

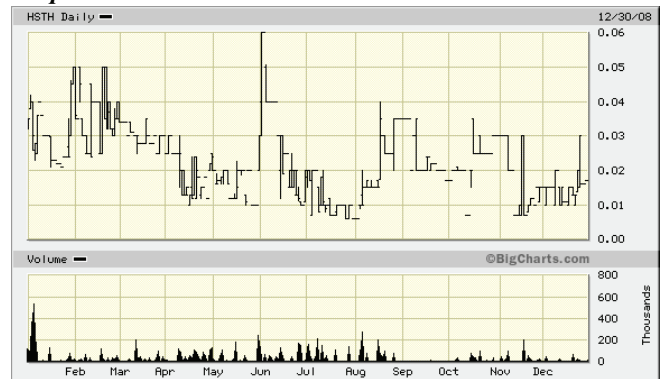


**Industry:** Security Systems Providers

**Risk Level:** Speculation

Symbol	HSTH
Share Price (12/31/08)	\$0.04
52 Week High	\$0.06
52 Week Low	\$0.01
Market Capitalization	\$1.60M
Shares Outstanding	39.95M
Approximate Float (approx)	9.50M

## **HS3 Technologies, Inc.**



### **Business Summary:**

HS3 Technologies, Inc. (“HS3” or “the Company”), is a national provider and integrator of innovative security solutions. HS3’s goal is to be a single source portal, providing its clients with products and services in combinations that complete the security and monitoring matrix. The Company provides technically advanced hardware and proprietary video analytic software, with a full line of products including digital video recording technology (DVRs), biometric access control (door locks), personal biometric identification units, CCTV, remote video monitoring centers, wireless mesh networks units and wireless Internet-linked satellite surveillance systems. HS3’s Denver Monitoring Center serves as its single point integrated security solutions portal, where it combines its proprietary analytical software, network security, alarm monitoring, and video alarm verification products.

HS3 Technologies, Inc. was founded in 2005 and is based in Denver, Colorado. Since inception, the Company has reported steady revenue growth. During fiscal years 2006, 2007, and 2008, the Company reported revenues of \$25,000, \$256,000, and \$1.4 million respectively. The Company’s shares trade on the OTC Bulletin Board exchange under the ticker symbol HSTH.

### **Deal with American Humane Association**

The Company recently entered into an exclusive agreement with the AHA to provide third party video audit services. HS3 will deploy a video monitoring system that will expand the observations and augment the compliance with American Humane Certified (AHC) standards for humane care. HS3 will contract with American Human Association’s customers directly for video monitoring services and equipment rentals.

The deal with AHA currently includes the animal cycle from “birth-to-death”. There are two primary facilities that are critical in this process: the growing house and the slaughter house. As the name implies, the growing house is the facility where an animal is raised until it reaches a certain age or weight and the slaughter house is where animals are killed and processed into meat products. HS3 estimates that there are approximately 9,900 growing houses and 300 slaughter houses in the United States, making the ratio of growing houses to slaughter houses 33:1.

### **Deal Metrics**

#### *Video Monitoring and Equipment Leasing Fee*

HS3 will provide video monitoring and lease equipment to the participating facilities under a five year lease. The Company will initially earn video monitoring and equipment leasing revenue from two sources: growing houses and slaughter houses. With respect to the first type of facility, HS3 expects to earn between \$200-\$250 per month per participating unit (growing house) for video monitoring and equipment leasing fees. With respect to the second type of facility, the Company expects to initially earn between \$350-\$500 per month per unit (slaughter house).

#### *Audit Fee...TBD*

There is also a third source of revenue that cannot yet be fully disclosed, but it will be an audit fee based on a per unit (e.g. lbs. of pig slaughtered/gallons of milk produced) metric. To shed some light on the scale of this process, an average pig factory processes 18,600 pigs per day, with each pig weighing approximately 200 pounds, equating to 3.72 million pounds of swine processed in one facility in one day. At even one-tenth of one cent per day, this represents revenue of \$3,720 per day per facility (\$1.116 million in revenue per year per facility assuming 300 days). To take another example, each cow in North American produces approximately

2,300 gallons of milk per year. With approximately 800,000 cows, this represents 1.84 billion gallons of milk produced per year. Assuming the same metric as before, at one tenth of one cent, this revenue stream approximates \$1.84 million per year. Although the specific financial metrics cannot yet be disclosed, once the operation is ramped up, we expect that the audit fees will represent the majority of fee income earned from this deal, at between 65%-75% of total fee income.

