CHINA SECURITY & SURVEILLANCE TECHNOLOGY, INC.
Form PRER14A
August 08, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

SCHEDULE 14A

PROXY STATEMENT PURSUANT TO SECTION 14(a)
OF THE SECURITIES EXCHANGE ACT OF 1934

Filed by the Registrant [X] Filed by a Party other than the Registrant [ ]

Check the appropriate box:

[X] Preliminary Proxy Statement

[ ] Confidential, for use of the Commission Only (as permitted by Rule 14a-6(e)(2))

[ ] Definitive Proxy Statement

[ ] Definitive Additional Materials

[ ] Soliciting Material Under Rule 14a-12

CHINA SECURITY & SURVEILLANCE TECHNOLOGY, INC.
(Name of Registrant as Specified in its Charter)

Payment of Filing Fee (Check the appropriate box):

[ ] No fee required

[X] Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11(c)(1)

(1) Title of each class of securities to which transaction applies:

Common stock, par value $0.0001 per share of China Security & Surveillance Technology, Inc. (*common stock*)

(2) Aggregate number of securities to which transaction applies:

67,995,345 shares of common stock issued and outstanding as of July 22, 2011 (consisting of the 89,703,773 shares of common stock outstanding as of July 22, 2011 minus 21,708,428 shares held by Guoshen Tu, certain management members of the registrant and their respective affiliates (the *Rollover Shares*)*), and (ii) 12,864 shares of common stock underlying outstanding warrants as of July 22, 2011 with an exercise price below $6.50 per share.

* The Rollover Shares are being contributed to Rightmark Holdings Limited immediately prior to the consummation of the merger.

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11(c)(1) and the Securities and Exchange Commission Fee Rate Advisory #5 for Fiscal Year 2011 (set forth the amount on which the filing fee is calculated and state how it was determined):

The proposed maximum aggregate value of the transaction for purposes of calculating the filing fee is $441,991,611. The maximum aggregate value of the transaction was calculated based upon the sum of (1) 67,995,345 shares of common stock issued and outstanding as of July 22, 2011 (consisting of the 89,703,773 shares of common stock outstanding as of July 22, 2011 minus the Rollover Shares) multiplied by $6.50 per share and (2) the product of 12,864 shares of common stock underlying outstanding warrants as of July 22, 2011 multiplied by $1.70 per share (which is the difference between the $6.50 per share merger consideration and the exercise price of $4.80 per share). The filing fee equals the product of $0.0001161 multiplied by the maximum aggregate value of the transaction.

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(4) Proposed maximum aggregate value of transaction: $441,991,611

(5) Total fee paid: $51,329

[ ] Fee paid previously with preliminary materials.

[X] Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount Previously Paid: $521.85

(2) Form, Schedule or Registration Statement No.: Form S-3

(3) Filing party: China Security & Surveillance Technology, Inc.

(4) Date Filed: March 10, 2010

PRELIMINARY PROXY MATERIAL SUBJECT TO COMPLETION

August [ ], 2011

To the Stockholders of China Security & Surveillance Technology, Inc.:

You are cordially invited to attend an annual meeting of stockholders of China Security & Surveillance Technology, Inc., a Delaware corporation (the **Company**, **we**, **us** or **our**) to be held at 10:00 a.m. local time, on September 2011, at the Company s office at 13/F, Shenzhen Special Zone Press Tower, Shennan Road, Futian District, Shenzhen 518034, the People's Republic of China.

At the annual meeting, you will be asked to consider and vote upon a proposal to adopt an Amended and Restated Agreement and Plan of Merger, dated as of May 3, 2011 (the **merger agreement**), among the Company, Rightmark Holdings Limited, a British Virgin Islands company (**Parent**), Rightmark Merger Sub Limited, a Delaware corporation and a wholly owned subsidiary of Parent (**Merger Sub**), and solely for the purposes of Section 6.15 therein, Mr. Guoshen Tu (**Mr. Tu**), the Chairman and Chief Executive Officer of the Company. Under the terms of the merger agreement, Merger Sub will be merged with and into the Company (the **merger**), with the Company surviving the merger as a wholly owned subsidiary of Parent. Parent and Merger Sub were formed and are beneficially owned by Mr. Tu.

If the merger is completed, each share of Company common stock, other than as provided below, will be converted into the right to receive $6.50 in cash, without interest. We refer to this amount as the **per share merger consideration**. The following shares of Company common stock will not be converted into the right to receive the per share merger consideration in connection with the merger: (a) shares owned by Parent or Merger Sub, (b) shares contributed to Parent by the Rollover Stockholders (as defined below) immediately prior to the effective time of the merger and (c) shares owned by stockholders who have exercised, perfected and not withdrawn a demand for, or lost the right to, appraisal rights under the Delaware General Corporation Law.

The merger agreement provides that, each share of Company common stock that, immediately prior to the effective time of the merger, is subject to vesting and/or forfeiture restrictions under the equity incentive plan adopted by the board of directors of the Company on February 7, 2007 and subsequently amended in February 2010 shall become fully vested immediately prior to the effective time, and each such share shall be treated as a share of Company common stock.

At the effective time, each warrant to purchase shares of Company common stock issued that is outstanding at the effective time shall be canceled and, in exchange therefor, the surviving corporation shall pay to each former holder of any such canceled warrant immediately following the effective time an amount in cash (without interest) equal to the product of (i) the excess of the per share merger consideration over the exercise price per share of Company common stock of such warrant and (ii) the number of shares of Company common stock subject to such warrant; provided, that if the exercise price per share of Company common stock of any such warrant is equal to or greater than the per share merger consideration, such warrant shall be canceled without any cash payment being made in respect thereof. See *The Merger Agreement Treatment of Common Stock, Restricted Shares and Company Warrants* beginning on page 67 for additional information.

A special committee of our board of directors, consisting entirely of independent directors, reviewed and considered the terms and conditions of the merger agreement and the transactions contemplated by the merger agreement,

including the merger. The special committee unanimously determined that the merger agreement and the transactions contemplated by the merger agreement, including the merger, are advisable, fair to and in the best interests of the Company and its stockholders, and recommended that our board of directors approve and declare the advisability of the merger agreement and the transactions contemplated by the merger agreement, including the merger, and recommend that our stockholders adopt the merger agreement. Our board of directors, after careful consideration and acting on the unanimous recommendation of the special committee, deemed it advisable and in the best interests of the Company and our stockholders that the Company enter into the merger agreement, determined that the merger agreement and the transactions contemplated by the merger agreement, including the merger, are advisable, fair to and in the best interests of the Company and its stockholders and recommended that our stockholders adopt the merger agreement at the annual meeting. **Our board of directors recommends that you vote FOR the proposal to adopt the merger agreement**.

The merger cannot be completed unless the merger agreement is adopted by (i) stockholders holding at least a majority of the outstanding shares of Company common stock at the close of business, New York time, on the record date and (ii) stockholders holding at least a majority of the outstanding shares of the Company s common stock at the close of business, New York time, on the record date, other than shares owned, directly or indirectly, by Parent, Merger Sub, Rollover Stockholders or any of their respective affiliates. More information about the merger is contained in the accompanying proxy statement and copy of the Amended and Restated Agreement and Plan of Merger is attached thereto as Annex A.

In considering the recommendation of the special committee and the board of directors, you should be aware that some of the Company s directors and officers have interests in the merger that are different from, or in addition to, the interests of our stockholders generally. Mr. Tu, the Chairman and Chief Executive Officer of the Company, and Wing Khai Yap (also known as Terence Yap), the Chief Financial Officer and a director of the Company, Lizhong Wang, Zhongxin Xie, Lingfeng Xiong, Li Fang, Ying Zhang, Zhiming Wu, Daobin Sang, Guohui Cao, Po Kwai Chow, Yang Zhao, Yujuan Guan, Zhuo Gong, Xihong Dai, Qiaomin Wu, Kaicheng Cheng, Lei Wang and Xiaosheng Tong, each of whom is a member of the Company s management team or the nominee of a member of the Company's management team (collectively, the **Rollover Stockholders**), beneficially own approximately 24.20% of the total number of outstanding shares of Company common stock. The Rollover Stockholders are parties to the rollover agreement described in the accompanying proxy statement and have agreed with Parent to contribute to Parent the shares of Company common stock owned by them in exchange for equity securities of Intelligent One Limited, a British Virgin Islands company (**Intelligent One**), that beneficially owns all of the share capital of Parent, immediately prior to the completion of the merger, or, if agreed between Parent and a Rollover Stockholder, in exchange for an amount in cash equal to $6.50 per share multiplied by the number of shares of Company common stock held by such Rollover Stockholder. The accompanying proxy statement includes additional information regarding certain interests of the Company s directors and officers that may be different from, or in addition to, the interests of our stockholders generally.

Also as part of the annual meeting, you are being asked to vote upon (1) the election of five persons to the board of directors of the Company; (2) the ratification of the selection by our Audit Committee of GHP Horwath, P.C. as the Company s independent registered public accounting firm for the fiscal year ending December 31, 2011; (3) the approval, on an advisory basis, of executive compensation; (4) approval, on an advisory basis, of the frequency of holding an advisory vote on executive compensation; and (5) such other business as may properly come before the meeting or any adjournment thereof.

We encourage you to read the accompanying proxy statement in its entirety because it explains the proposed merger, the documents related to the merger and other related matters.

Regardless of the number of shares of Company common stock you own, your vote is important. The failure to vote will have the same effect as a vote against the proposal to adopt the merger agreement.

Whether or not you plan to attend the annual meeting, please take the time to submit a proxy by following the instructions on your proxy card as soon as possible. If your shares of Company common stock are held in an account at a broker, dealer, commercial bank, trust company or other nominee, you should instruct your broker, dealer, commercial bank, trust company or other nominee how to vote in accordance with the voting instruction form furnished by your broker, dealer, commercial bank, trust company or other nominee.

We appreciate your continued support of the Company.

Sincerely,

Guoshen Tu
Chairman of the Board and Chief Executive Officer

The merger has not been approved or disapproved by the Securities and Exchange Commission or any state securities commission. Neither the Securities and Exchange Commission nor any state securities commission has passed upon the merits or fairness of the merger or upon the adequacy or accuracy of the information contained in this document or the accompanying proxy statement. Any representation to the contrary is a criminal offense.

The accompanying proxy statement is dated August [ ], 2011 and is first being mailed to stockholders on or about August [ ], 2011.

CHINA SECURITY & SURVEILLANCE TECHNOLOGY, INC.

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD ON SEPTEMBER 14, 2011

NOTICE IS HEREBY GIVEN that the annual meeting of stockholders of China Security & Surveillance Technology, Inc. (the **Company**, **we**, **us** or **our**) will be held at 10:00 a.m., local time, on September 14, 2011, at the Compa office at 13/F, Shenzhen Special Zone Press Tower, Shennan Road, Futian District, Shenzhen 518034, the People's Republic of China, for the following purposes:

1. To adopt the Amended and Restated Agreement and Plan of Merger, dated as of May 3, 2011 (the **merger agreement**), with Rightmark Holdings Limited, a British Virgin Islands company (**Parent**), Rightmark Merger Sub Limited, a Delaware corporation and a wholly owned subsidiary of Parent (**Merger Sub**), and, solely for the purposes of Section 6.15 therein, Mr. Guoshen Tu, the Chairman and Chief Executive Officer of the Company, providing for the merger of Merger Sub with and into the Company (the **merger**), with the Company surviving the merger as a wholly owned subsidiary of Parent. Parent and Merger Sub were formed and are beneficially owned by Mr. Guoshen Tu;

2. To approve the adjournment of the annual meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the annual meeting to adopt the merger agreement;

3. To elect five persons to the board of directors of the Company;

4. To ratify the selection by our Audit Committee of GHP Horwath, P.C. as the Company s independent registered public accounting firm for the fiscal year ending December 31, 2011;

5. To have an advisory vote on executive compensation;

6. To have an advisory vote on the frequency of holding an advisory vote on executive compensation; and

7. To transact such other business as may properly come before the annual meeting or any adjournment thereof.

For more information about the merger and the other transactions contemplated by the merger agreement, please review the accompanying proxy statement and the merger agreement attached thereto as Annex A.

A special committee of our board of directors, consisting entirely of independent directors, reviewed and considered the terms and conditions of the merger agreement and the transactions contemplated by the merger agreement, including the merger. The special committee unanimously determined that the merger agreement and the transactions contemplated by the merger agreement, including the merger, are advisable, fair to and in the best interests of the Company and its stockholders, and recommended that our board of directors approve and declare the advisability of the merger agreement and the transactions contemplated by the merger agreement, including the merger, and recommend that our stockholders adopt the merger agreement. Our board of directors, acting on the unanimous recommendation of the special committee, deemed it advisable and in the best interests of the Company and our stockholders that the Company enter into the merger agreement, determined that the merger agreement and the transactions contemplated by the merger agreement, including the merger, are advisable, fair to and in the best

interests of the Company and its stockholders and recommended that our stockholders adopt the merger agreement at the annual meeting. **Our board of directors recommends that you vote FOR the proposal to adopt the merger agreement**.

Guoshen Tu, the Chairman and Chief Executive Officer of the Company, and Wing Khai Yap (Terence), the Chief Financial Officer and a director of the Company, Lizhong Wang, Zhongxin Xie, Lingfeng Xiong, Li Fang, Ying Zhang, Zhiming Wu, Daobin Sang, Guohui Cao, Po Kwai Chow, Yang Zhao, Yujuan Guan, Zhuo Gong, Xihong Dai, Qiaomin Wu, Kaicheng Cheng, Lei Wang and Xiaosheng Tong, each a member of the Company s management team or the nominee of a member of the Company s management team (collectively, the **Rollover Stockholders**) beneficially own approximately 24.20% of the total number of outstanding shares of Company common stock. The Rollover Stockholders are parties to the rollover agreement described in the accompanying proxy statement and have agreed with Parent to contribute to Parent shares of Company common stock owned by them in exchange for equity securities of Intelligent One Limited, a British Virgin Islands company (**Intelligent One**), that beneficially owns all of the share capital of Parent, immediately prior to the completion of the merger or, if agreed between Parent and a Rollover Stockholder, in exchange for an amount in cash equal to $6.50 per share multiplied by the number of shares of Company common stock held by such Rollover Stockholder.

Only stockholders of record at the close of business, New York time, on August 5, 2011 are entitled to notice of and to vote at the annual meeting and at any and all adjournments or postponements thereof.

The adoption of the merger agreement requires the affirmative vote of (i) stockholders holding at least a majority of the outstanding shares of Company common stock at the close of business, New York time, on the record date and (ii) stockholders holding at least a majority of the outstanding shares of the Company s common stock at the close of business, New York time, on the record date, other than shares owned, directly or indirectly, by Parent, Merger Sub, the Rollover Stockholders or any of their respective affiliates. The approval of the adjournment of the annual meeting requires the affirmative vote of the holders of at least a majority of the shares of the Company common stock present and entitled to vote at the annual meeting as of the record date, whether or not a quorum is present.

Regardless of the number of shares of Company common stock you own, your vote is important. The failure to vote will have the same effect as a vote against the proposal to adopt the merger agreement.

Whether or not you plan to attend the annual meeting, please take the time to submit a proxy by following the instructions on your proxy card as soon as possible. If your shares of Company common stock are held in an account at a broker, dealer, commercial bank, trust company or other nominee, you should instruct your broker, dealer, commercial bank, trust company or other nominee how to vote in accordance with the voting instruction form furnished by your broker, dealer, commercial bank, trust company or other nominee.

Company stockholders who do not vote in favor of adoption of the merger agreement will have the right to seek appraisal and receive the fair value of their shares in lieu of receiving the per share merger consideration if the merger closes but only if they perfect their appraisal rights by complying with the required procedures under Delaware law, which are summarized in the accompanying proxy statement.

If you plan to attend the annual meeting, please note that you may be asked to present valid photo identification, such as a driver s license or passport. If you wish to attend the annual meeting and your shares of Company common stock are held in an account at a broker, dealer, commercial bank, trust company or other nominee (i.e., in street name), you will need to bring a copy of your voting instruction card or statement reflecting your share ownership as of the record date.

By Order of the Board of Directors,

Samuel Lo
Corporate Secretary

Shenzhen, China

August [ ], 2011

Important Notice of Internet Availability

This proxy statement, the Notice of Annual Meeting of Stockholders, and a form of the Proxy Card for the annual meeting to be held on September 14, 2011 are available free of charge at www.myproxyonline.com/CSR.

YOUR VOTE IS IMPORTANT

WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING IN PERSON, YOU ARE ENCOURAGED TO VOTE AS SOON AS POSSIBLE. YOU MAY VOTE YOUR SHARES OF COMPANY COMMON STOCK BY TELEPHONE, OVER THE INTERNET, OR IF YOU RECEIVED A PAPER COPY OF THE PROXY CARD, BY SIGNING AND DATING IT AND RETURNING IT PROMPTLY. VOTING BY PROXY WILL NOT PREVENT YOU FROM ATTENDING THE MEETING AND VOTING IN PERSON IF YOU SO DESIRE.

SUMMARY VOTING INSTRUCTIONS

Ensure that your shares of Company common stock can be voted at the annual meeting by submitting your proxy or contacting your broker, dealer, commercial bank, trust company or other nominee.

If your shares of Company common stock are registered in the name of a broker, dealer, commercial bank, trust company or other nominee: check the voting instruction card forwarded by your broker, dealer, commercial bank, trust company or other nominee to see which voting options are available or contact your broker, dealer, commercial bank, trust company or other nominee in order to obtain directions as to how to ensure that your shares of Company common stock are voted at the annual meeting.

If your shares of Company common stock are registered in your name: submit your proxy as soon as possible by telephone, via the Internet or by signing, dating and returning the enclosed proxy card in the enclosed postage-paid envelope, so that your shares of Company common stock can be voted at the annual meeting.

Instructions regarding telephone and Internet voting are included on the proxy card.

The failure to vote will have the same effect as a vote against the proposal to adopt the merger agreement. If you sign, date and mail your proxy card without indicating how you wish to vote, your proxy will be voted ***in favor of*** the proposal to adopt the merger agreement and the proposal to adjourn the annual meeting, if necessary and appropriate, to solicit additional proxies.

If you have any questions, require assistance with voting your proxy card, or need additional copies of proxy material, please call our Corporate Secretary at (+86) 755-8351-0888.

TABLE OF CONTENTS

	Page
PROXY STATEMENT	1
SUMMARY TERM SHEET RELATED TO THE MERGER	1
QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING AND THE MERGER	12
SPECIAL FACTORS RELATING TO THE MERGER	18
The Parties	18
Overview of the Transaction	21
Management and Board of Directors of the Surviving Corporation	22
Background of the Merger	23
Purposes and Reasons of Our Board of Directors and Special Committee for the Merger	30
Recommendation of Our Board of Directors and Special Committee; Reasons for Recommending the Adoption of the Merger Agreement; Fairness of the Merger	31
Opinion of Imperial Capital, Financial Advisor to the Special Committee	38
Purposes and Reasons of the Tu Parties for the Merger	44
Positions of the Tu Parties Regarding the Fairness of the Merger	44
Certain Effects of the Merger	48
Effects on the Company if Merger is not Completed	49
Plans for the Company	50
Prospective Financial Information	50
Financing of the Merger	52
Limited Guaranty	53
Limitation on Remedies	53
Interests of the Company s Directors and Officers in the Merger	54
Relationship Between Us and the Tu Parties	55
Dividends	56
Determination of the Per Share Merger Consideration	56
Regulatory Matters	56

Fees and Expenses	56
Material United States Federal Income Tax Consequences	56
Material PRC Tax Consequences	58
Delisting and Deregistration of the Company Common Stock	59
Litigation Relating to the Merger and Other Legal Proceedings	59
THE ANNUAL MEETING	61
Date, Time and Place	61
Purpose of the Annual meeting	61
Recommendation of Our Board of Directors and Special Committee	61
Record Date; Stockholders Entitled to Vote; Quorum	62
Vote Required	62
Stock Ownership and Interests of Certain Persons	63
Voting Procedures	63
Other Business	64
Revocation of Proxies	64
Rights of Stockholders Who Object to the Merger	65
Solicitation of Proxies	65
Assistance	65
PROPOSAL ONE ADOPTION OF THE MERGER AGREEMENT	66
THE MERGER AGREEMENT	66
Explanatory Note Regarding the Merger Agreement	66
Effects of the Merger; Directors and Officers; Certificate of Incorporation; Bylaws	66
Closing and Effective Time of the Merger	66
Treatment of Common Stock, Restricted Stock and Company Warrants	67
Exchange and Payment Procedures	67
Representations and Warranties	68
Conduct of Business Prior to Closing	72
Parent Forbearance	73
Access to Information	73
Alternative Takeover Proposals	73

Indemnification; Directors and Officers Insurance	75
Financing	76
No Knowledge of Inaccuracies	77
Employee Matters	77
Conditions to the Merger	77
Termination	78
Termination Fees and Reimbursement of Expenses	79
Fees and Expenses	80
Remedies	80
Amendment; Waiver of Conditions	80
COMMON STOCK OWNERSHIP OF MANAGEMENT AND CERTAIN BENEFICIAL OWNERS	80
Changes in Control	82
Securities Authorized for Issuances under Equity Compensation Plans	82
COMMON STOCK TRANSACTION INFORMATION	83
Purchases by Company	83
Prior Public Offerings	83
APPRAISAL RIGHTS	83
SELECTED FINANCIAL INFORMATION	87
Selected Historical Financial Information	87
Ratio of Earnings to Fixed Charges	87
Net Book Value per Share of Company Common Stock	87
MARKET PRICE AND DIVIDEND INFORMATION	88
PROPOSAL TWO ADJOURNMENT OR POSTPONEMENT OF THE ANNUAL MEETING	88
PROPOSAL THREE ELECTION OF DIRECTORS	89
Director Selection	89
Information Concerning Nominees and Incumbent Directors and Executive Officers	90
General Information	91
CORPORATE GOVERNANCE	92

Corporate Governance Guidelines	92
The Board and Committees of the Board	92
Governance Structure	92
The Board s Role in Risk Oversight	93
Independent Directors	93
Audit Committee	94
Compensation Committee	95
Nominating and Governance Committee	96
Material Changes to Director Nomination Procedures	96
Board, Committee and Annual Meeting Attendance	96
Amended and Restated Code of Ethics	97
Communication with Directors or Non-Management Directors	97
Report of the Audit Committee	97
EXECUTIVE COMPENSATION	98
Compensation Discussion and Analysis	98
Objectives of Our Executive Compensation Program	98
How Executive Compensation is Determined	99
The Key Elements of Our Executive Compensation Program	101
Other Benefits	102
Change in Control and Employment Agreements	102
Compensation Committee Report	102
Compensation Policies	102
Summary Compensation Table	103
Grants of Plan-Based Awards	103
Outstanding Equity Awards at Fiscal Year End	104
Option Exercises and Stock Vested	104
Employment Agreements	104
Potential Payments Upon Termination of Employment or Change of Control	104

Non-Management Directors Compensation	105
Compensation Committee Interlocks and Insider Participation	106
CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS	106
Transactions with Related Persons	106
Policies and Procedures for Review, Approval or Ratification of Transactions with Related Persons	106
PROPOSAL FOUR RATIFICATION OF SELECTION OF INDEPENDENT AUDITORS	107
Independent Registered Public Accounting Firm s Fees	107
Pre-Approval Policies and Procedures	108
PROPOSAL FIVE ADVISORY VOTE ON EXECUTIVE COMPENSATION	108
PROPOSAL SIX ADVISORY VOTE ON THE FREQUENCY OF	108
AN ADVISORY VOTE ON EXECUTIVE COMPENSATION	
STOCKHOLDER PROPOSALS AND NOMINATIONS	109
CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS	110
WHERE YOU CAN FIND MORE INFORMATION	110
ANNEX A: MERGER AGREEMENT	A-1
ANNEX B: FINANCIAL ADVISOR OPINION	B-1
ANNEX C: DELAWARE GENERAL CORPORATION LAW SECTION 262	C-1

CHINA SECURITY & SURVEILLANCE TECHNOLOGY, INC.

ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD ON SEPTEMBER 14, 2011

PROXY STATEMENT

This proxy statement contains information related to an annual meeting of stockholders of China Security & Surveillance Technology, Inc. (the **Company**, **we**, **us** or **our**) which will be held at 10:00 a.m., local time, September 14, 2011, at the Company s office at 13/F, Shenzhen Special Zone Press Tower, Shennan Road, Futian District, Shenzhen 518034, the People's Republic of China, and any adjournments or postponements thereof. We are furnishing this proxy statement to stockholders of China Security & Surveillance Technology, Inc. as part of the solicitation of proxies by the Company s board of directors for use at the annual meeting. This proxy statement is dated August [ ], 2011 and is first being mailed to stockholders on or about August [ ], 2011.

SUMMARY TERM SHEET RELATED TO THE MERGER

This summary term sheet highlights selected information in this proxy statement regarding the merger and may not contain all of the information about the merger that is important to you. We have included page references in parentheses to direct you to more complete descriptions of the topics presented in this summary term sheet. You should carefully read this proxy statement in its entirety, including the annexes and the other documents to which we have referred you, for a more complete understanding of the matters being considered at the annual meeting. You may obtain without charge copies of documents incorporated by reference into this proxy statement by following the instructions under *Where You Can Find More Information* beginning on page 110. In this proxy statement, the terms **we**, **us**, **our**, **CSST** and the **Company** refer to China Security & Surveillance Technology, Inc. and its subsid We refer to Intelligent One Limited as **Intelligent One**, Whitehorse Technology Limited as **Whitehorse**, Rightmark Holdings Limited as **Parent** and Rightmark Merger Sub Limited as **Merger Sub**. We refer to Wing Khai Yap (Terence), Lizhong Wang, Zhongxin Xie, Lingfeng Xiong, Li Fang, Ying Zhang, Zhiming Wu, Daobin Sang, Guohui Cao, Po Kwai Chow, Yang Zhao, Yujuan Guan, Zhuo Gong, Xihong Dai, Qiaomin Wu, Kaicheng Cheng, Lei Wang and Xiaosheng Tong, each of whom is a member of the Company s management or the nominee of a member of the Company s management team, and together with Guoshen Tu (**Mr. Tu**), as the **Rollover Stockholders** and Parent, Merger Sub, Intelligent One, Whitehorse and the Rollover Stockholders, collectively as the **Tu Parties**. When we refer to the **merger agreement** we mean either the Agreement and Plan of Merger, dated as of April 20, 2011, or the Amended and Restated Agreement and Plan of Merger, dated as of May 3, 2011, as applicable, each among the Company, Parent, Merger Sub and Mr. Tu (solely for the purposes of Section 6.15 therein).

The Parties (page 18)

China Security & Surveillance Technology, Inc. is a leading integrated surveillance and safety solutions provider in China. Through its indirect Chinese subsidiaries, the Company is primarily engaged in the manufacturing, distributing, installing and servicing of surveillance and safety products, systems and services, and developing surveillance and safety related software in China. Both Parent and Merger Sub were formed for the sole purpose of entering into the merger agreement and consummating the transactions contemplated by the merger agreement. Both Parent and Merger Sub were formed and are beneficially owned by Mr. Tu.

Mr. Tu, the Chairman and Chief Executive Officer of the Company, beneficially owns approximately 20.9% of the total number of outstanding shares of Company common stock.

The Rollover Stockholders, including Mr. Tu, beneficially own approximately 24.20% of the total number of outstanding shares of Company common stock. The Rollover Stockholders have agreed with Parent to contribute to

Parent the shares of Company common stock owned by them (the **Rollover Shares**) in exchange for equity securities of Intelligent One immediately prior to the completion of the merger pursuant to a letter agreement (the **rollover agreement**) or, if and to the extent, agreed between Parent and a Rollover Stockholder, in exchange for an amount in cash equal to $6.50 per share multiplied by the number of the relevant Rollover Shares.

Overview of the Transaction (page 21)

The Company, Parent, Merger Sub and Mr. Tu entered into the merger agreement on April 20, 2011, as amended and restated by the merger agreement entered into by the parties on May 3, 2011. Under the terms of the merger agreement, Merger Sub will be merged with and into the Company, with the Company surviving the merger as a wholly owned subsidiary of Parent (the **merger**). The Company, as the surviving corporation, will continue to do business under the name China Security & Surveillance Technology, Inc. following the merger. Both Parent and Merger Sub were formed and are beneficially owned by Mr. Tu. The following will occur in connection with the merger:

- each share of Company common stock issued and outstanding immediately prior to the merger (other than shares owned by Parent, Merger Sub and their affiliates, the Rollover Stockholders and holders of the Dissenting Shares (as such term is defined in this proxy statement)) will be converted into the right to receive the per share merger consideration, as described below;
- each share of Company common stock that, immediately prior to the effective time of the merger, is subject to vesting and/or forfeiture restrictions under the equity incentive plan adopted by the board of directors of the Company on February 7, 2007 and subsequently amended in February 2010 shall become fully vested immediately prior to the effective time, and each such share shall be treated as a share of Company common stock;
- each warrant to purchase shares of Company common stock issued that is outstanding at the effective time shall be canceled and, in exchange therefor, the surviving corporation shall pay to each former holder of any such canceled warrant immediately following the effective time an amount in cash (without interest) equal to the product of (i) the excess of the per share merger consideration over the exercise price per share of Company common stock of such warrant and (ii) the number of shares of Company common stock subject to such warrant; provided, that if the exercise price per share of Company common stock of any such warrant is equal to or greater than the per share merger consideration, such warrant shall be canceled without any cash payment being made in respect thereof. See *The Merger Agreement Treatment of Common Stock, Restricted Shares and Company Warrants* beginning on page 67 for additional information; and
- all shares of Company common stock so converted will, at the closing of the merger, be canceled, and each holder of a certificate (or evidence of shares in book-entry form) representing any shares of Company common stock shall cease to have any rights with respect thereto, except the right to receive the per share merger consideration upon surrender of such certificate (if such shares are certificated).

Following and as a result of the merger:

- Company stockholders (other than the Rollover Stockholders) will no longer have any interest in, and will no longer be stockholders of, the Company, and will not participate in any of the Company s future earnings or growth;
- shares of Company common stock will no longer be listed on the New York Stock Exchange (NYSE) or NASDAQ Dubai, and price quotations with respect to shares of Company common stock in the public market will no longer be available; and
- the registration of shares of Company common stock under the Securities Exchange Act of 1934, as amended (the **Exchange Act**) will be terminated.

The Annual Meeting (page 61)

The annual meeting will be held at 10:00 a.m., local time, on September 14, 2011, at the Company s office at 13/F, Shenzhen Special Zone Press Tower, Shennan Road, Futian District, Shenzhen 518034, the People's Republic of China. At the annual meeting, you will be asked to, among other things, adopt the merger agreement. See *Questions and Answers About the Annual Meeting and the Merger* for additional information on the annual meeting, including how to vote your shares of Company common stock.

Stockholders Entitled to Vote; Vote Required to Adopt the Merger Agreement (page 62)

You may vote at the annual meeting if you owned any shares of Company common stock at the close of business, New York time, on August 5, 2011, the record date for the annual meeting. On that date, there were [ ] shares of Company common stock outstanding and entitled to vote at the annual meeting. You may cast one vote for each share of Company common stock that you owned on that date. Adoption of the merger agreement requires the affirmative vote of (i) stockholders holding at least a majority of the outstanding shares of the Company s common stock at the close of business, New York time, on the record date and (ii) stockholders holding at least a majority of the outstanding shares of the Company s common stock at the close of business, New York time, on the record date other than shares owned, directly or indirectly, by Parent, Merger Sub, the Rollover Stockholders or any of their respective affiliates. Assuming 89,703,773 shares of Company common stock are outstanding on the record date, approximately 33,997,673 shares of Company common stock owned by unaffiliated stockholders must be voted in favor of the proposal to adopt the merger agreement in order for the proposal to be approved pursuant to the approval requirement set forth in (ii). See *The Annual Meeting* beginning on page 61 for additional information.

Merger Consideration (page 67)

If the merger is completed, each share of Company common stock, other than as provided below, will be converted into the right to receive $6.50 in cash, without interest. We refer to this amount as the **per share merger consideration**. Common stock owned by Parent or Merger Sub and shares of Company common stock contributed to Parent by the Rollover Stockholders will be canceled without payment of per share merger consideration. Shares of Company common stock owned by stockholders who have exercised, perfected and not withdrawn a demand for, or lost the right to, appraisal rights under the Delaware General Corporation Law (**DGCL**) will be canceled without payment of per share merger consideration and such stockholders will instead be entitled to appraisal rights under the DGCL.

A paying agent will send written instructions for surrendering your certificates representing shares of Company common stock (if your shares of Company common stock are certificated) and obtaining the per share merger consideration after we have completed the merger. Do not return your stock certificates with your proxy card and do not forward your stock certificates to the paying agent prior to receipt of the written instructions. If you hold uncertificated shares of Company common stock (i.e., you hold your shares in book-form entry), you will automatically receive your per share merger consideration as soon as practicable after the effective time of the merger without any further action required on your part. See *The Merger Agreement Treatment of Common Stock, Restricted Shares and Company Warrants* and *The Merger Agreement Exchange and Payment Procedures* beginning on page 67 for additional information.

Treatment of Restricted Stock and Company Warrants (page 67)

The merger agreement provides that, each share of Company common stock that, immediately prior to the effective time of the merger, is subject to vesting and/or forfeiture restrictions under the equity incentive plan adopted by the board of directors of the Company on February 7, 2007 and subsequently amended in February 2010 shall become fully vested immediately prior to the effective time, and each such share shall be treated as a share of Company common stock.

At the effective time, each warrant to purchase shares of Company common stock issued that is outstanding at the effective time shall be canceled and, in exchange therefor, the surviving corporation shall pay to each former holder of any such canceled warrant immediately following the effective time an amount in cash (without interest) equal to the product of (i) the excess of the per share merger consideration over the exercise price per share of Company common stock of such warrant and (ii) the number of shares of Company common stock subject to such warrant; provided, that if the exercise price per share of Company common stock of any such warrant is equal to or greater than the per share merger consideration, such warrant shall be canceled without any cash payment being made in respect thereof. See *The Merger Agreement Treatment of Common Stock, Restricted Shares and Company Warrants* beginning on page 67 for additional information.

Recommendation of Our Board of Directors and Special Committee; Reasons for Recommending the Adoption of the Merger Agreement; Fairness of the Merger (page 31)

Our board of directors, after careful consideration and acting on the unanimous recommendation of the special committee composed entirely of independent directors, recommends that you vote **FOR** the proposal to adopt the merger agreement and **FOR** the proposal to approve the adjournment of the annual meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the annual meeting to adopt the merger agreement. Our board of directors and the special committee believe that the merger is fair to our stockholders. For a discussion of the material factors considered by our board of directors and the special committee in determining to recommend the adoption of the merger agreement and in determining that the merger is fair to our stockholders, see *Special Factors Relating to the Merger Purposes and Reasons of Our Board of Directors and Special Committee for the Merger* beginning on page 30 and *Special Factors Relating to the Merger Recommendation of Our Board of Directors and Special Committee; Reasons for Recommending the Adoption of the Merger Agreement; Fairness of the Merger* beginning on page 31 for additional information.

Positions of the Tu Parties Regarding the Fairness of the Merger (page 44)

Each of the Tu Parties believes that the merger is fair to our stockholders, other than the Rollover Stockholders. Their belief is based upon the factors discussed under the captions, *Special Factors Relating to the Merger Positions of the Tu Parties Regarding the Fairness of the Merger* beginning on page 44, *Special Factors Relating to the Merger Purposes and Reasons of Our Board of Directors and Special Committee for the Merger* beginning on page 30 and *Special Factors Relating to the Merger Recommendation of Our Board of Directors and Special Committee; Reasons for Recommending the Adoption of the Merger Agreement; Fairness of the Merger* beginning on page 31.

Opinion of Imperial Capital, Financial Advisor to the Special Committee (page 38)

In connection with the merger, the special committee received a written opinion from Imperial Capital, LLC (**Imperial Capital**), financial advisor to the special committee, as to the fairness, from a financial point of view and as of the date of its opinion, of the per share merger consideration to be received by the holders of the Company common stock (other than Parent, Merger Sub and their affiliates, holders of the Dissenting Shares and the Rollover Stockholders (as each such term is defined in this proxy statement)). The full text of Imperial Capital s written opinion, dated May 3, 2011, is attached to this proxy statement as Annex B. Holders of Company common stock are encouraged to read this opinion carefully in its entirety for a description of the assumptions made, procedures followed, matters considered and limitations on the review undertaken. **Imperial Capital s opinion was provided to the special committee in connection with, and for the purposes of, its evaluation of the per share merger consideration from a financial point of view, does not address the merits of the underlying decision by the Company to engage in the merger or the relative merits of any alternatives discussed by the special committee and the board of directors of the Company, does not constitute an opinion with respect to the Company s underlying business decision to effect the merger, any legal, tax or accounting issues concerning the merger, or any terms of the merger (other than the per share merger consideration) and does not constitute a recommendation as to any vote or action the Company or any stockholders of the Company should take in connection with the merger or any aspect thereof.**

For a more complete description of Imperial Capital s opinion, see *Special Factors Relating to the Merger Opinion of Imperial Capital, Financial Advisor to the Special Committee* beginning on page 38 for additional information. See also Annex B to this proxy statement.

