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: March 31, 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 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

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 April 30, 2008 is as follows:

Class of Securities	Shares Outstanding
Common Stock, $0.0001 par value	42,859,292

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 March 31, 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 graphic disclosure of the Company s non-cash components for the three months ended March 31, 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 March 31, 2008, as originally filed on May 5, 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, as well as all assumptions, expectations, predictions, intentions or beliefs about future events. You are cautioned that any such forward-looking statements are not guarantees of future performance and that a number of risks and uncertainties could cause actual results of the Company to differ materially from those anticipated, expressed or implied in the forward-looking statements. The words "believe," "expect," "anticipate," "project," "targets," "optimistic," "intend," "aim," "will" or similar expressions are intended to identify forward-looking statements. All statements other than statements of historical fact are statements that could be deemed forward-looking statements. Risks and uncertainties that could cause actual results to differ materially from those anticipated include risks related to new and existing products; any projections of sales, earnings, revenues, margins or other financial items; any statements of the plans, strategies and objectives of management for future operations; any statements regarding future economic conditions or performance; uncertainties related to conducting business in China; any statements of belief or intention; any of the factors mentioned in the "Risk Factors" section of our Annual Report on Form 10-K for the year ended December 31, 2007 and subsequent SEC filings. 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," or "the Company" are to China Security & Surveillance Technology, Inc., a Delaware corporation and its consolidated subsidiaries. Unless the context otherwise requires, all references to

- "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;

- "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;

- "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;

- "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;

- "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 60%, 39% and 1% of our revenues for the three months ended March 31, 2008, respectively.

Our sales network covers most of China's populated areas and we do not rely on any particular region for our business. Among our subsidiaries, Golden has 28 branch offices in provincial cities, Cheng Feng has 23 distribution points, Hongtianzhi has 53 distribution points, HiEasy has 16 distribution points, Minking has 14 distribution points and Tsingvision has 4 distribution points.

In the first quarter of 2008, we established an exclusive cooperation relationship with DM, a corporation incorporated in China which is engaged in the business of designing, developing and selling security and surveillance products. Pursuant to the exclusive cooperation agreement that was entered into on January 18, 2008, the parties have agreed, among other things, that our subsidiary CSST PRC will provide various services to DM, including training services, provision of technology licenses, equipment, consultations and other related services. DM will subcontract all its business to CSST PRC or its designees to the extent permitted by the PRC laws and regulations at no less than 80% of the face value of the contract. DM agrees to add CSST PRC's name into its market materials and any of 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 term of the agreement is 20 years which is automatically renewable for another 20 years unless terminated by CSST PRC. Please see our current report on Form 8-K filed on January 25, 2008 for more details.

Recent Developments

On April 2, 2008, we entered into an equity transfer agreement with our subsidiary Safetech, and Ms. Aiqi Chen, the sole owner of Kit Grant Limited, a Hong Kong corporation, pursuant to which Safetech purchased 100% of Kit Grant Limited from Ms. Chen. Kit Grant Limited is a holding company that owns all the outstanding equity of Stonesonic, a PRC company. Stonesonic is a leading monitoring equipment solutions provider in China that has a broad array of large flat panel display equipment. Under the agreement, our Company will pay a total consideration of RMB227.04 million (approximately $32.4 million) in exchange for 100% ownership of Kit Grant Limited, consisting of RMB125 million (approximately $17.8 million) in cash and RMB102.04 million (approximately $14.6 million) in shares of the Company's common stock. The number of shares issuable in satisfaction of the equity portion of the purchase price is 953,918 which will be issued within 90 days following the execution of the agreement. Please see our Current Report on Form 8-K filed on April 8, 2008 for more details.

On April 2, 2008, we entered into an equity transfer agreement with our subsidiary Safetech and Ms. Weilan Zhuang, the sole owner of Sincere On Limited, a Hong Kong corporation, pursuant to which Safetech purchased 100% of Sincere On Limited from Ms. Weilan Zhuang. Sincere On Limited is a holding company that owns all the outstanding equity of Longhorn, a PRC company. Longhorn specializes in the manufacture and installation of security alarm systems in China. Under the agreement, our Company will pay a total consideration of RMB120.56 million (approximately $17.20 million) in exchange for 100% ownership of Sincere On Limited, consisting of RMB36 million (approximately $5.10 million) in cash and RMB84.56 million (approximately $12.10 million) in our Company's shares of common stock. The number of shares issuable in satisfaction of the equity portion of the purchase price is 790,502 which will be issued within 90 days following the execution of the agreement. Please see our Current Report on Form 8-K filed on April 8, 2008 for more details.

