.8% |
| Manufacturing Segment | | 1.52 | 9.9% | | 4.36 | 33.5% |

| | | | | | | |
|---|---|---|---|---|---|---|
| Distribution Segment | | 0.21 | 1.4% | | -- | -- |
| Corporate and others | | (5.09) | -33.2% | | (1.34) | -10.3% |
| Total | $ | 15.33 | 100.0% | $ | 13.01 | 100% |

Income from operations related to the Installation Segment increased 87.1%, or $8.70 million to $18.69 million for the three months ended September 30, 2008, compared to $9.99 million for the same period in 2007. Such increase was mainly due to higher demand for total one-stop-shop installations from customers. We finished more projects than we planned in the third quarter of 2008.

Income from operations related to the Manufacturing Segment decreased 65.1%, or $2.84 million to $1.52 million for the three months ended September 30, 2008, compared to $4.36 million for the same period in 2007. The Manufacturing Segment concentrated on developing the Industry Park in this quarter for future development. The Company expects that the Manufacturing Segment margin will increase as we integrate the recently completed acquisitions and realize more economies of scale.

Income from operations related to our newly established Distribution Segment was $0.21 million for the three months ended September 30, 2008.

Loss from operations related to Corporate and others increased 279.9% or $3.75 million to $5.09 million for the three months ended September 30, 2008, compared to $1.34 million for the same period in 2007. Such increase was mainly due to the increase of non cash employee compensation as discussed above and professional expenses related to the costs of these newly acquired subsidiaries becoming part of a public reporting company.

***Other income***

Our other income increased $0.02 million, or 3.8% to $0.55 million for the three months ended September 30, 2008 from $0.53 million for the same period in 2007. As a percentage of revenues, other income decreased to 0.5% for the three months ended September 30, 2008 from 0.8% for the same period in 2007. Such percentage decrease was primarily because we received rental income from related parties in the three months ended September 30, 2007 and the land use rights and buildings generating such rental income were disposed of in 2007.

***Gain on disposal of land use rights and properties***

We sold certain properties and land use rights. Net proceeds of $5.52 million from such dispositions were recognized in the third quarter of 2007. Fully diluted net proceeds per share were $0.14 for the third quarter of 2007, as compared to $0 for the same period this year.

***Interest expense (excluding redemption accretion on convertible notes)***

Interest expense for the three months ended September 30, 2008 was $0.59 million, as compared to $0.41 million of the same period in 2007. Such increase was primarily due to increased borrowing under bank loans and obligation under product financing arrangements for our operations.

***Redemption accretion on convertible notes***

Redemption accretion on convertible notes for the three months ended September 30, 2008 was $5.36 million, as compared to $4.36 million for the same period in 2007. We raised $110 million from issuance of convertible notes in February and April 2007 to finance our acquisitions. The redemption accretion on convertible notes will not be paid if the convertible notes are converted into shares of our common stock before their maturities.

***Income before taxes***

Our income before taxes decreased $4.36 million, or 30.5%, to $9.93 million for the three months ended September 30, 2008 from $14.29 million for the same period in 2007. As a percentage of revenues, income before taxes decreased to 8.3% for the three months ended September 30, 2008 from 21.8% for the same period in 2007. Such percentage decrease was primarily due to increased non-cash expenses including the redemption accretion on convertible notes, depreciation and amortization and non cash employee compensation as discussed above.

***Income taxes***

China Security & Surveillance Technology, Inc. is subject to the United States federal income tax at a tax rate of 34%. No provision for income taxes in the United States has been made as China Security & Surveillance Technology, Inc. had no United States taxable income during the three months ended September 30, 2008.

Our wholly owned subsidiary Safetech is incorporated in the British Virgin Island and, under the current laws of the BVI, is not subject to income taxes.

Before January 1, 2008, foreign invested enterprises ( FIEs ) established in the PRC were generally subject to an enterprise income tax ( EIT ) rate of 33.0%, which included a 30% state income tax and a 3.0% local income tax. FIEs established in Shenzhen Special Economic Zone, such as our Chinese subsidiaries Golden and certain high-technology company were subject to reduced tax rate. On March 16, 2007, the National People s Congress of China passed the new Enterprise Income Tax Law ( EIT Law ), and on November 28, 2007, the State Council of China passed the Implementing Rules for the EIT Law ("Implementing Rules") which took effect on January 1, 2008. The EIT Law and Implementing Rules impose a unified EIT of 25.0% on all domestic-invested enterprises and FIEs, unless they qualify under certain limited exceptions. Therefore, nearly all FIEs are subject to the new tax rate alongside other domestic businesses rather than benefiting from the FEIT, and its associated preferential tax treatments, beginning January 1, 2008.