Financing of the Merger (page 52)

Parent estimates that the total amount of funds required to complete the merger and related transactions, including payment of fees and expenses in connection with the merger, is anticipated to be approximately $594,975,018. This

amount is expected to be provided through a combination of rollover financing from the Rollover Stockholders totaling approximately $141,104,782, and debt financing of up to $500 million. See *Special Factors Relating to the Merger Financing of the Merger* beginning on page 52 for additional information.

Limited Guaranty (page 53)

Mr. Tu has agreed to guarantee the obligations of Parent under the merger agreement to pay, under certain circumstances, a reverse termination fee and reimburse certain expenses. See *Special Factors Relating to the Merger Limited Guaranty* beginning on page 53 for additional information.

Rollover Agreement (page 53)

Pursuant to a rollover agreement, at or prior to the effective time of the merger, the Rollover Stockholders will contribute to Parent an aggregate amount of 21,708,428 shares of Company common stock beneficially owned by them in exchange for equity securities of Intelligent One or, if agreed between Parent and a Rollover Stockholder, in exchange for an amount in cash equal to $6.50 per share multiplied by the number of the relevant Rollover Shares. See *Special Factors Relating to the Merger Financing of the Merger Rollover Financing* beginning on page 53 for additional information.

Interests of the Company s Directors and Officers in the Merger (page 54)

When considering the recommendation of our board of directors in favor of the adoption of the merger agreement, you should be aware that the members of our board of directors and certain of our officers have interests in the merger in addition to their interests as our stockholders generally. These interests may be different from, or in addition to, your interests as our stockholders. These interests include acceleration of vesting of their restricted stock, the ownership of equity interests in Parent by Mr. Tu, the rollover arrangement, compensation to members of special committee and the maintenance of indemnification rights and insurance coverage. The members of our board of directors were aware of these additional interests, and considered them, when they approved the merger agreement, the merger and the other transactions contemplated by the merger agreement.

Conditions to the Merger (page 77)

The respective obligations of each of the Company, Parent and Merger Sub to consummate the merger are subject to the satisfaction or waiver of certain conditions. For a more detailed description of these conditions, please see *The Merger Agreement Conditions to the Merger* beginning on page 77.

Regulatory Matters (page 56)

The Company does not believe that any material federal, national, provincial, local or state, whether domestic or foreign, regulatory approvals, filings or notices are required in connection with the merger other than the approvals, filings or notices required under the U.S. federal securities laws and the filing of a certificate of merger with the Secretary of State of the State of Delaware with respect to the merger.

Alternative Takeover Proposals (page 73)

Until 11:59 p.m. New York City time on July 2, 2011 the Company is permitted to:

- initiate, solicit and encourage any inquiry or the making of takeover proposals from third parties, including through public disclosure or by providing third parties non-public information pursuant to acceptable confidentiality agreements (provided that the Company promptly make such information available to Parent if not previously made available to Parent); and
- enter into and maintain discussions or negotiations with any person with respect to any takeover proposal, or otherwise cooperate with or assist such inquiries, proposals, discussions or negotiations.

From and after 12:00 a.m. New York City time on July 3, 2011, the Company is required to immediately cease any discussions or negotiations with any persons that may be ongoing with respect to any takeover proposals, except as may relate to excluded parties (as defined below). From and after 12:00 a.m. New York City time on July 3, 2011 until the effective time or, if earlier, the termination of the merger agreement, the Company will not:

- initiate, solicit, knowingly encourage or knowingly induce the making of takeover proposals from third parties;
- provide any material non-public information to a third party in connection with a takeover proposal; or
- engage in discussions or negotiations with any third party concerning a takeover proposal

Notwithstanding the foregoing, the Company may continue to engage in the activities permitted during the period prior to 11:59 p.m. New York City time on July 2, 2011 described above with an excluded party. In this proxy statement, we refer to any person that has submitted a takeover proposal after the execution of the merger agreement and prior to 11:59 p.m. New York City time on July 2, 2011 that the board of directors and the special committee determine in good faith (after consultation with its financial and legal advisors) constitutes or would reasonably be expected to result in a superior proposal as an "**excluded party**"; provided, however, that such person will cease to be an excluded party at such time as the takeover proposal made by such person is withdrawn, is terminated or expires, or the board of directors and the special committee determine in good faith (after consultation with its financial and legal advisors) ceases to constitute or ceases to be reasonably likely to lead to a superior proposal.

Prior to the time the Company's stockholders adopt the merger agreement, if the Company receives an unsolicited takeover proposal from a third party that the special committee determines in good faith (after consultation with its financial and legal advisors) could result in a superior proposal, the Company may:

- furnish information to such party pursuant to an acceptable confidentiality agreement; and
- engage in discussions or negotiations with such party.

From and after 12:00 a.m. New York City time on July 3, 2011, the Company must advise Parent within 48 hours, orally and then in writing as promptly as practicable, of any takeover proposal, any initial request for non-public information and any initial request for discussions or negotiations related to a takeover proposal, received after 12:00 a.m. New York City time on July 3, 2011. In connection with such notice, Company must also provide the material terms and conditions and the identity of the third party make the takeover proposal or request. The Company must also keep Parent reasonably informed in all material respects of the status and details of such takeover proposal or request received after 12:00 a.m. New York City time on July 3, 2011.

The board of directors of the Company cannot effect a "change of recommendation" (as defined in "*The Merger Agreement Alternative Takeover Proposals*") or allow the Company to execute or enter into, any "Company acquisition agreement" (as defined in "*The Merger Agreement Alternative Takeover Proposals*") related to any takeover proposal. Notwithstanding the foregoing, at any time prior to the receipt of the requisite stockholder approvals of the merger, (x) if the special committee determines in good faith (after consultation with the Company's outside legal advisors) that the failure to do so could likely be inconsistent with its fiduciary duties, then the board of directors of the Company, acting upon the recommendation of the special committee, may make a change of recommendation; and (y) if the board of directors of the Company determines in good faith (after consultation with the Company's outside financial and legal advisors) that a takeover proposal constitutes a superior proposal, then the Company may make a change of recommendation, enter into a Company acquisition agreement with respect to such superior proposal and/or terminate the merger agreement.

The Company is not entitled to effect a change of recommendation or terminate the merger agreement unless (i) the Company has provided written notice at least three business days in advance to Parent and Merger Sub advising Parent that the board of directors of the Company intends to make a change of recommendation or enter into a Company acquisition agreement and specifying the reasons for the proposed action and, if a change of recommendation is being made as a result of a superior proposal, the terms and conditions of such takeover proposal (including the identity of the third party making the takeover proposal and any related financing materials) and (ii) with respect to a takeover proposal received on or after 12:00 a.m. New York City time on July 3, 2011, in addition to providing a written notice of a superior proposal to Parent, during the three business day period following Parent's and Merger Sub's receipt of such written notice, the Company will negotiate with Parent and Merger Sub in good faith (if

Parent and Merger Sub desire to negotiate) to make such adjustments in the terms and conditions of the merger agreement and the facility agreement entered into between Parent and China Development Bank Hong Kong Branch (“**CDB**”), Parent’s lender, so that such superior proposal no longer constitutes a superior proposal, and following the end of the three business day period, the board of directors of the Company and the special committee will have determined in good faith, taking into account any changes to the merger agreement and the facility agreement proposed by Parent and Merger Sub, that the takeover proposal giving rise to such written notice continues to be a superior proposal. Any material amendment to the financial terms or any other material amendment of such superior proposal will require a new written notice and the Company will be required to comply again with the procedures in this paragraph.

The Company is not restricted from issuing a "stop, look and listen" communication pursuant to Rule 14d-9(f) promulgated under the Exchange Act or taking or disclosing to its stockholders any position contemplated by Rule 14e-2(a) or Rule 14d-9 promulgated under the Exchange Act or from making any other disclosure to its stockholders to comply with applicable law.

The Company has the right to reimburse the reasonable out-of-pocket expenses of any person who has submitted a takeover proposal prior to the receipt of the requisite stockholder approvals of the merger, if (i) the special committee determines in good faith that such takeover proposal constitutes a superior proposal and intends to change its recommendation, (ii) in response to the intended change of recommendation, Parent revises the terms and conditions of the merger agreement and (iii) the Company does not change its recommendation with respect to such a takeover proposal because the special committee determines that the takeover proposal submitted by such person no longer constitutes a superior proposal in consideration of the revisions to the merger agreement submitted by Parent.

As used in this proxy statement, the following terms shall have the following meanings:

The term "takeover proposal" means any proposal or offer made by any third party to purchase or otherwise acquire (A) beneficial ownership (as defined under section 13(d) of the Exchange Act) of 20% or more of any class of equity securities of the Company pursuant to a merger, consolidation or other business combination, sale of shares of capital stock, tender offer, exchange offer or similar transaction or (B) any one or more assets or businesses of the Company that constitute 20% or more of the revenues or assets of the Company.

The term "superior proposal" means a written takeover proposal (provided that for purposes of this definition, references to "20%" in the definition of takeover proposal shall be deemed to be references to "50%") on terms which the board of directors of the Company and special committee determines in good faith (after consultation with the Company's outside legal and financial advisors) to be more favorable to the Company's stockholders from a financial point of view than the terms of the merger agreement (taking into account such factors as the board of directors of the Company deems appropriate including any changes to the terms of the merger agreement proposed by Parent) and to be reasonably capable of being consummated on the terms proposed.

Termination of the Merger Agreement (page 78)

The merger agreement may be terminated at any time prior to the consummation of the merger, whether before or after requisite stockholder approvals of the merger have been obtained:

by mutual written agreement of the Company and Parent;

by either of the Company or Parent, if:

- any governmental entity has issued a final order, injunction or decree permanently enjoining or otherwise prohibiting consummation of the merger; provided, that this termination right is not available to a party if the failure of such party to fulfill any of its obligations under the merger agreement is the primary cause or material contributing factor to the denial of such approval, or issuance of such final order, injunction or decree;

- the merger is not completed by April 20, 2012 (the "**termination date**"), provided that this termination right will not be available to a party if the failure to consummate the merger on or before the termination date was primarily due to the breach or failure of such party to fulfill any of its obligations under the merger agreement; or
- our stockholders do not adopt the merger agreement at the annual meeting or any adjournment or postponement thereof.

by the Company:

- if Parent or Merger Sub has breached any of its representations, warranties, covenants or agreements under the merger agreement, such that the corresponding condition to closing would not be satisfied and such breach or inaccuracy cannot be cured or if curable, is not cured by Parent or Merger Sub within 30 business days after written notice of such breach or if earlier, by the termination date, provided that this termination right is not available to the Company if a material breach of the merger agreement by the Company is the primary cause or material contributing factor to the failure of such condition to be satisfied;
- if the Company enters into a Company acquisition agreement relating to a superior proposal and has complied with the requirements described under "*The Merger Agreement—Alternative Takeover Proposals*," and concurrently with such termination, the Company pays the termination fee described under *The Merger Agreement—Termination Fees and Reimbursement of Expenses* ;
- if all of the closing conditions are otherwise satisfied but Parent and Merger Sub fail to close within two business days following the date the closing should have occurred, the Company has notified Parent in writing that it is ready to close and the Company has given Parent written notice of at least one business day of its intention to terminate the merger agreement; or
- for any reason on or prior to May 4, 2011;

by Parent, if:

- if the Company has breached any of its representations, warranties, covenants or agreements under the merger agreement, such that the corresponding condition to closing would not be satisfied and such breach or inaccuracy cannot be cured or if curable, is not cured by the Company within 30 business days after written notice of such breach, or if earlier, by the termination date, provided that this termination right is not available to Parent if a material breach of the merger agreement by Parent or Merger Sub is the primary cause or material contributing factor to the failure of such condition to be satisfied; or
- the board of directors of the Company has made and not withdrawn a change of recommendation.

Termination Fees and Reimbursement of Expenses (page 79)

The Company is required to pay Parent a termination fee of $5.0 million and fees and expenses incurred by Parent of up to $1.0 million in the event the merger agreement is terminated by the Company in order to enter into a Company acquisition agreement relating to a superior proposal in connection with a takeover proposal received on or prior to 11:59 p.m. New York City time on July 2, 2011.

The Company is required to pay Parent a termination fee of $10.0 million in the event the merger agreement is terminated:

- by the Company in order to enter into a Company acquisition agreement for a superior proposal in connection with a takeover proposal received on or after 12:00 a.m. New York City time on July 3, 2011;

- by Parent or the Company due to (a)(i) a failure of either the Company or Parent to consummate the merger by the termination date or (ii) a failure by the Company to obtain the requisite stockholder approvals of the merger and (b) on or after the signing of the merger agreement but prior to the date of the stockholders' meeting, a third party makes a takeover proposal which is publicly disclosed and not withdrawn and (c) within 12 months following such termination, the Company consummates or enters into a transaction with respect to such takeover proposal;
- by Parent because the board of directors of the Company has made and not withdrawn a change of recommendation or has proposed to publicly announce its intention make such change of recommendation; or
- the board of directors of the Company has adopted, approved or recommended or proposes publicly to adopt, approve or recommend an alternative transaction proposal.

Parent is required to pay the Company a reverse termination fee of $20.0 million in the event the merger agreement is terminated by the Company:

- due to a breach by Parent or Merger Sub of any of their representations, warranties, covenants or agreements set forth in the merger agreement; or
- if all of the closing conditions are otherwise satisfied but Parent and Merger Sub fail to close within two business days following the date the closing should have occurred, the Company has notified Parent in writing that it is ready to close and the Company has given Parent written notice of at least one business day of its intention to terminate the merger agreement.

Remedies (page 80)

Subject to any equitable remedies the Company may be entitled to, our right to receive payment under certain circumstances specified in the merger agreement of a reverse termination fee of $20.0 million in connection with the merger from Parent or Merger Sub is our sole and exclusive remedy for any loss or damage suffered as a result of the failure of the merger to be consummated or for a breach or failure to perform under the merger agreement or otherwise. Upon payment of such reverse termination fee, Parent, its subsidiaries and their respective representatives will have no further liability under the merger agreement.

Subject to any equitable remedies Parent or Merger Sub may be entitled to, Parent's and Merger Sub's right to receive payment under certain circumstances specified in the merger agreement of either (i) a termination fee of $10.0 million or (ii) a termination fee of $5.0 million plus Parent's and Merger Sub's out-of-pocket costs and expenses (up to $1.0 million) incurred in connection with the merger from us is the sole and exclusive remedy of Parent and Merger Sub against us for any loss or damage suffered as a result of the failure of the merger to be consummated or for a breach or failure to perform under the merger agreement or otherwise and upon payment of such amount, the Company, its subsidiaries and their respective representatives will have no further liability under the merger agreement.

The Company, Parent and Merger Sub are entitled to an injunction or injunctions to prevent breaches of the merger agreement and to enforce specifically the terms and provisions thereof, in addition to any other remedies under the merger agreement. The Company is not entitled to receive both a grant of specific performance that results in the consummation of the merger and payment of all or any portion of the reverse termination fee.

Appraisal Rights (page 83)

If the merger is consummated, persons who are stockholders of the Company will have certain rights under Delaware law to dissent and demand appraisal of, and payment in cash of the fair value of, their shares of Company common stock ("**Dissenting Shares**"). Any shares of Company common stock held by a person who does not vote in favor of adoption of the merger agreement, demands appraisal of such shares of Company common stock and complies with the applicable provisions of Delaware law will not be converted into the right to receive the per share merger consideration. Such appraisal rights, if the statutory procedures were complied with, will lead to a judicial

determination of the fair value (excluding any element of value arising from the accomplishment or expectation of the merger) required to be paid in cash to such dissenting stockholders for their shares of Company common stock. The value so determined could be more or less than, or the same as, per share merger consideration.

You should read "*Appraisal Rights*" beginning on page 83 for a more complete discussion of the appraisal rights in relation to the merger as well as Annex C which contains a full text of the applicable Delaware statute.

Litigation Relating to the Merger and Other Legal Proceedings (page 59)

The Company, certain officers of the Company, the members of the board of directors and Merger Sub are named as defendants in purported class action lawsuits brought by stockholders of the Company. The lawsuits allege, among other things, that the members of the board of directors breached their fiduciary duties owed to the Company's stockholders and seek, among other things, to enjoin the defendants from completing the merger on the agreed-upon terms.

One of the conditions to the closing of the merger is that no order, injunction or decree issued by any court or agency of competent jurisdiction or other law preventing or making illegal the consummation of the merger or any of the other transactions contemplated by the merger agreement shall be in effect. As such, if the plaintiffs are successful in obtaining an injunction prohibiting the defendants from completing the merger on the agreed-upon terms, then such injunction may prevent the merger from becoming effective, or from becoming effective within the expected time frame.

In September 2010, we were notified by the staff of the SEC that it had initiated a formal, nonpublic investigation of the Company (the "**SEC Investigation**"). On or around September 3, 2010 and March 29, 2011, we received two subpoenas from the SEC requesting the delivery of certain documents to the SEC. We are cooperating, and intend to continue to cooperate, with the SEC in connection with such investigation. Receipt of these subpoenas does not mean that the SEC has concluded that we or anyone else has violated the law. The investigation does not mean that the SEC has a negative opinion of any person, entity or security. It is not possible to predict the outcome of the investigation, including whether or when any proceedings might be initiated, when these matters may be resolved or what, if any, penalties or other remedies may be imposed.

Material United States Federal Income Tax Consequences (page 56)

The receipt of cash in exchange for Company common stock pursuant to the merger will be a taxable transaction for U.S. federal income tax purposes and may also be taxable under applicable state, local, foreign or other tax laws. In general a U.S. Holder (as defined under "*Material United States Federal Income Tax Consequences*") of Company common stock will recognize gain or loss in an amount equal to the difference, if any, between the amount of cash received in the merger and the U.S. Holder's adjusted tax basis in the shares of Company common stock. In general, a Non-U.S. Holder (as defined under "*Material United States Federal Income Tax Consequences*") of shares of Company common stock will not be subject to U.S. federal income tax in respect of cash received in the merger, unless such Non-U.S. Holder has certain connections to the United States. Holders of Company common stock should consult their tax advisors to determine the particular tax consequences to them (including the application and effect of any state, local or foreign income and other tax laws) of the merger.

Material PRC Tax Consequences (page 58)

Under the PRC Enterprise Income Tax Law (the "**EIT Law**"), which took effect on January 1, 2008, enterprises established outside of China whose "de facto management bodies" are located in the People's Republic of China ("**PRC**") are considered "resident enterprises." The implementation rules for the EIT Law define the "de facto management body" as an establishment that has substantial management and control over the business, personnel, accounts and properties of an enterprise. Although there has not been a definitive determination of the Company's status by the PRC tax authorities, the Company does not believe that it should be considered a resident enterprise under the EIT Law or that the gain recognized on the receipt of cash for Company common stock should otherwise be subject to PRC tax to holders of such common stock that are not PRC residents. If, however, the PRC tax authorities were to determine that the Company should be considered a resident enterprise or that the receipt of cash for these securities should

otherwise be subject to PRC tax, then gain recognized on the receipt of cash for Company common stock pursuant to the merger by holders of such securities who are not PRC residents could be treated as PRC-source income that would be subject to PRC tax at a rate of up to 10%. You should consult your own tax advisor for a full understanding of the tax consequences of the merger to you, including any PRC tax consequences.

Where You Can Find More Information (page 110)

You can find more information about the Company in the periodic reports and other information we file with the SEC. The information is available at the SEC's public reference facilities and at the website maintained by the SEC at www.sec.gov. For a more detailed description of the additional information available, please see the section entitled "*Where You Can Find More Information*" beginning on page 110.

QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING AND THE MERGER

Q: When and where is the annual meeting of our stockholders?

A: The annual meeting of stockholders will be held at 10:00 a.m., local time, on September 14, 2011, at the Company s office at 13/F, Shenzhen Special Zone Press Tower, Shennan Road, Futian District, Shenzhen 518034, the People's Republic of China.

Q: Why am I receiving this proxy statement?

A: You are receiving this proxy statement in connection with the solicitation of proxies by the board of directors of the Company in favor of, among other things, the adoption of the merger agreement. On May 3, 2011, we entered into the merger agreement, with Parent, Merger Sub and Mr. Tu providing for the merger of Merger Sub with and into the Company, with the Company surviving the merger as a wholly owned subsidiary of Parent. After the merger, shares of the Company common stock will not be publicly traded. Parent and Merger Sub are beneficially owned by Mr. Tu, the Chairman and Chief Executive Officer of the Company.

Q: What matters will be voted on at the annual meeting?

A: You will be asked to consider and vote on the following proposals:

- adoption of the merger agreement;
- approval of the adjournment of the annual meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the annual meeting to adopt the merger agreement;
- election of five persons to the board of directors of the Company;
- ratification the selection by our Audit Committee of GHP Horwath, P.C. as the Company s independent registered public accounting firm for the fiscal year ending December 31, 2011;
- approval, on an advisory basis, of the executive compensation;
- approval, on an advisory basis, of the frequency of holding an advisory vote on executive compensation; and
- such other business as may properly come before the annual meeting or any adjournment thereof.

Q: How will the Company's restricted stock be treated in the merger?

A: The merger agreement provides that each share of Company common stock that, immediately prior to the effective time of the merger, is subject to vesting and/or forfeiture restrictions under the equity incentive plan adopted by the board of directors of the Company on February 7, 2007 and subsequently amended in February 2010 shall become fully vested immediately prior to the effective time, and each such share shall be treated as a share of Company common stock. See "*The Merger Agreement—Treatment of Common Stock, Restricted Shares and Company Warrants*" beginning on page 67 for additional information.

Q: How will the Company's warrants be treated in the merger?

A: At the effective time, each warrant to purchase shares of Company common stock issued that is outstanding at the effective time shall be canceled and, in exchange therefor, the surviving corporation shall pay to each former holder of any such canceled warrant immediately following the effective time an amount in cash (without interest) equal to the product of (i) the excess of the per share merger consideration over the exercise price per share of Company common stock of such warrant and (ii) the number of shares of Company common stock subject to such warrant; provided, that if the exercise price per share of Company common stock of any such warrant is equal to or greater than the per share merger consideration, such warrant shall be canceled without any cash payment being made in respect thereof. See "*The Merger Agreement—Treatment of Common Stock, Restricted Shares and Company Warrants*" beginning on page 67 for additional information.

Q: What vote of our stockholders is required to adopt the merger agreement and other proposals?

A: The vote requirements to approve the proposals are as follows:

- For Proposal No. 1 (adoption of the merger agreement), both (i) stockholders holding at least a majority of the shares of Company common stock outstanding at the close of business, New York time, on the record date and (ii) stockholders holding at least a majority of the outstanding shares of the Company's common stock at the close of business, New York time, on the record date other than shares owned, directly or indirectly, by Parent, Merger Sub, the Rollover Stockholders or any of their respective affiliates must vote "**FOR"** the proposal to adopt the merger agreement.

- For Proposal No. 2 (approval of the adjournment or postponement of the annual meeting), the affirmative vote of the holders of a majority of the shares of Company common stock present in person or represented by proxy at the meeting and entitled to vote, whether or not the quorum is present, is required.

- For Proposal No. 3 (election of directors), each director must be elected by a plurality of votes cast with respect to such director (i.e., the number of shares voted "for" a director nominee must exceed the number of votes "withheld" from that nominee). Abstentions and broker non-votes are not counted for purposes of the election of directors.

- For Proposal No. 4 (ratification of independent auditor), Proposal No. 5 (advisory vote on executive compensation) and any other matters on which stockholders are entitled to vote, the affirmative vote of the holders of a majority of the shares of Company common stock present in person or represented by proxy at the meeting and entitled to vote, is required.

- For Proposal No. 6 (advisory vote on the frequency of holding an advisory vote on executive compensation), the alternative — that is, every one, two or three years — receiving the greatest number of votes will be the frequency that stockholders approve.

13

Q: Who can attend and vote at the annual meeting?

A: All stockholders of record as of the close of business, New York time, on August 5, 2011, the record date for the annual meeting, are entitled to receive notice of and to attend and vote at the annual meeting, or any postponement or adjournment thereof. If you wish to attend the annual meeting and your shares of Company common stock are held in an account at a broker, dealer, commercial bank, trust company or other nominee (i.e., in "street name"), you will need to bring a copy of your voting instruction card or statement reflecting your share ownership as of the record date. "Street name" holders who wish to vote at the annual meeting will need to obtain a proxy from the broker, dealer, commercial bank, trust company or other nominee that holds their shares of Company common stock. Seating will be limited at the annual meeting. Admission to the annual meeting will be on a first-come, first-served basis.

Q: How does our board of directors recommend that I vote?

A: Our board of directors, after careful consideration and acting on the unanimous recommendation of the special committee composed entirely of independent directors, recommends that you vote "**FOR**" the proposal to adopt the merger agreement and "**FOR**" the proposal to approve the adjournment of the annual meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the annual meeting to adopt the merger agreement. Our board of directors also recommends that you vote "**FOR**" the proposal to elect the nominated directors, "**FOR**" the proposal to ratify the selection by our Audit Committee of GHP Horwath, P.C. as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2011, "**FOR**" the proposal to approve the compensation of our named executive officers, and every "**3 YEARS**" for frequency of the stockholder advisory vote regarding compensation of named executive officers.

Q: How will our directors and executive officers vote on the proposal to adopt the merger agreement?

A: Our directors and current executive officers have informed us that, as of the date of this proxy statement, they intend to vote all of their shares of Company common stock in favor of the adoption of the merger agreement. As of August 5, 2011, the record date for the annual meeting, our directors (including Mr. Tu) and current executive officers owned, in the aggregate, 21,970,930 shares of Company common stock, or collectively approximately 24.5% of the outstanding shares of Company common stock.

You should read "*Special Factors Relating to the Merger—Recommendation of Our Board of Directors and Special Committee; Reasons for Recommending the Adoption of the Merger Agreement; Fairness of the Merger*" beginning on page 31 for a discussion of the factors that our special committee and board of directors considered in deciding to recommend the adoption of the merger agreement. In addition, in considering the recommendation of the special committee and the board of directors with respect to the merger agreement, you should be aware that some of the Company's directors and officers may have interests that are different from, or in addition to, the interests of our stockholders generally. See "*Special Factors Relating to the Merger—Interests of the Company's Directors and Officers in the Merger*," beginning on page 54 for additional information.

Q: Am I entitled to exercise appraisal rights instead of receiving the per share merger consideration for my shares of Company common stock?

A: Company stockholders who do not vote in favor of adoption of the merger agreement will have the right to seek appraisal and receive the fair value of their shares of Company common stock in lieu of receiving the per share merger consideration if the merger closes but only if they perfect their appraisal rights by complying with the required procedures under Delaware law. See "*Appraisal Rights*" beginning on page 83 for additional information. For the full text of Section 262 of the DGCL, please see Annex C hereto.

Q: How do I cast my vote if I am a holder of record?

A: If you were a holder of record as of the close of business, New York time, on August 5, 2011, you may vote in person at the annual meeting or by submitting a proxy for the annual meeting. You can submit your proxy by completing, signing, dating and returning the enclosed proxy card in the accompanying pre-addressed, postage paid envelope. Holders of record may also vote by telephone or the Internet by following the instructions on the proxy card.

If you properly transmit your proxy, but do not indicate how you want to vote, your proxy will be voted "FOR" the adoption of the merger agreement, "FOR" the proposal to approve the adjournment of the annual meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the annual meeting to adopt the merger agreement, "FOR" the election of the nominated directors, "FOR" the ratification of GHP Horwath, P.C. as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2011 and "FOR" the approval of the compensation of our named executive officers.

Q: How do I cast my vote if my shares of Company common stock are held in "street name" by my broker, dealer, commercial bank, trust company or other nominee?

A: If you hold your shares in "street name," which means your shares of Company common stock are held of record on August 5, 2011 by a broker, dealer, commercial bank, trust company or other nominee, you must provide the record holder of your shares of Company common stock with instructions on how to vote your shares of Company common stock in accordance with the voting directions provided by your broker, dealer, commercial bank, trust company or other nominee. **If you do not provide your broker, dealer, commercial bank, trust company or other nominee with instructions on how to vote your shares, your shares of Company common stock will not be voted, which will have the same effect as voting "AGAINST" the proposal to adopt the merger agreement.** Please refer to the voting instruction card used by your broker, dealer, commercial bank, trust company or other nominee to see if you may submit voting instructions using the Internet or telephone.

Q: What will happen if I abstain from voting or fail to vote on the proposal to adopt the merger agreement or other proposals?

A: In all matters other than Proposal 3 (election of directors) and Proposal 6 (frequency of advisory vote on executive compensation), if you abstain from voting, fail to cast your vote in person or by proxy or fail to give voting instructions to your broker, dealer, commercial bank, trust company or other nominee with respect to any particular proposal, it will have the same effect as a vote against such proposal, although your abstention or failure to act will not count as a vote against, withheld or abstained with respect to any other proposal, unless you also abstain or fail to act with respect to such other proposal. With respect to Proposal 3 (election of directors), abstentions with respect to a director nominee will not be counted as a vote cast on the election of the director nominee and therefore will not be counted in determining the outcome of the director's election. With respect to Proposal 6 (frequency of advisory vote on executive compensation), abstentions will not be counted in determining the number of votes cast for any of the frequency options (one year, two years or three years). If you are a beneficial owner of shares held in street name and do not provide the organization that holds your shares with specific voting instructions, under the rules of various national and regional securities exchanges, the organization that holds your shares may generally vote on routine matters but cannot vote on non-routine matters. If the organization that holds your shares does not receive instructions from you on how to vote your shares on a non-routine matter, the organization that holds your shares does not have the authority to vote on the matter with respect to those shares. This is generally referred to as a "broker non-vote."

Proposal 4 (ratification of auditors) involves a matter that we believe will be considered routine. All other proposals involve matters that we believe will be considered non-routine. We encourage you to provide voting instructions to the organization that holds your shares by carefully following the instructions provided on your proxy card.

Stockholders may not cumulate votes in the election of directors, which means that each stockholder may vote no more than the number of shares he or she owns for a single director candidate.

Q: Can I change my vote after I have delivered my proxy?

A: Yes. If you are a record holder, you can change your vote at any time before your proxy is voted at the annual meeting by properly delivering a later-dated proxy either by mail, the Internet or telephone or attending the annual meeting in person and voting. You also may revoke your proxy by delivering a notice of revocation to the Company s corporate secretary prior to the vote at the annual meeting. If your shares of Company common stock are held in street name, you must contact your broker, dealer, commercial bank, trust company or other nominee to revoke your proxy.

Q: What should I do if I receive more than one set of voting materials?

A. You may receive more than one set of voting materials, including multiple copies of this proxy statement or multiple proxy or voting instruction cards. For example, if you hold your shares of Company common stock in more than one brokerage account, you will receive a separate voting instruction card for each brokerage account in which you hold shares of Company common stock. If you are a holder of record and your shares of Company common stock are registered in more than one name, you will receive more than one proxy card. **Please submit each proxy and voting instruction card that you receive**.

Q: If I am a holder of certificated shares of Company common stock, should I send in my share certificates now?

A: No. Promptly after the merger is completed, each holder of record as of the time of the merger will be sent written instructions for exchanging their stock certificates for the per share merger consideration. These instructions will tell you how and where to send in your stock certificates for your cash consideration. You will receive your cash payment after the paying agent receives your share certificates and any other documents requested in the instructions. Please do not send stock certificates with your proxy.

Holders of uncertificated shares of Company common stock (i.e., holders whose shares are held in book-form entry) will automatically receive their cash consideration as soon as practicable after the effective time of the merger without any further action required on the part of such holders.

Q: What constitutes a quorum for the annual meeting?

A: The presence at the annual meeting in person or by proxy of the holders of a majority of shares of Company common stock issued and outstanding and entitled to vote at the annual meeting as of the record date will constitute a quorum for purposes of the annual meeting.

Q: Will any proxy solicitors be used in connection with the annual meeting?

A: Yes. To assist in the solicitation of proxies, the Company has engaged Okapi Partners LLC.

Q: What happens if the merger is not completed?

A: If the merger agreement is not adopted by our stockholders, or if the merger is not completed for any other reason, our stockholders will not receive any payment for their Company common stock pursuant to the merger agreement. Instead, we will remain a publicly traded company and our common stock will continue to be registered under the Exchange Act and listed and traded on the NYSE. Under certain circumstances specified in the merger agreement, we may be required to pay Parent (i) a termination fee of $5.0 million and reimburse Parent for up to $1.0 million of its out-of-pocket expenses or (ii) a termination fee of $10.0 million or, Parent may be required to pay us a termination fee of $20.0 million. See *The Merger Agreement Termination Fees and*

Reimbursement of Expenses beginning on page 79 for additional information.

Q: When is the merger expected to be completed?

A: We are working to complete the merger as quickly as possible. We currently expect the transaction to close in the third quarter of 2011; however, we cannot predict the exact timing of the merger. In order to complete the merger, we must obtain the requisite stockholder approvals of the merger and the other closing conditions under the merger agreement must be satisfied or waived.

Q: What is householding and how does it affect me?

A: The Securities and Exchange Commission ("**SEC**") permits companies to send a single set of certain disclosure documents to any household at which two or more stockholders reside, unless contrary instructions have been received, but only if the company provides advance notice and follows certain procedures. In such cases, each stockholder continues to receive a separate notice of the meeting and proxy card. This householding process reduces the volume of duplicate information and reduces printing and mailing expenses. We have not instituted householding for stockholders of record; however, certain brokerage firms may have instituted householding for beneficial owners of Company common stock held through brokerage firms. If your family has multiple accounts holding Company common stock, you may have already received householding notification from your broker. Please contact your broker directly if you have any questions or require additional copies of this proxy statement. The broker will arrange for delivery of a separate copy of this proxy statement promptly upon your written or oral request. You may decide at any time to revoke your decision to household, and thereby receive multiple copies.

Q: Who can help answer my questions?

A: If you have any questions about the merger or how to submit your proxy, or if you need additional copies of this proxy statement or the enclosed proxy card, you should contact Okapi Partners LLC toll-free at (855) 208-8903, collect at (212) 297-0720, by email at info@okapipartners.com.

SPECIAL FACTORS RELATING TO THE MERGER

The following is a description of the material aspects of the merger. While we believe that the following description covers the material terms of the merger, the description may not contain all of the information that is important to you. We encourage you to read carefully this entire document, including the merger agreement attached to this proxy statement as Annex A, for a more complete understanding of the merger. The following description is subject to, and is qualified in its entirety by reference to, the merger agreement.

The Parties

The Company

China Security & Surveillance Technology, Inc. is a leading integrated surveillance and safety solutions provider in China. Through its indirect Chinese subsidiaries, the Company is primarily engaged in the manufacturing, distributing, installing and servicing of surveillance and safety products, systems and services, and developing surveillance and safety related software in China. The Company s principal executive offices are located at 13/F, Shenzhen Special Zone Press Tower, Shennan Road, Futian District, Shenzhen, People s Republic of China, 518034. The Company s telephone number is (86) 755-8351-0888.

Parent

Rightmark Holdings Limited, which we refer to as "Parent," was incorporated under the laws of the British Virgin Islands and was formed by Mr. Tu solely for the purpose of owning the Company after the merger and arranging the financing for the merger, and is a wholly-owned subsidiary of Intelligent One. The registered office of Parent is Palm Grove House, P.O. Box 438, Road Town, Tortola, British Virgin Islands, and its telephone number is (86) 755-8351-0888.

Merger Sub

Rightmark Merger Sub Limited, which we refer to as "Merger Sub," was incorporated under the laws of the State of Delaware and was formed by Parent solely for the purpose of effecting the merger. Merger Sub is a wholly-owned subsidiary of Parent. The registered office of Merger Sub is c/o The Corporation Trust Company, 1209 Orange Street, Wilmington, Delaware, and its telephone number is (86) 755-8351-0888.

Intelligent One

Intelligent One Limited, which we refer to as "Intelligent One," was incorporated under the laws of the British Virgin Islands and was formed by Mr. Tu solely for the purpose of owning Parent and arranging financing for the merger. Intelligent One is currently wholly owned by Mr. Tu. The registered office of Intelligent One is Palm Grove House, P.O. Box 3140, Road Town, Tortola, British Virgin Islands, and its telephone number is (86) 755-8351-0888.

Whitehorse

Whitehorse Technology Limited, which we refer to as "Whitehorse," was incorporated under the laws of the British Virgin Islands and was formed principally to hold, transact or otherwise deal in the securities of the Company and to finance the Company, and is currently wholly-owned by Mr. Tu. The registered office of Whitehorse is P.O Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.

Guoshen Tu and the Other Rollover Stockholders

Set forth below for each Rollover Stockholder is his or her respective present principal occupation or employment, the name of the corporation or other organization in which such occupation or employment is conducted and the five-year employment history of each such director and executive officer. None of the individuals listed below has, during the past five years, been convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors). None of the individuals listed below has, during the past five years, been a party to any judicial or administrative proceeding (except for matters that were dismissed without sanction or settlement) that resulted in a judgment, decree or final order enjoining the person from future violations of, or prohibiting activities subject to, federal or state securities laws, or a finding of any violation of federal or state securities laws.