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On April 21, 2008, we entered into an equity transfer agreement with our subsidiary Safetech and Weilan Zhuang, the sole owner of Sharp Eagle (HK) Limited, a Hong Kong corporation ("Sharp Eagle") pursuant to which Safetech purchased 100% ownership of Sharp Eagle from Ms. Zhuang. Sharp Eagle is a holding company that owns all the outstanding equity of Guanling, a corporation incorporated in China. Under the agreement, the Company will pay a total consideration of RMB 39.11 million (approximately \$5.59 million) in exchange for 100% ownership of Sharp Eagle, consisting of RMB 12.50 million (approximately \$1.79 million) in cash and RMB 26.61 million (approximately \$3.80 million) in the Company's shares of common stock. The number of shares issuable in satisfaction of the equity portion of the purchase price is 206,661 which will be issued within 90 days following the execution of the Equity Transfer Agreement. Please see our Current Report on Form 8-K filed on April 25, 2008 for more details.

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 March 31, 2008. During the three months ended March 31, 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."

First Quarter Financial Performance Highlights

We continued to experience strong demand for our products and services during the first quarter of 2008 and growth in our revenues. The security and surveillance product market in China continued to expand in the first 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 first fiscal quarter financial results also benefited from the consolidation of Hongtianzhi, Mingking, HiEasy and Tsingvision which were acquired in second and third quarters of 2007 and contributed approximately $8.14 million revenues in aggregate, accounting for approximately 11.2% of the total revenues of the first quarter of 2008.

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

- *Revenues:* Revenues increased $33.33 million, or 86.7%, to $71.78 million for the three months ended March 31, 2008, from $38.45 million for the three months ended March 31, 2007.

- *Gross margin*: Gross margin was 31.0% for the three months ended March 31, 2008, compared to 26.3% for the three months ended March 31, 2007. Such increase was primarily due to a change of product mix and better economies of scale.

- *Income from operations:* Income from operations increased $4.68 million, or 72.4%, to $11.14 million for the three months ended March 31, 2008, from $6.46 million in 2007.

- *Operating margin:* Operating margin (the ratio of income from operations to revenues, expressed as a percentage) was 15.5% for the three months ended March 31, 2008, compared to 16.8% in 2007.

- *Net income:* Net income decreased $0.03 million, or 0.7%, to $4.50 million for the three months ended March 31, 2008, from $4.53 million for the three months ended March 31, 2007.

- *Net margin:* Net margin (the ratio of net income to revenues, expressed as a percentage) was 6.26% for the three months ended March 31, 2008, compared to 11.79% for the three months ended March 31, 2007. The decrease was primarily due to non-cash expenses.

- *Fully diluted net income per share*: Fully diluted net income per share was $0.11 for the three months ended March 31, 2008, as compared to $0.13 for the three months ended March 31, 2007.

- *Non-cash items* : Non-cash items included (i) the redemption accretion on convertible notes of $4.36 million, (ii) depreciation and amortization of $1.90 million, and (iii) non-cash employee compensation expense of $2.96 million for the three months ended March 31, 2008. Total non-cash items are $9.22 million, representing an increase of $6.99 million, or 313.45%, from $2.23 million during the three months ended March 31, 2007.

Our net income, as reported in our results of operations for the period ended March 31, 2008 and 2007 were approximately $4.50 million, and $4.53 million. 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.

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The following table summarizes the Company's non-cash components during the three months ended March 31, 2008 and 2007:

All amounts in millions of U.S. dollars

	Three Months Ended March 31,		
Non-cash items	**2008**	**2007**	**Increase (Decrease)**
Depreciation and amortization	$ 1.82	$ 0.81	$ 1.01
Depreciation and amortization (included in cost of goods sold)	0.08	-	0.08
Non-cash employee compensation	2.96	0.26	2.70
Redemption accretion on convertible notes	4.36	1.16	3.20
Total	$ 9.22	$ 2.23	$ 6.99

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Results of Operations

The following table sets forth key components of our results of operations for the three months ended March 31, 2008 and 2007, in dollars and as a percentage of revenues.