Despite these pending changes, the EIT Law gives the FIEs established before March 16, 2007 ( Old FIEs ) a five-year grandfather period during which they can continue to enjoy their existing preferential tax treatments. During this five-year grandfather period, the Old FIEs which enjoyed tax rates lower than 25% under the original EIT Law shall gradually increase their EIT rate by 2% per year until the tax rate reaches 25%. In addition, the Old FIEs that are eligible for the two-year exemption and three-year half reduction or five-year exemption and five-year half-reduction under the original EIT Law, are allowed to remain to enjoy their preference until these holidays expire. The discontinuation of any such special or preferential tax treatment or other incentives would have an adverse effect on any organization's business, fiscal condition and current operations in China.

In addition to the changes to the current tax structure, under the EIT Law, an enterprise established outside of China with de facto management bodies within China is considered a resident enterprise and will normally be subject to an EIT of 25.0% on its global income. The Implementing Rules define the term de facto management bodies as an establishment that exercises, in substance, overall management and control over the production, business, personnel, accounting, etc., of a Chinese enterprise. If the PRC tax authorities subsequently determine that the Company should be classified as a resident enterprise, then the organization's global income will be subject to PRC income tax of 25%.

Our subsidiary Golden is subject to an EIT rate of 15% for the fiscal year 2008. Our subsidiary Hongtianzhi is located in Shenzhen and its corporate tax rate is 7.5% because it receives a lower tax rate as a high-tech company. Our subsidiary Cheng Feng is subject to an EIT rate of 15% for fiscal year 2008 due to the software and high technology company status. HiEasy, Minking, Tsingvision, Stonesonic, Guanling and Jin Lin are subject to an EIT rate of 25%. CSST PRC and Longhorn are exempted from EIT in 2008.

Our income taxes decreased $1.81 million to $0.78 million for the three months ended September 30, 2008 from $2.59 million for the same period of 2007. We paid less taxes during the three months ended September 30, 2008 as a result of decreased income before income taxes during that period. Also, we fully utilized the tax exemption of our subsidiaries CSST PRC which was incorporated in 2006 and Longhorn that became our subsidiary in 2008.

***Net income***

Net income decreased $2.55 million, or 21.8%, to $9.15 million for the three months ended September 30, 2008 from $11.70 million for the same period in 2007. As a percentage of revenues, net income decreased to 7.7% for the three months ended September 30, 2008 from 17.9% for the same period in 2007. This percentage decrease was mainly due to the non-cash expenses such as redemption accretion on convertible notes, depreciation and amortization and non cash employee compensation.

**Comparison of Nine Months Ended September 30, 2008 and September 30, 2007**

***Revenue***

During the nine months ended September 30, 2008, we experienced solid growth in revenues. The following table shows the different segments comprising our total revenues for the nine months ended September 30, 2008 and 2007.

All amounts, except percentage of revenues, in millions of U.S. dollars

| | Nine months ended September 30, | | | |
|---|---|---|---|---|
| **Revenues** | **2008** | | **2007** | |
| Installation Segment | $ 208.54 | 73.5% | $ 114.19 | 73.2% |
| Manufacturing Segment | 49.92 | 17.6% | 41.82 | 26.8% |
| Distribution Segment | 25.35 | 8.9% | -- | -- |
| Total | 283.81 | 100.0% | 156.01 | 100.0% |

For the nine months ended September 30, 2008 and 2007, our Installation Segment generated revenues of $208.54 million and $114.19 million which represented 73.5% and 73.2% of our total revenues, respectively. The increase in revenues was mainly due to the following factors: First, demand for security and surveillance products has grown in China, which we attribute in part to the population in China in general becoming relatively wealthier; as well as increased demand within various industries and organizations, such as residential estates, factories and shopping centers. Second, the Chinese government initiated several programs and regulatory drivers during 2006, such as State Ordinance 458 and the "3111" program, that require many public places, including city-wide surveillance systems, traffic surveillance systems, critical government locations, cyber cafés, bars and discotheques, to install security systems. Third, our strategic efforts to increase our distribution channels during 2007 and 2008 allowed us to successfully take advantage of the growth in market demand in the first nine months of 2008. Fourth, we have been successful in raising sufficient working capital to facilitate expansion in the China market. Finally, our increased brand recognition also contributed to the growth in revenue.

