

# BEACON EQUITY RESEARCH



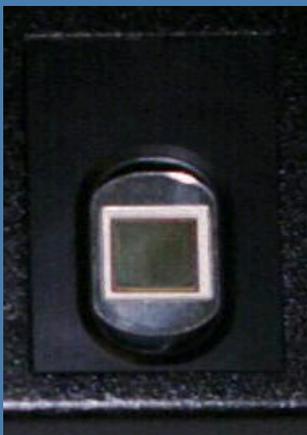
May 31, 2006

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## Financial Summary

|                       |                  |
|-----------------------|------------------|
| SYMBOL                | <b>SEHO</b>      |
| EXCHANGE              | OTCBB            |
| CURRENT PRICE         | \$ .23           |
| SHARES OUTSTANDING    | 49.17 MILLION    |
| COVERAGE INITIATED    | October 19, 2005 |
| RATING                | Outperform       |
| PRICE TARGET          | \$ .75           |
| MARKET CAP            | \$11.5 MILLION   |
| 52-WEEK RANGE         | \$ .16 - \$.43   |
| AVERAGE 30-DAY VOLUME | 223,400          |



## Company Background

Sense Holdings is active in the area of biometric and micro-sensor identification systems and targets the Homeland Security market by offering products that are used to secure military installations, business and personal facilities, assets and information. One of the key new initiatives of the Company is its explosive detection device. The Company's security solutions are cost-effective and can be easily integrated with the enterprise-wide systems that its large corporate customers utilize. The Company is also developing products and applications for Internet security, web-based processes and transaction processing.

Sense Holdings' main business operations can be classified in two distinct classes:

- 1) The design, development and manufacturing of biometric technologies for human identification and authentication, access control, and time and attendance systems.
- 2) The design, development and manufacturing of technologies for explosives detection.



The Company is currently in the process of integrating its business operations to create innovative products not currently offered in the market. That is, the Company is integrating its explosives detection technologies with its biometric authentication and identification technologies. With the successful integration of Sense Holdings' biometric and explosives detection technologies, the Company will be able to develop industry-specific applications for the following areas: Homeland Security, aviation, banking and finance, food preparation, gaming, health care, hotel, insurance, law enforcement, manufacturing, military, public safety, security, restaurant, retail and travel.

## Recent Announcements—*Explosive Detection Demonstrator*

The Company recently announced the completion of a first-generation Micro Electro-Mechanical Systems (MEMS) based explosives detection demonstrator, which has the potential to provide superior explosive detection capabilities at a fraction of current costs. The MEMS system is proprietary to the Company, as Sense is the sole exclusive licensee for proprietary patents and technologies developed at Oak Ridge National Laboratory. The technology to date has been funded by several government agencies, such as the Department of Energy (DOE); Alcohol, Tobacco, and Firearms (ATF), Federal Aviation Administration (FAA), Transportation Security Administration (TSA) and others.

The fact that the Company's research has been funded by many government agencies demonstrates its critical commercial importance. The chances of getting an opening into various agencies for selling the devices increase when a Company has a funded research effort, as this allows potential buyers to be aware of the advantages rendered by the new technology.

### **Strategic Importance of the Recent Announcement**

As already mentioned, the Company entered into a strategic alliance with ORNL in August 2005. Now, in less than one year time period, the Company has been able to produce a demonstration product which incorporates the technology of ORNL. This demonstrates many aspects of the Company's management capabilities, including its ability to align itself with the right technology partners. In addition, the availability of a demonstration product improves the ability of the Company to understand the client needs in a more detailed manner. This will, in turn, help the Company launch a commercial product which addresses the exact needs of the target audience.



## Key Alliances

In August 2005, Sense Holdings entered into an agreement with Oak Ridge National Laboratory (ORNL). According to the agreement, Sense Holdings and ORNL will launch the first phase of a joint development project for explosive detectors.

Sense is developing its line of advanced detection products under a research and development partnership with the Oak Ridge National Laboratory in Oak Ridge, TN, which is operated by the US Department of Energy. Sense is the sole commercialization partner with exclusive rights for the manufacture, sale and distribution of MEMS-based handheld devices.

## Business Strategy

The key component of the Company's business strategy is to develop strategic alliances. Objectives of strategic alliances can be diverse, but the main benefits in this case are access to new technologies, vertical industry expansion, and access to new products. These alliances form a valuable base from which the Company will be able to exploit new revenue generation opportunities.

Another key component of the Company's business strategy is the focus on large, valuable customers, who can provide a steady source of revenue for the Company. For the fiscal year ended December 31, 2004, three significant customers, namely American Airlines, Federal Express and Pearson Education, accounted for approximately 72% of Sense Holdings' total revenue.



## Industry Analysis

According to Company, the US market for explosive detection devices is currently estimated to be \$3.5 billion, and is expected to grow significantly to \$10 billion by 2010. In addition, the market for biometric-based integrated security technologies is projected to reach \$4 billion by 2006 with an annual growth rate of around 25% in subsequent years, with physical security services and device sales driving much of this growth. There are more than 250 organizations worldwide claiming to be in the biometrics industry. However, there is only a remnant of companies with a strong customer base and field-proven products and services, which has led to a fragmented industry structure. The growth in the industry is driven by technological innovations which have reduced the costs of both the hardware and the software required for the industry. In addition, the unfortunate terrorist events across the developed world since September 2001 have heightened security concerns, leading to higher demand for security solutions, such as biometric identification and explosive detection.

## Conclusion

Sense Holdings is planning to make its presence felt in the fast-growing market segments of the Homeland Security industry, including explosive detection and biometric identification. The recent announcement of the availability of a demonstration product in the explosive detection devices space is quite important, as it can be considered the first major step to commercialization of its technology. If done successfully, shareholder value should be significantly increased.



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All decisions are made solely by the analyst and independent of outside parties or influence.

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Shailesh Dhuri, CFA - Senior Analyst

Shailesh is co-founder of Advanced Investment Mechanics. Prior to establishing AIM, Mr. Dhuri worked for the treasury team at Credit Agricole Indosuez, where he was responsible for bond trading, ALM and transfer pricing. Before moving to Credit Agricole, Shailesh headed the trading desk of one of the primary dealers of Indian Government Bonds. Shailesh started his career with Unit Trust of India, where he held various assignments, including launch of the first money market mutual fund in India, heading the treasury desk of the fund. Shailesh holds an MBA from the Indian Institute of Management, Bangalore. In addition, he holds CFA qualification from ICFAI, FRM qualification from GARP, PRM qualification from PRMIA, and Cost Accounting qualification from ICWAI.

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