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

	2008		2007	
Revenues	$ 71.78	100.0%	$ 38.45	100.0%
Cost of goods sold (including depreciation and amortization amounted $0.08 and $0, respectively)	(49.52)	69.0%	(28.33)	73.7%
Gross profit	22.26	31.0%	10.12	26.3%
Selling and marketing	(2.14)	2.9%	(0.60)	1.6%
General and administrative	(4.20)	5.8%	(1.98)	5.2%
Non-cash employee compensation	(2.96)	4.1%	(0.27)	0.7%
Depreciation and amortization	(1.82)	2.5%	(0.81)	2.1%
Income from operations	11.14	15.5%	6.46	16.8%
Other income	0.40	0.5%	0.71	1.8%
Interest expense, cash	(0.50)	0.7%	(0.16)	0.4%
Redemption accretion on convertible notes	(4.36)	6.0%	(1.16)	3.0%
Income before income taxes	6.68	9.3%	5.85	15.2%
Income taxes	(2.18)	3.0%	(1.32)	3.4%
Net income	$ 4.50	6.3%	$ 4.53	11.8%

Revenues

Our revenues are generated from system installations and manufacturing and distribution of security and safety products. During the first quarter of 2008, we experienced solid growth in revenues. Revenues increased from $38.45 million for the first quarter of 2007 to $71.78 million for the first quarter of 2008, representing an 86.7% increase. Such increase 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 several companies in the second and third quarter of 2007 as discussed in details below. Our strategic efforts to increase our distribution channels during 2005 and 2006 and sufficient working capital from our recent fundraising activities also allowed us to successfully take advantage of the growth in market demand in the future. Historically, the first quarter has generally been a slow quarter for us due to the Chinese New Year holiday and the third quarter has generally been the strongest quarter. Management expects the same trend in 2008 and that revenue growth will remain strong in the remainder of 2008.

After Hongtianzhi, HiEasy, Minking and Tsingvision became our wholly owned subsidiaries, we consolidated the financial results of these four companies beginning in the second and third quarters of 2007, which contributed $2.66 million, $1.45 million, $3.49 million, and $0.54 million to revenues in the first quarter of 2008. We consolidated the financial results of Cheng Feng starting from the third quarter of 2006. As Cheng Feng's acquisition has surpassed the one year anniversary, we have included these revenues in our organic growth since the fourth quarter of 2007. Cheng Feng had revenues of $4.11 million in the first quarter of 2008.

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

(In millions of U.S. dollars)

Revenues from the Installation Segment recognized from installation contracts signed in 2007	$	35.0
Revenues from the Installation Segment recognized from installation contracts signed in 2008	$	24.6
Revenues from the Manufacturing Segment recognized from manufacturing contracts signed in 2007	$	3.3
Revenues from the Manufacturing Segment recognized from manufacturing contracts signed in 2008	$	4.8
Revenues from the Distribution Segment	$	4.1
Total revenues recognized in 2008	$	71.8
Revenues deferred	$	1.0
Backlog of contracts for system installation and manufacturing of security and safety products signed before March 31, 2008 (1)	$	50.1

(1) We have conservatively not included the letter of intents, framework agreements and various signed partnership agreements in our backlog numbers as they are subject to final binding individual 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 March 31, 2008 and 2007.

All amounts in millions of U.S. dollars

Revenues		**2008**			**2007**	
Installation Segment	$	59.54	83.0%	$	34.03	88.5%
Manufacturing Segment		8.13	11.3%		4.42	11.5%
Distribution Segment		4.11	5.7%		--	--
Total	$	71.78	100.0%	$	38.45	100.0%

For the three months ended March 31, 2008 and 2007, our Installation Segment generated revenues of $59.54 million and $34.03 million which represented 83.0% and 88.5% 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 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 2007 also contributed to the growth in sales revenue.

For the three months ended March 31, 2008 and 2007, our Manufacturing Segment generated revenues of $8.13 million and $4.42 million, representing 11.3% and 11.5% of our total revenues, respectively. During the first quarter of 2008, we established a new segment our Distribution Segment which generated revenues of $4.11 million, representing 5.7% of our total revenues. Management believes that revenues from the installation projects will continue to be the Company's major revenue source in the next a few years. With the acquisitions of Stonesonic, Longhorn and Guanling in April 2008 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 in 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 to enhance 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. Cost of goods sold for the first quarter of 2008 increased by 74.8% to $49.52 million as compared to $28.33 million for the same period last year. The increase was generally in line with the increase of revenues.

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 $12.14 million, or 120.00%, to $22.26 million for the three months ended March 31, 2008 from $10.12 million for the same period last year. Gross margin for the three months ended March 31, 2008 was 31.0%, as compared to 26.3% 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 profit margin over the three months ended March 31, 2008 and 2007.

