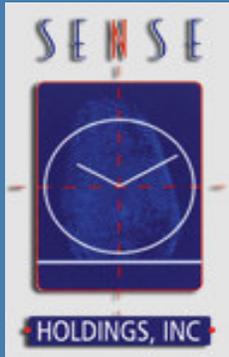


# BEACON EQUITY RESEARCH



December 6, 2005  
Analyst: Shailesh Dhuri, CFA



## Financial Summary

|                       |                      |
|-----------------------|----------------------|
| SYMBOL EXCHANGE       | <b>SEHO</b><br>OTCBB |
| CURRENT PRICE         | \$0.27               |
| SHARES OUTSTANDING    | 33.45<br>MILLION     |
| COVERAGE INITIATED    | October 14,<br>2005  |
| RATING                | Outperform           |
| PRICE TARGET          | \$0.75               |
| MARKET CAP            | \$9.34 MILLION       |
| 52-WEEK RANGE         | \$0.14- \$0.42       |
| AVERAGE 30-DAY VOLUME | 178,893              |



## Company Background

Sense Holdings, Inc. (OTCBB: SEHO) is headquartered in Florida and is a cutting-edge developer of solutions for the growing Homeland Security market. Its products and development programs focus on security screening applications and detection devices to identify concealed explosives, narcotics and other threats.

Sense Technologies, a wholly owned subsidiary of Sense Holdings, is active in the business of developing, designing and manufacturing novel biometric security identification systems.

The Company is also active in developing nanotechnology-based micro-sensor explosive detection and other detection technologies for government, military and commercial security marketplaces.

The Company's major customers include the U.S. Army, the U.S. Department of Corrections, Federal Express and American Airlines. As of September 30, 2005, Sense had core staff strength of six full-time employees.



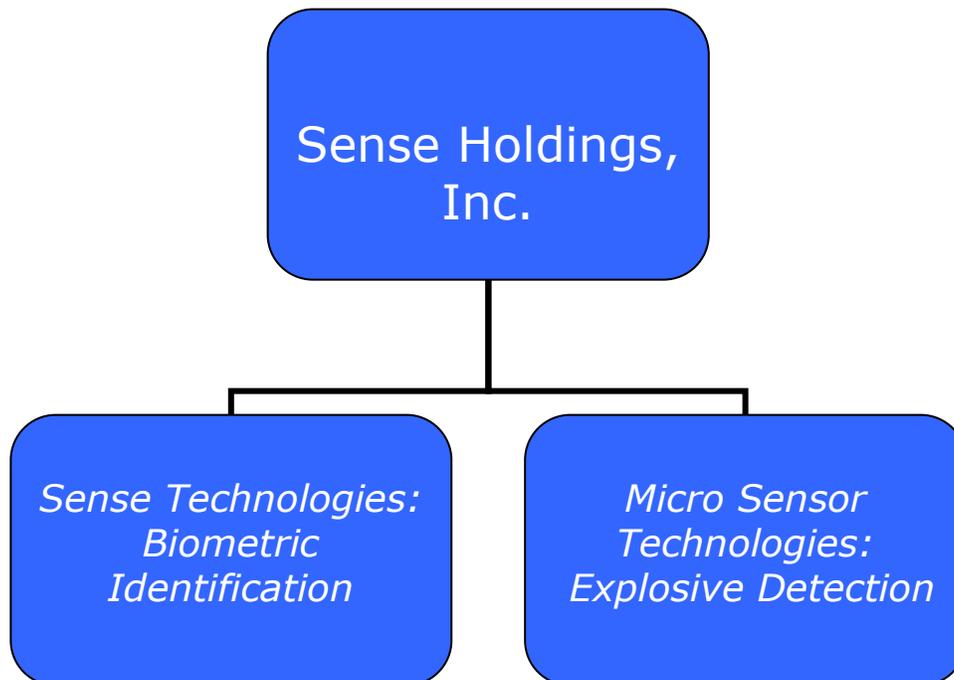


## Description of Sense Holdings, Inc.

Currently, the Company operates through the following two subsidiaries:

- **Sense Technologies, Inc.** – It is a manufacturer of biometrically secured authentication and identification systems for prisoners; for time and attendance; for access control applications; and for other markets. Sense Technologies integrates advanced biometric and Micro-Electro-Mechanical Sensor (MEMS) technology into mechanical and electronic control devices that improves and secures many business processes.
- **MSTI, Inc.** – It is an emerging nanotechnology-based micro-sensor explosives detection research and development organization. MSTI holds patents and intellectual property that enables explosives detection, authentication and identification. The Company believes that explosive detection devices have a strong future and is investing heavily in development of new devices for this market. It owns patents and intellectual property for MEMS based explosives detection technology licensed through a national government laboratory, Oak Ridge National Laboratory (ORNL).

Figure 1: Subsidiaries of Sense Holdings, Inc.