Mr. Guoshen Tu

Mr. Tu is, and has been for the last five years, the Chairman and Chief Executive Officer of the Company. The business address of Mr. Tu is c/o China Security & Surveillance Technology, Inc., 13/F, Shenzhen Special Zone Press Tower, Shennan Road, Futian, Shenzhen 518034, PRC. Mr. Tu's telephone number is (86) 755-8351-0888. Mr. Tu is a PRC citizen.

Mr. Wing Khai Yap (Terence)

Mr. Wing Khai Yap (Terence) ("**Mr. Yap**") has served as Chief Financial Officer of the Company since 2007, and as a director and Vice Chairman of the Company since 2006. The business address of Mr. Yap is c/o China Security & Surveillance Technology, Inc., 13/F, Shenzhen Special Zone Press Tower, Shennan Road, Futian, Shenzhen 518034, PRC. Mr. Yap's telephone number is (86) 755-8351-0888. Mr. Yap is a citizen of Singapore.

Mr. Lizhong Wang

Mr. Lizhong Wang has served as Chief Operating Officer of the Company since 2009, and as Chief Administrative Officer and President of China Security & Technology (PRC), Inc. since 2008. Mr. Lizhong Wang was the Vice President and President of Golden Group Corporation (Shenzhen) Limited from 2006 to 2007. The business address of Mr. Lizhong Wang is c/o China Security & Surveillance Technology, Inc., 13/F, Shenzhen Special Zone Press Tower, Shennan Road, Futian, Shenzhen 518034, PRC. Mr. Lizhong Wang's telephone number is (86) 755-8351-0888. Mr. Lizhong Wang is a PRC citizen.

Mr. Zhongxin Xie

Mr. Zhongxin Xie has served as Chief Auditor of the Company since 2007, and was the Chairperson and Director of County-Level United Offices of Jiangxi Rural Credit Union prior to 2007. The business address of Mr. Zhongxin Xie is c/o China Security & Surveillance Technology, Inc., 13/F, Shenzhen Special Zone Press Tower, Shennan Road, Futian, Shenzhen 518034, PRC. Mr. Zhongxin Xie's telephone number is (86) 755-8351-0888. Mr. Zhongxin Xie is a PRC citizen.

Mr. Lingfeng Xiong

Mr. Lingfeng Xiong has served as Chairman of Shenzhen Hongtianzhi Energy Saving & Environmental Protection Technology Co., Ltd. since 2010, Chairman of China Security & Surveillance Intelligence (PRC), Inc. since 2009, Chairman of China Security & Surveillance Services (PRC) Inc. since 2008 and Chief Spokesperson of the Company since 2006. Mr. Lingfeng Xiong was Chairman of Shenzhen Chuang Guan Intelligence Network Technology Co., Ltd. from 2006 to 2007. The business address of Mr. Lingfeng Xiong is c/o China Security & Surveillance Technology, Inc., 13/F, Shenzhen Special Zone Press Tower, Shennan Road, Futian, Shenzhen 518034, PRC. Mr. Lingfeng Xiong's telephone number is (86) 755-8351-0888. Mr. Lingfeng Xiong is a PRC citizen.

Mr. Li Fang

Mr. Li Fang has served as Chief Marketing Officer and President of China Security & Surveillance Services (PRC) Inc. since 2007. Prior to 2007, Mr. Li Fang was General Manager of Beijing Aurine Yingke Intelligent System Integration Co., Ltd. The business address of Mr. Li Fang is c/o China Security & Surveillance Technology, Inc., 13/F, Shenzhen Special Zone Press Tower, Shennan Road, Futian, Shenzhen 518034, PRC. Mr. Li Fang's telephone number is (86) 755-8351-0888. Mr. Li Fang is a PRC citizen.

Ms. Ying Zhang

Ms. Ying Zhang has served as Chief Human Resources Officer of the Company since 2010 and Executive Vice President, then Executive President of the Education Division of the Company since 2008. Prior to 2007, Ms. Ying Zhang was General Manager of Beijing Lan Dun Shi An Information Consulting Co., Ltd. The business address of Ms. Ying Zhang is c/o China Security & Surveillance Technology, Inc., 13/F, Shenzhen Special Zone Press Tower, Shennan Road, Futian, Shenzhen 518034, PRC. Ms. Ying Zhang's telephone number is (86) 755-8351-0888. Ms. Ying Zhang is a PRC citizen.

Mr. Zhiming Wu

Mr. Zhiming Wu has served as Executive Vice President, then President of China Security & Surveillance Intelligence (PRC), Inc. since 2008, and General Manager of Shenzhen Longhorn Security Technology Co., Ltd. since 2007. Mr. Zhiming Wu was General Manager of the Security Technology Development Department of Shenzhen Longhorn Security Technology Co., Ltd. from 2006 to 2007. The business address of Mr. Zhiming Wu is c/o China Security & Surveillance Technology, Inc., 13/F, Shenzhen Special Zone Press Tower, Shennan Road, Futian, Shenzhen 518034, PRC. Mr. Zhiming Wu's telephone number is (86) 755-8351-0888. Mr. Zhiming Wu is a PRC citizen.

Mr. Daobin Sang

Mr. Daobin Sang has served as Vice President of the Company and Executive Vice President, then President of China Security & Surveillance Technology (PRC), Inc. since 2009. Prior to 2009, Mr. Daobin Sang was an attorney at Guangdong Junyan Law Firm. The business address of Mr. Daobin Sang is c/o China Security & Surveillance Technology, Inc., 13/F, Shenzhen Special Zone Press Tower, Shennan Road, Futian, Shenzhen 518034, PRC. Mr. Daobin Sang's telephone number is (86) 755-8351-0888. Mr. Daobin Sang is a PRC citizen.

Mr. Guohui Cao

Mr. Guohui Cao has served as Chief Strategic Officer and Senior Vice President of the Company since 2010, and was a Vice President of the Company and General Manager of the Strategic Development Department of the Company from 2006 to 2010. The business address of Mr. Guohui Cao is c/o China Security & Surveillance Technology, Inc., 13/F, Shenzhen Special Zone Press Tower, Shennan Road, Futian, Shenzhen 518034, PRC. Mr. Guohui Cao's telephone number is (86) 755-8351-0888. Mr. Guohui Cao is a PRC citizen.

Ms. Po Kwai Chow

Ms. Po Kwai Chow has retired and not been employed since 2006. The mailing address of Ms. Po Kwai Chow is c/o China Security & Surveillance Technology, Inc., 13/F, Shenzhen Special Zone Press Tower, Shennan Road, Futian, Shenzhen 518034, PRC. Ms. Po Kwai Chow's telephone number is (86) 755-8351-0888. Ms. Po Kwai Chow is a Hong Kong citizen.

Ms. Yang Zhao

Ms. Yang Zhao has served as Vice President of China Security & Surveillance Technology (PRC), Inc. since 2010, and the Director of the Investment & Financing Department of China Security & Surveillance Technology (PRC), Inc. since 2007. Prior to 2007, Ms. Yang Zhao served as the Manager of the Finance Department and the Audit Department of Yulong Computer Telecommunication Scientific (Shenzhen) Co., Ltd. The business address of Ms. Yang Zhao is c/o China Security & Surveillance Technology, Inc., 13/F, Shenzhen Special Zone Press Tower, Shennan Road, Futian, Shenzhen 518034, PRC. Ms. Yang Zhao's telephone number is (86) 755-8351-0888. Ms. Yang Zhao is a PRC citizen.

Ms. Yujuan Guan

Ms. Yujuan Guan has served as Executive Vice President of the Education Division of the Company since 2010, and was a Vice President of the Company from 2008 to 2010. From 2007 to 2008, Ms. Yujuan Guan was Marketing General Manager of the Company. The business address of Ms. Yujuan Guan is c/o China Security & Surveillance Technology, Inc., 13/F, Shenzhen Special Zone Press Tower, Shennan Road, Futian, Shenzhen 518034, PRC. Ms. Yujuan Guan's telephone number is (86) 755-8351-0888. Ms. Yujuan Guan is a PRC citizen.

Mr. Zhuo Gong

Mr. Zhuo Gong has served as Head of the Research Institute of the Company since 2008. Prior to 2008, Mr. Zhuo Gong was General Manager of the Research & Development Center of Guangdong Tisson Communication Technology Co., Ltd. The business address of Mr. Zhuo Gong is c/o China Security & Surveillance Technology, Inc., 13/F, Shenzhen Special Zone Press Tower, Shennan Road, Futian, Shenzhen 518034, PRC. Mr. Zhuo Gong's telephone number is (86) 755-8351-0888. Mr. Zhuo Gong is a PRC citizen.

Ms. Xihong Dai

Ms. Xihong Dai has served as Administrative Vice President of China Security & Surveillance Technology (PRC), Inc. since 2010, and was General Manager of the Domestic Accounting Department of the Company and Financial Controller of China Security & Surveillance Technology (PRC), Inc. from 2006 to 2010. The business address of Ms. Xihong Dai is c/o China Security & Surveillance Technology, Inc., 13/F, Shenzhen Special Zone Press Tower, Shennan Road, Futian, Shenzhen 518034, PRC. Ms. Xihong Dai's telephone number is (86) 755-8351-0888. Ms. Xihong Dai is a PRC citizen.

Mr. Qiaomin Wu

Mr. Qiaomin Wu has served as Administrative Vice President of the Fire Safety and Security Division of the Company since 2010, and was Financial Controller of China Security & Surveillance Intelligence (PRC), Inc. from 2007 to 2010, and the Accounting Manager of the Company from 2006 to 2007. The business address of Mr. Qiaomin Wu is c/o China Security & Surveillance Technology, Inc., 13/F, Shenzhen Special Zone Press Tower, Shennan Road, Futian, Shenzhen 518034, PRC. Mr. Qiaomin Wu's telephone number is (86) 755-8351-0888. Mr. Qiaomin Wu is a PRC citizen.

Mr. Kaicheng Cheng

Mr. Kaicheng Cheng has retired and not been employed since 2006. The mailing address of Mr. Kaicheng Cheng is c/o China Security & Surveillance Technology, Inc., 13/F, Shenzhen Special Zone Press Tower, Shennan Road, Futian, Shenzhen 518034, PRC. Mr. Kaicheng Cheng's telephone number is (86) 755-8351-0888. Mr. Kaicheng Cheng is a PRC citizen.

Ms. Lei Wang

Ms. Lei Wang has served as Head of the President's Office of the Company since 2006 and Director of Human Resources of the Company since 2009. The business address of Ms. Lei Wang is c/o China Security & Surveillance Technology, Inc., 13/F, Shenzhen Special Zone Press Tower, Shennan Road, Futian, Shenzhen 518034, PRC. Ms. Lei Wang's telephone number is (86) 755-8351-0888. Ms. Lei Wang is a PRC citizen.

Mr. Xiaosheng Tong

Mr. Xiaosheng Tong has served as Administrative Vice President of China Security & Surveillance Manufacturing (PRC) Inc. since 2008 and President of China Security & Surveillance International (PRC), Inc. since 2010. Mr. Xiaosheng Tong was the President of China Security & Surveillance Distribution (PRC) Inc. from 2009 to 2010, and was the founder of Zhuhai DIT Digital Technology Limited prior to 2008. The business address of Mr. Xiaosheng Tong is c/o China Security & Surveillance Technology, Inc., 13/F, Shenzhen Special Zone Press Tower, Shennan Road, Futian, Shenzhen 518034, PRC. Mr. Xiaosheng Tong's telephone number is (86) 755-8351-0888. Mr. Xiaosheng Tong is a PRC citizen.

Overview of the Transaction

The Company, Parent, Merger Sub and Mr. Tu entered into the merger agreement on May 3, 2011. Under the terms of the merger agreement, Merger Sub will be merged with and into the Company, with the Company surviving the merger as a wholly owned subsidiary of Parent. Parent and Merger Sub are beneficially owned by Mr. Tu. The following will occur in connection with the merger:

- each share of Company common stock issued and outstanding immediately prior to the closing (other than shares owned by Parent, Merger Sub and their affiliates, the Rollover Stockholders and holders of the Dissenting Shares) will be converted into the right to receive the per share merger consideration;
- each share of Company common stock that, immediately prior to the effective time of the merger, is subject to vesting and/or forfeiture restrictions under the equity incentive plan adopted by the board of directors of the Company on February 7, 2007 and subsequently amended in February 2010 shall become fully vested immediately prior to the effective time, and each such share shall be treated as a share of Company common stock;
- each warrant to purchase shares of Company common stock issued that is outstanding at the effective time shall be canceled and, in exchange therefor, the surviving corporation shall pay to each former holder of any such canceled warrant immediately following the effective time an amount in cash (without interest) equal to the product of (i) the excess of the per share merger consideration over the exercise price per share of Company common stock of such warrant and (ii) the number of shares of Company common stock subject to such warrant; provided, that if the exercise price per share of Company common stock of any such warrant is equal to or greater than the per share merger consideration, such warrant shall be canceled without any cash payment being made in respect thereof; and
- all shares of Company common stock so converted will, at the closing of the merger, be canceled, and each holder of a certificate (or evidence of shares in book-entry form) representing any shares of Company common stock shall cease to have any rights with respect thereto, except the right to receive the per share merger consideration upon surrender of such certificate (if such shares are certificated).

Following and as a result of the merger:

- Company stockholders (other than the Rollover Stockholders) will no longer have any interest in, and will no longer be stockholders of, the Company, and will not participate in any of the Company s future earnings or growth;
- shares of Company common stock will no longer be listed on the NYSE or NASDAQ Dubai, and price quotations with respect to shares of Company common stock in the public market will no longer be available; and
- the registration of shares of Company common stock under the Exchange Act will be terminated.

Management and Board of Directors of the Surviving Corporation

The board of directors of the surviving corporation will, from and after the effective time, consist of the directors of Merger Sub until their successors have been duly elected or appointed and qualified or until their earlier death, resignation or removal. The officers of the surviving corporation will, from and after the effective time, be the officers of the Company until their successors have been duly appointed and qualified or until their earlier death, resignation or removal.

Background of the Merger

Our board of directors and management have periodically reviewed and assessed strategic alternatives for the Company. In addition, from time to time since the Company became a public company on September 12, 2005, Mr. Tu, the Chairman and Chief Executive Officer of the Company, has responded to invitations from certain institutions (including CDB as a possible provider of debt financing) to discuss their providing debt or equity financing to a range of possible transactions involving the Company, including going-private transactions. Certain of these discussions regarding the provision of financing in connection with such transactions continued through approximately April 20, 2011, however no agreement, arrangement or understanding with respect to any such transactions was ever reached with any of these parties other than CDB. In the week of November 22, 2010, Mr. Tu informally informed the independent members of the board of directors on an individual basis of his potential interest in acquiring the shares of Company common stock he did not own in a going-private transaction. On January 28, 2011, at a meeting of the board of directors, Mr. Tu presented the board of directors with a nonbinding letter expressing his interest in such a transaction at a price not to exceed $6.50 per share of Company common stock in cash. After presenting his letter, Mr. Tu left the meeting because of his personal interest in the matters to be discussed and, at the invitation of the board of directors, representatives of Pillsbury Winthrop Shaw Pittman LLP (**Pillsbury**), counsel to the Company, advised the directors concerning their fiduciary duties to the Company s stockholders. The board of directors determined that any potential transaction with Mr. Tu would involve potential conflicts of interest with management and certain directors, and accordingly it established a special committee to consider Mr. Tu s proposal, to be comprised of independent and disinterested directors.

On January 31, 2011, the board of directors, other than Mr. Tu, who recused himself due to his personal interest in the matters to be discussed, held a meeting to formally establish the mandate of and delegations of authority to the special committee and to appoint members of the board of directors to the special committee. At the meeting, representatives of Pillsbury further advised the directors concerning their fiduciary duties, and the board of directors determined that the special committee consist of Mr. Peter Mak, Mr. Robert Shiver and Mr. Runsen Li, each of whom was considered independent under the NYSE rules, with Mr. Mak acting as Chairman of the special committee, and be delegated the authority to, among other things, evaluate and respond to the proposal made by Mr. Tu, recommend to the board of directors what action, if any, should be taken by the Company with respect to Mr. Tu s proposal and retain independent financial and legal advisors to assist the special committee.

Between January 31 and February 11, 2011, the special committee conducted a thorough and extensive search for legal advisors, carefully considering proposals from six highly qualified law firms experienced with going-private transactions. After conducting interviews with three of these law firms and considering the presentations made by each of them, including their respective qualifications, reputations and experience in going-private transactions, the special committee selected Shearman & Sterling LLP (**Shearman**) to serve as its legal counsel.

Between February 11 and 16, 2011, the special committee interviewed five investment banking firms experienced with going-private transactions in order to select the financial advisor to the special committee. After carefully considering the strengths and weaknesses of each candidate, the special committee decided to retain Nomura International (Hong Kong) Limited (**Nomura**) to act as its financial advisor.

On February 18, 2011, the special committee held a meeting to discuss the process of a potential transaction with respect to Mr. Tu s proposal. Representatives of Shearman presented an illustrative timetable for a generic going-private transaction and representatives of Nomura further elaborated on such timetable in connection with a market check. At this meeting, the special committee and representatives of Shearman also discussed the draft Confidentiality Agreement for Mr. Tu and his potential equity partners. Representatives of Shearman also presented the special committee with a summary of Section 203 of the DGCL and the waiver for such section by the special committee requested by Mr. Tu in order to allow potential equity partners to participate in Mr. Tu s bid for the acquisition of the Company. The special committee then decided that it and its advisors would conduct weekly meetings to discuss developments in connection with any potential transaction with Mr. Tu.

On February 21, 2011, members of the Company s management met with representatives of Nomura for an overview of the Company s operating divisions, business strategy and certain other matters as part of Nomura s due diligence review. Between February 21 and 25, 2011, representatives of Shearman and Skadden, Arps, Slate, Meagher & Flom LLP (**Skadden**), counsel to Mr. Tu, finalized a confidentiality and standstill agreement and form of waiver regarding the application of Section 203 of the DGCL to potential transactions among the Company, Mr. Tu and his potential equity partners.

On February 25, 2011, the special committee held a meeting at which representatives of Nomura and Shearman were also present. At the meeting, representatives of Nomura outlined potential approaches the special committee could consider taking in order to maximize stockholder value as well as the advantages and disadvantages of each approach discussed. In addition, representatives of Shearman informed the special committee that it was close to finalizing a confidentiality and standstill agreement with one of Mr. Tu s potential equity partners. Representatives of Nomura also informed the special committee that Mr. Tu wished to enter into discussions with CDB with respect to the provision of debt financing for an acquisition. Representatives of Shearman reminded the special committee that under the draft confidentiality and standstill agreement with Mr. Tu, the special committee would have the right to disapprove of any of Mr. Tu s potential debt financing sources. After discussion with representatives of Nomura and Shearman, the special committee approved the confidentiality and standstill agreement, adopted the waiver of Section 203 of the DGCL and approved CDB to act as a debt financing provider for the potential transaction for purposes of the confidentiality and standstill agreement. The confidentiality and standstill agreements with Mr. Tu and his potential equity partners were executed on February 25, 2011.

On March 8, 2011, Mr. Tu presented the Company with a letter setting forth his non-binding written proposal to acquire the shares of the Company he did not already own at $6.50 per share.

From and after March 8, 2011, Bank of America Merrill Lynch (**BofAML**), financial advisor to Mr. Tu, referred any third party that had contacted BofAML expressing interest in a transaction involving the Company to Nomura, and from time to time, BofAML informed Nomura that it had received indications of interest from such third parties.

On March 11, 2011, the special committee held a meeting at the Hong Kong office of Nomura. Representatives of Nomura discussed with the special committee the details of Mr. Tu s non-binding proposal of March 8, 2011. Mr. Tu s proposal had indicated the possible participation of certain members of the Company s management, so the special committee instructed Nomura to follow up by inquiring as to which individuals would form part of Mr. Tu s acquisition group. Representatives of Nomura also noted that, while it was unclear how Mr. Tu intended to finance its bid for the Company, he had expressed confidence in obtaining the necessary debt financing on a timely basis and was prepared to provide all the necessary equity financing himself, although certain other independent sources may also provide equity financing. Representatives of Nomura advised the special committee that it should solicit offers from any other interested parties. The special committee asked Nomura to contact representatives of BofAML regarding any potential acquirors that may have contacted or may contact BofAML. Representatives of Nomura discussed with the special committee certain potential strategic buyers that might be interested in acquiring the Company. The special committee asked Nomura to contact any such potentially interested acquirors to assess the level of their interest for the special committee s consideration. Representatives of Nomura provided a summary of the daily trading activity in the Company s shares from Mr. Tu s initial letter of interest on January 28, 2011, through the delivery by Mr. Tu of his non-binding proposal on March 8, 2011.

Between March 11 and 18, 2011, several law firms publicly announced that they would be investigating potential breaches of fiduciary duties by members of the Company s board of directors in connection with Mr. Tu s proposed offer. In addition, during this period and thereafter, a number of lawsuits were filed in Delaware Chancery Court against the Company and all of its directors alleging similar breaches of fiduciary duties.

On March 16, 2011, representatives of Nomura and Shearman held a meeting with representatives of BofAML and Skadden. At the meeting, representatives of BofAML informed the parties that it was still not clear whether or the extent to which members of the Company s management other than Mr. Tu would be rolling over their equity in the Company. Representatives of BofAML also stated that a substantial part of Mr. Tu s financing would be in the form of debt, and that Mr. Tu was, with the advice of his legal and financial advisors, negotiating a financing commitment letter from CDB and expected to be able to deliver an executed financing agreement within four weeks. Representatives of BofAML also confirmed that Mr. Tu had not determined whether he would have equity partners in any potential transaction, and emphasized that Mr. Tu was not interested in selling all or any portion of his shares to any person.

24

On March 18, 2011, the special committee held a meeting where representatives of Shearman discussed the recently filed lawsuits with members of the special committee in the context of their fiduciary duties as directors, as well as the status of the process being undertaken by the Company, Mr. Tu and the various counsel with respect to such legal proceedings. Representatives of Nomura provided updates on the meeting it and representatives of Shearman had held with representatives of BofAML and Skadden on March 16, 2011, the recent trading activity of the Company s shares and its due diligence process. Representatives of Nomura also provided an analysis of how the Company compared to other companies in their industry on the basis of a variety of financial metrics. In addition, representatives of Nomura provided a summary of the contacts they had made with alternative potential acquirors as well as those it intended to contact in the near future. Representatives of Nomura discussed the possibility that financial sponsors may be less enthusiastic about pursuing any potential transaction with the Company without the active participation of Mr. Tu.

On March 25, 2011, the special committee held a meeting at which representatives of Nomura and Shearman were also present. The special committee and its advisors discussed a bid invitation letter that had been drafted by the advisors and asked that such bid invitation letter be sent to parties that had expressed an interest in or could be interested in a potential transaction with the Company. Representatives of Nomura reviewed the timetable of any potential transaction and the impact of recent developments on the Company s share price. Representatives of Nomura then discussed the criteria the special committee may consider in evaluating any alternative proposals from potential third party acquirors. In addition, representatives of Nomura discussed with the special committee the characteristics of certain precedent going-private transactions as well as the average premium as a percentage of share price paid by the bidders in such precedent going-private transactions. Representatives of Nomura noted that Mr. Tu s offer represented a price premium above the average premium paid in the precedent transactions.

On March 29, 2011, representatives of Skadden sent an initial draft of a merger agreement to representatives of Shearman.

On April 1, 2011, the special committee held a meeting at which representatives of Nomura and Shearman were also present. The special committee and its advisors discussed the draft merger agreement that had been delivered by representatives of Skadden. After such discussion, the special committee proposed to (i) add a go-shop provision to the merger agreement to allow the Company to continue to actively solicit offers from third parties after entering into a merger agreement with Mr. Tu and his affiliates, (ii) reduce the termination fee payable by the Company if it were to enter into an alternative agreement with third parties during the go-shop period to avoid discouraging competing proposals, (iii) add a majority of the unaffiliated stockholders voting requirement to provide additional protection to the public stockholders not affiliated with Mr. Tu, and (iv) provide for a substantial reverse termination fee to be paid by Parent to increase the level of closing certainty.

On April 6, 2011, representatives of Shearman provided a revised draft of the merger agreement to representatives of Skadden reflecting the special committee s positions discussed above.

Between April 6, 2011 and April 20, 2011, Mr. Tu contacted 20 members of the Company s management, offering them the option to invest all or a portion of their shares of Company common stock, including restricted stock, in the investment vehicle for the proposed transaction, which would make them Rollover Stockholders. The special committee was generally aware that such discussions between Mr. Tu and members of the Company s management would take place, but was not aware of the timing or the contents of any such discussions. Those contacted included the following members of the Company s senior management: Mr. Yap, Chief Financial Officer and director and Vice Chairman; Mr. Lizhong Wang, Chief Operating Officer and Chief Administrative Officer and President of China Security & Technology (PRC), Inc.; Mr. Zhongxin Xie, Chief Auditor; Mr. Lingfeng Xiong, Chairman of Shenzhen Hongtianzhi Energy Saving & Environment Protection Technology Co., Ltd., Chairman of China Security & Surveillance Intelligence (PRC), Inc., Chairman of China Security & Surveillance Services (PRC) Inc. and Chief Spokesperson; Mr. Li Fang, Chief Marketing Officer and President of China Security & Surveillance Services (PRC) Inc.; Ms. Ying Zhang, Chief Human Resources Officer and Executive Vice President and Executive President of the Education Division; Mr. Zhiming Wu, Executive Vice President and President of China & Surveillance Intelligence

(PRC), Inc. and General Manager of Shenzhen Longhorn Security Technology Co., Ltd.; Mr. Daobin Sang, Vice President and Executive Vice and President of China Security & Surveillance Technology (PRC),Inc.; Mr. Guohui Cao, Chief Strategic Officer and Senior Vice President; Ms. Jessica Cheung, Vice President and Group Financial Controller; Ms. Yang Zhao, Vice President of China Security Surveillance Technology (PRC), Inc. and Director of the Investment & Financing Department of China Security & Surveillance Technology (PRC), Inc.; Ms. Yujuan Guan, Executive Vice President of the Education Division; Mr. Zhuo Gong, Head of the Research Institute; Ms. Xihong Dai, Administrative Vice President of China Security & Surveillance Technology (PRC), Inc.; Mr. Qiaomin Wu, Administrative Vice President of the Fire Safety and Security Division; Ms. Lei Wang, Head of the President s Office and Director of Human Resources; Mr. Xiaosheng Tong, Administrative Vice President of China Security & Surveillance Manufacturing (PRC), Inc. and President of China Security & Surveillance International (PRC), Inc.; Mr. Yuesheng Zhou, Chief Technology Officer; Mr. Qinghan Wang, Chief Brand Officer and Chairman of China Security & Surveillance Intelligence (PRC), Inc.; Mr. Xiaohai Yao, Senior Vice President and Executive Vice President of China Security & Surveillance Intelligence (PRC), Inc., and certain of their affiliates and relatives. Of these individuals, 18 of them elected to become Rollover Stockholders.

On April 8, 2011, the special committee held a meeting at which representatives of Shearman and Nomura were also present. At the meeting, representatives of Nomura informed the special committee that four potential strategic buyers and 12 potential financial buyers had received bid invitation letters. The deadline set forth in the bid invitation letter was 5:00 pm Hong Kong time on April 15, 2011. Representatives of Nomura advised the special committee that a number of parties had expressed an interest in being part of Mr. Tu s bid for the acquisition of the Company and that it had informed such parties to contact BofAML. Representatives of Nomura then presented its indicative valuation of the Company, which ranged from an implied share price of $3.53 to $10.17, depending on the financial methodology employed. The special committee authorized Nomura to begin price negotiations with representatives of BofAML. Representatives of Shearman then provided an update on its discussion with representatives of Skadden on April 7, 2011 regarding Shearman s comments to the draft merger agreement. Representatives of Shearman informed the special committee that representatives of Skadden had opposed the inclusion of a go-shop provision and a "majority of the unaffiliated stockholders" voting requirement. Representatives of Shearman recommended that the special committee insist on both. Representatives of Nomura also suggested including a go-shop provision in the merger agreement, and added that the Company should only be obliged to pay a reduced termination fee if it entered into an alternative agreement with third parties during the go-shop period. Representatives of Shearman also informed the special committee that Skadden intended to request a reduction in the size of the reverse termination fee. Representatives of Shearman then provided an update on stockholder litigation, and informed the special committee that a motion to dismiss a stockholder lawsuit had been filed with the Delaware Court of Chancery on behalf of the special committee against plaintiff Dennis Dziak, which motion was later joined by the Company, Mr. Tu and Mr. Yap.

On April 13, 2011, representatives of Skadden distributed a revised merger agreement.

On April 14, 2011, representatives of Nomura were informed of the status of the SEC Investigation and thereafter discussed with the special committee, the Company and representatives of Pillsbury, among other things, the timing of the intended disclosure of the SEC Investigation.

From February through April 15, 2011, Mr. Tu gave serious consideration to permitting outside equity investors to invest in the equity of the transaction entity in the form of cash. As the transaction developed, it became clear that the equity ownership of the Rollover Stockholders, combined with the debt financing CDB was in a position to provide, would be sufficient to provide financing for the transaction at the contemplated price level and under terms that the Company s board of directors might be willing to accept. Mr. Tu came to the conclusion on or around April 15 that additional equity financing providers would not necessarily join on terms that made the transaction superior either from the point of view of the Company s stockholders other than the Rollover Stockholders or from Mr. Tu's perspective. Mr. Tu determined that the addition of another party would be likely to introduce additional complexity and potential delay into the transaction, and accordingly came to the decision to proceed without external equity funding.

On April 15, 2011, the special committee held a meeting at which representatives of Shearman and Nomura were also present. Representatives of Nomura informed the special committee that, notwithstanding the deadline set forth in the bid invitation letter delivered to potential acquirors being 5:00 pm Hong Kong time on April 15, 2011, as of the time of the meeting none of the potential strategic and financial buyers had delivered an offer. Representatives of Nomura also informed the special committee that it had had several discussions with representatives of BofAML in an effort to induce a higher offer price from Mr. Tu; however, Mr. Tu was not willing to increase the offer price. Representatives of Shearman then provided an update on its review of the revised draft of the merger agreement. Representatives of Shearman indicated that Skadden s revised draft removed the proposed go-shop provision. Representatives of Shearman proposed to re-insert the go-shop provision subject to further negotiation on the length of the go-shop period. Representatives of Shearman recommended that the Special Committee propose a 40-day go-shop period. Further, representatives of Shearman recommended proposing a lower termination fee payable by the Company if the Company was to accept a superior proposal during the go-shop period and a higher termination fee payable to the Company if the proposed transaction with Mr. Tu was not completed. The special committee approved the

recommendations. Representatives of Shearman then informed the special committee that representatives of Skadden raised an issue on the proposed voting requirement of a majority of the unaffiliated stockholders vote. Representatives of Shearman recommended that the special committee consider accepting a voting requirement which requires the approval of a majority of unaffiliated stockholders present and voting at the stockholders meeting if Mr. Tu accepted the go-shop provision and improved other transaction terms. The special committee approved the recommendation. Representatives of Shearman discussed the draft of the rollover agreement and the limited guaranty which had been circulated by representatives of Skadden. Each of the drafts had terms usual and customary for transactions of this nature. The special committee instructed representatives of Shearman to finalize the drafts of the merger agreement, the rollover agreement and limited guaranty for the special committee s review. Representatives of Shearman informed the special committee that representatives of Skadden had provided a draft of the facility agreement between Parent and CDB for the debt financing of the proposed transaction, and that the draft facility agreement was currently under credit committee review within CDB. Representatives of Shearman then provided an update on stockholder litigation. Representatives of Shearman informed the special committee that plaintiff Dziak had not yet responded to the motion to dismiss a stockholder lawsuit filed with the Delaware Chancery Court on behalf of the special committee and later joined by the Company, Mr. Tu and Mr. Yap. After the meeting, representatives of Shearman circulated a revised draft merger agreement to representatives of Skadden.

A meeting between the financial and legal advisors of the special committee and Mr. Tu was held at the Hong Kong offices of BofAML on April 16, 2011 to discuss the open issues in the transaction documents. The parties were able to substantially finalize the rollover agreement and the limited guaranty. The parties also discussed whether the funds available under CDB s facility agreement were sufficient to cover all the amounts that required to be paid at the closing of the contemplated transaction. Representatives of BofAML agreed to provide the special committee s advisors further clarification regarding this issue. Representatives of Skadden also confirmed that no regulatory approval would be required for the contemplated transaction. With regard to the merger agreement, representatives of Skadden again resisted including a "majority of the unaffiliated stockholders" voting requirement and representatives of Shearman agreed to discuss such issue with the special committee. Representatives of Skadden and Shearman also discussed the length of the go-shop period, with representatives of Skadden proposing 30 days. Representatives of Skadden and Shearman also discussed Skadden s desire to condition the closing of the potential transaction on (i) the Company having obtained and delivered to Parent clearance letters from all appropriate PRC governmental entities stating that the Company and its subsidiaries have fully paid all its contributions to the mandatory social insurance and housing fund for its employees and (ii) the Dissenting Shares constituting no more than three percent of the shares of the Company common stock. Representatives of Shearman expressed its opinion that those two closing conditions were not customary and should be deleted. The participants also discussed the amount of termination fees and reduced termination fees during the go-shop period.

On April 16, 2011, representatives of Nomura received a non-binding proposal from a potential financial buyer offering to join with Mr. Tu in acquiring the shares of the Company s common stock not owned by him at $6.50 per share. Consistent with their established course of action, representatives of Nomura subsequently referred such potential financial buyer to BofAML.

On April 17, 2011, a meeting was held among Mr. Tu s advisors and the special committee s advisors. The parties discussed the sources and uses of the funds available under the facility agreement and representatives of BofAML agreed to further clarify such details. The parties continued to negotiate the open issues in the transaction documents, including the length of the go-shop period, the amount of termination fees, the "majority of the unaffiliated stockholders" voting requirement and the purchase price.

From April 17, 2011 to April 20, 2011, representatives of Shearman and Skadden continued their negotiations of the merger agreement and the other transaction documents. During this period, Nomura advised the special committee and representatives of Mr. Tu that it would not issue an opinion as to the fairness, from a financial point of view, of the consideration to be paid pursuant to Mr. Tu s offer unless disclosure was made to CDB with respect to the pendency of the SEC Investigation prior to the execution of the merger agreement and CDB were to acknowledge such disclosure for purposes of the representations, warranties and conditions precedent in the merger agreement. Both the special committee and Mr. Tu agreed to make public disclosure of the SEC Investigation in the proxy statement for the transaction, but declined to make such disclosure to CDB prior to execution of the merger agreement. Mr. Tu also indicated informally that he was prepared to proceed to the execution of a definitive agreement in the absence of a fairness opinion if the special committee felt it had a sufficient basis to make such a decision. Mr. Tu stated that he would not ask the special committee to make such a decision, but recognized that it was within their discretion. During this period, the legal advisors prepared a revised merger agreement that provided that the Company would have an additional right to terminate the merger agreement in its sole discretion on or prior to May 4, 2011 without adverse consequence for any party.

On April 20, 2011, members of the special committee held a series of discussions with their legal advisor on the subject of whether to recommend approval of the proposed transaction. The members of the special committee were informed that CDB s facility had received all necessary internal approvals and that Mr. Tu was in a position to sign the merger agreement. The special committee particularly considered the fact that Nomura was not yet prepared to provide an opinion on the fairness of the consideration offered at that time. They determined that, based on their financial and industry experience and acumen and the information they had had the opportunity to consider in the course of the process, they were individually and together comfortable arriving at the conclusion that the consideration

being offered was fair. In addition, they were mindful that the Company was not, until May 4, 2011, committed to a transaction, even though Mr. Tu was. The Company and the special committee would be free to continue to consider all the circumstances in making their decision on whether to terminate the transaction on or prior to May 4, 2011, and the special committee determined not to delay or suspend the process of entering into a definitive agreement with the Tu Parties as a way to try to increase its negotiating leverage, particularly in light of the lack of any alternative proposal from a third party. The special committee discussed the possibility of arranging for a financial advisor other than Nomura to consider the fairness from a financial point of view of the consideration to be paid pursuant to Mr. Tu's offer, and possibly to render its opinion thereon following the execution of the merger agreement. After considering the proposed terms of the merger agreement and the other transaction agreements and the numerous prior discussions with its advisors, including the special committee's expectation based on discussions with its advisors that an offer from a third party buyer was unlikely, and taking into account the other factors described below under the headings titled *Special Factors relating to the Merger Purposes and Reasons of Our Board of Directors and Special Committee for the Merger* and *Special Factors relating to the Merger Recommendation of Our Board of Directors and Special Committee; Reasons for Recommending the Adoption of the Merger Agreement; Fairness of the Merger*, the special committee then unanimously determined that the merger agreement and the merger and the other transactions contemplated by the merger agreement were advisable and fair to and in the best interests of the Company and its stockholders, and recommended that the board of directors of the Company adopt a resolution approving and declaring the advisability of the merger agreement and the merger and the other transactions contemplated by the merger agreement and recommending that the stockholders of the Company adopt the merger agreement without receipt of a fairness opinion from Nomura or any other financial advisor.