Gross Margin	**2008**	**2007**
Installation Segment	29.7%	27.8%
Manufacturing Segment	35.9%	22.2%
Distribution Segment	39.9%	--
Total	31.0%	26.3%

For the three months ended March 31, 2008, gross margins of the Installation Segment and Manufacturing Segment were approximately 29.7% and 35.9%, respectively, compared to 27.8% and 22.2% for the same period last year. Gross margin of our newly established segment Distribution Segment was 39.9% in the first quarter of 2008. Gross margins of the Installation Segment increased because our project scale increased, our margin for those projects increased. Gross margin for the Manufacturing Segment increased to 35.9% for the three months ended March 31, 2008 from 22.2% for the same period last year. The increase in our gross margin was primarily driven by the increased economies of scale. For the three months ended March 31, 2008, gross margin of the Distribution Segment was 39.9%. Such high gross margin was mainly because our software solution generally has a higher margin.

Selling and marketing expenses

Our selling and marketing expenses are comprised 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 $1.54 million, or 256.70%, to $2.14 million for the three months ended March 31, 2008 from $0.6 million for the same period in 2007. This dollar increase was primarily attributable to the consolidation of the financial results of Cheng Feng, Hongtianzhi, HiEasy, Minking and Tsingvision, which incurred selling and marketing expenses associated with sales of their products. As a percentage of revenues, our selling and marketing expenses increased to 2.9% for the three months ended March 31, 2008 from 1.6% for the same period in 2007. The percentage increase was mainly due to the hiring of additional staff and increased cost in promotion of our products to new customers.

General and administrative expenses

General and Administrative expenses consist primarily of compensation and benefits to our general management, finance and administrative staff, professional advisor fees, audit fees and other expenses incurred in connection with general operation. Our general and administrative expenses increased $2.22 million, or 112.1%, to $4.20 million for the three months ended March 31, 2008 from $1.98 million of the same period in 2007. As a percentage of revenues, general and administrative expenses increased to 5.8% for the three months ended March 31, 2008 from 5.2% for the same period in 2007. The dollar and percentage increase was mainly due to the increase of the non-cash employee compensation as discussed below, the hiring of additional staff, and professional expenses related to the costs of being a public reporting company.

Non-cash employee compensation

Effective February 7, 2007, our board of directors adopted our 2007 Equity Incentive Plan (the "Plan"). The Plan was subsequently amended and approved by the Company's stockholders in February 2008. The Plan provides for grants of stock options, stock appreciation rights, performance units, restricted stock, restricted stock units and performance shares. A total of 8,000,000 shares of our common stock may be issued under the Plan. During the three months ended March 31, 2008, we granted an aggregate of 181,500 shares of restricted stock pursuant to the Plan to our employees and consultants. These shares will vest with respect to each of the employees and consultants over a period of four years.

Non-cash employee compensation for the three months ended March 31, 2008 increased to $2.96 million from $0.27 million for the same period in 2007, primarily as a result of the adoption of the Plan and grants to employees and consultants made under the Plan.

Depreciation and amortization

Our depreciation and amortization costs increased $1.09 million, or 134.6%, to $1.90 million (including $0.08 million depreciation and amortization costs included under cost of goods sold) for the three months ended March 31, 2008 from $0.81 million for the same period in 2007. As a percentage of revenues, depreciation and amortization expenses increased to 2.6% for the three months ended March 31, 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 Cheng Feng, Hongtianzhi, HiEasy, Minking and Tsingvision and the establishment of exclusive cooperation relationship with Chuang Guan and DM. The amortization of intangible assets increased as a result of these acquisitions.

Income from operations

Our income from operations increased $4.68 million, or 72.4%, to $11.14 million for the three months ended March 31, 2008 as compared to $6.46 million for the same period in 2007. As a percentage of revenues, income from operations decreased to 15.5% for the three months ended March 31, 2008 from 16.8% for the same period in 2007. Such percentage decrease was primarily due to the increase of our selling and marketing expenses, 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 March 31, 2008 and 2007.

All amounts in millions of U.S. dollars

Income from operations		2008			2007	
Installation Segment	$	14.97	134.5%	$	8.15	126.2%
Manufacturing Segment		1.09	9.8%		(0.16)	-2.5%
Distribution Segment		0.59	5.3%		-	0.0%
Corporate and others		(5.51)	-49.6%		(1.53)	-23.7%
Total	$	11.14	100.0%	$	6.46	100.0%

Income from operations related to the Installation Segment increased 83.7%, or $6.82 million to $14.97 million for the three months ended March 31, 2008, compared to $8.15 million for the same period in 2007. Such increase was mainly due to higher demand of total one-stop-shop installations from customers. We finished more projects than we planned in the first quarter of 2008.