For the nine months ended September 30, 2008 and 2007, our Manufacturing Segment generated revenues of $49.92 million and $41.82 million, representing 17.6% and 26.8% of our total revenues, respectively. The revenue decreased due to the sales slowdown after the Beijing Olympic Games and the development of the Industry Park.

In the first nine months of 2008, we established a new segment our Distribution Segment which generated revenues of $25.35 million, representing 8.9% of our total revenues for the nine months ended September 30, 2008.

***Cost of goods sold***

Our cost of goods sold increased $87.83 million, or 78.9%, to $199.09 million for the nine months ended September 30, 2008 from $111.26 million during the same period in 2007. This dollar increase was mainly attributable to our revenue increase in the first nine months of 2008 as discussed above.

***Gross profit and gross margin***

Our gross profit increased $39.97 million, or 89.3%, to $84.72 million for the nine months ended September 30, 2008 from $44.75 million for the same period last year. Gross margin for the nine months ended September 30, 2008 was 29.9%, as compared to 28.7% for the same period of 2007. The increase in our gross margin was primarily driven by the increased economies of scale.

The following table shows the different segment components comprising our gross margin over the nine months ended September 30, 2008 and 2007.

| | **Nine months ended September 30,** | |
|---|---|---|
| **Gross Margin** | **2008** | **2007** |
| Installation Segment | 29.3% | 29.0% |
| Manufacturing Segment | 33.9% | 27.9% |
| Distribution Segment | 26.1% | -- |
| Total | 29.9% | 28.7% |

For the nine months ended September 30, 2008, gross margins of the Installation Segment and Manufacturing Segment were approximately 29.3% and 33.9%, respectively, compared to 29.0% and 27.9% for the same period last year. The increase in our gross margin of Manufacturing Segment was primarily driven by the increased economies of scale. Gross margin of our newly established segment Distribution Segment was 26.1% in the first nine months of 2008. We decreased our selling prices as a strategic move to increase our market penetration into new markets.

***Selling and marketing expenses***

Our selling and marketing expenses increased $5.60 million, or 192.4%, to $8.51 million for the nine months ended September 30, 2008 from $2.91 million for the same period in 2007. This dollar increase was primarily attributable to the consolidation of the financial results of Stonesonic, Longhorn, Guanling and Jin Lin in 2008, which incurred selling and marketing expenses associated with sales of their products. As a percentage of revenues, our selling and marketing expenses increased to 3.0% for the nine months ended September 30, 2008 from 1.9% for the same period in 2007. The percentage increase was mainly due to the hiring of additional sales staff and promotion cost of new products and services.

***General and administrative expenses***

Our general and administrative expenses increased $12.28 million, or 167.5%, to $19.61 million for the nine months ended September 30, 2008 from $7.33 million of the same period in 2007. As a percentage of revenues, general and administrative expenses increased to 6.9% for the nine months ended September 30, 2008 from 4.7% for the same period in 2007. The dollar and percentage increase was mainly due to the consolidation of the financial results of Stonesonic, Longhorn, Guanling and Jin Lin, the hiring of additional staff, the increased costs in connection with documenting and testing our internal controls and professional expenses related to the costs of these newly acquired subsidiaries becoming a part of a public reporting company.

***Non cash employee compensation***

Non cash employee compensation for the nine months ended September 30, 2008 increased to $9.66 million from $2.06 million for the same period in 2007. Such increase was primarily because we granted shares of restricted stock to our employees, directors and consultant with a vesting period of four years under the 2007 Equity Incentive Plan in 2007 and 2008. Such costs are generally recognized over a four-year period.