Following the special committee s approval, the board of directors of the Company convened later on April 20, 2011. Based upon the unanimous recommendation of the special committee, the board of directors unanimously approved and declared advisable the merger agreement, the merger and the other transactions contemplated by the merger agreement and recommended that the stockholders of the Company adopt the merger agreement without receipt of a fairness opinion from Nomura or any other financial advisor. Having declined to provide a fairness opinion in the absence of prior disclosure of the SEC Investigation to CDB, Nomura resigned from its engagement after being notified that the transaction would proceed and the merger agreement was signed and the transaction publicly announced. On April 26, 2011, Mr. Tu discussed with CDB regarding the SEC Investigation, and CDB confirmed its funding commitment under the facility agreement remain unchanged.

Given the uncertainty over the timing as to when Nomura would be able to deliver a fairness opinion and to start the go-shop process, the special committee determined to engage a second investment bank after approving the merger agreement on April 20, 2011. On April 21, 2011, the special committee and representatives of Shearman discussed the possible engagement of Imperial Capital, who had been interviewed by the special committee when the special committee was selecting a financial advisor in February and was known to the special committee members as being knowledgeable about the Company and the Company s business, to serve as financial advisor to the special committee going forward. From April 21 to 22, 2011, representatives of Shearman and the special committee negotiated the terms of Imperial Capital s engagement. During the pendency of the discussion and negotiation with Imperial Capital, the special committee received Nomura s notice of resignation on April 22, 2011. Shortly thereafter, Imperial Capital was retained on April 22 as financial advisor to the special committee to render an opinion as to the fairness, from a financial point of view, of the merger consideration, to assist with the negotiation of the terms of the transaction on behalf of the special committee and the Company, to evaluate other potential bidders and any alternative proposals involving the Company, and to conduct a go-shop process to solicit, encourage, discuss and negotiate alternative proposals with potential bidders. The special committee determined to engage Imperial Capital after approving the merger agreement on April 20, 2011 based on the following key considerations: (i) while the special committee had determined that the merger agreement and the merger and the other transactions contemplated by the merger agreement were advisable and fair to and in the best interests of the Company and its stockholders because, among other reasons, the Company had a right to unilaterally terminate the merger agreement on or prior to May 4, 2011, the special committee wished to receive Imperial Capital s advice and assistance in its negotiations with the Tu Parties for more favorable transaction terms for the Company s unaffiliated stockholders prior to the expiration of the Company s termination right on May 4, 2011, (ii) the special committee desired to effectively manage the go-shop process and negotiate with any potential strategic or financial bidders that may emerge during and following the go-shop process, including a strategic buyer whose non-binding proposal for a substantial portion of the shares of the Company s common stock was delivered to the special committee on April 22, 2011, as discussed below, and (iii) while the members of the special committee, based on their financial and industry experience, knowledge and ability and the information considered in the course of the transaction process, were comfortable approving the terms of proposed merger without a fairness opinion, they nonetheless considered it prudent and beneficial to the Company s unaffiliated stockholders to engage Imperial Capital, given its experience in performing fairness analysis in similar transactions, to deliver a fairness opinion with respect to the proposed merger prior to the expiration of the Company s termination right on May 4, 2011. On April 22, 2011, Imperial Capital began its due diligence review of the Company and engaged Latham & Watkins LLP as its counsel.

On April 22, 2011, Mr. Mak received Nomura s notice of resignation with respect to its engagement as financial advisor to the special committee. Nomura s notice of resignation did not state any reason for its resignation. In connection with Nomura's resignation, Nomura advised the special committee that its advice had been withdrawn. Nomura also advised the special committee that any documents presented and advice provided should not be relied upon and that such advice and documents had been withdrawn. Moreover, consistent with Nomura s notice of resignation, Nomura advised the special committee that it did not authorize the disclosure of any of the advice rendered or documents supplied to the special committee. The special committee has not made any remuneration to Nomura with respect to Nomura s engagement as financial advisor to the special committee prior to its resignation. If Nomura had not resigned from its engagement, Nomura s engagement letter provided for the following fees for its financial advisory services in connection with the merger: (i) a fee equal to the greater of (A) 0.7% of the transaction value (being the product of the per share merger consideration and the number of outstanding shares of Company common stock on a fully diluted basis) and (B) $2,000,000; (ii) a fee of $1,000,000 payable in connection with Nomura s opinion, which would be offset against any fee paid in (i); and (iii) a retainer fee of $30,000 per month (starting from April 1, 2011) up to $150,000 in the aggregate, which would be offset against any fee paid in (i). In addition, CSST agreed to pay all reasonable and documented out-of-pocket expenses incurred by Nomura in connection with services to be rendered, not to exceed $100,000 in the aggregate, and to indemnify Nomura and related parties against any liabilities arising out of or in connection with any matter related to or referred to in Nomura s engagement letter agreement. No portion of Nomura s fee for the delivery of its opinion would be contingent upon the conclusions reached in its opinion

On April 22, 2011, Nomura forwarded the special committee a non-binding proposal, dated April 19, 2011, from a strategic buyer for a substantial portion of the shares of the Company s common stock. The proposal offered a purchase price range that was below the per share merger consideration offered by Mr. Tu. In light of the receipt of this non-binding proposal and the right of the Company to terminate the merger agreement on or prior to May 4, 2011, the special committee, after consultation with representatives of Shearman and Imperial Capital, determined to continue to negotiate certain key terms of the merger agreement.

On April 28, 2011, the special committee held a meeting at which representatives of Shearman and Imperial Capital were also present. Representatives of Shearman discussed certain proposed amendments to the merger agreement for the Special Committee to consider. Representatives of Shearman proposed (i) including a majority of the unaffiliated stockholders voting requirement, (ii) starting the go-shop period on the date of execution of the amended and restated merger agreement, (iii) extending the go-shop period from 40 days to 60 days and (iv) asking Mr. Tu for an increase in the purchase price. The special committee approved of these proposed amendments. Representatives of Imperial Capital then provided an update regarding its progress on considering rendering a fairness opinion. Representatives of Imperial Capital informed the special committee that it was in the process of its due diligence review of the Company and that it had held discussions with management members of the Company regarding the Company s financials. Representatives of Imperial Capital stated that it expected to complete its diligence review over that weekend and would be in a position to complete its fairness analysis early the following week.

On April 29, 2011, the special committee held a meeting at which representatives of Shearman and Imperial Capital were also present. Representatives of Shearman provided an update on its discussions with representatives of BofAML and Skadden on the proposed amendments to the merger agreement. Representatives of BofAML and Skadden agreed on the inclusion of a "majority of the unaffiliated stockholders" voting requirement and commencing the go-shop period on the date of execution of the amended and restated merger agreement. Mr. Tu s advisors resisted the extension of the go-shop period to 60 days, and also requested that the Company s unilateral right to terminate the merger agreement on or prior to May 4, 2011 be removed. The special committee determined to resist any attempt to shorten the proposed 60-day go-shop period and to retain the Company s unilateral termination right. Representatives of Imperial Capital then discussed its preliminary valuation analysis and the process of issuing a fairness opinion, should that be appropriate. Representatives of Imperial Capital reviewed the Company s financial performance and projections and informed the special committee that it had discussed the projections with the Company s chief financial officer. The special committee and representatives of Imperial Capital then discussed the Company s projections for the fiscal year 2011 in light of its performance in the first quarter of 2011 as well as Imperial Capital s preliminary financial analyses. Representatives of Imperial Capital also discussed the go-shop process and emphasized the need for the Company to provide relevant non-public information of the Company in order for Imperial Capital to effectively solicit proposals from third parties and to maximize value for stockholders. The special committee agreed to instruct the Company to provide the information reasonably requested by Imperial Capital for purposes of conducting the go-shop process.

On April 28 and 29, 2011, representatives of Shearman and Skadden held various discussions on the remaining open issues on the merger agreement. On April 29, 2011, representatives of Skadden informed representatives of Shearman that Mr. Tu had acceded to their request to extend the go-shop period to expire 60 days from the date of execution of an amended and restated merger agreement and that Mr. Tu would not insist on the removal of the Company s unilateral right to terminate the merger agreement without adverse consequence on or prior to May 4, 2011.

On May 3, 2011, the special committee held a meeting, at which representatives of Shearman and Imperial Capital were also present, to consider approving a revised merger agreement reflecting the terms discussed between representatives of Shearman and Skadden. Representatives of Shearman again provided a summary of the directors fiduciary duties under Delaware law. Representatives of Imperial Capital then discussed its financial analysis in connection with issuing a fairness opinion. Representatives of Imperial Capital reviewed the terms of the transaction, including the extension of the go-shop period from 40 to 60 days after the signing of the merger agreement, and discussed the Company s financial performance and its historical stock price. Representatives of Imperial Capital then provided a summary of the various financial analyses it had performed, including selected transactions, selected companies, discounted cash flow analysis and leveraged buyout analysis. Representatives of Imperial Capital discussed various other data used to evaluate the Company, including reports, an analysis of premiums paid in other change of control transactions, the non-binding offer from a potential strategic buyer dated April 19, 2011 and other qualitative considerations. Representatives of Imperial Capital then verbally rendered a fairness opinion to the special committee, which was confirmed in writing by delivery of its written opinion dated the same date, that representatives of Imperial Capital considered the per share merger consideration to be fair, from a financial point of view, to the holders of the Company common stock (other than Parent, Merger Sub and their affiliates, the Rollover Stockholders and holders of the Dissenting Shares) in connection with the transaction. The full text of the opinion delivered by Imperial Capital on May 3, 2011, is attached as Annex B to this proxy statement. Representatives of Shearman then provided a summary of the merger agreement to the special committee. Representatives of Shearman also informed the special committee of the differences between the merger agreement dated as of April 20, 2011 and the merger agreement under consideration, including the extension of the go-shop from 40 to 60 days which commences on the day of signing and the requirement that the merger agreement be approved by unaffiliated stockholders comprising at least a majority of all shares entitled to vote at the stockholders meeting. The special committee considered the fact that the revised merger agreement would retain the ability of the Company to terminate the agreement without adverse consequence at its option on or prior to May 4, 2011. The special committee also considered the fact that despite multiple requests made by Nomura on behalf of the special committee to the Tu Parties to increase the per share merger consideration (as discussed at the special committee meeting held on April 15, 2011) and the special

committee s instruction to Imperial Capital to seek such a price increase at the special committee meeting held on April 28, 2011, the Tu Parties had refused to increase the per share merger consideration. After due consideration of the presentations made by and the discussions with representatives of Imperial Capital and Shearman and the receipt of a verbal fairness opinion from Imperial Capital, and having deemed the terms thereof to be fair to and in the best interest of the Company s stockholders, the members of the special committee unanimously approved the terms of the amended and restated merger agreement and the transactions contemplated therein.

Following the meeting of the special committee, based upon the unanimous approval of the special committee, our board of directors adopted resolutions approving the terms of the merger agreement and the transactions contemplated thereby, and resolutions recommending that the Company s stockholders vote to approve the terms of the merger agreement. See *Special Factors Relating to the Merger Purposes and Reasons of Our Board of Directors and Special Committee for the Merger* and *Special Factors Relating to the Merger Recommendation of Our Board of Directors and Special Committee; Reasons for Recommending the Adoption of the Merger Agreement; Fairness of the Merger* below for a description of the resolutions of our board of directors at this meeting.

On May 4, 2011, the Company's right to terminate the merger agreement in its sole discretion without adverse consequence expired in accordance to its terms.

On May 6, 2011, the special committee held a meeting with representatives of Shearman and Imperial Capital on the go-shop process and determined to continue its weekly meetings during the go-shop period to monitor and provide guidance on the go-shop process.

On May 17, 2011, the special committee held a meeting with representatives of Shearman and Imperial Capital to discuss progress on the delisting process with respect to NASDAQ Dubai. Shearman informed the special committee that the Dubai Financial Services Authority (the **DFSA**) had asked the Company and the Tu Parties to submit letters requesting waivers from the applicable provisions of the Dubai Takeover Rules Module with respect to the proposed merger. Such waiver letters were delivered to the DFSA for preview on May 17, 2011. In addition, at the same meeting, representatives of Shearman informed the special committee that at the DFSA s suggestion and in connection with the Company s decision to delist from NASDAQ Dubai, the Company would file an application with NASDAQ Dubai requesting the suspension of listing of the Company common stock on NASDAQ Dubai. Such application along with the Company s application to NASDAQ Dubai requesting voluntary delisting were filed with NASDAQ Dubai on May 19, 2011 and NASDAQ Dubai announced that it had suspended the trading of the Company s shares on May 22, 2011. The expected effective date of delisting is on or about July 21, 2011. The Company submitted its waiver letter to the DFSA as required under the Dubai Takeover Rules Module on May 20, 2011, and the Tu Parties submitted their waiver letter to the DFSA on May 23, 2011.

On June 23, 2011, the Tu Parties and the Company received approval notices from the DFSA for their applications for waivers from the Dubai Takeover Rules Module with respect to the proposed merger.

On July 2, 2011, the 60-day go-shop period under the merger agreement expired. At the direction of the special committee, Imperial Capital contacted 68 parties during the go-shop period, including 29 strategic parties and 39 financial sponsors, to solicit interest in a possible alternative transaction. The Company executed non-disclosure agreements with six interested parties and the Company s management held face-to-face meetings with two potential bidders with respect to possible alternative transactions. Despite these solicitation efforts, the Company did not receive any alternative transaction proposals during the go-shop period.

Purposes and Reasons of Our Board of Directors and Special Committee for the Merger

The special committee and our board of directors believe that, as a privately-held entity, the Company s management may have greater flexibility to focus on improving the Company s financial performance without the constraints caused by the public equity market s valuation of the Company and emphasis on short-term period-to-period performance. As a publicly-traded entity, the Company faces pressure from public shareholders and investment analysts to make decisions that might produce better short-term results, but over the long term lead to a reduction in the per share price of the Company s publicly traded common stock.

The special committee and our board of directors also believe that it is appropriate for the Company to undertake the merger and terminate the registration of the Company common stock at this time due to the high costs of remaining a public company, including the cost of complying with the Sarbanes-Oxley Act of 2002 (**SOX**) and other U.S. federal securities laws. We estimate such costs to be, on an annualized basis, approximately $680,000 for fees and expenses relating to consulting and auditing services associated with SOX compliance, approximately $730,000 for other fees and expenses of public accountants (excluding fees and expenses relating to the merger), approximately $1.0 million for fees and expenses of U.S. securities counsel (excluding fees and expenses relating to the merger) and $360,000 for fees and expenses of the Company s investor relations firm (excluding fees and expenses relating to the merger). These costs are ongoing, comprise a significant element of our corporate overhead expense, and are difficult to reduce. In addition to the direct out-of-pocket costs associated with SEC reporting and compliance, the Company s management and accounting staff, which comprises a handful of individuals, need to devote significant time to these matters.

Furthermore, as an SEC-reporting company, the Company is required to disclose a considerable amount of business information to the public, some of which would be considered proprietary and would not be disclosed by a non-reporting company. As a result, our actual or potential competitors, customers, lenders and vendors all have ready access to this information which potentially may help them compete against us or make it more difficult for us to negotiate favorable terms with them, as the case may be.

Based on the foregoing considerations, the special committee and our board of directors has concluded that it is more beneficial to the Company to undertake the proposed merger and become a private company as a result of the proposed merger than to remain a public company.

Recommendation of Our Board of Directors and Special Committee; Reasons for Recommending the Adoption of the Merger Agreement; Fairness of the Merger

On April 20, 2011, our board of directors, acting upon the unanimous recommendation of the special committee, which special committee acted with the advice and assistance of its financial and legal advisors, evaluated the proposed merger, including the terms and conditions of the merger agreement.

At a meeting on April 20, 2011, the special committee unanimously recommended that our board of directors adopt resolutions that:

- determine that the merger, on the terms and subject to the conditions set forth in the merger agreement, is fair to and in the best interests of the Company and its stockholders;
- approve and declare advisable the merger agreement and the merger; and
- recommend the adoption of the merger agreement by the Company s stockholders.

On April 20, 2011, our board of directors unanimously adopted the resolutions recommended by the special committee.

On April 20, 2011, each of the special committee and our board of directors determined that the proposed merger was substantively and procedurally fair to the Company s unaffiliated stockholders based upon the following factors, which are not listed in any order of importance:

- the current and historical market prices of the Company common stock, including the fact that the merger consideration offered to our unaffiliated stockholders represents a 33.2% premium to the closing price of shares of Company common stock on January 27, 2011, the trading day immediately prior to the public announcement that Mr. Tu was contemplating a going-private transaction and a 58.5% premium to the closing shares of Company common stock on March 7, 2011, the trading day immediately prior to the public announcement of the Company s receipt of Mr. Tu s going-private proposal. The fact that the $6.50 per share merger consideration to be paid to unaffiliated stockholders in the merger also represents (i) a 29.5% premium

over the 30-day volume weighted average price as quoted by Bloomberg L.P. on January 27, 2011, the last trading day prior to the Company s announcement on January 28, 2011 that Mr. Tu was contemplating a going-private transaction, (ii) a 21.1% premium over the 90-day volume weighted average price as quoted by Bloomberg L.P. on January 27, 2011, the last trading day prior to the Company s announcement on January 28, 2011 that Mr. Tu was contemplating a going-private transaction, (iii) a 38.3% premium over the 30-day volume weighted average price as quoted by Bloomberg L.P. on March 7, 2011, the last trading day prior to the Company s announcement on March 8, 2011 of the Company s receipt of Mr. Tu s going-private proposal and (iv) a 29.7% premium over the 90-day volume weighted average price as quoted by Bloomberg L.P. on March 7, 2011, the last trading day prior to the Company s announcement on March 8, 2011 of the Company s receipt of Mr. Tu s going-private proposal;

- the possibility that it could take a considerable period of time before the trading price of the Company common stock would reach and sustain the level of the per share merger consideration of $6.50, as adjusted for the time value of money, and the possibility that such value might never be obtained, particularly in light of:
- our board of directors recognition of the challenges to our efforts to increase stockholder value as an independent publicly traded company, including competition we face from companies with substantially greater resources than we currently have; and
- the negative impact of the existence of the SEC Investigation and the heightened scrutiny by the SEC of certain PRC-based companies that had initially been listed in the U.S. through reverse mergers on the trading price of the Company common stock;
- the all-cash merger consideration, which will allow our unaffiliated stockholders to immediately realize liquidity for their investment and provide them with certainty as to the amount of the merger consideration;
- the limited trading volume of our common stock on NASDAQ Dubai;
- the due diligence performed by the special committee, and reported to our board of directors, with respect to the debt financing obtained by the Tu Parties for the transaction and the ability of the Tu Parties to consummate the transaction assuming the availability of such financing;
- the belief of the special committee that the terms of the merger agreement, including the parties representations, warranties and covenants, and the conditions to their respective obligations, are reasonable;
- the likelihood that the merger would be completed based on, among other things (not in any order of importance):
- the fact that Parent had obtained the signed debt facility agreement, the limited number and nature of the conditions to the debt financing, the reputation of the financing source and the obligation of Parent to use its reasonable best efforts to obtain the debt financing, each of which, in the reasonable judgment of the special committee, increases the likelihood of such financings being completed;
- the absence of a financing condition in the merger agreement;

- the likelihood and anticipated timing of completing the proposed merger in light of the scope of the conditions to completion, including the absence of significant required regulatory approvals;
- the fact the merger agreement provides that, in the event of a failure of the merger to be consummated under certain circumstances, Parent will pay the Company a $20.0 million reverse termination fee, as applicable, and the guarantee of such payment obligation by Mr. Tu, pursuant to the limited guaranty; and
- the Company s ability, under certain circumstances pursuant to the merger agreement, to seek specific performance to prevent breaches of the merger agreement and to enforce specifically the terms of the merger agreement;

- our ability, subject to compliance with the terms and conditions of the merger agreement, to terminate the merger agreement prior to the completion of the merger in order to accept an alternative transaction proposed by a third party that is a superior proposal (as defined in the merger agreement and further explained under *Merger Agreement Alternative Takeover Proposals* below);
- the preliminary financial analysis and information received from Nomura during its engagement;
- the potential negative impact on the Company s stock price as a result of the SEC Investigation;
- the risks associated with the need to refinance the Company s outstanding indebtedness under its credit facility and convertible notes;
- the availability of appraisal rights to the unaffiliated stockholders who comply with all of the required procedures under the DGCL for exercising dissenters and appraisal rights, which allow such stockholders to seek appraisal of the fair value of their shares of Company common stock as determined by the courts of Delaware; and
- the consideration and negotiation of the merger agreement was conducted entirely under the oversight of the members of the special committee, which consists of three independent directors, each of whom is an outside, non-employee director, and that no limitations were placed on the special committee s authority;

In addition, the special committee and our board of directors believed that sufficient procedural safeguards were and are present to ensure that the proposed merger, based upon the terms of the merger agreement entered into on April 20, 2011, was substantively and procedurally fair to our unaffiliated stockholders and to permit the special committee and our board of directors to represent effectively the interests of such unaffiliated stockholders. These procedural safeguards, which are not listed in any order of importance, are discussed below:

- in considering the transaction with the Tu Parties, the special committee acted solely to represent the interests of the unaffiliated stockholders, and the special committee had independent control of the extensive negotiations with the Tu Parties advisors on behalf of such unaffiliated stockholders;

- all of the directors serving on the special committee during the entire process are independent directors and free from any affiliation with any of the Tu Parties. In addition, none of such directors is or ever was an employee of the Company or any of its subsidiaries or affiliates;
- the fact that, other than their receipt of board and special committee compensation (which are not contingent upon the consummation of the merger or the special committee s or board s recommendation of the merger) and their indemnification and liability insurance rights under the merger agreement, members of the special committee do not have interests in the merger different from, or in addition to, those of the Company s unaffiliated stockholders;
- the fact that the special committee was assisted in negotiations with the Tu Parties and in its evaluation of the proposed merger by Nomura, its financial advisor, and Shearman, its legal advisor;
- the fact that the special committee was empowered to consider, attend to and take any all actions in connection with the written proposal from Mr. Tu and the transactions contemplated thereby from the date the committee was established, and no evaluation, negotiation, or response regarding the transaction or any documentation in connection therewith from that date forward was considered by our board of directors for approval unless the special committee had recommended such action to our board of directors;
- the fact that the terms and conditions of the merger agreement were the product of extensive negotiations between the special committee and its advisors, on the one hand, and the Tu Parties and their advisors, on the other hand;
- the fact that the special committee had the authority to reject the terms of any strategic transaction, including the merger;
- the fact that the special committee met regularly to consider and review the proposed merger with advice from its advisors;
- the recognition by the special committee and our board of directors that it had no obligation to recommend the approval of any merger proposal from the Tu Parties or any other transaction;
- the recognition by the special committee and our board of directors that, under the terms of the merger agreement, it has a period of 40 days to actively solicit competing proposals for the Company and furthermore, that it has the ability after such go-shop period to consider any acquisition proposal reasonably likely to lead to a superior proposal until the date our stockholders vote upon and adopt the merger agreement;
- the ability of the Company to terminate the merger agreement in order to enter into an agreement relating to a superior proposal; and
- the ability of the Company to terminate the merger agreement in its sole discretion on or prior to May 4, 2011 without adverse consequence for any party.

On May 3, 2011, our board of directors, acting upon the unanimous recommendation of the special committee, which special committee acted with the advice and assistance of its financial and legal advisors, evaluated the proposed merger, including the terms and conditions of the merger agreement.

At a meeting on May 3, 2011, the special committee unanimously recommended that our board of directors adopt resolutions that:

- determine that the merger, on the terms and subject to the conditions set forth in the May 3rd merger agreement, is fair to and in the best interests of the Company and its stockholders;
- approve and declare advisable the merger agreement (as amended and restated) and the merger; and
- recommend the adoption of the merger agreement by the Company s stockholders.

On May 3, 2011, our board of directors unanimously adopted the resolutions recommended by the special committee.

On May 3, 2011, each of the special committee and our board of directors determined that the proposed merger is substantively and procedurally fair to the Company s unaffiliated stockholders based upon the following factors, which are not listed in any order of importance:

- the factors considered in connection with the approval of the merger and related matters at the April 20th meeting of the special committee and board of directors of the Company;
- the fact that the $6.50 per share merger consideration to be paid to unaffiliated stockholders in the merger represents a 22.9% premium over the closing price of $5.29 per share on May 2, 2011, the last trading day before the merger agreement was signed;
- the negotiations with respect to the per share merger consideration that, among other things, led to (i) a majority of the unaffiliated stockholders voting requirement giving the unaffiliated stockholders a meaningful opportunity to consider and vote upon the adoption of the merger agreement and (ii) an increase of the go-shop period from 40 days to 60 days; and
- the financial analysis reviewed by Imperial Capital with the special committee, and the oral opinion to the special committee (which was confirmed in writing by delivery of Imperial Capital s written opinion dated May 3, 2011) as to the fairness, from a financial point of view, of the $6.50 per share merger consideration to be received by the holders of the Company common stock (other than Parent, Merger Sub and their affiliates, the Rollover Stockholders, and holders of the Dissenting Shares) in the merger, as of May 3, 2011, based upon and subject to the procedures followed, assumptions made, qualifications and limitations on the review undertaken and other matters considered by Imperial Capital in preparing its opinion. See *Special Factors Relating to the Merger Opinion of Imperial Capital, Financial Advisor to the Special Committee.*

In addition, the special committee and our board of directors believed that sufficient procedural safeguards were and are present to ensure that the proposed merger, based upon the terms of the merger agreement entered into on May 3, 2011, is substantively and procedurally fair to our unaffiliated stockholders and to permit the special committee and our board of directors to represent effectively the interests of such unaffiliated stockholders. These procedural safeguards, which are not listed in any order of importance, are discussed below:

- the procedural safeguards considered in connection with the approval of the merger and related merger agreement entered into on April 20, 2011, except with respect to (i) Nomura s assistance to the special committee in connection with the special committee s negotiations with the Tu Parties and (ii) the 40-day go-shop period;
- the consummation of the merger is conditioned upon of the adoption of the merger agreement not only by a majority of the outstanding shares of Company common stock, but also by the holders of the then outstanding shares of Company common stock other than shares owned by Parent, Merger Sub and their affiliates and the Rollover Stockholders;

- the fact that the special committee was assisted in negotiations with the Tu Parties and in its evaluation of the proposed merger by Imperial Capital, its financial advisor;
- the fact that the special committee received from Imperial Capital an opinion dated as of May 3, 2011, based upon and subject to various assumptions, with respect to the fairness of the per share merger consideration to be received by the holders of Company common stock other than the shares owned by the Parent, Merger Sub and their affiliates, the Rollover Stockholders and holders of the Dissenting Shares; and
- the recognition by the special committee and our board of directors that, under the terms of the merger agreement, it has a period of 60 days to actively solicit competing proposals for the Company and furthermore, that it has the ability after such go-shop period to consider any acquisition proposal reasonably likely to lead to a superior proposal until the date our stockholders vote upon and adopt the merger agreement.

The special committee and board of directors also considered a variety of potentially negative factors discussed below concerning both (i) the merger agreement entered into on April 20, 2011 and the transactions contemplated therein and (ii) the merger agreement entered into on May 3, 2011 and the transactions contemplated therein, which are not listed in any order of importance:

- the fact that the Company s stockholders, other than the Rollover Stockholders, will have no ongoing equity participation in the Company following the merger, and that the Company s stockholders will cease to participate in our future earnings or growth, if any, or to benefit from increases, if any, in the value of Company common stock, and will not participate in any potential future sale of the Company to a third party or any potential recapitalization of the Company which could include a dividend to stockholders;
- the possibility that the Tu Parties could sell some or all of the Company following the merger to one or more purchasers at a valuation higher than that being paid in the merger;
- the fact that Mr. Tu, the Company's Chairman, Chief Executive Officer and beneficial owner of approximately 20.9% of the total number of outstanding shares of Company common stock, has expressed unwillingness to consider any transaction involving the sale of all or any portion of his shares to any third party, which may have discouraged, and may in the future discourage, third parties from submitting alternative acquisition proposals with terms and conditions, including price, that may be superior to the merger, noting that this fact may have accounted, in whole or in part, for the absence of any alternative acquisition proposal with a higher price to our stockholders despite our contacts with multiple strategic and financial parties regarding a potential acquisition;
- the absence of any alternative acquisition proposals with a higher price to our stockholders after the public announcement of the Company s receipt of Mr. Tu s going-private proposal on March 7, 2011 and after our contacts with multiple strategic and financial parties regarding a potential acquisition;
- the fact that the per share merger consideration is less than the highest closing price of $9.60 at which the Company common stock has traded in the two years prior to the Company s announcement on March 8, 2011 that it had received a going private proposal;
- the fact that the restrictions on the conduct of the Company s business prior to the completion of the proposed merger, which may delay or prevent the Company from undertaking business opportunities that may arise or any other action it would otherwise take with respect to the operations of the Company pending completion of the proposed merger;
- the risks and costs to the Company if the proposed merger does not close, including the diversion of management and employee attention, potential employee attrition and the potential disruptive effect on business and customer relationships;
- the fact that the Company will be required to, under certain circumstances, pay Parent a termination fee of up to $10.0 million in connection with the termination of the merger agreement;
- the fact that Parent and Merger Sub are newly formed corporations with essentially no assets other than the rollover commitment of the Rollover Stockholders and the debt commitments of CDB and that the Company s remedy in the event of breach of the merger agreement by Parent or Merger Sub may be limited to receipt of a reverse termination fee of $20.0 million guaranteed by Mr. Tu and under certain circumstances the Company may not be entitled to a reverse termination fee at all;

36

- the terms of the Rollover Stockholders participation in the merger and the fact that Mr. Tu and certain members of the Company s management may have interests in the transaction that are different from, or in addition to, those of our unaffiliated stockholders; see *Special Factors Relating to the Merger Interests of the Company's Directors and Officers in the Merger* for additional information;
- the possibility that the merger might not be consummated in a timely manner or not at all, including the risk that the proposed merger will not occur if the debt financing is not obtained, as Parent does not on its own possess sufficient funds to complete the transaction;
- the taxability of an all cash transaction to our unaffiliated stockholders who are U.S. Holders for U.S. federal income tax purposes (as defined under *Special Factors Relating to the Merger Material U.S. Federal Income Tax Consequences*); and
- the possibility of the imposition of PRC or other foreign taxes in connection with the merger.

The foregoing discussion of information and factors considered by the special committee and our board of directors is not intended to be exhaustive, but includes a number of the factors considered by the special committee and our board of directors. In view of the wide variety of factors considered by the special committee and our board of directors, neither the special committee nor our board of directors found it practicable to, and neither did quantify or otherwise assign relative weights to the foregoing factors in reaching its conclusion. In addition, individual members of the special committee and our board of directors may have given different weights to different factors and may have viewed some factors more positively or negatively than others. The special committee recommended that our board of directors approve, and our board of directors approved, the merger agreement based upon the totality of the information presented to and considered by it. In light of the procedural protections described above, the Board did not consider it necessary to make any provision to grant unaffiliated stockholders access to the Company s corporate files or to obtain counsel or appraisal services for unaffiliated stockholders.

Neither the special committee nor our board of directors considered the liquidation value of Company s assets because it considers the Company to be a viable going concern business where value is derived from cash flows generated from its continuing operations. In addition, the special committee and the board of directors believe that the value of the Company s assets that might be realized in a liquidation would be significantly less than its going concern value. Each of the special committee and the board of directors believes the analyses and additional factors it reviewed provided an indication of our going concern value. Each of the special committee and the board of directors of the Company also considered the historical market prices of the Company common stock as described on page 88. Neither the special committee nor our board of directors considered the Company s net book value, which is defined as total assets minus total liabilities, as a factor. The special committee and board of directors believe that net book value is not a material indicator of the value of the Company as a going concern. The Company s net book value per share of Company common stock as of December 31, 2010 was $7.40. Net book value does not take into account the future prospects of the Company, market conditions, trends in the industry related to the manufacturing, distribution, installation and servicing of surveillance and safety products, systems and services and the development of surveillance and safety related software or the business risks inherent in competing with larger companies in that industry.

The special committee and our board of directors, in reaching their respective determinations to approve and recommend to the Company s unaffiliated stockholders the merger agreement and the transactions contemplated thereby, also considered the risk of losing the opportunity to enter into a transaction with the Tu Parties at the per share merger consideration that was considered fair, from a financial point of view, to unaffiliated security holders.

In reaching its determination that the merger agreement and the transactions contemplated thereby, including the merger, are in the best interests to the Company and our unaffiliated stockholders and its decision to approve the merger agreement and recommend the adoption of the merger agreement by our stockholders, our board of directors considered the analysis and recommendation of the special committee and the factors examined by the special committee as described above under the captions *Special Factors Relating to the Merger Purposes and Reasons of Our Board of Directors and Special Committee for the Merger* and *Special Factors Relating to the*

Merger Recommendation of Our Board of Directors and Special Committee; Reasons for Recommending the Adoption of the Merger Agreement; Fairness of the Merger, and adopted such recommendations and analysis. For the foregoing reasons, our board of directors believes that the merger agreement and the transactions contemplated thereby are fair to the Company s stockholders.

Our board of directors recommends that you vote FOR adoption of the merger agreement.

Opinion of Imperial Capital, Financial Advisor to the Special Committee

The special committee retained Imperial Capital to act as financial advisor to the special committee in connection with the merger. On May 3, 2011, Imperial Capital rendered its oral opinion to the special committee, subsequently confirmed in writing, that, as of such date, and based upon and subject to the assumptions, procedures, factors, qualifications and limitations set forth therein, the per share merger consideration is fair, from a financial point of view, to the holders of Company common stock (other than Parent, Merger Sub and their affiliates, holders of the Dissenting Shares and the Rollover Stockholders) in connection with the merger.

The full text of Imperial Capital s written opinion, dated May 3, 2011, which sets forth the assumptions made, procedures followed, factors considered, and qualifications and limitations on the review undertaken by Imperial Capital in connection with its opinion is attached to this proxy statement as Annex B and is incorporated into this proxy statement by reference. The description of Imperial Capital s opinion set forth in this proxy statement is qualified in its entirety by reference to the full text of Imperial Capital s written opinion attached as Annex B. We encourage you to read Imperial Capital s opinion and this section carefully and in their entirety.

Imperial Capital s opinion was directed to the special committee for use and benefit of the special committee in connection with its evaluation of the fairness, from a financial point of view, of the per share merger consideration to the holders of Company common stock (other than Parent, Merger Sub and their affiliates, holders of the Dissenting Shares and the Rollover Stockholders) in connection with the merger and does not address any other aspect of the merger. **Imperial Capital s opinion does not constitute a recommendation as to how holders of the Company common stock should vote or act in connection with the merger or any aspect thereof. Imperial Capital s opinion does not address the merits of the underlying decision by CSST to engage in the merger or the relative merits of any alternative transactions discussed by the special committee and the board of directors of CSST. In addition, Imperial Capital expresses no opinion as to the fairness of the amount or nature of any compensation to be received by any officers, directors or employees of any party to the merger.**

In arriving at its opinion, Imperial Capital made such reviews, analyses, and inquiries as it deemed necessary and appropriate under the circumstances. Imperial Capital, among other things:

- analyzed certain publicly available information related to CSST that Imperial Capital deemed to be relevant to its analysis, including CSST s annual report on Form 10-K for the fiscal year ended December 31, 2010 and quarterly report on Form 10-Q for the quarter ended March 31, 2011;
- reviewed certain internal financial forecasts and budgets for CSST prepared and provided by CSST s management;
- held discussions with certain members of CSST s management to discuss CSST s operations and future prospects;
- reviewed equity research reports and publications;
- reviewed public information with respect to certain other public companies with business lines and financial profiles which Imperial Capital deemed to be relevant;
- reviewed the implied financial multiples and premiums paid in merger and acquisition transactions which Imperial Capital deemed to be relevant;
- reviewed current and historical market prices of the Company common stock, as well as the trading volume and public float of the common stock;
- reviewed the draft merger agreement, dated as of April 29, 2011; and
- conducted such other financial studies, analyses and investigations and took into account such other matters as Imperial Capital deemed necessary, including Imperial Capital s assessment of general economic and monetary conditions.

In giving its opinion, Imperial Capital relied upon the accuracy and completeness of the foregoing financial and other information and did not assume responsibility for independent verification of such information or conduct or be furnished with any current independent valuation or appraisal of any assets of CSST or any appraisal or estimate of liabilities of CSST. With respect to the financial forecasts, Imperial Capital assumed, with the special committee s consent that Imperial Capital had assumed and on the advice of CSST s management, that they were reasonably prepared on bases reflecting the best currently available estimates and judgments of management of CSST as to the future financial performance of CSST. Imperial Capital also relied upon the assurances of management of CSST that it was unaware of any facts that would make the information or financial forecasts provided to Imperial Capital incomplete or misleading. Imperial Capital assumed no responsibility for, and expressed no view as to, such financial forecasts or the assumptions on which they were based.