Income from operations related to the Manufacturing Segment increased 781.3%, or $1.25 million to $1.09 million for the three months ended March 31, 2008, compared to the operating loss of $0.16 million for the same period in 2007. Such increase was mainly due to the acquisitions we made in the second and third quarter of 2007, which greatly increased our sales of manufactured products. The Company expects that the Manufacturing Segment margin will continue to 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 $0.59 million for the three months ended March 31, 2008.

Loss from operations related to the Corporate and others increased 260.1% or $3.98 million for the three months ended March 31, 2008, compared to $1.53 million for the same period in 2007. Such increase was mainly due to the increase of non-cash compensation as discussed above and professional expenses related to the costs of being a public reporting company.

Other income

Our other income decreased $0.31 million, or 43.7% to $0.40 million for the three months ended March 31, 2008 from $0.71 million for the same period in 2007. As a percentage of revenues, other income decreased to 0.5% for the three months ended March 31, 2008 from 1.8% for the same period in 2007. Such percentage decreased was primarily because we did not receive any rental income from related parties in the first quarter of 2008. Those land use rights and buildings were disposed in 2007.

Interest expense (excluding redemption accretion on convertible notes)

During the first quarter of 2008, we borrowed funds under 3 short-term loans from local Chinese banks and incurred a total interest expense of $0.22 million. For the convertible notes, we paid $0.28 million interest during the three months ended March 31, 2008.

Redemption accretion on convertible notes

Redemption accretion on convertible notes for the three months ended March 31, 2008 was $4.36 million, as compared to $1.16 million for the same period in 2007. We raised $110 million from the issuance of convertible notes in February and April 2007 to finance our acquisitions. The redemption accretion on convertible notes will not be repaid if the convertible notes are converted into shares of our common stock before their respective maturities.

Income before taxes

Our income before taxes increased $0.83 million, or 14.2%, to $6.68 million for the three months ended March 31, 2008 from $5.85 million for the same period in 2007. As a percentage of revenues, income before taxes decreased to 9.3% from 15.20% 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 March 31, 2008.

Our wholly owned subsidiary Safetech was 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 30.0% 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 25.0%.

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% as 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 and Tsingvision are subject to an EIT rate of 25% .

Income taxes increased $0.86 million to $2.18 million for the three months ended March 31, 2008 from $1.32 million for the same period of 2007. We paid more taxes during the first three months of 2008 primarily because of the increased income before income taxes during that period.

Net income

Net income decreased $0.03 million, or 0.7%, to $4.50 million for the three months ended March 31, 2008 from $4.53 million for the same period in 2007. As a percentage of revenues, net income decreased to 6.3% for the three months ended March 31, 2008 from 11.8% for the same period in 2007. This percentage decrease was mainly due to the increase of non-cash expenses including the redemption accretion on our convertible notes, depreciation and amortization and non-cash employee compensation as discussed above.

Foreign Currency Translation Gains

Our operating subsidiaries are located in China. The operating subsidiaries purchase all products and render services in China, and receive payment from customers in China using RMB as the functional currency. We do not engage in currency hedging.

We incurred a foreign currency translation gain of $8.50 million for the three months ended March 31, 2008 as compared with the foreign currency translation gain of $0.80 million for the same period in 2007.

On July 21, 2005, China reformed its foreign currency exchange policy, revalued RMB by 2.1 percent and allowed the RMB to appreciate as much as 0.3 percent per day against the U.S. dollar. As a result, we implemented different exchange rates in translating RMB into U.S. dollars in our financial statements for fiscal quarter ended March 31, 2008 and 2007.

For the three months ended March 31, 2008, the exchange rates of 7.019, 7.1034 and 8.04 were implemented in calculating the assets and liabilities, revenue and expenses, and shareholders' equity, respectively, which results in an $8.50 million foreign currency translation gain in the first quarter of 2008. In the first quarter of 2007, the exchange rates of 7.734, 7.774 and 8.04 were implemented in calculating the assets and liabilities, revenue and expenses, and shareholders' equity, respectively, which results in a $0.80 million foreign currency translation gain in such period.