***Depreciation and amortization***

Our depreciation and amortization costs increased $3.42 million, or 102.7%, to $6.75 million (including $0.52 million depreciation and amortization expense included under cost of goods sold) for the nine months ended September 30, 2008 from $3.33 million for the same period in 2007. As a percentage of revenues, depreciation and amortization expenses increased to 2.3% for the nine months ended September 30, 2008 from 2.1% for the same period in 2007. Such dollar and percentage increase was primarily due to the amortization of intangible assets from the acquisition of Stonesonic, Longhorn, Guanling and Jin Lin and the establishment of the exclusive cooperation relationship with DM and Chuang Guan.

***Income from operations***

Our income from operations increased $11.59 million, or 39.8%, to $40.71 million for the nine months ended September 30, 2008 from $29.12 million for the same period in 2007. As a percentage of revenues, income from operations decreased to 14.3% for the nine months ended September 30, 2008 from 18.7% for the same period in 2007. Such percentage decrease was primarily due to the increase of our selling and marketing expenses as well as the general and administrative expenses and non cash employee compensation as discussed above.

The following table shows the different segments comprising our income from operations for the nine months ended September 30, 2008 and 2007.

All amounts, except percentage of income from operations, in millions of U.S. dollars

| | Nine months ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| **Income from operations** | | **2008** | | | **2007** | |
| Installation Segment | $ | 51.21 | 125.8% | $ | 27.42 | 94.2% |
| Manufacturing Segment | | 4.77 | 11.7% | | 6.32 | 21.7% |
| Distribution Segment | | 0.60 | 1.5% | | -- | -- |
| Corporate and others | | (15.87) | -39.0% | | (4.62) | -15.9% |
| Total | $ | 40.71 | 100% | $ | 29.12 | 100% |

Income from operations related to the Installation Segment increased 86.8%, or $23.79 million to $51.21 million for the nine months ended September 30, 2008, compared to $27.42 million for the same period in 2007. Such increase was mainly due to higher demand for total one-stop-shop installations from customers.

Income from operations related to the Manufacturing Segment decreased 24.5%, or $1.55 million to $4.77 million for the nine months ended September 30, 2008, compared to the income from operations of $6.32 million for the same period in 2007. The Manufacturing Segment moved to the Industry Park in the third quarter for future development. The Company expects that the income from operations of the Manufacturing Segment will increase as we integrate the recently completed acquisitions which will allow us to further benefit from economies of scale.

Income from operations related to our newly established Distribution Segment was $0.60 million for the nine months ended September 30, 2008.

Loss from operations related to Corporate and others increased 243.5% or $11.25 million to $15.87 million for the nine months ended September 30, 2008, compared to $4.62 million for the same period in 2007. Such increase was mainly due to the increase of non cash employee compensation as discussed above and professional expenses related to the costs of being a public reporting company.

***Other income***

Our other income decreased $0.34 million, or 19.9% to $1.37 million for the nine months ended September 30, 2008 from $1.71 million for the same period in 2007. As a percentage of revenues, other income decreased to 0.5% for the nine months ended September 30, 2008 from 1.1% for the same period in 2007. Such percentage decrease was primarily because we received rental income from related parties in the first nine months of 2007 and the land use rights and buildings generating such rental income were disposed of in 2007.

***Gain on disposal of land use rights and properties***

We sold certain properties and land use rights in 2007. Net proceeds of $5.52 million from such dispositions were recognized in the third quarter of 2007. Fully diluted net proceeds per share were $0.15 for the first nine months of 2007, as compared to $0 for the same period in 2008.

***Interest expense (excluding redemption accretion on convertible notes)***

Interest expense for the nine months ended September 30, 2008 was $1.51 million, as compared to $0.85 million of the same period in 2007. Such increase was primarily due to new borrowings under bank loans and obligation under product financing arrangements for our operations.

***Redemption accretion on convertible notes***

Redemption accretion on convertible notes for the nine months ended September 30, 2008 was $14.09 million, as compared to $9.34 million for the same period in 2007. We raised $110 million from issuance of convertible notes in February and April 2007 to finance our acquisitions. The redemption accretion on convertible notes will not be paid if the convertible notes are converted into shares of our common stock before their maturities.