Imperial Capital s opinion was based upon financial, economic, market and other conditions as they existed and could be evaluated on the date of Imperial Capital s opinion and does not address the fairness of the per share merger consideration as of any other date. These conditions have been and remain subject to extraordinary levels of volatility and uncertainty, and Imperial Capital expressed no view as to the impact of such volatility and uncertainty on CSST or the contemplated benefits of the merger. In rendering Imperial Capital s opinion, Imperial Capital assumed, with the special committee s consent, that (i) the final executed form of the merger agreement would not differ in any material respect from the draft that Imperial Capital examined, (ii) the parties to the merger agreement would comply with all the material terms of the merger agreement, and (iii) the merger would be consummated in accordance with the terms of the merger agreement without any adverse waiver or amendment of any material term or condition thereof. Imperial Capital also assumed that all governmental, regulatory or other consents and approvals necessary for the consummation of the merger would be obtained without any material adverse effect on CSST or the merger.

Summary of Financial Analyses

The following is a brief summary of the material financial analyses performed by Imperial Capital and reviewed with the special committee on May 3, 2011 in connection with Imperial Capital s opinion. **The financial analyses summarized below include information presented in tabular format. In order to fully understand Imperial Capital s financial analyses, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses. Considering the data below without considering the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of Imperial Capital s financial analyses.**

Selected Company Analysis

Imperial Capital reviewed and compared selected financial information for CSST with corresponding financial information and multiples for the following companies Imperial Capital considered relevant to CSST:

		Enterprise Value as a multiple of		
Company Name	**Revenue for the 12 months ended March 31, 2011**	**Estimated Revenue for 2011 FY**	**EBITDA for the 12 months ended March 31, 2011**	**Estimated EBITDA for 2011 FY**
Manufacturing				
China Fire & Security Group, Inc.	2.1x	1.8x	9.0x	8.8x
Napco Security Technologies, Inc.	0.9x	0.8x	NM	NA
Visonic Group	0.6x	NA	9.2x	NA
March Networks Corporation	0.4x	0.4x	NM	7.9x
Digital Ally Inc.	0.9x	0.8x	NM	7.7x
Cantronic Systems, Inc.	1.2x	1.1x	NM	8.6x
Vicon Industries Inc.	0.2x	NA	NM	NA
Installation - Security Systems Integrators				
Tyco International Ltd.	1.5x	1.5x	8.1x	7.5x
Diebold, Incorporated	0.8x	0.8x	8.4x	8.6x
Niscayah Group AB	0.8x	0.9x	10.0x	9.0x
Installation - Diversified Contractors				
EMCOR Group Inc.	0.3x	0.3x	5.8x	5.9x
Black Box Corp.	0.7x	0.7x	6.6x	6.1x
Layne Christensen Co.	0.5x	0.5x	5.8x	5.9x
Orion Marine Group, Inc	0.7x	0.7x	4.8x	4.8x
Distribution				
Anixter International Inc.	0.6x	0.5x	11.3x	8.2x
Ingram Micro Inc.	0.1x	0.1x	4.9x	4.8x
Tech Data Corp.	0.1x	0.1x	5.6x	5.0x
ScanSource, Inc.	0.4x	0.3x	8.6x	7.9x
Weighted Multiple Range	**0.65x-0.85x**	**0.65x-0.85x**	**6.6x-7.6x**	**6.4x-7.4x**

In its review of the selected companies, Imperial Capital considered, among other things, (i) market capitalization (computed using closing stock prices as of April 29, 2011), (ii) enterprise values, (iii) enterprise values as a multiple of revenue for the latest reported twelve-month period and estimated revenue for the 2011 calendar year, (iv) enterprise values as a multiple of earnings before interest, taxes, depreciation and amortization (**EBITDA**) for the latest reported twelve-month period and estimated EBITDA for the 2011 calendar year and (v) enterprise values for security system integrators as a multiple of free cash flow, defined as EBITDA less changes in working capital less capital expenditures, for the latest reported twelve-month period and estimated free cash flow for the 2011 calendar year. Financial data for the selected companies were based on the most recent available filings with the SEC, Bloomberg consensus estimates and analyst research reports. Financial data for CSST was based on the most recent available filings with the SEC and on forecasts provided by CSST s management. Due to the diverse nature of the divisions of the Company, Imperial Capital applied a weighting of the mean of the selected company multiples for each industry group based on the sources of the estimated revenues of CSST for the 2011 calendar year. Imperial Capital then compared these multiples derived for the selected companies with corresponding financial information for the Company. To the resulting implied enterprise values, Imperial Capital added the cash of CSST and subtracted the debt of CSST as of March 31, 2011 to calculate implied equity value. This analysis indicated the following implied equity value per share ranges of CSST based on the selected company trading multiples applied to CSST s (a) revenue for the latest twelve-month period ended March 31, 2011 and estimated revenue for the 2011 fiscal year and (b) EBITDA for the latest twelve-month period ended March 31, 2011 and estimated EBITDA for the 2011 fiscal year. The analysis indicated negative equity values based on free cash flow for CSST.

Based on	Implied Equity Value per Share Low		Implied Equity Value per Share High	
Latest Twelve-Month Period Ended March 31, 2011 Revenue	$	2.15	$	3.63
2011 Estimated Revenue	$	3.59	$	5.52
Latest Twelve-Month Period Ended March 31, 2011 EBITDA	$	5.97	$	7.28
2011 Estimated EBITDA	$	8.84	$	10.63

Selected Transactions Analysis

Imperial Capital reviewed the financial terms, to the extent publicly available, of the following transactions involving the acquisition of companies Imperial Capital considered relevant to CSST, which were announced since May 2008:

Integration & Services

Date Announced	Target	Acquirer	Enterprise Value as a multiple of Revenue for the 12 months ended March 31, 2011	EBITDA for the 12 months ended March 31, 2011
December 2010	Monitronics Security, LP	Ascent Media Corporation	4.3x	6.2x
November 2010	Optelecom-NKF Inc.	TKH Group NV	0.6x	NM
October 2010	Henry Bros. Electronics, Inc.	Kratos Defense & Security Solutions, Inc.	1.1x	31.9x
August 2010	Attenti Ltd.	3M Israel Ltd.	2.3x	NA
July 2010	COE Group plc	Digital Barriers plc	1.0x	NM
July 2010	Infrared Engineering and Consultants Limited	China Star Film Group Limited.	NA	NA
May 2010	Pieper GmbH	Moog Inc.	NA	NA
April 2010	Protection One, Inc.	GTCR Golder Rauner, LLC	2.2x	6.8x
March 2010	RockWest Technology Group LLC	SCM Microsystems Inc. (nka:Identive Group, Inc.)	0.6x	NA
March 2010	ADT France SA	Stanley Black & Decker, Inc.	0.1x	NA
January 2010	Broadview Security	Tyco International Ltd.	3.3x	8.9x
December 2009	Nuclear Security Services Corporation	G4S plc	1.0x	NA
November 2009	Adesta, LLC and Adesta, LP	G4S Technology North America	0.6x	8.0x
November 2009	Pinnacle Integrated Systems, Inc.	Comcam International Inc.	0.2x	2.1x
June 2009	Axsys Technologies, Inc.	General Dynamics Advanced Information Systems, Inc.	2.4x	12.5x
December 2008	Watch24 Security Services Pty Ltd.	Signature Security Group Pty Ltd.	NA	NA
December 2008	Hirsch Electronics Corporation	SCM Microsystems Inc. (nka:Identive Group, Inc.)	1.2x	30.2x
November 2008	Colledge Trundle & Hall Limited	Balfour Beatty WorkPlace Limited	NA	NA
October 2008	Access Systems Integration, LLC	Michael Stapleton Associates, Ltd.	NA	NA
September 2008	JSC Videofon MV	MegaFon	NA	NA
August 2008	Hafslund Sikkerhet AS	Securitas Direct AS	2.0x	NA
July 2008	SYSDAT GmbH	Cancom IT Systeme AG	0.1x	4.0x
July 2008	MAC Systems, Inc.	Siemens Building Technologies	NA	NA
July 2008	Utilitec B.V.	GSH Group plc	0.4x	NA

July 2008	HFP Corporation	Integrated Products And Services, Inc.	NA	NA
June 2008	Sonitrol Corporation	Stanley Works	2.5x	10.0x
June 2008	Winner Security Services, LLC	Tyco International	NA	NA
June 2008	Touchcom, Inc.	G4S plc	NA	NA
May 2008	Pinnacle Security LLC	Golden Gate Capital	NA	NA
May 2008	S3 Integration, LLC	ICx Technologies, Inc.	NA	NA

Manufacturing

Date Announced	Target	Acquirer	Enterprise Value as a multiple of Revenue for the 12 months ended March 31, 2011	EBITDA for the 12 months ended March 31, 2011
December 2010	ETI A/S	BAE Systems plc	3.7x	NA
November 2010	HERNIS Scan Systems AS	Cooper Safety Ltd.	NA	NA
October 2010	ICx Technologies, Inc.	FLIR Systems, Inc.	1.3x	10.9x
May 2010	EnviroTek, Inc.	Suffer	NA	NA
February 2010	Shenzhen Angesi Technology Co., Ltd.	ANV Security Group, Inc.	0.7x	NA
November 2009	GE Security, Inc.	UTC Fire & Security Corporation	1.5x	NA
June 2009	GVI Security Solutions, Inc.	GenNx360 Capital Partners	0.4x	14.1x
June 2009	Axsys Technologies, Inc.	General Dynamics Advanced Information Systems, Inc.	2.4x	12.5x
February 2009	Videolarm, Inc.	Moog Inc.	2.3x	NA

Distribution			Enterprise Value as a multiple of	
Date Announced	Target	Acquirer	Revenue for the 12 months ended March 31, 2011	EBITDA for the 12 months ended March 31, 2011
April 2011	Velleman Components N.V.	De Eik N.V.	NA	NA
October 2010	Comtrade SA	DCC Sercom Ltd.	0.4x	NA
September 2010	Innova-Extel Acquisition Holdings Inc.	Hunting plc	NA	9.1x
July 2010	Tallard Technologies, Inc.	Avnet Technology Solutions, Inc.	NA	NA
July 2010	Bell Microproducts Inc.	Avnet Inc.	0.2x	10.9x
June 2010	Potelcom Supply, Inc.	WESCO International Inc.	0.6x	NA
June 2010	Societe D'implantation Distribution Equipement Video	Midwich Limited	NA	NA
June 2010	TransTech Systems Inc.	Visualant Inc.	0.2x	NA
May 2010	Impact Europe Norge AS and Impact Europe Ab	Atea ASA	NA	NA
March 2010	Tri-Ed Distribution and Northern Video Systems, Inc.	Brazos Private Equity Partners, LLC	NA	NA
January 2010	Solar Suomi OY	Ahlsell Oy	NA	NA
December 2009	B. Linderholm AB	Electra Gruppen AB	NA	NA
August 2009	Javaco, Inc.	JBI, Inc.	0.5x	NA
July 2009	AS Elcoteq Tallinn	Ericsson Eesti Aktsiaselts	0.1x	NA
May 2009	Carl Lamm Holding AB	Ricoh Europe Holdings	0.6x	11.7x
Weighted Multiple Range for Integration & Services, Manufacturing and Distribution			**1.09x-1.29x**	**7.7x-8.7x**

Imperial Capital reviewed the consideration paid in the selected transactions as a multiple of latest reported revenue for the latest twelve-month period and EBITDA for the latest twelve-month period. Due to the diverse nature of the divisions of the Company, Imperial Capital applied a weighting of the mean of the selected transaction multiples for each industry group based on the sources of the revenues and EBITDA of CSST for the twelve months ended March 31, 2011. Imperial Capital then compared the multiples derived from the selected transactions with the corresponding financial information for CSST. To the resulting implied enterprise values, Imperial Capital added the cash of CSST and subtracted the debt of CSST as of March 31, 2011 to calculate implied equity value. The following table provides a summary of the implied equity value per share range of CSST based on the selected transaction multiples applied to CSST s revenue for the latest twelve-month period ended March 31, 2011 and EBITDA for the latest twelve-month period ended March 31, 2011:

	Implied Equity Value per Share	
	Low	High
Latest Twelve-Month Period Ended March 31, 2011 Revenue	$ 5.36	$ 6.84

Latest Twelve-Month Period Ended March 31, 2011 EBITDA	$	7.39	$	8.69

Discounted Cash Flow Analysis

Imperial Capital performed a discounted cash flow analysis of CSST using forecasts for the period ranging from April 1, 2011 through the end of fiscal year 2015 (the **forecast period**) provided by CSST s management and an assumed valuation date of March 31, 2011. Imperial Capital calculated the implied present values of free cash flows for CSST for the forecast period using discount rates ranging from 12.5% to 16.5% based on estimated weighted average cost of capital for CSST of 14.5% calculated by Imperial Capital based on the capital asset pricing model using assumptions selected by it based on its professional judgment and experience and market conditions at the time. Imperial Capital calculated the terminal values for CSST based on multiples of 6.1x to 8.1x based on the midpoint of the range from the selected companies analysis (7.1x) applied to EBITDA for fiscal year 2015. The estimated terminal values were then discounted to implied present values using discount rates ranging from 12.5% to 16.5% . For the range of discount rate and terminal value multiples, Imperial Capital added the implied present value of free cash flows to the implied present value of the terminal value to arrive at implied enterprise value for CSST. Imperial Capital then calculated the implied equity value by adding cash and subtracting debt as of March 31, 2011 and further calculated the implied equity value per share of CSST using fully-diluted shares outstanding of CSST, as provided by the management of CSST. This analysis resulted in a range of implied equity values per share of CSST common stock of approximately $5.31 to $7.53.

Leveraged Buyout Analysis

Imperial Capital performed a leverage buyout analysis of CSST using forecasts for the forecasted period provided by CSST s management and an assumed valuation date of March 31, 2011. Imperial Capital calculated the implied enterprise value for CSST using a purchase and exit multiple of 7.1x based on the weighted average multiple from the selected companies analysis, a target equity return of 22.5% to 27.5%, senior debt leverage of 3.0x and interest of 7.0% and subordinated debt leverage of 1.0x and interest of 13.0%. The assumptions used in this analysis were selected by Imperial Capital based on its professional judgment and experience and market conditions at the time. Imperial Capital then calculated the implied equity value by adding cash and subtracting debt as of March 31, 2011 and further calculated the implied equity value per share of CSST using fully-diluted shares outstanding of CSST, as provided by the management of CSST. The analysis resulted in a range of implied equity value per share of Company common stock of approximately $5.40 to $6.06.

Other Analyses

Imperial Capital also considered:

- the high and low trading prices for CSST over the twelve months prior to April 29, 2011 of $4.02 to $6.31;
- a premium paid analysis in transactions domiciled in either China or in the United States since April 1, 2009 that implied a price per share of Company common stock of approximately $5.58 to $6.07; and
- a price indication received on April 19, 2011 by another potential bidder that implied a price per share of Company common stock of approximately $5.68 to $6.24.

Overview of Analyses; Other Considerations

The summaries set forth above do not purport to be a complete description of all the analyses performed by Imperial Capital in arriving at its opinion. The preparation of a fairness opinion involves various determinations as to the most appropriate and relevant methods of financial analysis and the application of these methods to the particular circumstances and, therefore, such an opinion is not readily susceptible to partial analysis or summary description. Imperial Capital did not attribute any particular weight to any analysis or factor considered by it, but rather made qualitative judgments as to the significance and relevance of each analysis and factor. Accordingly, Imperial Capital believes, and advised the special committee, that its analyses must be considered as a whole and that selecting portions of its analyses and the factors considered by it, without considering all analyses and factors, could create an incomplete view of the process underlying Imperial Capital s opinion. In performing its analyses, Imperial Capital made numerous assumptions with respect to industry performance, business and economic conditions and other matters, many of which are beyond the control of CSST. The analyses performed by Imperial Capital are not necessarily indicative of actual values or future results, which may be significantly more or less favorable than suggested by such analyses. In addition, analyses relating to the value of businesses do not purport to be appraisals or to reflect the prices at which businesses or securities may actually be sold. Accordingly, such analyses and estimates are inherently subject to uncertainty, being based upon numerous factors or events beyond the control of the parties or their respective advisors. None of CSST, Imperial Capital or any other person assumes responsibility if future results are materially different from those projected. The analyses supplied by Imperial Capital and its opinion were among several factors taken into consideration by the special committee in making their respective decisions to authorize CSST to enter into the merger agreement and should not be considered as determinative of such decision.

General

Pursuant to a letter agreement dated April 22, 2011, as amended by the letter agreement dated May 2, 2011, the special committee engaged Imperial Capital to act as its financial advisor in connection with the merger. Under the terms of Imperial Capital s engagement, CSST has agreed to pay Imperial Capital for its financial advisory services for the benefit of the special committee in connection with the merger (i) a fee of $1,150,000 payable in connection with Imperial Capital s opinion; (ii) a service fee of $200,000 for management of the go-shop process; (iii) an additional fee upon the consummation of the merger in the event that the per share merger consideration exceeds $6.50 in an amount equal to an incremental 3.5% on any consideration (whether cash or securities) paid to the Company s stockholders for purchase of their shares in excess of $6.50 per share; and (iv) a fee of $10,000 per day (not to exceed $250,000 in the aggregate) in the event that Imperial Capital is required to provide litigation support in connection with the merger. In addition, CSST agreed to pay all reasonable and documented fees, disbursements and out-of-pocket expenses incurred in connection with services to be rendered, not to exceed $100,000 in the aggregate without the Company s consent (which will not be unreasonably withheld or delayed), and to indemnify Imperial Capital and related parties against any liabilities arising out of or in connection with advice or services rendered or to be rendered pursuant to the engagement letter agreement. No portion of Imperial Capital s fee for the delivery of its opinion is contingent upon the conclusions reached in its opinion or the consummation of the merger.

The special committee selected Imperial Capital as its financial advisor based on its experience with merger transactions and familiarity with CSST. Imperial Capital is a full-service investment banking firm offering a wide range of advisory, finance and trading services. Imperial Capital has received approximately $410,000 in fees during the past three years for providing investment banking services to CSST unrelated to the merger, including having acted as co-manager in connection with CSST s August 2009 common stock offering. Although there exists no agreement or understanding between Imperial Capital, CSST or any of their respective affiliates regarding the provision of any such services in the future, Imperial Capital may render such services and receive fees for doing so. In the ordinary course of our business, Imperial Capital and its affiliates may actively trade the debt and equity securities of CSST for Imperial Capital s own account and for the accounts of customers and, accordingly, may at any time hold a long or short position in such securities.

Purposes and Reasons of the Tu Parties for the Merger

Under SEC rules governing going-private transactions, each of Parent, Merger Sub and the Rollover Stockholders are required to express their reasons for the merger to the Company s unaffiliated security holders. Parent, Merger Sub and the Rollover Stockholders are making the statements included in this section solely for the purpose of complying with the requirements of Rule 13e-3 and related rules under the Exchange Act. For Parent, Merger Sub and the Rollover Stockholders, the purpose of the merger is to enable Parent to acquire control of the Company, in a transaction in which the unaffiliated stockholders will be cashed out for $6.50 per share, so Parent will bear the rewards and risks of the ownership of the Company after shares of Company common stock cease to be publicly traded. In addition, with respect to the Rollover Stockholders, the merger will allow the Rollover Stockholders to maintain a significant portion of their investment in the Company through their respective commitments to make an equity investment in Parent as described in this proxy statement under the section captioned *Special Factors Relating to the Merger Financing of the Merger Rollover Financing*, and at the same time enable Mr. Tu to maintain a leadership role with the surviving corporation.

The Tu Parties believe that, as a privately-held entity, the Company s management will have greater flexibility to focus on improving the Company s long-term profitability without the constraints caused by the public equity market s valuation of the Company and emphasis on short-term period-to-period performance. As a privately-held entity, the Company will have greater flexibility to make decisions that might negatively affect short-term results but that could increase the Company s value over the long term. In contrast, as a publicly-traded entity, the Company currently faces pressure from public stockholders and investment analysts to make decisions that might produce improved short-term results, but which are not necessarily beneficial in the long term.

As a privately-held entity, the Company will be relieved of many of the other expenses, burdens and constraints imposed on companies that are subject to the public reporting requirements under the federal securities laws of the United States, including the Exchange Act and Sarbanes-Oxley Act of 2002. The need for the management of the Company to be responsive to unaffiliated stockholders concerns and to engage in dialogue with unaffiliated stockholders can also at times distract management s time and attention from the effective operation and improvement of the business. See *Special Factors Relating to the Merger Purposes and Reasons of Our Board of Directors and Special Committee for the Merger* beginning on page 30 and *Special Factors Relating to the Merger Recommendation of Our Board of Directors and Special Committee; Reasons for Recommending the Adoption of the Merger Agreement; Fairness of the Merger* beginning on page 31 of this proxy statement.

The Tu Parties decided to undertake the going-private transaction at this time because they want to take advantage of the benefits of the Company being a privately-held company as described above and because Parent was able to obtain a debt financing commitment from CDB under the Facility Agreement that was consistent with their desired transaction structure.

Positions of the Tu Parties Regarding the Fairness of the Merger

Under SEC rules governing going-private transactions, each of Parent, Merger Sub and the Rollover Stockholders are required to express their beliefs as to the fairness of the proposed merger to the Company s unaffiliated security holders. The Tu Parties are making the statements included in this section solely for the purposes of complying with the requirements of Rule 13e-3 and related rules under the Exchange Act. The views of the Tu Parties as to the fairness of the proposed merger are not intended and should not be construed as a recommendation to any holder of Company common stock as to how to vote on the proposal to adopt the merger agreement. The Tu Parties have interests in the proposed merger that are different from those of the other stockholders of the Company by virtue of their continuing interests in the surviving company after the consummation of the proposed merger. These interests are described under *Special Factors Relating to the Merger Interests of the Company's Directors and Officers in the Merger* beginning on page 54 of this proxy statement.

44

The Tu Parties believe the interests of the Company s unaffiliated stockholders were represented by the special committee, which negotiated the terms and conditions of the merger agreement with the assistance of its independent legal and financial advisors. The Tu Parties attempted to negotiate a transaction that would be most favorable to them, and not to the Company s unaffiliated stockholders and, accordingly, did not negotiate the merger agreement with a goal of obtaining terms that were substantively and procedurally fair to such stockholders. The Tu Parties did not participate in the deliberations of the special committee regarding, and did not receive any advice from the special committee s independent legal or financial advisors as to, the fairness of the proposed merger to the Company s unaffiliated stockholders. The Tu Parties did not perform, or engage a financial advisor to perform, any independent valuation or other analysis for the Tu Parties to assist them in assessing the substantive and procedural fairness of the proposed merger to the Company s unaffiliated stockholders.

Based on their knowledge and analysis of available information regarding the Company, as well as discussions with the Company s senior management regarding the Company and its business and the factors considered by, and findings of, the special committee and the Company s board of directors discussed in *Special Factors Relating to the Merger Purposes and Reasons of Our Board of Directors and Special Committee for the Merger* beginning on page 30 and *Special Factors Relating to the Merger Recommendation of Our Board of Directors and Special Committee; Reasons for Recommending the Adoption of the Merger Agreement; Fairness of the Merger* beginning on page 31 of this proxy statement (which considerations and findings are adopted by the Tu Parties solely for the purposes of making the statements in this section), the Tu Parties believe the proposed merger is substantively and procedurally fair to the Company s unaffiliated stockholders based upon the following factors:

- the current and historical market prices of the Company common stock, including the fact that the per share merger consideration offered to our unaffiliated stockholders represents a 33.2% premium to the closing price of shares of Company common stock on January 27, 2011, the trading day immediately prior to the public announcement that Mr. Guoshen Tu was contemplating a going private transaction and a 58.5% premium to the closing shares of Company common stock on March 7, 2011, the trading day immediately prior to the public announcement of the Company s receipt of Mr. Guoshen Tu s going private proposal. The fact that the $6.50 per share merger consideration to be paid to unaffiliated stockholders in the merger also represents a (i) a 22.9% premium over the closing price of $5.29 per share on May 2, 2011, the last trading day before the merger agreement was signed, (ii) a 29.5% premium over the 30-day volume weighted average price as quoted by Bloomberg L.P. on January 27, 2011, the last trading day prior to the Company s announcement on January 28, 2011 that Mr. Guoshen Tu was contemplating a going private transaction, (iii) a 21.1% premium over the 90-day volume weighted average price as quoted by Bloomberg L.P. on January 27, 2011, the last trading day prior to the Company s announcement on January 28, 2011 that Mr. Guoshen Tu was contemplating a going private transaction, (iv) a 38.3% premium over the 30-day volume weighted average price as quoted by Bloomberg L.P. on March 7, 2011, the last trading day prior to the Company s announcement on March 8, 2011 of the Company s receipt of Mr. Guoshen Tu s going private proposal and (v) a 29.7% premium over the 90-day volume weighted average price as quoted by Bloomberg L.P. on March 7, 2011, the last trading day prior to the Company s announcement on March 8, 2011 of the Company s receipt of Mr. Guoshen Tu s going private proposal;
- the Company common stock traded as low as $4.02 per share during the 52-week period prior to the announcement of the execution of the merger agreement;
- the fact that the merger consideration of $6.50 per share is payable entirely in cash, thus allowing the Company s stockholders (other than holders of the Rollover Shares) to realize liquidity for their investment and provide them with certainty as to the amount of the merger consideration;
- the fact that the members of the special committee are not officers or employees of the Company and do not have any interests in the proposed merger different from, or in addition to, those of the Company s unaffiliated stockholders, other than the members receipt of board and special committee compensation (which are not contingent upon the consummation of the proposed merger or the special committee s or the board s recommendation of the proposed merger) and their indemnification and liability insurance rights under the merger agreement;

45

- the fact that the special committee and, based in part upon the unanimous recommendation of the special committee, the Company s board of directors unanimously determined that the merger agreement and the transactions contemplated by the merger agreement, including the proposed merger, are in the best interests, of the Company s unaffiliated stockholders;
- the fact that the Company has the ability, under certain circumstances, to specifically enforce the terms of the merger agreement;
- the fact that the proposed merger is not conditioned on any financing being obtained by Parent or Merger Sub, thus increasing the likelihood that the proposed merger will be consummated and the merger consideration will be paid to the Company s unaffiliated stockholders;
- the fact that the Parent has entered into a facility agreement with CDB, pursuant to which CDB has agreed to provide debt financing, on the terms and conditions set forth in the facility agreement, in an aggregate amount up to $500 million, to fund the merger and pay certain fees and expenses contemplated by the facility agreement and the merger agreement;
- the fact that Mr. Tu has agreed to guarantee the obligations of Parent under the merger agreement to pay, under certain circumstances, a reverse termination fee to the Company and reimburse certain expenses of the Company; and
- the fact that the proposed merger will provide liquidity for the Company s unaffiliated stockholders without incurring brokerage and other costs typically associated with market sales.

The Tu Parties did not consider net book value because they do not believe that net book value reflects or has any meaningful impact on, the market price of the Company common stock or the fair market value of its assets or business.

The Tu Parties did not consider the Company s liquidation value to be a relevant valuation method because they consider the Company to be a viable, going concern and because the Company will continue to operate its business following the merger.

The Tu Parties did not establish, and did not consider, a going concern value for the Company common stock as a public company to determine the fairness of the proposed merger consideration to the Company s unaffiliated stockholders because, following the merger, the Company will have a significantly different capital structure. However, to the extent the pre-merger going concern value was reflected in the pre-announcement price of the Company common stock, the merger consideration of $6.50 per share represented a premium to the going concern value of the Company.

The Tu Parties are not aware of, and thus did not consider in their fairness determination, any offers or proposals made by any unaffiliated third parties with respect to a merger or consolidation of the Company with or into another company, a sale of all or a substantial part of the Company s assets, or the purchase of the Company voting securities that would enable the holder to exercise control over the Company.

The Tu Parties did not receive any independent reports, opinions or appraisals from any outside party related to the proposed merger, and thus did not consider any such reports, opinions or appraisals in determining the substantive and procedural fairness of the proposed merger to the unaffiliated stockholders.

The Tu Parties believe the proposed merger is substantively and procedurally fair to the Company s unaffiliated stockholders based upon the following factors:

- the special committee, consisting entirely of directors who are not officers or employees of the Company and who are not affiliated with the Tu Parties, was established and given absolute authority to, among other things, review, evaluate and negotiate the terms of the proposed merger and to decide not to engage in the merger;

46

- the members of the special committee do not have any interests in the proposed merger different from, or in addition to, those of the Company s unaffiliated stockholders, other than the members receipt of board and special committee compensation (which are not contingent upon the consummation of the proposed merger or special committee s or board s recommendation of the proposed merger) and their indemnification and liability insurance rights under the merger agreement;
- while each of Mr. Tu and Mr. Yap is a director, officer or employee of the Company, because of their participation in the transaction as described under the section captioned *Special Factors Relating to the Merger Interests of the Company's Directors and Officers in the Merger*, neither of them served on the special committee, nor did any of the Tu Parties participate in or have any influence over the deliberative process of, or the conclusions reached by, the special committee or the negotiating positions of the special committee;
- the special committee retained and was advised by its independent legal and financial advisors who are experienced in advising committees such as the special committee in similar transactions;
- the special committee and the Company s board of directors had no obligation to recommend the adoption of the merger agreement and the transactions contemplated thereby, including the merger, or any other transaction;
- the merger was unanimously approved by the special committee;
- the merger consideration and other terms and conditions of the merger agreement were the result of extensive negotiations over an extended period of time between Mr. Tu, Parent, Merger Sub and their advisors, on the one hand, and the special committee and its legal and financial advisors, on the other hand;
- in addition to the statutory stockholder approval requirement under Delaware law, adoption of the merger agreement is subject to the approval of a majority of the unaffiliated stockholders of the Company, giving such unaffiliated stockholders a meaningful opportunity to consider and vote upon the adoption of the merger agreement;
- the special committee negotiated a 60-day "go-shop" period;
- the special committee received from its financial advisor an opinion, dated May 3, 2011, as to the fairness, from a financial point of view, of the consideration of $6.50 per share to be received by unaffiliated stockholders in the proposed merger;
- under the terms of the merger agreement, in certain circumstances prior to obtaining the requisite stockholder approvals of the merger, the Company is permitted to provide information to and participate in discussions or negotiations with persons making takeover proposals and the board of directors of the Company is permitted to withdraw or modify its recommendation of the merger agreement;
- the ability of the Company to terminate the merger agreement (in accordance with the terms of the merger agreement) upon acceptance of a superior proposal; and
- the availability of appraisal rights to the unaffiliated stockholders who comply with all of the required procedures under Delaware law for exercising appraisal rights, which allows such holders to seek appraisal of the fair value of their Company common stock as determined by the Court of Chancery of the State of Delaware.

The foregoing discussion of the information and factors considered and given weight by the Tu Parties in connection with their evaluation of the substantive and procedural fairness to the Company s unaffiliated stockholders of the merger agreement and the transactions contemplated by the merger agreement, including the proposed merger, is not intended to be exhaustive, but is believed by the Tu Parties to include all material factors considered by them. The Tu Parties did not find it practicable to and did not quantify or otherwise attach relative weights to the foregoing factors in reaching their position as to the substantive and procedural fairness of the merger agreement and the proposed merger to the Company s unaffiliated stockholders. Rather, the Tu Parties made the fairness determinations after considering all of the foregoing as a whole.

The Tu Parties believe these factors provide a reasonable basis for their belief that the proposed merger is both substantively and procedurally fair to the Company s unaffiliated stockholders. This belief, however, is not intended to be and should not be construed as a recommendation by the Tu Parties to any stockholder of the Company as to how such stockholder should vote with respect to the adoption of the merger agreement.

Certain Effects of the Merger

If the merger is completed, all of our equity interests will be owned by Parent. Except for the Rollover Stockholders, none of our current stockholders will have any ownership interest in, or be a stockholder of, the Company after the completion of the merger. As a result, our current stockholders (other than the Rollover Stockholders) will no longer benefit from any increase in our value, nor will they bear the risk of any decrease in our value. Following the merger, Parent will benefit from any increase in our value and also will bear the risk of any decrease in our value.

Upon completion of the merger, each share of Company common stock issued and outstanding immediately prior to the closing (other than shares of Company common stock owned by Parent, Merger Sub, the Rollover Stockholders and their respective affiliates, and holders of the Dissenting Shares) will be converted into the right to receive the per share merger consideration.

The merger agreement provides that each share of Company common stock that, immediately prior to the effective time of the merger, is subject to vesting and/or forfeiture restrictions under the equity incentive plan adopted by the board of directors of the Company on February 7, 2007 and subsequently amended in February 2010 shall become fully vested immediately prior to the effective time, and each such share shall be treated as a share of Company common stock.

At the effective time, each warrant to purchase shares of Company common stock issued that is outstanding at the effective time shall be canceled and, in exchange therefor, the surviving corporation shall pay to each former holder of any such canceled warrant immediately following the effective time an amount in cash (without interest) equal to the product of (i) the excess of the per share merger consideration over the exercise price per share of Company common stock of such warrant and (ii) the number of shares of Company common stock subject to such warrant; provided, that if the exercise price per share of Company common stock of any such warrant is equal to or greater than the per share merger consideration, such warrant shall be canceled without any cash payment being made in respect thereof.

Following the merger, shares of Company common stock will no longer be traded on The New York Stock Exchange or any other public market. Our common stock is registered as a class of equity security under the Exchange Act. Registration of our common stock under the Exchange Act may be terminated upon the Company s application to the SEC if our common stock is not listed on a national securities exchange and there are fewer than 300 record holders of the outstanding shares. Termination of registration of our common stock under the Exchange Act will substantially reduce the information required to be furnished by the Company to our stockholders and the SEC, and would make certain provisions of the Exchange Act, such as the short-swing trading provisions of Section 16(b) of the Exchange Act and the requirement of furnishing a proxy statement in connection with stockholders meetings pursuant to Section 14(a) of the Exchange Act, no longer applicable to the Company.

Parent and Merger Sub expect that following completion of the merger, our operations will be conducted substantially the same as they are currently being conducted. However, following completion of the merger, the Company will have significantly more debt than it currently has. Parent and Merger Sub have informed us that they have no current plans or proposals or negotiations which relate to or would result in an extraordinary corporate transaction involving our corporate structure, business or management, such as a merger, reorganization, liquidation, relocation of any operations, or sale or transfer of a material amount of assets except as described in this proxy statement. Parent may initiate from time to time reviews of the Company and our assets, corporate structure, capitalization, operations, properties, management and personnel to determine what changes, if any, would be desirable following the merger. Parent expressly reserves the right to make any changes that it deems necessary or appropriate in the light of its

review or in the light of future developments.

Following consummation of the merger, Parent will directly or indirectly own 100% of our outstanding common stock and will have a corresponding interest in our net book value and net earnings. The table below sets forth the direct and indirect beneficial interest in our net book value and net earnings for Mr. Tu, Whitehorse and each other Rollover Stockholder before and after the merger in proportion to each such party s direct and indirect beneficial ownership in the Company before and after the merger, based on our net income for the fiscal year ended December 31, 2010 of approximately $77.4 million and our net book value as of December 31, 2010 of approximately $664.2 million.

All dollar figures in the chart immediately below are in the thousands and rounded to the nearest dollar amount.

	Ownership of the Company Prior to the Merger			Ownership of the Company After the Merger		
	Net book value as of December 31, 2010	**% Ownership**	**Net earnings for the fiscal year ended December 31, 2010**	**Net book value as of December 31, 2010**	**% Ownership**	**Net earnings for the fiscal year ended December 31, 2010**
Guoshen Tu[(1)]	$ 138,808	20.90%	$ 16,173	$ 573,699	86.37%	$ 66,844
Wing Khai Yap (Terence)	10,105	1.52%	1,177	41,611	6.26%	4,848
Lizhong Wang	1,842	0.28%	215	7,612	1.15%	887
Zhongxin Xie	1,187	0.18%	138	4,905	0.74%	571
Lingfeng Xiong	1,777	0.27%	207	7,343	1.11%	856
Li Fang	1,296	0.20%	151	5,354	0.81%	624
Ying Zhang	287	0.04%	33	1,187	0.18%	138
Zhiming Wu	255	0.04%	30	1,056	0.16%	123
Daobin Sang	148	0.02%	17	612	0.09%	71
Guohui Cao	363	0.05%	42	1,499	0.23%	175
Po Kwai Chow	592	0.09%	69	2,448	0.37%	285
Yang Zhao	347	0.05%	40	1,435	0.22%	167
Yujian Guan	204	0.03%	24	535	0.08%	62
Zhuo Gong	148	0.02%	17	612	0.09%	71
Xihong Dai	422	0.06%	49	1,744	0.26%	203
Qiaomin Wu	59	0.01%	7	245	0.04%	29
	1,297	0.20%	151	5,361	0.81%	625

KaiCheng Cheng						
Lei Wang	348	0.05%	41	1,438	0.22%	168
Xiaosheng Tong	1,333	0.20%	155	5,507	0.83%	642

(1) The aggregate number of shares of Company common stock beneficially owned by Mr. Tu includes 18,750,435 shares owned by Whitehorse, of which Mr. Tu is the sole owner.