Liquidity and Capital Resources

General

As of March 31, 2008 and December 31, 2007, we had cash and cash equivalents of $77.1 million and $89.1 million, respectively. The following table provides detailed information about our net cash flow for the three months ended March 31, 2008 and 2007.

Cash Flow

All amounts in millions of U.S. dollars

	Three months ended March 31, 2008		2007	
Net cash used in operating activities	$	(2.50)	$	(1.58)
Net cash used in investing activities		(10.94)		(20.90)
Net cash (used in) provided by financing activities		(1.28)		63.33
Net (decrease) increase in cash and cash equivalents	$	(14.72)	$	40.85

Operating Activities:

Net cash used in operating activities was $2.50 million for the three months ended March 31, 2008, which is an increase of $0.92 million from the $1.58 million of the net cash used in operating activities for the same period in 2007. The decrease was mainly due to an increase in advance payments, prepayment and deposits and trade receivables.

Investing Activities:

Our main uses of cash for investing activities during the first quarter of 2008 were deposits for the acquisition of subsidiaries and businesses and for property, plant and equipment.

Net cash used in investing activities for the three months ended March 31, 2008 was $10.94 million, which is a decrease of $9.96 million from net cash used in investing activities of $20.90 million in the same period of 2007. Such decrease was primarily due to decreased deposits for acquisitions of subsidiaries and proceeds from the disposal of land use rights and properties in 2008.

We closed the acquisition of Stonesonic and Longhorn on April 2, 2008. We also closed the acquisition of Guanling on April 21, 2008. In addition, we have signed letters of intent to acquire Shenzhen Alean Technology Development Co., Ltd., and Shenzhen Jin Lin Technology Co., Ltd. Pursuant to the letters of intent, the cash consideration for these two intended acquisitions is expected to total $20 million with additional consideration to be paid in equity. Consummation of these two acquisitions is subject to customary closing conditions, including execution of definitive agreement 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 be included in the equity portion of the purchase price for Stonesoinc, Longhorn and Guanling acquisitions will be subject to the achievement of certain net income performance targets over a two-year period. The acquisitions of Stonesonic, Longhorn and Guanling 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 used in financing activities in the three months ended March 31, 2008 totaled $1.28 million as compared to $63.33 million provided by financing activities in the same period of 2007. The net cash use in financing activities was mainly attributable to the repayment of bank loans in the first quarter of 2008, whereas the net cash provided by financing activities in the three months ended March 31, 2007 was mainly attributable to proceeds from the convertible notes received in February 2007.

Loan Facilities

As of March 31, 2008, the amounts, maturity dates and term of each of our bank loans were as follows.

All amounts in millions of U.S. dollars

Bank		**Amount**	**Maturity Date**	**Duration**
Shanghai Pudong Development Bank	$	4.28	July 2008	6 months
China Citic Bank		4.28	November 2008	1 year
Shanghai Pudong Development Bank		2.84	October 2008	1 year
Shenzhen Ping An Bank		1.11	March 2009	3 years
Total	$	12.51		

In January 2008, we entered into a loan agreement with Shanghai Pudong Development Bank pursuant to which the Company borrowed RMB30 million (approximately $4.28 million) with an annual interest rate of 6.57%. The loan is due in July 2008 and the interest is payable at the end of each month. The bank has the right to increase the interest rate and demand repayment of the entire loan principal and unpaid interest if we use the loan for any purpose other than operations.

On October 3, 2006, we signed a banking facility agreement with China Construction Bank ("CCB") under which CCB 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 CCB to finance the project; (2) we sell the accounts receivable to CCB, 85% of the total account receivables value will be paid by CCB to the Company and the remaining 15% will be collected by CCB from the government; from the 15% collected from the government, CCB will retain certain finance charges and pay the remainder over to Company; or (3) we take a loan from CCB to finance the project. As part of this agreement, we will make periodic deposits with CCB, 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 and in our Annual Report on Form 10-K filed on March 10, 2008, 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 March 31, 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	$ 110.00	$ -	$ -	$ 110.00	$ -
Operating Lease Obligations	1.50	0.37	0.17	0.96	-
Total	$ 111.50	$ 0.37	$ 0.17	$ 110.96	$ -

Recent Pronouncements

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.

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.

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 March 31, 2008. Based upon their evaluation, these executive officers have concluded that our disclosure controls and procedures are effective as of March 31, 2008.

Changes in Internal Control over Financial Reporting.

There has been no change to our internal control over financial reporting during the quarter ended March 31, 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II

OTHER INFORMATION

ITEM 6. EXHIBITS