***Income before taxes***

Our income before taxes increased $0.32 million, or 1.2%, to $26.48 million for the nine months ended September 30, 2008 from $26.16 million for the same period in 2007. As a percentage of revenues, income before taxes decreased to 9.3% for the nine months ended September 30, 2008 from 16.8% for the same period in 2007. Such percentage decrease was primarily due to increased non-cash expenses including the redemption accretion on convertible notes, depreciation and amortization and non cash employee compensation as discussed above.

***Income taxes***

Our income taxes decreased $0.57 million to $5.10 million for the nine months ended September 30, 2008 from $5.67 million for the same period of 2007. We incurred less taxes during the nine months ended September 30, 2008 because we fully utilized the tax exemption of our subsidiaries CSST PRC which was incorporated in 2006 and Longhorn that became our subsidiary in 2008.

***Net income***

Net income increased $0.89 million, or 4.3%, to $21.38 million for the nine months ended September 30, 2008 from $20.49 million for the same period in 2007. As a percentage of revenues, net income decreased to 7.5% for the nine months ended September 30, 2008 from 13.1% for the same period in 2007. This percentage decrease was mainly due to the non-cash expenses such as redemption accretion on convertible notes, depreciation and amortization and non cash employee compensation.

***Liquidity and Capital Resources***

*General*

As of September 30, 2008, we had cash and cash equivalents of $65.93 million. The following table sets forth a summary of our net cash flows for the periods indicated.

**CASH FLOW**

(All amounts in millions of U.S. dollars)

| | Nine Months Ended September 30, | | | |
|---|---|---|---|---|
| | **2008** | | **2007** | |
| Net cash (used in) provided by operating activities | $ | (30.55) | $ | 11.37 |
| Net cash used in investing activities | $ | (16.13) | $ | (81.15) |
| Net cash provided by financing activities | $ | 13.66 | $ | 116.91 |
| Effect of exchange rate changes on cash | $ | 9.87 | $ | 1.68 |
| Net cash (outflow) inflow | $ | (23.15) | $ | 48.81 |

*Operating Activities*

Net cash used in operating activities was $30.55 million for the nine months period ended September 30, 2008, which is an increase of $41.92 million from $11.37 million net cash provided by operating activities for the same period of 2007. The increase in net cash used in operating activities in the nine months ended September 30, 2008 was primarily due to increases in inventories and accounts receivable during the nine months ended September 30, 2008.

*Investing Activities*

Our main uses of cash for investing activities during the first nine months of 2008 were deposits for the acquisition of subsidiaries and acquisitions of subsidiaries, properties and intangible assets.

Net cash used in investing activities for the nine months ended September 30, 2008 was $16.13 million. Our net cash used in investing activities for the nine months ended September 30, 2007 was $81.15 million. The decrease of net cash used in investing activities was mainly because we paid less deposit for the acquisition of subsidiaries, properties and intangible assets in the nine months ended September 30, 2008.

We closed the acquisition of Stonesonic, Longhorn and Guanling in April 2008. We also closed the acquisition of Jin Lin in the third quarter of 2008. In addition, we have signed letters of intent to acquire Shenzhen Coson Technology Development Co., Ltd., DIT Digital Co., Ltd., and Shenzhen Skyvise Technology Limited. Pursuant to the letters of intent, the cash consideration for these three intended acquisitions is expected to total $39 million with additional consideration to be paid in equity. Consummation of these three acquisitions is subject to customary closing conditions, including execution of definitive agreements and receipt of governmental approval. We expect to finance the cash portion of the purchase price with the net proceeds from our $50 million convertible notes financing that closed in April 2007. The number of our shares to issued as part of the purchase price for Stonesonic, Longhorn, Guanling and Jin Lin acquisitions are subject to the achievement of certain net income performance targets over certain period. The acquisitions of Stonesonic, Longhorn, Guanling, and Jin Lin are expected to be accretive to earnings upon closing and are expected to provide support to the Company s city-wide projects.

*Financing Activities*

Net cash provided by financing activities in the nine months ended September 30, 2008 totaled $13.66 million as compared to $116.91 million provided in the same period of 2007. The cash provided by financing activities during the first nine months of 2008 was mainly attributable to new borrowing and a private placement of common stock. The cash used in financing activities was mainly attributable to the repayment of bank loans and new funds raised from obligation under product financing arrangements in the first nine months of 2008, whereas the net cash provided by financing activities in the nine months ended September 30, 2007 was mainly attributable to proceeds from the two convertible notes received in February 2007 and in April 2007.