Effects on the Company if Merger is not Completed

If our stockholders do not adopt the merger agreement or if the merger is not completed for any other reason, our stockholders will not receive the payment for their shares of Company common stock provided by the merger agreement. Instead, unless the Company is sold to a third party, we will remain an independent publicly traded company, the management expects to operate the business in a manner similar to that in which it is being operated today, and our stockholders will continue to be subject to similar risks and opportunities as they currently are with respect to their ownership of our common stock. If the merger is not completed, there is no assurance as to the effect of these risks and opportunities on the future value of your shares of Company common stock, including the risk that the market price of our common stock may decline to the extent that the current market price of our stock reflects a market assumption that the merger will be completed. From time to time, the board of directors of the Company will evaluate and review the business operations, properties and capitalization of the Company and, among other things, make such changes as are deemed appropriate and continue to seek to maximize stockholder value. If our stockholders do not adopt the merger agreement or the merger is not completed for any other reason, there is no assurance that any other transaction acceptable to the Company will be offered or that the business, prospects or results of operations of the Company will not be adversely impacted. Pursuant to the merger agreement, under certain circumstances the Company is permitted to terminate the merger agreement and recommend an alternative transaction, see *The Merger Agreement Termination Fees and Reimbursement of Expenses*.

Also under other circumstances, if the merger is not completed, the Company may be obligated to pay to Parent a termination fee and reimburse certain of Parent s expenses. See *The Merger Agreement Termination Fees and Reimbursement of Expenses* for additional information.

Plans for the Company

After the effective time of the merger, Parent anticipates that the Company will continue its current operations, except that it will (i) cease to be an independent publicly traded company and will instead be a wholly owned subsidiary of Parent and (ii) have substantially more debt than it currently has. There are no current plans to repay the debt taken out to finance the merger. After the effective time of the merger, the directors of Merger Sub immediately prior to the effective time of the merger will become the directors of the Company, and the officers of the Company immediately prior to the effective time of the merger will remain the officers of the Company, in each case until the earlier of their resignation or removal or until their respective successors are duly elected or appointed and qualified, as the case may be.

Prospective Financial Information

The Company s management does not, as a matter of course, make available to the public future financial projections. However, in connection with the financial analysis of the proposed merger, our management provided certain financial projections for fiscal years 2011 through 2015 to Nomura and Imperial Capital and provided the Tu Parties a copy of these projections in connection with their due diligence of the Company.

The summary of such information below is included solely to give stockholders access to the information that was made available to Nomura, Imperial Capital and the Tu Parties and is not included in this proxy statement in order to influence any stockholder to make any investment decision with respect to the merger, including whether or not to seek appraisal rights with respect to the shares of Company common stock.

The prospective financial information was not prepared with a view toward public disclosure, or with a view toward compliance with published guidelines of the SEC, the guidelines established by the American Institute of Certified Public Accountants for preparation and presentation of financial forecasts, or GAAP. Neither the Company s independent registered public accounting firm, nor any other independent accountants, have compiled, examined or performed any procedures with respect to the prospective financial information included below, or expressed any opinion or any other form of assurance on such information or its achievability.

The prospective financial information reflects numerous estimates and assumptions made by the Company with respect to industry performance, general business, economic, regulatory, market and financial conditions and other future events, as well as matters specific to the Company s business, all of which are difficult to predict and many of which are beyond the Company s control. The prospective financial information reflects subjective judgment in many respects and thus is susceptible to multiple interpretations and periodic revisions based on actual experience and business developments. As such, the prospective financial information constitutes forward-looking information and is subject to risks and uncertainties that could cause actual results to differ materially from the results forecasted in such prospective information, including, but not limited to, the Company s performance, industry performance, general business and economic conditions, customer requirements, competition, adverse changes in applicable laws, regulations or rules, and the various risks set forth in the Company s reports filed with the SEC. There can be no assurance that the prospective results will be realized or that actual results will not be significantly higher or lower than forecast. The prospective financial information covers multiple years and such information by its nature becomes less reliable with each successive year. In addition, the prospective information will be affected by the Company s ability to achieve strategic goals, objectives and targets over the applicable periods. The assumptions upon which the prospective information was based necessarily involve judgments with respect to, among other things, future economic, competitive and regulatory conditions and financial market conditions, all of which are difficult or impossible to predict accurately and many of which are beyond the Company s control. The prospective information also reflects assumptions as to certain business decisions that are subject to change. Such prospective information cannot, therefore, be considered a guaranty of future operating results, and this information should not be relied on as such. The inclusion of this information should not be regarded as an indication that the Company, the Tu Parties, the special committee, any of their respective financial advisors or anyone who received this information then considered, or now considers, it a reliable prediction of future events, and this information should not be relied upon as such. None of the Company, the Tu Parties, the special committee or any of their financial advisors or any of their affiliates intends to, and each of them disclaims any obligation to, update, revise or correct such prospective information if they are or become inaccurate (even in the short term).

The prospective financial information does not take into account any circumstances or events occurring after the date it was prepared, including the transactions contemplated by the merger agreement. Further, the prospective financial information does not take into account the effect of any failure of the merger to occur and should not be viewed as accurate or continuing in that context.

The inclusion of the prospective financial information herein should not be deemed an admission or representation by the Company, the Tu Parties or the special committee that they are viewed by the Company or the Tu Parties or the special committee as material information of the Company, and in fact the Company, the Tu Parties, and the special committee view the prospective financial information as non-material because of the inherent risks and uncertainties associated with such long range forecasts. The prospective information should be evaluated, if at all, in conjunction with the historical financial statements and other information regarding the Company contained in the Company s public filings with the SEC. In light of the foregoing factors and the uncertainties inherent in the Company s prospective information, stockholders are cautioned not to place undue, if any, reliance on the prospective information included in this proxy statement.

Certain of the prospective financial information set forth herein, including EBITDA, may be considered non-GAAP financial measures. The Company provided this information to Nomura, Imperial Capital and the Tu Parties because the Company believed it could be useful in evaluating, on a prospective basis, the Company s potential operating performance and cash flow. Non-GAAP financial measures should not be considered in isolation from, or as a substitute for, financial information presented in compliance with GAAP, and non-GAAP financial measures as used by the Company may not be comparable to similarly titled amounts used by other companies. The Company did not prepare prospective financial information related to stock-based compensation.

	2011 FY	**2012 FY**	**2013 FY**	**2014 FY**	**2015 FY**

	(amounts in millions)				
Revenue	$ 868.10	$ 1,019.30	$ 1,163.10	$ 1,301.40	$ 1,398.70
Gross Profit	$ 236.60	$ 276.50	$ 314.10	$ 350.10	$ 375.30
Income from Operations	$ 140.56	$ 157.33	$ 169.66	$ 184.33	$ 205.28
EBITDA[(1)]	$ 161.50	$ 181.51	$ 196.21	$ 213.63	$ 235.68
Net Income	$ 99.80	$ 107.55	$ 112.74	$ 122.91	$ 139.47
Current Assets	$ 965.7	$ 1,110.5	$ 1239.5	$ 1,387.0	$ 1,490.9
Current Liabilities	$ 334.8	$ 357.8	$ 405.0	$ 589.6	$ 522.8
Unlevered Free Cash Flow[(2)]	$ (90.0)	$ (15.8)	$ (8.8)	$ 36.6	$ 86.0

(1) EBITDA refers to earnings before interest, taxes, depreciation and amortization.

(2) Unlevered Free Cash Flow refers to EBITDA less taxes and capital expenditures and plus or minus changes in working capital.

The increases in the forecasts for the Company s working capital (current assets less current liabilities) for the period ranging from 2011 through the end of fiscal year 2015 reflect the nature of the business, the type of customers the Company has and the Company s projected growth of its business during such period. A significant portion of the Company s business consists of large government contracts and consequently the Company typically receives payment at some point following the completion of a project. Many of these projects require more than a year to complete, while at the same time the Company continues to incur expenses to manufacture, purchase and install the systems and products required in connection with such a project. As the Company expects to grow its business rapidly and to undertake more of such projects, both the amount of accounts receivable and the cash it needs for such projects are expected to increase significantly, and therefore lead to a corresponding increase in the Company s expected working capital needs.

Pursuant to the requirements of Regulation G, the Company sets forth below a reconciliation of projected EBITDA to the most directly comparable financial measure prepared in accordance with GAAP.

	2011 FY	2012 FY	2013 FY	2014 FY	2015 FY
			(amounts in millions)		
Income from Operations	$ 140.6	$ 157.3	$ 169.7	$ 184.3	$ 205.3
Add:					
Depreciation and amortization	$ 20.9	$ 24.2	$ 26.6	$ 29.3	$ 30.4
EBITDA	$ 161.5	$ 181.5	$ 196.2	$ 213.6	$ 235.7

Pursuant to the requirements of Regulation G, the Company sets forth below a reconciliation of projected Unlevered Free Cash Flow to the most directly comparable financial measure prepared in accordance with GAAP.

	2011 FY	2012 FY	2013 FY	2014 FY	2015 FY
			(amounts in millions)		
Income from Operations	$ 140.6	$ 157.3	$ 169.7	$ 184.3	$ 205.3
Add:					
Depreciation and amortization	$ 20.9	$ 24.2	$ 26.6	$ 29.3	$ 30.4
Subtract:					
Taxes	$ (26.7)	$ (34.6)	$ (42.4)	$ (46.1)	$ (51.3)
Subtract:					
Capital Expenditures	$ (86.3)	$ (28.3)	$ (30.1)	$ (16.9)	$ (18.2)
Changes in Working Capital	$ (138.5)	$ (134.4)	$ (132.5)	$ (114.0)	$ (80.2)
Unlevered Free Cash Flow	$ (90.0)	$ (15.8)	$ (8.8)	$ 36.6	$ 86.0

Financing of the Merger

Parent estimates that the total amount of funds necessary to consummate the merger and related transactions, including the payment of customary fees and expenses in connection with the merger, will be approximately $594,975,018, assuming no exercise of appraisal rights by stockholders of the Company. Parent and Merger Sub expect this amount to be provided through a combination of debt financing and the contribution of shares of the Company common stock to Parent immediately prior to the merger by the Rollover Stockholders. Neither Parent nor Merger Sub has entered into any alternative financing arrangements or alternative financing plans.

Debt Financing

Conditions to Financing. On April 20, 2011, Parent entered into a facility agreement with CDB, pursuant to which CDB has agreed to provide debt financing, on the terms and conditions set forth in the facility agreement, in an aggregate amount up to $500 million, to fund the merger and pay certain fees and expenses contemplated by the facility agreement and the merger agreement. The term of the facility agreement with CDB is 96 months following utilization of the loan. Parent does not currently have any plans, and has not entered into any arrangements, to refinance the debt financing. The financing under the facility agreement is subject to the satisfaction or waiver of the following conditions:

- the receipt by CDB of the documentary conditions precedent required under Schedule 1 of the facility agreement;
- no major default (as defined in the facility agreement) that is continuing or would result from the proposed borrowing;
- all of the major representations (as defined in the facility agreement) being true;
- receipt by CDB of evidence that Intelligent One has completed all steps required of it in order to subscribe for shares in Parent; and
- receipt by CDB of a letter from Parent confirming that the certificate of merger has been filed with the Secretary of State of Delaware, the merger agreement remains in full force and effect and the effective time

has occurred.

Interest Rate. The interest rate of the facility is LIBOR plus 3.5% per annum during the first thirty-six months of the facility and LIBOR plus 4.5% per annum at all times thereafter.

Prepayments and Amortization. Parent may, if it gives CDB not less than five business days prior notice, prepay the whole or any part of the loan (but, if in part, being an amount that reduces the amount of the loan by at least $10 million). Parent is required to make a mandatory prepayment upon the occurrence of the following:

- a listing (as defined in the facility agreement);
- a change of control (as defined in the facility agreement);
- a currency event (as defined in the facility agreement); or
- the sale of all or substantially all of the assets of Parent or any of its subsidiaries (including the Company and its subsidiaries).

Parent is required to repay (a) 5% of the amount of the loan on the date which is 24 months after the initial drawdown of the facility (the **Utilization Date**), (b) 10% of the amount of the loan on the date which is 36 months after the Utilization Date, (c) 15% of the amount of the loan on each of the dates which are 48, 60 and 72 months after the Utilization Date, (d) 20% of the amount of the loan on the date which is 84 months from the Utilization Date, and (e) the balance of the loan on the date which is 94 months from the Utilization Date.

Security. The obligations of Parent under the facility agreement will be secured by:

- a personal guarantee by Mr. Tu and Ms. Zhiqun Li, Mr. Tu's spouse;
- a pledge of 100% of the equity interest and assets of Parent by Intelligent One in favor of CDB; and
- a pledge of 100% of the equity interest and assets of Merger Sub by Parent in favor of CDB.

Other Terms. The facility agreement contains customary representations and warranties and customary affirmative and negative covenants, including, among others, restrictions on indebtedness, capital expenditures, disposal of assets, declaration of dividends and mergers and consolidations. The facility agreement also includes customary events of default.

Rollover Financing

On April 20, 2011, the Rollover Stockholders entered into a rollover agreement with Parent and Intelligent One pursuant to which the Rollover Stockholders collectively committed to contribute, immediately prior to the consummation of the merger, an aggregate amount of 21,708,428 shares of Company common stock to Parent (the equivalent of a $141,104,782 investment based upon the per share merger consideration of $6.50) in exchange for certain equity securities of Intelligent One, or, if agreed between Parent and a Rollover Stockholder, in exchange for an amount in cash equal to $6.50 per share multiplied by the number of shares of Company common stock contributed by such Rollover Stockholder to Parent pursuant to the rollover agreement. The Rollover Stockholders commitments pursuant to the rollover agreement are conditioned upon the satisfaction or waiver of the conditions to the obligations of Parent and Merger Sub to complete the merger contained in the merger agreement, the funding of the debt financing described above and the substantially simultaneous consummation of the merger in accordance with the terms of the merger agreement. The Company is an express third-party beneficiary of the rollover agreement and has the right to seek specific performance of the commitments of the Rollover Stockholders under the rollover agreement under the circumstances in which the Company would be permitted by the merger agreement to obtain specific performance requiring Parent to enforce such commitments.

Limited Guaranty

Mr. Tu has agreed to guarantee the obligations of Parent under the merger agreement to pay, under certain circumstances, a reverse termination fee and reimburse certain expenses (including disbursements and reasonable fees of counsel) incurred by the Company in connection with the collection of such reverse termination fee, if overdue.

Limitation on Remedies

Subject to any equitable remedies the Company may be entitled to, our right to receive payment under certain circumstances of a reverse termination fee of $20.0 million in connection with the merger from Parent or Merger Sub is our sole and exclusive remedy for any loss or damage suffered as a result of the failure of the merger to be consummated or for a breach or failure to perform under the merger agreement or otherwise and upon payment of such reverse termination fee, Parent, its subsidiaries and their respective representatives will have no further liability under the merger agreement.

Subject to any equitable remedies Parent or Merger Sub may be entitled to, Parent s and Merger Sub s right to receive payment under certain circumstances of either (i) a termination fee of $10.0 million or (ii) a termination fee of $5.0 million plus Parent s and Merger Sub s out-of-pocket costs and expenses (up to $1.0 million) incurred in connection with the merger from us is the sole and exclusive remedy of Parent and Merger Sub against us for any loss or damage suffered as a result of the failure of the merger to be consummated or for a breach or failure to perform under the merger agreement or otherwise and upon payment of such amount, the Company, its subsidiaries and their respective representatives will have no further liability under the merger agreement.

The parties are entitled to an injunction or injunctions to prevent breaches of the merger agreement and to enforce specifically the terms and provisions thereof, this being in addition to any other remedy to which they are entitled under the merger agreement. The parties agree that under no circumstances will the Company be entitled to receive both a grant of specific performance that results in the consummation of the merger and payment of all or any portion of the reverse termination fee.

Interests of the Company s Directors and Officers in the Merger

Special Committee Compensation

In consideration of the expected time and effort that would be required of the members of the special committee in evaluating the proposed merger, including negotiating the terms and conditions of the merger agreement, the board of directors of the Company determined that the Chairman of the special committee shall receive a retainer of $15,000 per month and that each other member of the special committee shall receive a retainer of $10,000 per month for the duration of their service on the special committee. Such fees are payable whether or not the merger is completed and were approved by the board of directors of the Company prior to our receipt of Parent s proposal. No other meeting fees or other compensation (other than reimbursement for out-of-pocket expenses in connection with attending special committee meetings) will be paid to the members of the special committee in connection with their service on the special committee.

Indemnification and Insurance

Parent and the surviving corporation will assume the indemnification obligations, now existing in favor of the current or former directors, officers or employees of the Company under benefit plans of the Company (collectively, the **Indemnified Parties**) with respect to acts or omissions occurring at or prior to the effective time, as provided in the governing documents of the Company or its subsidiaries. The certificate of incorporation and bylaws of the surviving corporation will contain provisions no less favorable to the Indemnified Parties with respect to rights to indemnification, advancement of expenses and limitations on liabilities as set forth in the Company s organizational documents in effect as of the date of the merger agreement. The relevant provisions may not be amended, repealed or otherwise modified in a manner that would adversely affect the rights of the Indemnified Parties, unless such modification is required by applicable law.

Following the effective time, Parent and the surviving corporation will, jointly and severally, indemnify and hold harmless each Indemnified Party, and anyone who becomes an Indemnified Party between the date of the merger agreement and the effective time, against any costs or expenses, judgments, losses or liabilities incurred in connection with any actual or threatened proceeding, including any matter arising in connection with the transactions contemplated by the merger agreement, to the fullest extent permitted by applicable law (and Parent and the surviving corporation will also advance expenses as incurred to the fullest extent permitted under applicable law). Notwithstanding anything to the contrary contained in the merger agreement, Parent may not (and Parent will cause the surviving corporation not to) settle or compromise or consent to the entry of any judgment or otherwise terminate any proceeding, unless such settlement, compromise, consent or termination includes an unconditional release of all of the Indemnified Parties from all liability and does not include an admission of fault or wrongdoing by any Indemnified Party.

For at least six years after the effective time, (i) Parent and the surviving corporation will maintain the existing directors and officers liability insurance and fiduciary insurance (or substitute policies including comparable coverage) maintained by the Company as of the date of the merger agreement, covering claims arising from facts or events that occurred on or before the effective time, including the transactions contemplated by the merger agreement (provided that Parent or the surviving corporation, as applicable, will not be required to pay an annual premium for such insurance in excess of 300% of the aggregate annual premiums currently paid by the Company on an annualized basis (the **D&O Premium**); and (ii) Parent and the surviving corporation will not take any action that would prejudice the rights of, or impede recovery by, the beneficiaries of any such insurance, whether in respect of claims arising before or after the effective time. In lieu of such insurance, prior to the effective time, the Company may purchase a six year tail prepaid policy with substantially similar coverage (provided that the premium for such tail policy shall not exceed an amount equal to the D&O Premium).

Company Warrants

At the effective time, each warrant to purchase shares of Company common stock issued that is outstanding at the effective time shall be cancelled and, in exchange therefor, the surviving corporation shall pay to each former holder of any such cancelled warrant immediately following the effective time an amount in cash (without interest) equal to the product of (i) the excess of the per share merger consideration over the exercise price per share of Company common stock of such warrant and (ii) the number of shares of Company common stock subject to such warrant; provided, that if the exercise price per share of Company common stock of any such warrant is equal to or greater than the per share merger consideration, such warrant shall be cancelled without any cash payment being made in respect thereof. See *The Merger Agreement Treatment of Common Stock, Restricted Shares and Company Warrants* beginning on page 67 for additional information.

Restricted Shares

The merger agreement provides that, each share of Company common stock that, immediately prior to the effective time of the merger, is subject to vesting and/or forfeiture restrictions under the equity incentive plan adopted by the board of directors of the Company on February 7, 2007 and subsequently amended in February 2010 shall become fully vested immediately prior to the effective time, and each such share shall be treated as a share of Company common stock. All of our directors and executive officers own restricted shares that are subject to vesting restrictions. See *The Merger Agreement Treatment of Common Stock, Restricted Shares and Company Warrants* beginning on page 67 for additional information.

Related Party Transactions

We adopted an audit committee charter, which requires that the audit committee review all related party transactions on an ongoing basis and all such transactions be approved by the committee. Other than the arrangements in connection with the merger discussed elsewhere in this proxy statement, there has not been any transaction, nor is there any currently proposed transaction, in which we were or are to be a participant, and in which any related person had or will have a direct or indirect material interest during the past two years that would require disclosure under the rules and regulations of the SEC applicable to this proxy statement.

Relationship Between Us and the Tu Parties

Relationship with Mr. Guoshen Tu

Mr. Tu is the sole director, officer and 100% owner of Parent and Merger Sub. As such, Mr. Tu and his affiliates will have direct and indirect interests in the Company after the merger. Mr. Tu has also been the Chairman and Chief Executive Officer of the Company since 2005. Mr. Tu received compensation for his services as the Chief Executive Officer of the Company. Mr. Tu recused himself from the deliberations and the board of directors determination with respect to the merger agreement and the proposed merger.

Relationship with Rollover Stockholders

All Rollover Stockholders, including Mr. Yap who has served as our Chief Financial Officer since January 2007 and as a director and Vice Chairman since March 2006, are members of the Company s management. The Rollover Stockholders are parties to the rollover agreement described on page 53 of this proxy statement and have agreed with Parent to contribute to Parent shares of Company common stock owned by them in exchange for equity securities of Intelligent One, which, immediately prior to the merger, will beneficially own all of the share capital of Parent or, if agreed between Parent and a Rollover Stockholder, in exchange for an amount in cash equal to $6.50 per share multiplied by the number of the relevant shares so contributed. As such, Rollover Stockholders may have indirect interests in the Company after the merger. All Rollover Stockholders received compensation for their services as employees of the Company.

Except as set forth above and elsewhere in this proxy statement, none of the Tu Parties, Parent or Merger Sub nor any of their respective directors, executive officers or other affiliates engaged in any transactions with us or any of our directors, officers or other affiliates that would require disclosure under the rules and regulations of the SEC applicable to this proxy statement.

Dividends

Pursuant to the merger agreement, we are prohibited from declaring any dividends following execution of the merger agreement on May 3, 2011.

Determination of the Per Share Merger Consideration

The per share merger consideration was determined as a result of extensive negotiations over an extended period of time between Mr. Tu, Parent, Merger Sub and their advisors, on the one hand, and the special committee, comprising solely of the independent directors, and its legal and financial advisors, on the other hand.

Regulatory Matters

In connection with the merger, we are required to make certain filings with, and comply with certain laws of, various federal and state governmental agencies, including:

- filing the certificate of merger with the Secretary of State of the State of Delaware in accordance with the DGCL after the adoption of the merger agreement by our stockholders; and
- complying with U.S. federal securities laws.

Fees and Expenses

Fees and expenses incurred or to be incurred by the Company and the Tu Parties in connection with proposed merger are estimated at the date of this proxy statement to be as follows:

Description	Amount
Financing fees and expenses and related professional fees	$ 1,650,000
Financial advisory fees and expenses	$ 4,830,000
Legal and accounting fees and expenses	$ 4,500,000
Special committee fees	$ 280,000
Miscellaneous (including printing, proxy solicitation, filing fees, mailing costs, etc.)	$ 500,000
Total	$ 11,760,000

These expenses will not reduce the per share merger consideration to be received by the Company stockholders. The party incurring any costs and expenses in connection with the proposed merger and the merger agreement will pay such costs and expenses.

Material United States Federal Income Tax Consequences

The following is a discussion of the material U.S. federal income tax consequences to holders of shares of Company common stock upon the exchange of shares of Company common stock for cash pursuant to the merger. This discussion does not purport to be a comprehensive description of all of the tax consequences that may be relevant to a decision to dispose of shares of Company common stock in the merger, including tax considerations that arise from rules of general application to all taxpayers or to certain classes of investors. This summary is based on the Internal Revenue Code of 1986, as amended (the **Code**), Treasury regulations, administrative rulings and court decisions, all as in effect as of the date hereof and all of which are subject to differing interpretations and/or change at any time (possibly with retroactive effect). In addition, this discussion is not a complete description of all the tax consequences of the merger and, in particular, does not address U.S. federal income tax considerations for holders of shares of Company common stock received in connection with the exercise of employee stock options or otherwise as compensation, holders that validly exercise their rights under Delaware law to object to the merger, or holders subject to special treatment under U.S. federal income tax law (such as insurance companies, banks and other financial institutions, tax-exempt entities, broker-dealers, mutual funds, traders in securities who elect the mark-to-market

method of accounting, tax-deferred or other retirement accounts, holders subject to the alternative minimum tax, U.S. persons that have a functional currency other than the U.S. dollar, certain former citizens or residents of the United States or holders that hold shares of Company common stock as part of a hedge, straddle, integration, constructive sale or conversion transaction). In addition, this discussion does not discuss any consequences to stockholders of the Company that will directly or indirectly hold an ownership interest in Parent or the Company after the merger, to holders of options or warrants to purchase shares of Company common stock, any aspect of state, local or foreign tax law that may be applicable to any holder of shares of Company common stock, or any U.S. federal tax considerations other than U.S. federal income tax considerations. This discussion assumes that holders own shares of Company common stock as capital assets.

We urge holders of shares of Company common stock to consult their own tax advisors with respect to the specific tax consequences to them in connection with the offer and the merger in light of their own particular circumstances, including the tax consequences under state, local, foreign and other tax laws.

(a) U.S. Holders

For purposes of this discussion, a U.S. Holder is a beneficial owner of shares of Company common stock that is: a citizen or resident of the United States for U.S. federal income tax purposes, a corporation, or other entity treated as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States, any state thereof or the District of Columbia, any estate the income of which is subject to U.S. federal income tax regardless of the source of its income and any trust if (i) a court within the United States is able to exercise primary supervision over the administration of the trust, and one or more U.S. persons have the authority to control all substantial decisions of the trust or (ii) it has a valid election in place to be treated as a domestic trust for U.S. federal income tax purposes.

If a partnership (including any entity treated as a partnership for U.S. federal income tax purposes) holds shares of Company common stock, the tax treatment of a holder that is a partner in the partnership generally will depend upon the status of the partner and the activities of the partnership. Such holders should consult their own tax advisors regarding the tax consequences of exchanging the shares of Company common stock pursuant to the merger.

Payments with Respect to Shares of Company Common Stock

The receipt of cash in exchange for shares of Company common stock pursuant to the merger will be a taxable transaction for U.S. federal income tax purposes. In general, a U.S. Holder who exchanges shares of Company common stock for cash in the merger will recognize gain or loss in an amount equal to the difference, if any, between the amount of cash received in exchange for such shares and the U.S. Holder s adjusted tax basis in such shares. If a U.S. Holder acquired different blocks of shares of Company common stock at different times or different prices, such U.S. Holder must determine its tax basis and holding period separately with respect to each block of shares of Company common stock. Such gain or loss will be capital gain or loss, and will be long term capital gain or loss if such U.S. Holder s holding period for the shares of Company common stock is more than one year at the time of completion of the merger. Long term capital gains recognized by a non-corporate U.S. Holder (including an individual) are generally eligible for a reduced rate of U.S. federal income tax. There are limitations on the deductibility of capital losses. U.S. Holders of Company common stock should consult their tax advisors regarding the determination and allocation of their tax basis in their stock surrendered in the merger.

Information Reporting and Backup Withholding

Payments made with respect to shares of Company common stock exchanged for cash in the merger may be subject to information reporting, and such payments will be subject to U.S. federal backup withholding unless the U.S. Holder (i) furnishes an accurate tax identification number or otherwise complies with applicable U.S. information reporting or certification requirements (typically, by completing and signing an Internal Revenue Service (**IRS**) Form W-9) or (ii) is an exempt recipient and, when required, demonstrates such fact. Backup withholding is not an additional tax and any amounts withheld under the backup withholding rules may be refunded or credited against a U.S. Holder s U.S. federal income tax liability, if any, provided that such U.S. Holder furnishes the required information to the IRS in a timely manner.

(b) Non-U.S. Holders

The following is a discussion of certain U.S. federal income tax consequences that will apply to a Non-U.S. Holder of shares of Company common stock. The term Non-U.S. Holder means a beneficial owner of shares of Company common stock that, for U.S. federal income tax purposes, is not a U.S. Holder and is not a partnership or other entity classified as a partnership.

Payments with Respect to Shares of Company Common Stock

Payments made to a Non-U.S. Holder with respect to shares of Company common stock exchanged for cash pursuant to the merger generally will be exempt from U.S. federal income tax, unless:

- the gain on shares of Company common stock, if any, is effectively connected with the conduct by the Non-U.S. Holder of a trade or business in the United States (and, if required by an applicable U.S. income tax treaty, is attributable to the Non-U.S. Holder s permanent establishment in the United States);
- the Non-U.S. Holder is an individual who was present in the United States for 183 days or more in the taxable year in which the merger occurs and certain other conditions are met; or
- the Non-U.S. Holder owned (actually or constructively) more than five percent of the Company s common stock at any time during the five years preceding the merger, and the Company is or has been a United States real property holding corporation for U.S. federal income tax purposes during such time.

A Non-U.S. Holder whose gain is described in the first bullet point above will generally be subject to tax on its net gain in the same manner as if it were a U.S. Holder. In addition, such a Non-U.S. Holder that is a corporation may be subject to a branch profits tax equal to 30% of its effectively connected earnings and profits (including such gain) or such lower rate as may be specified by an applicable income tax treaty. An individual Non-U.S. Holder described in the second bullet point above will be required to pay a flat 30% tax on the gain derived from the sale, which gain may be offset by U.S. source capital losses (even though such Non-U.S. Holder is not considered a resident of the United States). The Company does not believe that it currently is a United States real property holding corporation or that it has been a United States real property holding corporation during the past five years.

Information Reporting and Backup Withholding

In general, a Non-U.S. Holder will not be subject to backup withholding and information reporting with respect to a payment made with respect to shares of Company common stock exchanged for cash in the merger if the Non-U.S. Holder has provided an IRS Form W-8BEN (or an IRS Form W-8ECI if the Non-U.S. Holder s gain is effectively connected with the conduct of a U.S. trade or business). If shares are held through a foreign partnership or other flow-through entity, certain documentation requirements also apply to the partnership or other flow-through entity. Backup withholding is not an additional tax and any amounts withheld under the backup withholding rules may be refunded or credited against a Non-U.S. Holder s U.S. federal income tax liability, if any, provided that such Non-U.S. Holder furnishes the required information to the IRS in a timely manner.

Material PRC Tax Consequences

Under the EIT Law, enterprises established outside of China whose de facto management bodies are located in the PRC are considered resident enterprises. The implementation rules for the EIT Law define the de facto management body as an establishment that has substantial management and control over the business, personnel, accounts and properties of an enterprise. Although there has not been a definitive determination of the Company s status by the PRC tax authorities, the Company does not believe that it should be considered a resident enterprise under the EIT Law or that the gain recognized on the receipt of cash for Company common stock should otherwise be subject to PRC tax to holders of such common stock that are not PRC residents. If, however, the PRC tax authorities were to determine that the Company should be considered a resident enterprise or that the receipt of cash for these securities should

otherwise be subject to PRC tax, then gain recognized on the receipt of cash for Company common stock pursuant to the merger by holders of such securities who are not PRC residents could be treated as PRC-source income that would be subject to PRC tax at a rate of up to 10%. You should consult your own tax advisor for a full understanding of the tax consequences of the merger to you, including any PRC tax consequences.

Delisting and Deregistration of the Company Common Stock

If the merger is completed, the shares of Company common stock will be delisted from the NYSE and will be deregistered under the Exchange Act, and shares of Company common stock will no longer be publicly traded.

The Company filed applications for the voluntary delisting and immediate suspension of listing of the Company common stock from NASDAQ Dubai on May 19, 2011. The Company common stock is expected to be delisted from NASDAQ Dubai on or about July 21, 2011, regardless of whether the merger is completed or not.

Litigation Relating to the Merger and Other Legal Proceedings

Between March 15, 2011 and April 26, 2011, six purported class action complaints related to the merger (the **Stockholder Actions**) were filed against some or all of the following: the Company, the members of the board of directors of the Company and Merger Sub.

On March 15, 2011, the first of the Stockholder Actions was filed in the Court of Chancery of the State of Delaware, captioned *Dziak v. China Security & Surveillance Technology, Inc., et al.*, C.A. No. 6279-CS (the ***Dziak*** **Complaint**). The plaintiff in the *Dziak* Complaint alleges, among other things, (1) that members of our board of directors breached their fiduciary duties to the Company s stockholders in connection with the merger and (2) Mr. Tu engaged in acts of self-dealing, unfair dealing, gross overreaching and breaches of his fiduciary duties. The *Dziak* Complaint seeks, among other things, an order enjoining the defendants from proceeding with the merger unless and until such time the defendants have acted in accordance with their fiduciary duties to maximize shareholder value, an order directing the defendants to exercise their fiduciary duties to obtain a transaction that is in the best interests of our stockholders, an award of compensatory damages and an award of fees, expenses and costs.

From March 16, 2011 to April 26, 2011, five additional complaints were filed in the Court of Chancery of the State of Delaware, seeking substantially the same relief and making substantially the same allegations as the *Dziak* Complaint. The additional complaints have the following captions: *Levine v. China Security & Surveillance Technology, Inc., et al.*, C.A. No. 6286-CS (filed March 16, 2011); *Smith v. China Security & Surveillance Technology, Inc., et al.*, C.A. No. 6292-CS (filed March 17, 2011); *O Connor v. China Security & Surveillance Technology, Inc., et al.*, C.A. No. 6296-CS (filed March 18, 2011); *Jamal v. China Security & Surveillance Technology, Inc., et al.*, C.A. No. 6408-CS (filed April 22, 2011); and *Musto v. China Security & Surveillance Technology, Inc., et al.*, C.A. No. 6418-CS (filed April 26, 2011). Certain of the Stockholder Actions additionally allege, among other things, that the Company and Merger Sub have aided and abetted the individual defendants alleged breaches of fiduciary duties. Certain of the Stockholder Actions additionally seek, among other things, (1) an order enjoining, preliminarily and permanently, the merger, and (2) an order rescinding the merger or awarding plaintiff and the class rescissory damages in the event that the merger is consummated prior to the entry of the court s final judgment.

On May 23, 2011, plaintiffs counsel in *Musto v. China Security & Surveillance Technology, Inc., et al.*, C.A. No. 6418-CS, filed a motion with the Court of Chancery of the state of Delaware seeking to consolidate five of the pending actions and to have counsel for Mr. Musto appointed as lead plaintiffs counsel in the consolidated action. On May 27, 2011, the Company, members of the special committee, Mr. Yap, and Merger Sub, respectively, filed motions to dismiss the remaining action that was not part of the consolidation motion, *Jamal v. China Security & Surveillance Technology, Inc., et al.*, C.A. No. 6408-CS. On June 7, 2011, four plaintiffs (Levine, Smith, O Connor, and Jamal) filed a joint Amended Complaint containing substantially the same allegations and seeking substantially the same relief as the prior complaints. The joint Amended Complaint was accompanied by a motion for preliminary injunction to block the merger and a motion to expedite discovery. On June 10, 2011, plaintiffs counsel in the *Dziak*, *Levine*, *Smith*, *O Connor*, and *Jamal* actions filed a joint cross-motion to the *Musto* consolidation motion. The joint cross-motion also sought consolidation of all pending actions, but requested that the law firm of Rigrodsky & Long, P.A. be appointed as lead plaintiffs counsel in the consolidated action. At a hearing on June 30, 2011, the Court ordered that the six pending cases be consolidated and appointed Rigrodsky & Long, P.A. as the lead plaintiffs counsel in the consolidated action. A hearing on plaintiffs' motion for a preliminary injunction in the consolidated action is scheduled to occur on August 16, 2011.

On July 21, 2011 a purported class action complaint captioned *Strum v. China Security & Surveillance Technology Inc. et al.*, Case No. 1:11-CV-00646-UNA, was filed in the United States District Court for the District of Delaware. The complaint, which names the same defendants as in the state actions, alleges that the preliminary proxy statement filed on July 8, 2011 is materially false and misleading and that the merger is unfair to stockholders. It asserts claims under the Exchange Act, as well as common law claims for breach of fiduciary duty, and seeks a preliminary and permanent injunction prohibiting consummation of the merger and damages in the event the merger is consummated.

In September 2010, we were notified by the staff of the SEC that it had initiated the SEC Investigation. On or around September 3, 2010 and March 29, 2011, we received two separate subpoenas from the SEC requesting the delivery of certain documents to the SEC. We are cooperating, and intend to continue to cooperate, with the SEC in connection with such investigation. Receipt of these subpoenas does not mean that the SEC has concluded that we or anyone else has violated the law. The investigation does not mean that the SEC has a negative opinion of any person, entity or security. It is not possible to predict the outcome of the investigation, including whether or when any proceedings might be initiated, when these matters may be resolved or what, if any, penalties or other remedies may be imposed.

THE ANNUAL MEETING

We are furnishing this proxy statement to the Company s stockholders as part of the solicitation of proxies by the board of directors of the Company for use at the annual meeting.

Date, Time and Place

We will hold the annual meeting at 10:00 a.m., local time, on September 14, 2011, at the Company s office at 13/F, Shenzhen Special Zone Press Tower, Shennan Road, Futian District, Shenzhen 518034, the People's Republic of China. Seating will be limited to stockholders. Admission to the annual meeting will be on a first-come, first-served basis. If you plan to attend the annual meeting, please note that you may be asked to present valid photo identification, such as a driver s license or passport. Stockholders owning stock in brokerage accounts must bring a copy of a brokerage statement reflecting stock ownership as of the record date. Cameras, recording devices and other electronic devices will not be permitted at the meeting.