In aggregate, HS3 estimates that it will report revenues of approximately \$40,000 per site per month, or \$480,000 per year, between video monitoring, equipment leasing, and audit fees.

### **Future Deal**

The revenue streams described in the previous section all represent the “birth-to-death” cycle. HS3 is also working with a company called Monipro to provide its video monitoring services for the “death to the dinner table” stage, also known as the food safety side. This stage is critical for not only ensuring food safety for the consumers, but also to avoid expensive beef and poultry recalls, which cost beef and poultry companies millions of dollars each year. The system is also critical for reducing theft, which costs the industry millions of dollars each year in lost product. The financial metrics of this side of the equation are still unknown.

### **Farmed animal market**

It is estimated that 27 million farmed animals are killed in the United States alone per day. Globally, the figure grows to approximately 19,000 per minute or a total of 10 billion animals per year. According to the USDA, during 2007, the retail equivalent of U.S. beef industry was \$74 billion and total U.S. beef consumption was 28.1 billion pounds, with 2008 expected production to be slightly lower at 26.6 billion pounds. U.S. commercial pork production in 2008 is expected to be 23.5 billion pounds and broilers (chicken) production is expected to be 36.9 billion. In aggregate, total red meat and poultry 2008 production is expected to be 94.0 billion pounds. The meat, beef, and poultry processing industry, which accounted for 30% of the food-manufacturing sector, reported 2007 revenues of \$152.7 billion.

### **Other Deals**

The Company has other “monster-sized” deals on the side which may be closed. Aside from these huge potential deals, HS3 also has been working with the Chicago Police Department on the development of mobile remote observation platforms or covert surveillance cars. The cars are being outfitted with HS3’s OPIE technology, developed for the oil and gas industry. HS3 expects to install OPIE on at least 26 cars and as many as 50 surveillance vehicles depending on the final CPD budget. The Company has also signed deals with oil and gas companies for remote surveillance and system management in the field. The remote monitoring capabilities include early warning alarms and real-time reaction capabilities.

### **Investment Positives**

- High growth, high margin, recurring cash flows from AHA deal
- Very low cash burn rate
- Sufficiently capitalized
- HS3 estimates that the total cost for each install will be recaptured in the first 11-1/2 months of each 5 year contract.
- Deal with AHA is exclusive, and all US growing/slaughter houses must use HS3’s system in order to comply with the AHA audit standards
- Management is experienced and has significant “skin in the game”.
- Stock is trading at very attractive levels, relative to its fundamentals.

### **Investment Conclusion**

Given the potential applications of the Company’s sophisticated technological products and solutions, HS3 represents a truly unique “high reward” opportunity for investors seeking a company with potentially explosive revenue growth and an ultra low market capitalization.

## Management Team and Directors

### **Mark Lana, Chief Executive Officer**

Mr. Lana has over thirty years experience in real estate acquisition, management, and development. He has owned and operated multi-unit properties and corporate extended stay hotel suites in Denver. During that time he also owned a medical transcription service that serviced the major Medical Center hospitals in Denver, and was instrumental in the development of a network to insure that radiology reports were available to doctors at the patient's bed within fifteen minutes of dictation. Mr. Lana holds a B.S. in Marketing from the University of Colorado.

### **Scott Annis, Chief Technology Officer**

Mr. Annis will be responsible for the strategic rollout of HS3 Technologies' solutions including site-surveys, deployment, implementation, liaison with WildBlue Communication technicians and maintenance of customer installations. Mr. Annis brings over 25 years of experience working with computers, servers, networks, wireless networking and routers. Prior to joining HS3 Technologies, Mr. Annis founded Nanuke Systems, Inc., a full-service Internet solutions firm. Nanuke Systems provides website and email hosting, wireless Internet access and network design, services and repair. Nanuke Systems specializes in the design, development and implementation of remote access solutions for large corporations. Mr. Annis also attended the University of Colorado at Boulder's Aerospace Engineering Program.

### **Robert Morrison, Business Development Executive Consultant**

Mr. Morrison has 20 years of experience in the computer industry with a long background in networking and network functionality. For the past 17 years, Mr. Morrison has managed RAM Enterprises, a networking firm that manages over 500 networks for organizations such as Citicorp, Phil Long Dealerships and Rose Community Foundation among others. Mr. Morrison has also successfully built and sold several businesses in a variety of industries. Mr. Morrison is a member of the "Homeland Security" standards committee, which allows him and the organization to be privy to the latest updates within the industry. Mr. Morrison holds a BA in accounting and computer sciences from the University of Northern Colorado.

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