*Loan Facilities*

As of September 30, 2008, the amount, maturity date and duration of each of our bank loans and obligation under finance leases were as follows:

All amounts in millions of U.S. dollars

| Lender | | Amount | Maturity Date | Duration |
|---|---|---|---|---|
| China Citic Bank | $ | 4.40 | November 2008 | 1 year |
| China Construction Bank | | 7.26 | August 2010 | 2 years |
| Shenzhen Ping An Bank | | 0.88 | March 2009 | 3 years |
| A Financial Institution | | 7.28 | July 2011 | 3 years |
| Total | $ | 19.82 | | |

In July 2008, we entered into finance lease agreements with a financial institution pursuant to which the Company borrowed RMB53 million (approximately $7.85 million), consisting of a 3-year loan payable to that financial institution. These loans mature on July 2011. The interest is payable at the end of each quarter.

On August 28, 2008, we entered into a long term loan agreement with China Construction Bank. As of September 30, 2008, the liability relating to this loan was RMB49.5 million (approximately $7.26 million), consisting of a 2-year loan payable to the bank. This loan matures on August 27, 2010 with an annual interest rate equal to 105% of the one to three years benchmark lending rate of The People s Bank of China (7.37% as of September 30, 2008). The interest rate is changed based on the change of 1 to 3 years benchmark lending rate quarterly, and the interest is payable at the 20th of each month. The loan agreement requires us to use the loan proceeds only for our operations.

On October 3, 2006, we signed a banking facility agreement with China Construction Bank under which the bank agreed to provide a new receivable-based facility to support our efforts in securing new contracts relating to the Safe City Project initiative, also known as Plan 3111. This facility will provide three possible financing options: (1) the government takes a loan from the bank to finance the project; (2) we sell the accounts receivable to the bank, 85% of the total account receivables value will be paid by the bank to the Company and the remaining 15% will be collected by the bank from the government; from the 15% collected from the government, the bank will retain certain finance charges and pay the remainder over to Company; or (3) we take a loan from the bank to finance the project. As part of this agreement, we will make periodic deposits with the bank, which, depending upon the specific project, will provide a maximum factoring capacity of five to ten times the amount deposited. None of the facility has been drawn down as of the date of this Report.

We believe that our currently available working capital, after receiving the aggregate proceeds of our capital raising activities and the credit facilities referred to above, should be adequate to sustain our operations at our current levels through at least the next twelve months.

***Obligations Under Material Contracts***

Below is a table setting forth our material contractual obligations as of September 30, 2008:

All amounts in millions of U.S. dollars

| | Payments due by period | | | | |
|---|---|---|---|---|---|
| | Total | Less than 1 year | 1-3 years | 3-5 years | More than 5 years |
| Long-Term Debt Obligations | $ 158.78 | $ 11.29 | $ 9.70 | $ 137.79 | $ - |
| Operating Lease Obligations | 1.56 | 0.86 | 0.67 | 0.03 | - |
| Total | $ 160.34 | $ 12.15 | $ 10.37 | $ 137.82 | $ - |

***Recent Pronouncements***

In June 2008, the FASB issued EITF No. 07-5, *Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity s Own Stock* effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. EITF No.07-5 provides guidance for determining whether an equity-linked financial instrument (or embedded feature) is indexed to an entity s own stock. The adoption of EITF No. 07-5 is not expected to have a material effect on the Company s consolidated financial statements.

In May 2008, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 162, "*The Hierarchy of Generally Accepted Accounting Principles*" (SFAS No. 162). SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements. SFAS No. 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "*The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles*". The Company does not expect that this standard will have a material impact on its results of operations, financial position or cash flows.