Purpose of the Annual meeting

The annual meeting is being held for the following purposes:

- to adopt the merger agreement (see *The Merger Agreement* beginning on page 66);
- to approve the adjournment of the annual meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the annual meeting to adopt the merger agreement;
- to elect five persons to the board of directors of the Company;
- to ratify the selection by our Audit Committee of GHP Horwath, P.C. as the Company s independent registered public accounting firm for the fiscal year ending December 31, 2011;
- to approve, on an advisory basis, executive compensation;
- to approve, on an advisory basis, the frequency of holding an advisory vote on executive compensation; and
- such other business as may properly come before the annual meeting or any adjournment thereof.

A copy of the merger agreement is attached as Annex A to this proxy statement.

Recommendation of Our Board of Directors and Special Committee

The board of directors of the Company, after careful consideration and acting on the unanimous recommendation of the special committee composed entirely of independent directors, deemed it advisable and in the best interests of the Company and its unaffiliated stockholders that the Company enter into the merger agreement, determined that the merger agreement and the transactions contemplated by the merger agreement, including the merger, are advisable, fair to and in the best interests of the Company and its stockholders and recommended that the Company s stockholders adopt the merger agreement at the annual meeting. The board of directors of the Company recommends that you vote **FOR** the adoption of the merger agreement.

Our board of directors also recommends that you vote **FOR** the proposal to approve the adjournment of the annual meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the annual meeting to adopt the merger agreement, **FOR** the proposal to elect the nominated directors, **FOR** the proposal to ratify the selection by our Audit Committee of GHP Horwath, P.C. as the Company s independent registered public accounting firm for the fiscal year ending December 31, 2011, **FOR** the proposal to approve the compensation of our named executive officers, and every **3 YEARS** for frequency of the stockholder advisory vote regarding compensation of named executive officers.

Record Date; Stockholders Entitled to Vote; Quorum

Only holders of record of Company common stock at the close of business, New York time, on August 5, 2011, the record date, are entitled to notice of and to vote at the annual meeting. On the record date, [ ] shares of Company common stock were issued and outstanding and held by [ ] holders of record. Holders of record of shares of Company common stock on the record date are entitled to one vote per share of Company common stock at the annual meeting on each proposal. For ten days prior to the meeting, a complete list of stockholders entitled to vote at the meeting will be available for examination by any stockholder, for any purpose relating to the meeting, during ordinary business hours at our offices located at 13/F, Shenzhen Special Zone Press Tower, Shennan Road, Futian District, Shenzhen 518034, the People's Republic of China.

Shares of Company common stock represented by proxies reflecting abstentions will be counted as present and entitled to vote for purposes of determining a quorum. Broker non-votes will not be counted for purposes of determining a quorum. A broker non-vote occurs when a broker, dealer, commercial bank, trust company or other nominee does not vote on a particular matter because such broker, dealer, commercial bank, trust company or other nominee does not have the discretionary voting power with respect to that proposal and has not received voting instructions from the beneficial owner. Brokers, dealers, commercial banks, trust companies and other nominees will not have discretionary voting power with respect to the proposal to adopt the merger agreement or the adjournment proposal. The presence at the annual meeting in person or by proxy of the holders of a majority of shares of the Company s capital stock issued and outstanding and entitled to vote at the annual meeting as of the record date will constitute a quorum for purposes of the annual meeting. In the event that a quorum is not present, or if there are insufficient votes to adopt the merger agreement at the time of the annual meeting, it is expected that the meeting will be adjourned or postponed to solicit additional proxies.

Vote Required

Adoption of the Merger Agreement (Proposal 1)

The adoption of the merger agreement by our stockholders requires the affirmative vote of (i) stockholders holding at least a majority of the outstanding shares of the Company s common stock at the close of business, New York time, on the record date and (ii) stockholders holding at least a majority of the outstanding shares of the Company s common stock at the close of business, New York time, on the record date other than shares owned, directly or indirectly, by Parent, Merger Sub or the Rollover Stockholders and their respective affiliates.

The requirement that the merger agreement be adopted by stockholders holding at least a majority of the outstanding shares of the Company s common stock at the close of business, New York time, on the record date for the annual meeting other than shares owned, directly or indirectly, by Parent, Merger Sub or the Rollover Stockholders and their respective affiliates is not mandated by Delaware law but was negotiated by the special committee in order to further protect the interests of the holders of Company common stock other than the Rollover Stockholders in connection with the merger.

Failure to vote your shares of Company common stock will have the same effect as a vote AGAINST the proposal to adopt the merger agreement.

Other Proposals

For Proposal No. 2 (approval of the adjournment or postponement of the annual meeting), the affirmative vote of the holders of at least a majority of the shares of Company common stock present in person or represented by proxy at the meeting and entitled to vote, whether or not a quorum is present, is required.

For Proposal No. 3 (election of directors), each director must be elected by a plurality of votes cast with respect to such director (i.e., the number of shares voted for a director nominee must exceed the number of votes withheld from that nominee). Abstentions and broker non-votes are not counted for purposes of the election of directors.

For Proposal No. 4 (ratification of independent auditors), Proposal No. 5 (advisory vote on executive compensation) and any other matters on which stockholders are entitled to vote, the affirmative vote of the holders of a majority of the shares of Company common stock present in person or represented by proxy at the meeting and entitled to vote, is required.

For Proposal No. 6 (advisory vote on the frequency of holding an advisory vote on executive compensation), the alternative that is, every one, two or three years receiving the greatest number of votes will be the frequency that stockholders approve.

Stock Ownership and Interests of Certain Persons

As of August 5, 2011, the record date for the annual meeting, our directors (including Mr. Tu and Mr. Yap) and current executive officers owned, in the aggregate, 21,970,930 shares of Company common stock, or collectively approximately 24.5% of the outstanding shares of Company common stock. Our directors and current executive officers have informed us that they intend, as of the date hereof, to vote all of their shares of Company common stock in favor of the adoption of the merger agreement.

Certain members of our management and the board of directors of the Company have interests that may be different from, or in addition to, those of our stockholders generally. For more information, please read *Special Factors Relating to the Merger Interests of the Company s Directors and Officers in the Merger* beginning on page 54.

Voting Procedures

Ensure that your shares of Company common stock can be voted at the annual meeting by submitting your proxy or contacting your broker, dealer, commercial bank, trust company or other nominee.

If your shares of Company common stock are registered in the name of a broker, dealer, commercial bank, trust company or other nominee: check the voting instruction card forwarded by your broker, dealer, commercial bank, trust company or other nominee to see which voting options are available or contact your broker, dealer, commercial bank, trust company or other nominee in order to obtain directions as to how to ensure that your shares of Company common stock are voted at the annual meeting.

If your shares of Company common stock are registered in your name: submit your proxy as soon as possible by telephone, via the Internet or by signing, dating and returning the enclosed proxy card in the enclosed postage-paid envelope, so that your shares of Company common stock can be voted at the annual meeting.

Instructions regarding telephone and Internet voting are included on the proxy card.

The failure to vote will have the same effect as a vote against the proposal to adopt the merger agreement. If you sign, date and mail your proxy card without indicating how you wish to vote, your proxy will be voted **FOR** the adoption of the merger agreement, the proposal to postpone or adjourn the annual meeting, if necessary or appropriate, to solicit additional proxies in the event there are insufficient votes at the time of the annual meeting to adopt the merger agreement, the election of the nominated directors, the ratification of independent auditors and the approval of the compensation of our named executives officers.

For additional questions about the merger, assistance in submitting proxies or voting shares of Company common stock, or to request additional copies of the proxy statement or the enclosed proxy card, please contact:

Okapi Partners LLC
437 Madison Avenue, 28th Floor
New York, New York 10022
Stockholder may call toll free +1 855 208 8903
Banks and Brokers may call collect +1 212 297 0720
Email: info@okapipartners.com

63

Voting by Proxy or in Person at the Annual Meeting

Holders of record can ensure that their shares of Company common stock are voted at the annual meeting by completing, signing, dating and delivering the enclosed proxy card in the enclosed postage-paid envelope. Submitting by this method or voting by telephone or the Internet as described below will not affect your right to attend the annual meeting and to vote in person. If you plan to attend the annual meeting and wish to vote in person, you will be given a ballot at the annual meeting. Please note, however, that if your shares of Company common stock are held in street name by a broker, dealer, commercial bank, trust company or other nominee and you wish to vote at the annual meeting, you must bring to the annual meeting a proxy from the record holder of those shares of Company common stock authorizing you to vote at the annual meeting.

If you vote your shares of Company common stock by submitting a proxy, your shares will be voted at the annual meeting as you indicated on your proxy card or Internet or telephone proxy. If no instructions are indicated on your signed proxy card, all of your shares of Company common stock will be voted **FOR** the adoption of the merger agreement, the approval to postpone or adjourn the annual meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the annual meeting to adopt the merger agreement, the election of the nominated directors, the ratification of independent auditor and the approval of the compensation of our named executives officers. You should return a proxy by mail, by telephone or via the Internet even if you plan to attend the annual meeting in person.

Electronic Voting

Our holders of record and many stockholders who hold their shares of Company common stock through a broker, dealer, commercial bank, trust company or other nominee will have the option to submit their proxy cards or voting instruction cards electronically by telephone or the Internet. Please note that there are separate arrangements for voting by telephone and Internet depending on whether your shares of Company common stock are registered in our records in your name or in the name of a broker, dealer, commercial bank, trust company or other nominee. If you hold your shares of Company common stock through a broker, bank or other nominee, you should check your voting instruction card forwarded by your broker, dealer, commercial bank, trust company or other nominee to see which options are available.

Please read and follow the instructions on your proxy card or voting instruction card carefully.

Other Business

We do not expect that any matter other than (i) the proposal to adopt the merger agreement, (ii) the approval of the adjournment or postponement of the annual meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the annual meeting to adopt the merger agreement, (iii) the election of the nominated directors, (iv) the ratification of independent auditor, (v) the approval, on an advisory basis, of the compensation of our named executive officers, and (vi) advisory vote on the frequency of holding an advisory vote on executive compensation, will be brought before the annual meeting. If, however, other matters are properly presented at the annual meeting, the persons named as proxies will vote in accordance with their best judgment with respect to those matters.

Revocation of Proxies

Submitting a proxy on the enclosed form does not preclude a stockholder from voting in person at the annual meeting. A stockholder of record may revoke a proxy at any time before it is voted by filing with our corporate secretary a duly executed revocation of proxy, by properly submitting a proxy by mail, the Internet or telephone with a later date or by appearing at the annual meeting and voting in person. A stockholder of record may revoke a proxy by any of these methods, regardless of the method used to deliver the stockholder s previous proxy. Attendance at the annual meeting

without voting will not itself revoke a proxy. If your shares of Company common stock are held in street name, you must contact your broker, dealer, commercial bank, trust company or other nominee to revoke your proxy.

Rights of Stockholders Who Object to the Merger

Stockholders who object to the merger and who comply with the provisions of Section 262 of the DGCL are entitled to have the fair value of their shares of Company common stock determined by the Court of Chancery of the State of Delaware, and to receive payment of that fair value instead of receiving the merger consideration. The ultimate amount you would receive in an appraisal proceeding may be more than, the same as or less than the amount you would have received under the merger agreement.

To exercise your appraisal rights, you must submit a written demand for appraisal to us before the vote is taken on the merger agreement and you must **NOT** vote in favor of the adoption of the merger agreement. Your failure to follow exactly the procedures specified under Delaware law will result in the loss of your appraisal rights. See *Appraisal Rights* beginning on page 83 and the text of the Delaware appraisal rights statute, Section 262 of the DGCL, which is reproduced in its entirety as Annex C to this proxy statement.

Solicitation of Proxies

This proxy solicitation is being made by the Company on behalf of the board of directors of the Company and will be paid for by the Company. In addition, we have engaged Okapi Partners LLC to assist in the solicitation of proxies for the annual meeting and we estimate that we will pay Okapi Partners LLC a fee of $37,500 including certain out-of-pocket expenses. The Company s directors, officers and employees may also solicit proxies by personal interview, mail, e-mail, telephone, facsimile or other means of communication. These persons will not be paid additional remuneration for their efforts. The Company will also request brokers, dealers, commercial banks, trust companies and other nominees to forward proxy solicitation material to the beneficial owners of shares of Company common stock that the brokers, dealers, commercial banks, trust companies and other nominees hold of record. Upon request, the Company will reimburse them for their reasonable out-of-pocket expenses.

Assistance

If you need assistance in completing your proxy card or have questions regarding the annual meeting, please contact Okapi Partners LLC, toll free at (855) 208-8903, collect at (212) 297-0720 or by email at info@okapipartners.com.

PROPOSAL ONE ADOPTION OF THE MERGER AGREEMENT

THE MERGER AGREEMENT

The following is a summary of the material terms and conditions of the merger agreement. The description in this section and elsewhere in this proxy statement is qualified in its entirety by reference to the complete text of the Amended and Restated Agreement and Plan of Merger, dated as of May 3, 2011, a copy of which is attached as ***Annex A****, and is incorporated by reference into this proxy statement. This summary does not purport to be complete and may not contain all of the information about the merger agreement that is important to you. We encourage you to read the merger agreement carefully and in its entirety because it is the legal document that governs this merger.*

Explanatory Note Regarding the Merger Agreement

The merger agreement and this summary of its terms have been included to provide you with information regarding the terms of the merger agreement. Factual disclosures about the Company contained in this proxy statement or in the Company s public reports filed with the SEC may supplement, update or modify the factual disclosures about the Company contained in the merger agreement and described in this summary. The representations, warranties and covenants made in the merger agreement by the Company, Parent, Merger Sub and Mr. Tu were qualified and subject to important limitations agreed to by the Company, Parent and Merger Sub in connection with negotiating the terms of the merger agreement. In particular, in your review of the representations and warranties contained in the merger agreement and described in this summary, it is important to bear in mind that the representations and warranties were negotiated with the principal purposes of establishing the circumstances in which a party to the merger agreement may have the right not to close the merger if the representations and warranties of the other party prove to be untrue due to a change in circumstance or otherwise, and allocating risk between the parties to the merger agreement, rather than establishing matters as facts. The representations and warranties may also be subject to a contractual standard of materiality different from those generally applicable to stockholders and reports and documents filed with the SEC and in some cases were qualified by disclosures that were made by each party to the other, which disclosures are not reflected in the merger agreement. Moreover, information concerning the subject matter of the representations and warranties, which do not purport to be accurate as of the date of this proxy statement, may have changed since the date of the merger agreement and subsequent developments or new information qualifying a representation or warranty may have been included in this proxy statement.

Effects of the Merger; Directors and Officers; Certificate of Incorporation; Bylaws

The merger agreement provides for the merger of Merger Sub with and into the Company upon the terms, and subject to the conditions, set forth in the merger agreement. As the surviving corporation, the Company will continue to exist following the merger. The surviving corporation will be a privately held corporation and our current stockholders, other than the Rollover Stockholders who will hold an ownership interest in the surviving corporation, will cease to have any ownership interest in the surviving corporation or rights as our stockholders. Therefore, such current stockholders will not participate in any future earnings or growth of the surviving corporation and will not benefit from any appreciation in value of the surviving corporation.

The board of directors of the surviving corporation will, from and after the effective time, consist of the directors of Merger Sub until their successors have been duly elected or appointed and qualified or until their earlier death, resignation or removal. The officers of the surviving corporation will, from and after the effective time, be the officers of the Company until their successors have been duly appointed and qualified or until their earlier death, resignation or removal.

At the effective time, the certificate of incorporation and bylaws of the surviving corporation will be in the form of the certificate of incorporation and bylaws of Merger Sub (except with respect to the name of the Company), until amended in accordance with their terms or by applicable law.

Closing and Effective Time of the Merger

The closing of the merger will take place no later than the second business day following the date on which all of the conditions to closing (described under *The Merger Agreement Conditions to the Merger*) have been satisfied or waived (to the extent permitted by applicable law) (other than the conditions that by their nature are to be satisfied at the closing, but subject to the satisfaction or (to the extent permitted by law) waiver of those conditions).

The effective time will occur as soon as practicable on the date of the closing upon the filing of a certificate of merger with the Secretary of State of the State of Delaware (or at such later date as the Company and Parent may agree and specify in the certificate of merger).

Treatment of Common Stock, Restricted Stock and Company Warrants

Except as noted below, each share of Company common stock issued and outstanding immediately prior to the effective time of the merger will be automatically canceled and converted at the effective time of the merger into the right to receive the per share merger consideration of $6.50 in cash without interest. The following shares will not receive the merger consideration:

- shares owned by Parent or Merger Sub, which shares will be canceled without conversion or consideration;
- shares contributed to Parent by the Rollover Stockholders prior to the merger in exchange for equity interests of Intelligent One, which contribution is described in *Special Factors Relating to the Merger Interests of the Company s Directors and Officers in the Merger*), which shares will be canceled without consideration; and
- shares held by holders who have exercised, perfected and not withdrawn a demand for, or lost the right to, appraisal rights under the DGCL will be canceled without payment of consideration and such stockholders will instead be entitled to the appraisal rights provided under the DGCL as described under *Appraisal Rights.*

At the effective time of the merger, each holder of a certificate formerly representing any shares of Company common stock or of book-entry shares (other than shares for which appraisal rights have been properly demanded, perfected and not withdrawn or lost under the DGCL) will no longer have any rights with respect to the shares, except for the right to receive the per share merger consideration upon surrender thereof.

Immediately prior to the effective time each outstanding share that is subject to vesting and/or forfeiture restrictions will become fully vested immediately prior to the effective time and will be treated as a share of Company common stock and as such will be entitled to receive $6.50 per share merger consideration in cash without interest.

At the effective time, each Company warrant outstanding at the effective time shall be canceled and, in exchange therefor, the surviving corporation shall pay to each former holder of any such canceled Company warrant immediately following the effective time an amount in cash (without interest) equal to the product of (i) the excess of $6.50 over the exercise price per share of such Company warrant and (ii) the number of shares subject to such Company warrant; provided, that if the exercise price per share of any such Company warrant is equal to or greater than $6.50, such Company warrant shall be canceled without any cash payment being made in respect thereof.

Exchange and Payment Procedures

Prior to the effective time, Parent will designate a bank or trust company reasonably acceptable to the Company to act as the paying agent for the per share merger consideration (which we refer to as the **paying agent**). At or prior to the effective time, Parent will deposit, or will cause to be deposited, with the paying agent an amount in cash sufficient for the paying agent to make payment of the aggregate per share merger consideration to the holders of shares of Company common stock.

Promptly (but in any event no later than five business days) after the effective time, each record holder of shares of Company common stock will be sent (i) a letter of transmittal describing how it may exchange its shares of Company common stock for the per share merger consideration and (ii) instructions for effecting the surrender of share certificates in exchange for its per share merger consideration.

You should not return your stock certificates with the enclosed proxy card, and you should not forward your stock certificates to the paying agent without a letter of transmittal.

You will not be entitled to receive the per share merger consideration until you surrender your stock certificate or certificates along with a duly completed and executed letter of transmittal to the paying agent or until the paying agent receives an agent s message in the case of shares held in book-entry form and other documents reasonably required by the paying agent and approved by Parent and us. If ownership of your shares is not registered in the transfer records of the Company, a check for any cash to be delivered will only be issued if the certificate is properly endorsed and the applicable letter of transmittal is accompanied by all documents reasonably required to evidence and effect transfer and to evidence that any applicable stock transfer taxes have been paid or are not applicable.

No interest will be paid or accrued on the cash payable as the per share merger consideration as provided above.

From and after the effective time, there will be no transfers on the stock transfer books of the surviving corporation of shares of Company common stock that were outstanding immediately prior to the effective time. If, after the effective time, any person presents to the surviving corporation, Parent or the paying agent any certificates or any transfer instructions relating to shares canceled in the merger, such person will be given a copy of the letter of transmittal and told to comply with the instructions in that letter of transmittal in order to receive the cash to which such person is entitled.

Any portion of the per share merger consideration deposited with the paying agent that remains unclaimed by former record holders of Company common stock for twelve months after the effective time may be delivered to the surviving corporation. Record holders of Company common stock who have not complied with the above-described exchange and payment procedures will thereafter only look to the surviving corporation for payment of the per share merger consideration. None of the surviving corporation, Parent, the paying agent or any other person will be liable to any former record holders of common stock for any cash delivered to a governmental entity pursuant to any applicable abandoned property, escheat or similar laws.

If you have lost a certificate, or if it has been stolen or destroyed, then before you will be entitled to receive the per share merger consideration, you will have to make an affidavit of the loss, theft or destruction, and if required by the surviving corporation, post a bond in a customary amount as indemnity against any claim that may be made against it with respect to such certificate. These procedures will be described in the letter of transmittal that you will receive, which you should read carefully in its entirety.

Representations and Warranties

The merger agreement contains representations and warranties made by the Company to Parent and Merger Sub and representations and warranties made by Parent and Merger Sub to the Company, in each case, as of specific dates. The statements embodied in those representations and warranties were made for purposes of the merger agreement and are subject to important qualifications and limitations agreed by the parties in connection with negotiating the terms of the merger agreement (including the disclosure letter delivered by the Company and Parent in connection therewith but not reflected in the merger agreement). In addition, some of those representations and warranties may be subject to a contractual standard of materiality different from that generally applicable to stockholders, may have been made for the principal purposes of establishing the circumstances in which a party to the merger agreement may have the right not to close the merger if the representations and warranties of the other party prove to be untrue due to a change in circumstance or otherwise, and allocating risk between the parties to the merger agreement rather than establishing matters as facts. Moreover, information concerning the subject matter of the representations and warranties, which do not purport to be accurate as of the date of this proxy statement, may have changed since the date of the merger agreement and subsequent developments or new information qualifying a representation or warranty may have been included in this proxy statement.

The representations and warranties made by the Company to Parent and Merger Sub include representations and warranties relating to, among other things:

- due organization, existence, good standing and authority to carry on the Company s businesses;
- the absence of encumbrances on the Company s ownership of the equity interests of its subsidiaries;
- the Company s corporate power and authority to execute, deliver and perform its obligations under and to consummate the transactions under the merger agreement, and the enforceability of the merger agreement against the Company;
- the declaration of advisability of the merger agreement and the merger by the special committee and by the board of directors of the Company, the approval of the merger agreement and the merger by the board of directors of the Company and the board of directors submission of the merger agreement to a vote by the stockholders of the Company;
- the required vote of the Company s stockholders to adopt the merger agreement;
- the absence of conflicts with, or breaches or default under, organizational documents, contracts and applicable law;
- the Company s capitalization, the absence of preemptive or other similar rights or any debt securities that give its holders the right to vote with the Company s stockholders;
- governmental consents and approvals;
- the Company s SEC filings since January 1, 2009 and the financial statements included therein;
- the absence of a Company Material Adverse Effect (as defined below) and the absence of certain other changes or events since December 31, 2010;
- the absence of certain undisclosed liabilities;
- the absence of legal proceedings against the Company or its subsidiaries;
- compliance with applicable laws, licenses and permits;
- possession of all material regulatory permits;
- title to assets and absence of liens on assets (other than certain permitted liens);
- intellectual property;
- insurance;
- material contracts and the absence of any material default under, or termination of, any material contract;
- the Company s disclosure controls and procedures and internal controls over financial reporting;
- the accuracy of the information provided in the Schedule 13E-3 and this proxy statement;
- the opinion from Imperial Capital, LLC;
- tax matters;
- environmental matters;
- the disclosure letter to the merger agreement;

- the absence of a shareholder rights or similar agreement and the inapplicability of any anti- takeover law to the merger;
- the absence of any undisclosed brokers or finders fees; and
- acknowledgment as to absence of any other representations and warranties.

Many of the representations and warranties in the merger agreement made by the Company are qualified as to materiality or Material Adverse Effect. For purposes of the merger agreement, a Material Adverse Effect means any circumstance, event, change, effect or development, that individually or in the aggregate with all other circumstances, events, changes, effects, or developments, has a material adverse effect on the financial condition, results of operations, assets, liabilities, properties or business of the Company and its subsidiaries, taken as a whole. However, a Material Adverse Effect does not include the effects relating to or resulting from:

- changes in GAAP or regulatory accounting requirements or applicable law except to the extent the Company and its subsidiaries are disproportionately adversely affected;
- changes in the industries or markets in which the Company and its subsidiaries operate except to the extent the Company and its subsidiaries are disproportionately adversely affected;
- changes in general economic, political or financial market conditions, except to the extent the Company and its subsidiaries are disproportionately adversely affected;
- stockholder litigation relating to the transaction contemplated by the merger agreement;
- decline in the Company s stock price or trading volume;
- failure to meet public estimates or expectations of financial performance or meet any internal budgets, projections, plans or forecasts;
- changes resulting from the identity of or facts relating to Parent, Merger Sub or their affiliates;
- losses or changes in the Company s relationship with customers, suppliers, vendors, lenders, employees, investors or partners arising out of the execution, delivery or performance of the merger agreement or the merger;
- public disclosure of the merger agreement or the merger;
- hostilities, wars, acts of terrorism, natural disasters or similar force majeure events; or
- acts or omissions taken with the prior written consent of the other parties that are permitted or required by the merger agreement.

The representations and warranties made by Parent and Merger Sub to the Company include representations and warranties relating to, among other things:

- their due organization, existence and good standing;
- their corporate power and authority to execute, deliver and perform their obligations under and to consummate the transactions contemplated by the merger agreement, and the enforceability of the merger agreement against them;
- the absence of conflicts with, or breaches or defaults under, organizational documents, contracts and applicable law;
- capitalization of Intelligent One, Parent and Merger Sub;

- governmental consents and approvals;
- operations and ownership of Intelligent One, Parent and Merger Sub;
- the absence of legal proceedings against Parent or Merger Sub;
- the accuracy of the information provided by Parent or Merger Sub for inclusion in the Schedule 13E-3 and this proxy statement;
- delivery of the facility agreement and the rollover agreement and the absence of any default thereunder;
- the absence of any side letters or other agreements to which Parent or its affiliates are a party relating to the financing;
- sufficiency of funds in the financing to pay the aggregate merger consideration and other amounts required to be paid in connection with the consummation of the transactions contemplated by the merger agreement;
- Parent and Merger Sub not having any reason to believe that the conditions to the financing will not be satisfied, that the financing will not be available or that the financing will not be sufficient;
- the absence of conditions precedent to the funding of the financing other than as set forth in the facility agreement;
- the absence of any undisclosed brokers or finders fees;
- the execution and the validity and enforceability of the limited guaranty provided by Mr. Tu of certain obligations of Parent and the absence of any default thereunder;
- solvency of Parent, Merger Sub and the surviving company immediately following consummation of the merger;
- the absence of any undisclosed interest in competitors of the Company;
- the absence of any other agreements (except for the rollover agreement and the limited guaranty) (i) between Parent, Merger Sub or any of their affiliates on one hand, and any member of the Company s management, directors, or stockholders, on the other, that relate to the transactions contemplated by the merger agreement or (ii) pursuant to which a stockholder would be entitled to receive consideration different than the merger consideration or pursuant to which a stockholder agreed to vote to approve the merger agreement or against any superior proposal;
- the absence of any side letters or other agreements among the Mr. Tu, CDB, the Rollover Stockholders or any of their respective affiliates relating to the transactions contemplated by the merger agreement;
- independent investigation conducted by Parent and Merger Sub and non-reliance on the Company s estimates, projections, forecasts, plans or budgets; and
- acknowledgement as to the absence of any other representations and warranties.

Many of the Parent s and Merger Sub s representations and warranties are qualified as to, among other things materiality or Parent material adverse effect. For purposes of the merger agreement, Parent material adverse effect means any circumstance, event, change, effect or development that individually or in the aggregate, prevents, materially impedes, interferes with, hinders or delays the consummation by Parent or Merger Sub of the transactions contemplated by the merger agreement on a timely basis.

Conduct of Business Prior to Closing

Under the merger agreement, the Company has agreed that, subject to certain exceptions in the merger agreement, from the date of the merger agreement until the earlier of the effective time or the termination of the merger agreement, the Company and its subsidiaries will cause their businesses to be conducted in the ordinary course in all material respects and use their reasonable best efforts to maintain and preserve intact their business organizations and business relationships, and keep available the services of their current key officers and employees.

Subject to certain exceptions set forth in the merger agreement and the disclosure letter the Company delivered in connection with the merger agreement, unless Parent consents in writing (which consent cannot be unreasonably conditioned, withheld or delayed), the Company will not and will not permit its subsidiaries to, among other things:

- issue, sell, pledge, encumber or authorize any shares of its capital stock, subject to certain exceptions;
- make, declare, pay or set aside dividends or other distribution with respect to the capital stock of the Company or any of its subsidiaries (except for dividends paid by any subsidiaries);
- adjust, split, combine, redeem, or otherwise acquire any of the capital stock of the Company or any of its subsidiaries, subject to certain exceptions;
- sell, transfer, mortgage, encumber, or otherwise dispose of or discontinue any of the Company s assets, deposits, business or properties in excess of $2,000,000, other than in the ordinary course of business;
- acquire assets, business, deposits or properties in excess of $2,000,000, other than in the ordinary course of business;
- amend the governing documents of the Company or its subsidiaries in any material respect;
- change accounting principles or methods, except as required by United States generally accepted accounting principles or applicable regulatory accounting requirements;
- grant any material increases in the compensation of any of the Company s or its subsidiaries directors or executive officers other than in the ordinary course of business;
- other than in the ordinary course of business or in accordance with the Company s equity incentive plan (a) grant or increase any severance, change in control or similar compensation or benefits payable to, any director or employee, (b) accelerate the time of payment or vesting of, or the lapsing of restrictions with respect to, or fund or otherwise secure the payment of, any compensation or benefits under the equity incentive plan, (c) enter into, terminate or materially amend the equity incentive plan or any other benefit plans, programs or arrangements, and all employment, termination or other contracts or agreements, (d) enter into any employment agreement with any employee, (e) establish, adopt or amend any collective bargaining agreement, plan or arrangement for the benefit of any current or former directors or employees or any of their beneficiaries, or (f) issue or grant any options, warrants, or commitments relating to, or securities, rights or obligations exchangeable for any shares of the Company s capital stock, or contracts, understandings or arrangements by which the Company may become bound to issue additional shares of capital stock;
- incur or guarantee any long-term indebtedness for borrowed money in excess of $2,000,000 other than in the ordinary course of business;
- enter into, terminate, modify or amend any contracts that calls for annual aggregate payments of $2,000,000 or more with a term longer than one year which cannot be terminated without material penalty upon notice of 90 days or less, other than in the ordinary course of business; or

- agree to take any of the actions prohibited by the foregoing.

Parent Forbearance

Except as expressly contemplated by or permitted by the merger agreement or as required by applicable law, from the date of merger agreement until the earlier of the effective time or the termination of the merger agreement, Parent will not, without the written consent of the Company, take, or agree to take, any action that would reasonably be expected to (a) adversely affect or materially hinder or delay the performance of its covenants and agreements under the merger agreement or (b) result in any of the conditions to effect the merger or the debt financing becoming incapable of being satisfied.

Access to Information

Upon reasonable notice and subject to applicable laws relating to the confidentiality of information or requirements of governmental entities and certain other exceptions, each party will afford each other party s representatives reasonable access, during normal business hours, upon reasonable advance notice, to all of its properties, books, contracts, commitments and records as may reasonably be requested by the other party.

Alternative Takeover Proposals

Until 11:59 p.m. New York City time on July 2, 2011 the Company is permitted to:

- initiate, solicit and encourage any inquiry or the making of takeover proposals from third parties, including through public disclosure or by providing third parties non-public information pursuant to acceptable confidentiality agreements (provided that the Company promptly make such information available to Parent if not previously made available to Parent); and
- enter into and maintain discussions or negotiations with any person with respect to any takeover proposal, or otherwise cooperate with, assist, participate in; facilitate or take any action in connection with such inquiries, proposals, discussions or negotiations.

From and after 12:00 a.m. New York City time on July 3, 2011, the Company is required to immediately cease any discussions or negotiations with any persons that may be ongoing with respect to any takeover proposals, except as may relate to excluded parties (as defined below). Within 48 hours following 11:59 p.m. New York City time July 2, 2011, the Company must notify Parent of the material terms of takeover proposals received prior to 11:59 p.m. New York City time on July 2, 2011 and the identity of each person that submitted such a takeover proposal. From and after 12:00 a.m. New York City time on July 3, 2011, the Company will not:

- initiate, solicit, knowingly encourage or knowingly induce the making of takeover proposals from any third parties;
- provide any material non-public information to a third party in connection with a takeover proposal; or
- engage in discussions or negotiations with any third party concerning a takeover proposal.

Notwithstanding the foregoing, the Company may continue to engage in the activities permitted during the period prior to 11:59 p.m. New York City time on July 2, 2011 described above with an excluded party. In this proxy statement, we refer to any person that has submitted a takeover proposal after the execution of the merger agreement and prior to 11:59 p.m. New York City time on July 2, 2011 that the board of directors and the special committee determine in good faith (after consultation with the Company's financial and legal advisors) constitutes or would reasonably be expected to result in a superior proposal as an **excluded party** ; provided, however, that such person will cease to be an excluded party at such time as the takeover proposal made by such person is withdrawn, is terminated or expires, or the board of directors and the special committee determine in good faith (after consultation with the Company's financial and legal advisors) ceases to constitute or ceases to be reasonably likely to lead to a superior

proposal.

Prior to the time the Company s stockholders adopt the merger agreement, if the Company receives an unsolicited takeover proposal from a third party that the special committee determines in good faith (after consultation with its financial and legal advisors) could result in a superior proposal, the Company may:

- furnish information to such party pursuant to an acceptable confidentiality agreement; and
- engage in discussions or negotiations with such party with respect to such proposal.

From and after 12:00 a.m. New York City time on July 3, 2011, the Company must advise Parent within 48 hours, orally and then in writing as promptly as practicable, of any takeover proposal, any initial request for non-public information and any initial request for discussions or negotiations related to a takeover proposal, received after 12:00 a.m. New York City time on July 3, 2011. In connection with such notice, Company must also provide the material terms and conditions and the identity of the third party make the takeover proposal or request. The Company must also keep Parent reasonably informed in all material respects of the status and details of such takeover proposal or request.

The board of directors of the Company cannot (a)(i) withdraw (or modify in a manner adverse to Parent and Merger Sub), or propose publicly to withdraw (or modify in a manner adverse to Parent and Merger Sub), the board of director s recommendation or (ii) adopt, approve or recommend, or propose publicly to adopt, approve or recommend, any takeover proposal (any action in this clause (a) being referred to as a **change of recommendation**) or (b) adopt, approve or recommend, or allow the Company to execute or enter into, any letter of intent, memorandum of understanding or agreement (a **Company acquisition agreement**) related to any takeover proposal. Notwithstanding the foregoing, at any time prior to the receipt of the requisite stockholder approvals of the merger, (x) if the special committee determines in good faith (after consultation with the Company s outside legal advisors) that the failure to do so could likely be inconsistent with its fiduciary duties, then the board of directors of the Company, acting upon the recommendation of the special committee, may make a change of recommendation; and (y) if the board of directors of the Company determines in good faith (after consultation with the Company s outside financial and legal advisors) that a takeover proposal constitutes a superior proposal, then the Company may make a change of recommendation, enter into a Company acquisition agreement with respect to such superior proposal and/or terminate the merger agreement.

The Company is not entitled to effect a change of recommendation or terminate the merger agreement unless (i) the Company has provided written notice at least three business days in advance to Parent and Merger Sub advising Parent that the board of directors of the Company intends to make a change of recommendation or enter into a Company acquisition agreement and specifying the reasons for the proposed action and, if a change of recommendation is being made as a result of a superior proposal, the terms and conditions of such takeover proposal (including the identity of the third party making the takeover proposal and any related financing materials) and (ii) with respect to a takeover proposal received on or after 12:00 a.m. New York City time on July 3, 2011, in addition to providing a written notice of a superior proposal to Parent, during the three business day period following Parent s and Merger Sub s receipt of such written notice, the Company will negotiate with Parent and Merger Sub in good faith (if Parent and Merger Sub desire to negotiate) to make such adjustments in the terms and conditions of the merger agreement and the facility agreement entered into between Parent and CDB, Parent s lender, so that such superior proposal no longer constitutes a superior proposal, and following the end of the three business day period, the board of directors of the Company and the special committee will have determined in good faith, taking into account any changes to the merger agreement and the facility agreement proposed by Parent and Merger Sub, that the takeover proposal giving rise to such written notice continues to be a superior proposal. Any material amendment to the financial terms or any other material amendment of such superior proposal will require a new written notice and the Company will be required to comply again with the procedures in this paragraph.

The Company is not restricted from issuing a stop, look and listen communication pursuant to Rule 14d-9(f) promulgated under the Exchange Act or taking or disclosing to its stockholders any position contemplated by Rule 14e-2(a) or Rule 14d-9 promulgated under the Exchange Act or from making any other disclosure to its stockholders to comply with applicable law.