## Recent Developments

### **New Patent for MEMS-Based Handheld Explosives Detection Technology**

On November 18, 2005, Sense announced the filing of a new patent related to an advanced handheld explosives detection technology. The new patent is based on Micro Electro-Mechanical Sensors (MEMS) technology. MEMS are structures which are created in a very similar fashion to mass-produced electronic integrated circuits. They can be developed as sensors to detect a wide-range of substances, including explosives, chemical, biological and narcotic. These microstructures are commercially manufactured for a number of current applications, ranging from atomic force microscopes to deceleration sensors for automotive airbag deployment systems. Also based on MEMS technology, the Company is co-developing a handheld, explosives detection device with the Oak Ridge National Laboratory (ORNL), a part of the U.S. Department of Energy. The Company claims that the main advantages of Sense's proprietary explosives detection technology include very low cost, extremely high sensitivity and real-time operation

The announcement comes as another milestone in Sense's IP portfolio as this filing now brings Sense's total exclusive worldwide patents and licenses, pending and issued, to 12. In the highly competitive Homeland Security space, we see a depth of patent protection as a key for any company seeking to take a leadership position.

### **Sense To Own Exclusive Worldwide Marketing Rights to MEMS-based Security Applications**

On November 17, 2005, Sense announced that it has expanded its worldwide licensing and patent agreements with the Oak Ridge National Laboratory. With this agreement, Sense now owns all worldwide exclusive licenses and patents related to the sale, manufacturing and distribution of this handheld detection system, as well as to all its potential applications for the detection of landmines, unexploded ordnance, chemical warfare agents and narcotics. In addition, the Company has rights to acquire the field of use for all biological warfare agents.

The potential market for explosive detection units is enormous. Terrorism threats involving explosives are not only a concern of those in the U.S., but for virtually every country in the world now. It is very likely that as the technology evolves, handheld explosive detection devices will comprise a large part of this market in the future. The announcement reinforces the Company's competitive edge and capability as a leading provider of innovative, comprehensive solutions to the growing Homeland Security market. It should help provide a base for accelerated, high-growth revenues in the marketplace.

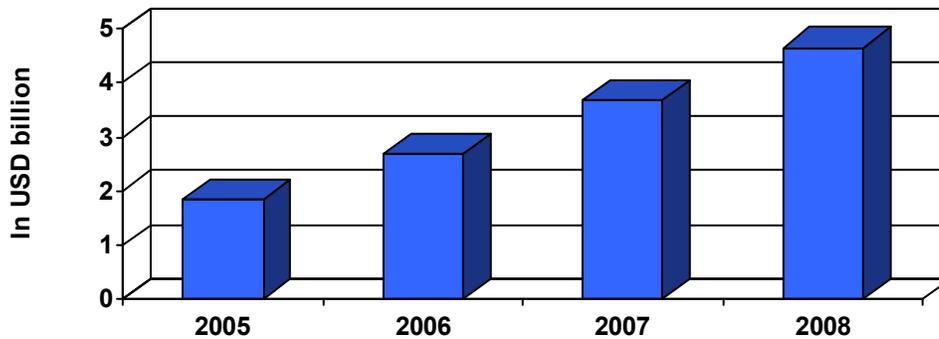


## Industry Analysis

According to the International Biometrics Industry Association, the market for biometric based integrated security technologies is projected to reach about \$2 billion in 2005 and \$4 billion by 2006 with an annual growth rate of around 25% in subsequent years, with physical security and device sales driving much of the growth.

The following exhibit highlights consolidated projected annual revenue projections from 2005 through 2008 for the eight leading biometric technologies (including multimodal biometrics), the seven leading biometric applications, and the five leading biometric verticals.

**Figure 1: Total Biometric Revenue Projection**



Source: Biometrics Market and Industry Report 2004-2008 (Publisher: International Biometric Group)

The total worldwide market for nuclear hazards, biological, chemical (NBC) and explosives detection is expected to grow at an average annual growth rate of 21.4% to reach approximately \$3.2 billion by 2008. The US market is expected to reach \$143 million by 2008. (Source: <http://www.bccresearch.com/safety/C220.html>). The following figure highlights the above:



## Conclusion

Since the 9/11 tragedy, securing ports and borders has become a key concern of the Homeland Security department. The nation's increased focus on innovative biometric technology to address illegal immigration and terrorist activity provides an opportunity to significantly enhance revenues for companies like Sense Holdings. In addition, the biometric aspect of the business may experience increased growth as countries worldwide are beginning to deploy biometric sensors and biometric travel documents.

With the recent filing of a new patent, Sense currently has an IP portfolio of 12 pending and issued exclusive worldwide patents and licenses. To date, the MEMS technology being developed at Oakridge National Laboratory has been funded with over 10 million dollars through various government agencies such as the ATF, FCC, FAA, and the Dept of Energy. This continued focus on R&D may help the Company launch innovative products in future also.

Sense's business strategy focuses on bringing next-generation technologies to important existing and growing markets. The recent formation of the Scientific and Security Advisory Board last month highlights the Company's focus to generate high-growth revenues in the Homeland Security marketplace.

Also, in due course, Sense plans to deploy a product line of innovative handheld detectors with varying substance-sensing capabilities at various possible places, such as governments, airports, law enforcement agencies, private companies, stadiums, coliseums and other venues in the US and around the world. The Company expects the commercial launch of a first-generation handheld explosives detector by mid-2006.

In light of the positive news announcements and promising business prospects since our initial coverage of the Company on October 14, 2005, we reiterate our 12-month price target of \$.75 for Sense Holdings, Inc. at this time.

We have addressed key risks of Sense Holdings' operations in our initiation report, which is available at [www.BeaconEquityResearch.com](http://www.BeaconEquityResearch.com). Readers are encouraged to refer to this report for risk factors.



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