In April 2008, the FASB issued FASB Staff Position ( FSP ) No. FAS 142-3, *Determination of Useful Life of Intangible Assets* ( FSP 142-3 ). FSP 142-3 amends the factors that should be considered in developing the renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS 142, *Goodwill and Other Intangible Assets* ( SFAS 142 ). The intent of this FSP is to improve the consistency between the useful life of an intangible asset determined under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141R. FSP 142-3 is effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The Company is currently evaluating the impact of adopting FSP 142-3 on the financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133* ( SFAS 161 ) effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. SFAS 161 requires an entity to provide enhanced disclosures about derivative instruments and hedging activities. The Company is currently evaluating the impact of adopting SFAS 161 on the financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* ( SFAS 141R ), effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures identifiable assets acquired, liabilities assumed, any noncontrolling interest in the acquiree and goodwill. SFAS 141R also expands disclosure requirements for business combinations. The Company is currently evaluating the impact of adopting SFAS 141R on the financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51* ( SFAS 160 ) effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. SFAS 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. The adoption of SFAS 160 is not expected to have a material effect on the Company's consolidated financial statements.

***Critical Accounting Policies***

See Item 7, Management s Discussion and Analysis of Results of Operations and Financial Condition in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007, for a discussion of the Company's critical accounting policies.

***Seasonality***

Our operating results and operating cash flows historically have been subject to seasonal variations. Our revenues are usually higher in the second half of the year than in the first half of the year and the first quarter is usually the slowest quarter because fewer projects are undertaken during and around the Chinese spring festival.

***Off-Balance Sheet Arrangements***

We do not have any off-balance sheet arrangements.

**ITEM 4. CONTROLS AND PROCEDURES**

*Evaluation of Disclosure Controls and Procedures.* We maintain a system of disclosure controls and procedures. The term disclosure controls and procedures, as defined by regulations of the SEC, means controls and other procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit to the SEC under the Exchange Act, is recorded, processed, summarized and reported, within the time periods specified in the SEC s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit to the SEC under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and our principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions to be made regarding required disclosure. Each of Guoshen Tu, our Chief Executive Officer, and Terence Yap, our Chief Financial Officer, have evaluated the design and operating effectiveness of our disclosure controls and procedures as of September 30, 2008. Based upon their evaluation, these executive officers have concluded that our disclosure controls and procedures are effective as of September 30, 2008.

*Changes in Internal Control over Financial Reporting.* There has been no change to our internal control over financial reporting during the nine months ended September 30, 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II

OTHER INFORMATION

**ITEM 1. LEGAL PROCEEDINGS**

From time to time, we may have disputes that arise in the ordinary course of our business. Currently, there are no legal proceedings to which we are a party, or to which any of our property is subject, that we expect to have a material adverse effect on our financial condition.

**ITEM 1A. RISK FACTORS**

There are no material changes from the risk factors previously disclosed in Part I, Item 1A. Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2007, filed with the SEC on March 10, 2008.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

On July 7, 2008, pursuant to an equity transfer agreement with Qingqing Peng, the sole owner of Long Top, we agreed to issue 268,870 shares of our common stock to Qingqing Peng as part of the total consideration for the acquisition of 100% of the equity interest of Long Top. The offer and sales of the securities were made in an offshore transaction pursuant to Regulation S under the Securities Act.

On August 6, 2008, pursuant to an equity transfer agreement with Ms. Wenyan Zeng, the sole owner of Huge Long, we agreed to issue 453,736 shares of our common stock to Wenyan Zeng as part of the total consideration for the acquisition of 100% of the equity interest of Huge Long. The offer and sales of the securities were made in an offshore transaction pursuant to Regulation S under the Securities Act.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

There were no defaults upon senior securities in the quarter ended September 30, 2008.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

N/A

**ITEM 5. OTHER INFORMATION**

On October 13, 2008, the Company s common stock commenced secondary trading on the Dubai International Financial Exchange ( DIFX ). The Company s common stock is trading on the DIFX in U.S. dollars under the ticker symbol CSR . The Company s common stock is primarily listed on the New York Stock Exchange.

**ITEM 6. EXHIBITS**

| Exhibit Number | Description |
|---|---|
| 31.1 | Certification of Principal Executive Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Principal Financial Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of Principal Executive Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of Principal Financial Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DATED: December 5, 2008

**China Security & Surveillance Technology, Inc.**

| | |
|---|---|
| By: | /s/ Guoshen Tu<br>Guoshen Tu<br>Principal Executive Officer |
| By: | /s/ Terence Yap<br>Terence Yap<br>Principal Financial Officer |

## EXHIBIT INDEX

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