The Company has the right to reimburse the reasonable out-of-pocket expenses of any person who has submitted a takeover proposal prior to the receipt of the requisite stockholder approvals of the merger, if (i) the special committee determines in good faith that such takeover proposal constitutes a superior proposal and intends to change its recommendation, (ii) in response to the intended change of recommendation, Parent revises the terms and conditions of the merger agreement and (iii) the Company does not change its recommendation with respect to such a takeover proposal because the special committee determines that the takeover proposal submitted by such person no longer constitutes a superior proposal in consideration of the revisions to the merger agreement submitted by Parent.

As used in this proxy statement, the following terms shall have the following meanings:

The term takeover proposal means any proposal or offer made by any third party to purchase or otherwise acquire (A) beneficial ownership (as defined under section 13(d) of the Exchange Act) of 20% or more of any class of equity securities of the Company pursuant to a merger, consolidation or other business combination, sale of shares of capital stock, tender offer, exchange offer or similar transaction or (B) any one or more assets or businesses of the Company that constitute 20% or more of the revenues or assets of the Company.

The term superior proposal means a written takeover proposal (provided that for purposes of this definition, references to 20% in the definition of takeover proposal shall be deemed to be references to 50%) on terms which the board of directors of the Company and special committee determines in good faith (after consultation with the Company s outside legal and financial advisors) to be more favorable to the Company s stockholders from a financial point of view than the terms of the merger agreement (taking into account such factors as the board of directors of the Company deems appropriate including any changes to the terms of the merger agreement proposed by Parent) and to be reasonably capable of being consummated on the terms proposed.

Indemnification; Directors and Officers Insurance

Parent and the surviving corporation will assume the indemnification obligations, now existing in favor of the Indemnified Parties with respect to acts or omissions occurring at or prior to the effective time, as provided in the governing documents of the Company or its subsidiaries. The certificate of incorporation and bylaws of the surviving corporation will contain provisions no less favorable to the Indemnified Parties with respect to rights to indemnification, advancement of expenses and limitations on liabilities as set forth in the Company s organizational documents in effect as of the date of the merger agreement. The relevant provisions may not be amended, repealed or otherwise modified in a manner that would adversely affect the rights of the Indemnified Parties, unless such modification is required by applicable law.

Following the effective time, Parent and the surviving corporation will, jointly and severally, indemnify and hold harmless each Indemnified Party, and anyone who becomes an Indemnified Party between the date of the merger agreement and the effective time, against any costs or expenses, judgments, losses or liabilities incurred in connection with any actual or threatened proceeding, including any matter arising in connection with the transactions contemplated by the merger agreement, to the fullest extent permitted by applicable law (and Parent and the surviving corporation will also advance expenses as incurred to the fullest extent permitted under applicable law). Notwithstanding anything to the contrary contained in the merger agreement, Parent may not (and Parent will cause the surviving corporation not to) settle or compromise or consent to the entry of any judgment or otherwise terminate any proceeding, unless such settlement, compromise, consent or termination includes an unconditional release of all of the Indemnified Parties from all liability and does not include an admission of fault or wrongdoing by any Indemnified Party.

For at least six years after the effective time, (i) Parent and the surviving corporation will maintain the existing directors and officers liability insurance and fiduciary insurance (or substitute policies including comparable coverage) maintained by the Company as of the date of the merger agreement, covering claims arising from facts or events that occurred on or before the effective time, including the transactions contemplated by the merger agreement (provided that Parent or the surviving corporation, as applicable, will not be required to pay an annual premium for such insurance in excess of the D&O Premium; and (ii) Parent and the surviving corporation will not take any action that would prejudice the rights of, or impede recovery by, the beneficiaries of any such insurance, whether in respect of claims arising before or after the effective time. In lieu of such insurance, prior to the effective time, the Company may purchase a six year tail prepaid policy with substantially similar coverage (provided that the premium for such tail policy shall not exceed an amount equal to the D&O Premium).

Financing

As of the date of the merger agreement, Parent has delivered to the Company a copy of the executed facility agreement from CDB, pursuant to which CDB has committed to provided debt financing to Parent in the aggregate amount set forth therein.

Parent and Merger Sub will use their reasonable best efforts to obtain the debt financing for the merger on the terms and conditions described in the facility agreement and will not permit any amendment or modification to be made thereto, or any waiver of any provision or remedy in the facility agreement, if such amendment, modification or waiver (i) reduces the aggregate amount of the financing or, if applicable, the alternative financing (including by changing the amount of fees to be paid or original issue discount), or (ii) imposes new or additional conditions that would reasonably be expected to (x) prevent or materially delay the ability of Parent to consummate the merger or (y) adversely impact the ability of Parent, Merger Sub or the Company, as applicable, to enforce its rights against other parties to the facility agreement or the alternative financing agreements. However, the foregoing prohibition will not prohibit Parent from adding additional lender(s) to the facility agreement. Parent may not release or consent to the termination of the obligations of the lender under the financing agreements or the alternative financing agreements. Parent will keep the Company reasonably informed on a reasonably current basis of the status of Parent s efforts to arrange any alternative financing.

In the event that any portion of the debt financing becomes unavailable, Parent and Merger Sub will use their reasonable best efforts to arrange and obtain alternative financing in an amount sufficient (when added to the portion of the financing that is available) to consummate the merger with terms and conditions not materially less favorable in the aggregate to Parent and Merger Sub (or their affiliates) as promptly as reasonably practicable following such occurrence.

Parent and Merger Sub will use their reasonable best efforts to:

- maintain in effect the facility agreement and any alternative financing agreements;
- satisfy on a timely basis all conditions to funding in the facility agreement and any alternative financing agreements within their control;
- cause the lender to fund the debt financing at the effective time;
- cause the financing sources for the alternative financing to fund the alternative financing at the effective time; and
- enforce their rights under the facility agreement and any alternative financing agreements.

Parent will give the Company notice promptly (i) upon becoming aware of any breach of any material provisions of, or termination by any party to, the facility agreement or any alternative financing agreements or (ii) upon the receipt of any written or oral notice or other communication from any person with respect to any threatened breach or threatened termination by any party to the facility agreement or any alternative financing agreements.

The Company and its subsidiaries will use reasonable best efforts to provide to Parent and Merger Sub, and to use its reasonable best efforts to cause its representatives to provide (each at Parent s sole expense), all reasonable cooperation in connection with the arrangement of the financing (and, if applicable, any alternative financing) as may be reasonably requested by Parent (provided that such requested cooperation would not require the Company or its affiliates to pay or agree to pay any fees or expenses or give any indemnities to any person prior to effective time and does not unreasonably interfere with the ongoing operations of the Company and its subsidiaries).

Parent will, promptly upon termination of the merger agreement, (i) reimburse the Company for all reasonable and documented out-of-pocket costs incurred by the Company in connection with the Company s cooperation in obtaining financing; and (ii) reimburse the Company and its representatives for any losses incurred by it in connection with the arrangement of the financing or any alternative financing and any information (other than information provided by the

Company and it subsidiaries) utilized in connection therewith. Parent and Merger Sub agree that the Company and its affiliates and its and their respective representatives will not, prior to the effective time, incur any liability to any person under any financing that Parent and Merger Sub may raise in connection with the transactions contemplated by the merger agreement or any cooperation provided by the Company.

No Knowledge of Inaccuracies

Parent and Merger Sub will promptly notify the Company if at any time before the closing of the merger, Parent or Merger Sub becomes aware of any material inaccuracies in the Company s representations and warranties. Parent will not have any right to terminate the merger agreement based on material breaches of the Company or claim damages for any inaccuracy in the Company s representations if Mr. Tu has knowledge of such inaccuracy as of the date of the merger agreement. Mr. Tu represents that he has reviewed the terms of the merger agreement and is not aware of any inaccuracy or breach in the representations and warranties made by the Company.

Employee Matters

From the period beginning on the date of closing and continuing through the first anniversary of such date, the Parent will provide each Company employee with a level of compensation and benefits no less favorable in the aggregate than the level of compensation and benefits provided to such employee immediately prior to the date of closing. The welfare plans of Parent or its affiliates, including, following the closing date, the Company, applicable to each Company employee (a) will not contain any exclusions for pre-existing medical or health conditions (to the extent such conditions had been covered under the Company plans as of the date of closing) and (b) will credit each employee for the plan year of the Company in which the date of closing occurs with all deductibles and co-payments applicable to the portion of such plan year occurring prior to the date of closing. In addition, each Company employee will receive credit for services with the Company and its affiliates and predecessors under the Parent's employee benefit plans for purposes of eligibility, vesting and benefit accrual; provided, however, that in no event shall such credit result in the duplication of benefits or the funding of such benefit plans.

Conditions to the Merger

The consummation of the merger is subject to the satisfaction or waiver by Parent and the Company of the following conditions:

- the requisite stockholder approvals of the merger shall have been obtained; and
- no order, injunction or decree issued by any court or agency of competent jurisdiction or other law preventing the consummation of the merger or any of the transactions contemplated by the merger agreement is in effect.

The obligations of Parent and Merger Sub to effect the merger are also subject to the satisfaction, or waiver by Parent, of the following conditions:

- the representations and warranties of the Company set forth in the merger agreement, without giving effect to any materiality or Material Adverse Effect qualifications therein, being true and correct as of the date of the merger agreement and as of the effective time (except to the extent expressly made as of an earlier date, in which case, as of such date), except where the failure to be true and correct would not reasonably be expected to have a Material Adverse Effect, and Parent and Merger Sub shall have received a certificate signed on behalf of the Company by a senior executive officer of the Company to such effect;
- the Company having performed in all material respects all obligations required to be performed by it under the merger agreement at or before the effective time, and Parent and Merger Sub shall have received a certificate signed on behalf of the Company by a senior executive officer of the Company to such effect; and

- since the date of the merger agreement, no effect, change, event or occurrence having occurred that has had, or would reasonably be expected to have, a Material Adverse Effect.

The obligations of the Company to effect the merger are subject to the satisfaction, or waiver by the Company, of the following conditions:

- the representations and warranties of Parent and Merger Sub set forth in the merger agreement being true and correct as of the date of the merger agreement and as of effective time (except to the extent expressly made as of an earlier date, in which case, as of such date), except when a failure to be true and correct would not reasonably be expected to have a Parent material adverse effect, and the Company shall have received a certificate signed by a senior executive officer of Parent to such effect;
- each of Parent and Merger Sub having performed in all material respects all obligations required to be performed by it under the merger agreement at or prior to the effective time, and the Company shall have received a certificate signed by a senior executive officer of Parent to such effect; and
- since the date of the merger agreement, no effect, change, event or occurrence having occurred that has had, or would reasonably be expected to have, a Parent material adverse effect.

Termination

The merger agreement may be terminated at any time prior to the consummation of the merger, whether before or after requisite stockholder approvals of the merger have been obtained:

by mutual written agreement of the Company and Parent;

by either of the Company or Parent, if:

- any governmental entity has issued a final order, injunction or decree permanently enjoining or otherwise prohibiting consummation of the merger; provided, that this termination right is not available to a party if the failure of such party to fulfill any of its obligations under the merger agreement is the primary cause or material contributing factor to the denial of such approval, or issuance of such final order, injunction or decree;
- the merger is not completed by April 20, 2012 (the **termination date**), provided that this termination right will not be available to a party if the failure to consummate the merger on or before the termination date was primarily due to the breach or failure of such party to fulfill any of its obligations under the merger agreement; or
- our stockholders do not adopt the merger agreement at the annual meeting or any adjournment or postponement thereof.

by the Company:

- if Parent or Merger Sub has breached any of its representations warranties, covenants or agreements under the merger agreement, such that the corresponding condition to closing would not be satisfied and such breach or inaccuracy cannot be cured or if curable, is not cured by Parent or Merger Sub within 30 business days after written notice of such breach or if earlier, by the termination date, provided that this termination right is not available to the Company if a material breach of the merger agreement by the Company is the primary cause or material contributing factor to the failure of such condition to be satisfied;
- if the Company enters into a Company acquisition agreement relating to a superior proposal and has complied with the requirements described under *The Merger Agreement Alternative Takeover Proposals*, and concurrently with such termination, the Company pays the termination fee described under *The Merger Agreement Termination Fees and Reimbursement of Expenses*;

78

- if all of the closing conditions are otherwise satisfied but Parent and Merger Sub fail to close within two business days following the date the closing should have occurred, the Company has notified Parent in writing that it is ready to close and the Company has given Parent written notice of at least one business day of its intention to terminate the merger agreement; or
- for any reason on or prior to May 4, 2011.

by Parent, if:

- if the Company has breached any of its representations, warranties, covenants or agreements under the merger agreement, such that the corresponding condition to closing would not be satisfied and such breach or inaccuracy cannot be cured or if curable, is not cured by the Company within 30 business days after written notice of such breach or if earlier, by the termination date, provided that this termination right is not available to Parent if a material breach of the merger agreement by Parent is the primary cause or material contributing factor to the failure of such condition to be satisfied; or
- the board of directors of the Company has made and not withdrawn a change of recommendation.

Termination Fees and Reimbursement of Expenses

The Company is required to pay Parent a termination fee of $5.0 million and fees and expenses incurred by Parent of up to $1.0 million in the event the merger agreement is terminated by the Company in order to enter into a Company acquisition agreement for a superior proposal in connection with a takeover proposal received on or prior to 11:59 p.m. New York City time on July 2, 2011.

The Company is required to pay Parent a termination fee of $10.0 million in the event the merger agreement is terminated:

- by the Company in order to enter into a Company acquisition agreement for a superior proposal in connection with a takeover proposal received on or after 12:00 a.m. New York City time on July 3, 2011;
- by Parent or the Company due to (a)(i) a failure of either the Company or Parent to consummate the merger by the termination date or (ii) a failure by the Company to obtain the requisite stockholder approvals of the merger and (b) on or after the signing of the merger agreement but prior to the date of the stockholders meeting, a third party makes a takeover proposal which is publicly disclosed and not withdrawn and (c) within 12 months following such termination, the Company consummates or enters into a transaction with respect to such takeover proposal;
- by Parent because the board of directors of the Company has made and not withdrawn a change of recommendation or has proposed to publicly announce its intention to make such change of recommendation; or
- the board of directors of the Company has adopted, approved or recommended or proposes publicly to adopt, approve or recommend an alternative transaction proposal.

Parent is required to pay the Company a reverse termination fee of $20.0 million in the event the merger agreement is terminated by the Company:

- due to a breach by Parent or Merger Sub of any of their representations, warranties, covenants or agreements set forth in the merger agreement; or

- if all of the closing conditions are otherwise satisfied but Parent and Merger Sub fail to close within two business days following the date the closing should have occurred, the Company has notified Parent in writing that it is ready to close and the Company has given Parent written notice of at least one business day of its intention to terminate the merger agreement.

Fees and Expenses

All costs and expenses incurred in connection with the merger agreement, the merger and the other transactions contemplated thereby, other than costs and expenses described under the section entitled *The Merger Agreement Termination Fees and Reimbursement of Expenses* above, will be paid by the party incurring such costs and expenses, whether or not the merger or any of the transactions contemplated by the merger agreement are consummated.

Remedies

Subject to any equitable remedies the Company may be entitled to, our right to receive payment of a reverse termination fee of $20.0 million in connection with the merger from Parent or Merger Sub, is our sole and exclusive remedy for any loss or damage suffered as a result of the failure of the merger to be consummated under certain circumstances or for a breach or failure to perform under the merger agreement or otherwise and upon payment of such reverse termination fee, Parent, its subsidiaries and their respective representatives will have no further liability under the merger agreement.

Subject to any equitable remedies Parent or Merger Sub may be entitled to, Parent s and Merger Sub s right to receive payment of either (i) a termination fee of $10.0 million or (ii) a termination fee of $5.0 million plus Parent s and Merger Sub s out-of-pocket costs and expenses (up to $1.0 million) incurred in connection with the merger from us, is the sole and exclusive remedy of Parent and Merger Sub against us for any loss or damage suffered as a result of the failure of the merger to be consummated under certain circumstances or for a breach or failure to perform under the merger agreement or otherwise and upon payment of such amount, the Company, its subsidiaries and their respective representatives will have no further liability under the merger agreement.

The Company, Parent and Merger Sub are entitled to an injunction or injunctions to prevent breaches of the merger agreement and to enforce specifically the terms and provisions thereof, in addition to any other remedies under the merger agreement. The Company is not entitled to receive both a grant of specific performance that results in the consummation of the merger and payment of all or any portion of the reverse termination fee.

Amendment; Waiver of Conditions

The merger agreement may be amended with the approval of the respective boards of directors of the parties at any time; provided, however, that in the case of the Company, the board of directors must approve such amendment in writing, acting upon the unanimous recommendation of the special committee; and provided further, that after any such adoption of the merger agreement by the requisite stockholder approvals, no amendment shall be made which changes the merger consideration, adversely affects the stockholders, or otherwise requires further approval of the stockholders by law without the further approval of such stockholders.

At any time before the consummation of the merger, each of the parties to the merger agreement may waive compliance with any of the agreements or conditions contained in the merger agreement to the extent permitted by applicable law.

COMMON STOCK OWNERSHIP OF MANAGEMENT AND CERTAIN BENEFICIAL OWNERS

The following table sets forth information known to us with respect to the beneficial ownership of Company common stock as of the close of business, New York time, on August 5, 2011 for: (i) each person known by us to beneficially own more than 5% of our voting securities, (ii) each executive officer (including a named executive officer), (iii) each of our directors, (iv) all of our officers and directors as a group. Information concerning beneficial ownership was obtained from publicly available filings, and (v) the Rollover Stockholders.

Unless otherwise specified, the address of each of the persons set forth below is in care of China Security & Surveillance Technology, Inc., 13/F, Shenzhen Special Zone Press Tower, Shennan Road, Futian District, Shenzhen, People s Republic of China, 518034.

Name of Beneficial Owner	Title of Beneficial Owner	Number of Shares Beneficially Owned	Percentage[1]
5% Security Holders			
Whitehorse Technology Limited [4]		18,750,435	20.90%
Intelligent One Limited [5]		21,708,428	24.20%
Rightmark Holdings Limited [6]		21,708,428	24.20%
Officers and Directors			
Guoshen Tu [2] [3]	CEO and Chairman	21,708,428	24.20%
Terence Yap	CFO and Director	1,365,000	1.52%
Runsen Li	Director	95,834	*
Peter Mak	Director	93,334	*
Robert Shiver	Director	73,334	*
All officers and directors as a group (5 persons named above)		21,970,930	24.49%
Rollover Stockholders			
Guoshen Tu [2] [3]		21,708,428	24.20%
Terence Yap		1,365,000	1.52%
Lizhong Wang		248,775	0.28%
Zhongxin Xie		160,300	0.18%
Lingfeng Xiong		239,980	0.27%
Li Fang		175,000	0.20%
Ying Zhang		38,811	0.04%
Zhiming Wu		34,500	0.04%
Daobin Sang		20,000	0.02%
Guohui Cao		49,000	0.05%
Chow Po Kwai		80,000	0.09%
Yang Zhao		46,916	0.05%
Yujuan Guan		27,500	0.03%
Zhuo Gong		20,000	0.02%

Xihong Dai		57,000	0.06%
Qiaomin Wu		8,000	0.01%
KaiCheng Cheng		175,211	0.20%
Lei Wang		47,000	0.05%
Xiaosheng Tong		180,000	0.20%

*Less than 1%

(1) A total of 89,703,773 shares of Company common stock are considered to be outstanding pursuant to SEC Rule 13d-3(d)(1). For each beneficial owner above, any options exercisable within 60 days have been included in the denominator.

(2) Includes 18,750,435 shares owned by Whitehorse, of which Mr. Tu is the sole owner. As set forth in Amendment No. 2 of the Schedule 13D filed by Mr. Tu on June 24, 2010, Whitehorse entered into a term loan facility agreement with a third party not affiliated with us pursuant to which the lender agreed to make available to Whitehorse a term loan facility in an aggregate principal amount of up to US$45,000,000 subject to the terms and conditions of the term loan facility agreement, as amended. In connection with the term loan facility, Whitehorse and Mr. Tu pledged shares of Company common stock that are directly and indirectly beneficially owned by Whitehorse and Mr. Tu, respectively, to secure such term loan facility.

(3) As set forth in Amendment No. 6 of the Schedule 13D filed by Mr. Tu on April 22, 2011, the aggregate amount of shares of Company common stock beneficially owned by Mr. Tu includes the shares of Company common stock to be contributed by the Rollover Stockholders to Parent pursuant to the rollover agreement, but does not include any other shares of Company common stock that may be owned by the Rollover Stockholders other than Mr. Tu.

(4) Mr. Tu, the Chairman and Chief Executive Officer of the Company, is the sole owner of Whitehorse.

(5) Mr. Tu, the Chairman and Chief Executive Officer of the Company, is the sole owner of Intelligent One. As set forth in Amendment No. 6 of the Schedule 13D filed by Mr. Tu on April 22, 2011, the aggregate amount of shares of Company common stock beneficially owned by Intelligent One includes the shares of Company common stock to be contributed by the Rollover Stockholders to Parent pursuant to the rollover agreement.

(6) Through Intelligent One, Mr. Tu, the Chairman and Chief Executive Officer of the Company, indirectly owns 100% of Parent. As set forth in Amendment No. 6 of the Schedule 13D filed by Mr. Tu on April 22, 2011, the aggregate amount of shares of Company common stock beneficially owned by Parent includes the shares of Company common stock to be contributed by the Rollover Stockholders to Parent pursuant to the rollover agreement.

Changes in Control

Except for the proposed merger and share pledge in connection with the Facility described above and as disclosed elsewhere in this proxy statement, there are currently no other arrangements which may result in a change in control of the Company.

Securities Authorized for Issuances under Equity Compensation Plans

The following table includes the information as of December 31, 2010 for each category of our equity compensation plan:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (#) (a)	Weighted-average exercise price of outstanding options, warrants and rights ($) (b)	Number of securities remaining available for future issuance under equity compensation plans excluding securities reflected in column (a) (#) (c)
Equity compensation plans approved by security holders [1]	[1] [2]	Not Applicable [2]	0
Equity compensation plans not approved by security holders			
Total	[1] [2]	Not Applicable[2]	0

(1) On February 7, 2007, our board of directors authorized the establishment of the 2007 Equity Incentive Plan, whereby we were authorized to issue a maximum 8,000,000 shares of Company common stock to certain employees, consultants and directors. On February 3, 2010, our stockholders approved the amendment to the plan to increase the total authorized shares from 8,000,000 shares to 12,000,000 shares and extend the term of the 2007 Equity Incentive Plan to February 7, 2017.

(2) Through December 31, 2010, we have only made grants of shares of restricted stock. The weighted average grant date fair value of the outstanding awards as of December 31, 2010 was $6.42.

COMMON STOCK TRANSACTION INFORMATION

Purchases by Company

The Company has not purchased any shares of Company common stock within the past two years.

Prior Public Offerings

In August 2009, we completed a public offering of 4,056,000 shares of Company common stock at $6.25 per share and warrants to purchase up to 1,014,000 shares of Company common stock at an exercise price of $8.62 per share. We raised approximately $25 million in gross proceeds from this offering, or approximately $24 million in net proceeds after deducting underwriting discounts and commissions and other offering expenses.

In October 2009, we completed another public offering of 9,359,148 shares of Company common stock at $6.25 per share and warrants to purchase up to 2,339,787 shares of Company common stock at an exercise price of $8.16 per share. We raised approximately $58 million in gross proceeds from this offering, or approximately $56 million in net proceeds after deducting underwriting discounts and commissions and other offering expenses.

In June 2010, we completed a public offering of 17,250,000 shares of Company common stock at a price to the public of $4.00 per share. We raised approximately $69 million in gross proceeds from this offering, or approximately $65 million in net proceeds after deducting underwriting discounts and commissions and other offering expenses.

APPRAISAL RIGHTS

Under the DGCL, holders of shares of Company common stock who follow the procedures set forth in Section 262 of the DGCL will be entitled to have their shares appraised by the Delaware Court of Chancery and to receive payment in cash of the fair value of those shares, exclusive of any element of value arising from the accomplishment or expectation of the merger. In order to exercise and perfect appraisal rights, a record holder of shares of Company common stock must follow the steps summarized below properly and in a timely manner.

Please note, however, that all of our assets are located outside the United States. In addition, all of our directors and officers, except for Robert Shiver, are nationals or residents of countries other than the United States and all or a substantial portion of such persons' assets are located outside the United States. As a result, it may be difficult for investors to enforce against us or such persons judgments obtained in United States courts. The PRC does not have any treaties or other arrangements with the United States that provide for the reciprocal recognition and enforcement of foreign judgments. As a result, it is generally difficult to enforce in the PRC a judgment rendered by a U.S. court against us. In addition, we do not have any assets available in the U.S. that could be used to satisfy any liabilities we may incur.

Section 262 of the DGCL is reprinted in its entirety as Annex C to this proxy statement. Set forth below is a summary description of Section 262 of the DGCL. The following summary describes the material aspects of Section 262 of the DGCL, and the law relating to appraisal rights and is qualified in its entirety by reference to Annex C. Except as otherwise noted, all references in Section 262 of the DGCL and this summary to stockholder are to the record holder of shares of Company common stock immediately prior to the effective time of the merger as to which appraisal rights are asserted. Failure to comply strictly with the procedures set forth in Section 262 of the DGCL will result in the loss of appraisal rights.

Under Section 262 of the DGCL, when a merger agreement relating to a proposed merger is to be submitted for adoption at a meeting of stockholders, as in the case of the annual meeting, the corporation, not less than 20 days prior to such meeting, must notify each of its stockholders who was a stockholder on the record date for notice of such meeting with respect to such shares for which appraisal rights are available, that appraisal rights are so available, and must include in each such notice a copy of Section 262 of the DGCL. This proxy statement constitutes such notice to the holders of Company common stock and Section 262 of the DGCL is attached to this proxy statement as Annex C and incorporated herein by reference. Any stockholder who wishes to exercise such appraisal rights or who wishes to preserve his or her right to do so should review the following discussion and Annex C carefully, because failure to timely and properly comply with the procedures specified will result in the loss of appraisal rights under the DGCL.

If you wish to exercise appraisal rights you must not vote for the adoption of the merger agreement and must deliver to the Company, before the vote on the proposal to adopt the merger agreement, a written demand for appraisal of your shares of Company common stock. If you sign and return a proxy card or vote by submitting a proxy by telephone or the Internet, without abstaining or expressly directing that your shares of Company common stock be voted against the adoption of the merger agreement, you will effectively waive your appraisal rights because such shares represented by the proxy will be voted for the adoption of the merger agreement. Accordingly, if you desire to exercise and perfect appraisal rights with respect to any of your shares of Company common stock, you must either refrain from executing and returning the enclosed proxy card and from voting in person, or submitting a proxy by telephone or the Internet, in favor of the proposal to adopt the merger agreement or check either the against or the abstain box next to the proposal on such card or vote in person or by submitting a proxy by telephone or the Internet, against the proposal or register in person an abstention with respect thereto. A vote or proxy against the adoption of the merger agreement will not, in and of itself, constitute a demand for appraisal.

A demand for appraisal will be sufficient if it reasonably informs the Company of the identity of the stockholder and that such stockholder intends thereby to demand appraisal of such stockholder s shares of Company common stock. This written demand for appraisal must be separate from any proxy or vote abstaining from or voting against the adoption of the merger agreement. If you wish to exercise your appraisal rights you must be the record holder of such shares of Company common stock on the date the written demand for appraisal is made and you must continue to hold such shares through the effective time of the merger. Accordingly, a stockholder who is the record holder of shares of Company common stock on the date the written demand for appraisal is made, but who thereafter transfers such shares prior to the effective time of the merger, will lose any right to appraisal in respect of such shares.

Only a holder of record of Company common stock is entitled to assert appraisal rights for such shares of Company common stock registered in that holder s name. A demand for appraisal should be executed by or on behalf of the holder of record, fully and correctly, as the holder s name appears on the stock certificates or in the case of uncertificated shares, as the holder s name appears on the stockholder register, and must state that such person intends thereby to demand appraisal of his, her or its shares. If the shares are owned of record in a fiduciary capacity, such as by a broker, dealer, commercial bank, trust company or other nominee, execution of the demand for appraisal should be made in that capacity, and if the shares are owned of record by more than one person, as in a joint tenancy or tenancy in common, the demand should be executed by or on behalf of all joint owners. An authorized agent, including one for two or more joint owners, may execute the demand for appraisal on behalf of a holder of record; however, the agent must identify the record owner or owners and expressly disclose the fact that, in executing the demand, it, he or she is acting as agent for such owner or owners.

A record holder such as a broker, dealer, commercial bank, trust company or other nominee who holds shares as nominee for several beneficial owners may exercise appraisal rights with respect to the shares of Company common stock held for one or more beneficial owners while not exercising such rights with respect to the shares held for other beneficial owners; in such case, the written demand should set forth the number of shares as to which appraisal is sought. If the number of shares of Company common stock is not expressly stated, the demand will be presumed to cover all shares held in the name of the record owner. If you hold your shares in an account with a broker, dealer, commercial bank, trust company or other nominee and wish to exercise your appraisal rights, you are urged to consult with your broker, dealer, commercial bank, trust company or other nominee to determine the appropriate procedures for the making of a demand for appraisal.

All written demands for appraisal of shares of Company common stock must be mailed or delivered to: China Security & Surveillance Technology, Inc., 13/F, Shenzhen Special Zone Press Tower, Shennan Road, Futian District, Shenzhen, People s Republic of China, 518034, Attn: Corporate Secretary, or should be delivered to the Corporate Secretary at the annual meeting, prior to the vote on the adoption of the merger agreement.

Within ten days after the effective time of the merger, we will notify each stockholder as of the effective time of the merger who properly asserted appraisal rights under Section 262 of the DGCL and has not voted for the adoption of the merger agreement. Within 120 days after the effective time of the merger, but not thereafter, we or any stockholder who has complied with the statutory requirements summarized above may commence an appraisal proceeding by filing a petition in the Court of Chancery demanding a determination of the fair value of the shares of Company common stock held by such stockholder. If no such petition is filed, appraisal rights will be lost for all stockholders who had previously demanded appraisal of their shares. We are not under any obligation, and we have no present intention, to file a petition with respect to appraisal of the value of the shares. Accordingly, if you wish to exercise your appraisal rights, you should regard it as your obligation to take all steps necessary to perfect your appraisal rights in the manner prescribed in Section 262 of the DGCL.

Within 120 days after the effective time of the merger, any stockholder who has complied with the provisions of Section 262 of the DGCL will be entitled, upon written request, to receive from us a statement setting forth the aggregate number of shares of Company common stock not voted in favor of the adoption of the merger agreement and with respect to which demands for appraisal were received by us, and the number of holders of such shares. Such statement must be mailed within ten days after the written request therefor has been received by us or within ten days after expiration of the period for delivery of appraisal demands, whichever is later. A person who is the beneficial owner of Company common stock held either in a broker, dealer, commercial bank, trust company or other nominee on behalf of such person may, in such person s own name, file an appraisal petition or request from us the statement described in this paragraph.

If a petition for an appraisal is timely filed and a copy thereof served upon us, we will then be obligated, within 20 days, to file with the Delaware Register in Chancery a duly verified list containing the names and addresses of the stockholders who have demanded appraisal of their shares and with whom agreements as to the value of their shares have not been reached. After notice to the stockholders as required by the Court of Chancery, the Court of Chancery is empowered to conduct a hearing on such petition to determine those stockholders who have complied with Section 262 of the DGCL and who have become entitled to appraisal rights thereunder. The Court of Chancery may require the stockholders who demanded appraisal rights of their shares of Company common stock to submit their stock certificates to the Register in Chancery for notation thereon of the pendency of the appraisal proceeding; and if any stockholder fails to comply with such direction, the Court of Chancery may dismiss the proceedings as to such stockholder.

After the Court of Chancery determines which stockholders are entitled to appraisal, the appraisal proceeding shall be conducted in accordance with the rules of the Court of Chancery, including any rules specifically governing appraisal proceedings. Through such proceeding, the Court of Chancery shall determine the fair value of the shares exclusive of any element of value arising from the accomplishment or expectation of the merger, together with interest, if any, to be paid upon the amount determined to be the fair value. In determining such fair value, the Court of Chancery shall take into account all relevant factors. Unless the Court of Chancery in its discretion determines otherwise for good cause shown, interest from the effective time of the merger through the date of payment of the judgment shall be compounded quarterly and shall accrue at 5% over the Federal Reserve discount rate (including any surcharge) as established from time to time during the period between the effective time of the merger and the date of payment of the judgment. If you are considering seeking appraisal, you should be aware that the fair value of your shares as determined under Section 262 of the DGCL could be more than, the same as or less than the per share merger consideration you are entitled to receive pursuant to the merger agreement if you did not seek appraisal of your shares and that investment banking opinions as to the fairness from a financial point of view of the per share merger consideration payable in the merger are not necessarily opinions as to fair value under Section 262 of the DGCL. In

determining fair value of shares, the Court of Chancery will take into account all relevant factors. In *Weinberger v. UOP, Inc.*, the Delaware Supreme Court has stated that such factors include market value, asset value, dividends, earning prospects, the nature of the enterprise and other facts which were known or which could be ascertained as of the date of the merger which throw any light on future prospects of the merged corporation. In *Weinberger*, the Delaware Supreme Court stated, among other things, that proof of value by any techniques or methods generally considered acceptable in the financial community and otherwise admissible in court should be considered in an appraisal proceeding. In addition, the Court of Chancery has decided that the statutory appraisal remedy, depending on factual circumstances, may or may not be a dissenter s exclusive remedy.

The Court of Chancery will direct the payment of the fair value of the shares of Company common stock who have perfected appraisal rights, together with interest, if any by the surviving corporation to the stockholders entitled thereto. The Court of Chancery will determine the amount of interest, if any, to be paid on the amounts to be received by persons whose shares of Company common stock have been appraised. The costs of the action (which do not include attorneys fees or expert fees or expenses) may be determined by the Court of Chancery and taxed upon the parties as the Court of Chancery deems equitable. The Court of Chancery may also order that all or a portion of the expenses incurred by any stockholder in connection with an appraisal, including without limitation reasonable attorneys fees and the fees and expenses of experts utilized in the appraisal proceeding, be charged *pro rata* against the value of all of the shares entitled to appraisal. In the absence of such determination or assessment, each party bears its own expenses.

Any stockholder who has duly demanded and perfected an appraisal in compliance with Section 262 of the DGCL will not, after the effective time of the merger, be entitled to vote his or her shares for any purpose or be entitled to the payment of dividends or other distributions thereon, except dividends or other distributions payable to holders of record of shares of Company common stock as of a date prior to the effective time of the merger.

At any time within 60 days after the effective time of the merger, any stockholder will have the right to withdraw his or her demand for appraisal and to accept the cash payment for his or her shares pursuant to the merger agreement. After this period, a stockholder may withdraw his or her demand for appraisal only with our written consent. If no petition for appraisal is filed with the Court of Chancery within 120 days after the effective time of the merger, a stockholder s right to appraisal will cease and he or she will be entitled to receive the cash payment for his or her shares pursuant to the merger agreement, as if he or she had not demanded appraisal of his or her shares. No petition timely filed in the Court of Chancery demanding appraisal will be dismissed as to any stockholder without the approval of the Court of Chancery and such approval may be conditioned on such terms as the Court of Chancery deems just; provided, however, that any stockholder who has not commenced an appraisal proceeding or joined that proceeding as a named party may withdraw his, her or its demand for appraisal and accept the per share merger consideration offered pursuant to the merger agreement within 60 days after the effective time of the merger.

If you properly demand appraisal of your shares of Company common stock under Section 262 and you fail to perfect, or effectively withdraw or lose, your right to appraisal, as provided in the DGCL, your shares of Company common stock will be converted into the right to receive the per share merger consideration. You will fail to perfect, or effectively lose or withdraw, your right to appraisal if, among other things, no petition for appraisal is filed within 120 days after the effective time of the merger, or if you deliver to us a written withdrawal of your demand for appraisal. Any such attempt to withdraw an appraisal demand more than 60 days after the effective time of the merger will require our written approval.

If you desire to exercise your appraisal rights, you must not vote for adoption of the merger agreement and must strictly comply with the procedures set forth in Section 262 of the DGCL.

Failure to take any required step in connection with the exercise of appraisal rights will result in the termination or waiver of such rights.

In view of the complexity of Section 262 of the DGCL, stockholders who may wish to dissent from the merger and pursue appraisal rights should consult their legal advisors.

SELECTED FINANCIAL INFORMATION

Selected Historical Financial Information

Set forth below is certain selected historical consolidated financial data relating to the Company. The financial data has been derived from the audited financial statements filed as part of our Annual Report on Form 10-K for the year ended December 31, 2010 and the unaudited financial statements filed as part of our Quarterly Reports on Form 10-Q for the periods ended March 31, 2011 and 2010. The information set forth below is not necessarily indicative of future results and should be read in conjunction with the financial statements and the related notes and other financial information contained in such Form 10-K and Forms 10-Q. See Where You Can Find More Information beginning on page 110.

	Three Months Ended March 31,		Year Ended December 31,	
	2011	**2010**	**2010**	**2009**
	(In millions, except per share data)			
Statement of Operations Data:				
Revenues	$ 99.05	$ 120.19	$ 684.70	$ 580.87
Income From Operations	8.13	6.97	103.94	