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INTRODUCTION TO HOMELAND SECURITY

Note: The prior Homeland Security Sector report provides a detailed introduction to the US Homeland security agencies and their background and functions. I don't want to repeat all the information here, but to provide some updated material and a general overview of the sector and agencies. Please see the prior reports to form / create a complete background. Portions of the following material incorporated below are from the prior work created by Ryan Fuhrmann, CFA.

Homeland Security, as defined by the National Strategy for Homeland Securityⁱ (“the Strategy”), is as follows:

“Homeland Security is a concerted national effort to prevent terrorist attacks within the United States, reduce America’s vulnerability to terrorism, and minimize the damage and recover from attacks that do occur.”

The advisory system, in addition to publishing the current threat level and its corresponding color code, combines the threat assessments with specific information (when available) and public communication. The systems three main components consist of:

- **Homeland Security Threat Advisories:** Actionable information about threat incidents involving or targeting crucial networks, infrastructure, or key assets. Formerly called ‘Alerts,’ advisories could suggest a change in readiness postures, actions or responses. The target audience includes Federal, State, and Local governments, private sector organizations, and international partners.
- **Homeland Security Information Bulletins:** Information releases that do not meet the immediacy requirements of Advisory releases. This could include statistical reports, summaries, response reporting, or standards and tools reporting. The target audience includes Federal, State, and Local governments, private sector organizations, and international partners.
- **Color Coded Threat Level:** Used to communicate with public officials, and the public-at-large, the protective measures that should be currently put into use. Changes in the color levels have shown to have economic, physical, and psychological effects on the nation so the agency has designed the system to be able to put different threat levels into use for different geographical areas of the country.

The threat level system currently uses a set of color codes to define the threat status: **red/orange/yellow/blue/green**. These colors represent the probability of a near-term terrorist attack. This is an exceedingly complex topic to define and understand. It involves efforts both at home and abroad and demands a range of government and private sector capabilities as well as a coordinated and focused effort from different entities that have not historically been compelled to focus on security efforts. The Strategy established three objectives based on the definition of Homeland Security as previously stated:

1. Prevent terrorist attacks within the United States;
2. Reduce America’s vulnerability to terrorism;
3. Minimize the damage and recover from attacks that do occur.



The events of 9/11 have had a profound effect on the way in which our country views national security. Since that time, federal, state, and local law enforcement agencies have been thrown onto the national stage and subjected to redefined and newly evolving roles. According to the Strategy, they should now ‘assign priority to preventing and interdicting terrorist activity within the Unites States.’ⁱⁱ

National Strategy

The events of 9/11 changed the way America deals with terrorism and domestic attacks by small-organized groups. Prior to 9/11 each agency and law enforcement agency acted alone, with little cooperation or information sharing between agencies. Most terrorist acts were treated as law enforcement matters, with main jurisdiction being either the local authority or the FBI.

Prior to 9/11, our security institutions were designed to fight and win the Cold War. As we all know, the cold war is over; we ‘won’ that one. But, we did not change our security institutions to reflect our victory. [The 9/11 Commission Report](#) outlined several changes they felt were important in the restructuring of our institutions to deal with these new threats:

- unifying strategic intelligence and operational planning against Islamist terrorists across the foreign-domestic divide with a National Counterterrorism Center;
- unifying the intelligence community with a new National Intelligence Director;
- unifying the many participants in the counterterrorism effort and their knowledge in a network-based information sharing system that transcends traditional governmental boundaries;
- unifying and strengthening congressional oversight to improve quality and accountability; and — strengthening the FBI and homeland defenders.

Many of these changes were under way as the Bush Administration moved quickly to consolidate the functions of national security into one agency – the Department of Homeland Security (“the Department”). On November 26, 2002, after months of negotiations and political wrangling, the agency became official as President Bush signed legislation approving the largest reorganization in the U.S. government since the creation of the Department of Defense in the 1940’s. Tom Ridge, a former governor of Pennsylvania, became its first head. The new entity consolidated an estimated 22 former agencies and 180,000 employees into one department. Additionally, resources committed increased three fold (see below for further budgetary details). Since September 11, there have been no additional significant terrorist tragedies within U.S. borders. The Bush Administration has announced numerous advances from its initiatives, including the arrest or death of approximately 75% of senior al Qaeda officials, the capture of an estimated 4,000 terrorist ‘operatives’ globally, and the capture of roughly \$140 million in terrorist funds throughout the world. ⁱⁱⁱ

In July 2004, [The 9/11 Commission Report](#)^{iv} was released. This document was a final report compiled by the National Commission on Terrorist Attacks upon the United States; it offered a detailed history of developments pre- and post-9/11 and also offered its interpretations of certain failures or systemic flaws in U.S. national security that could have possibly prevented such an attack. The report cited operational failures, such as a lack of information sharing between agencies (e.g. the inability of the FBI to effectively compile data from its field agents to assist with national priorities, or that one hijacker had links to attacks on the battleship USS Cole), problems at the CIA and FBI regarding very decentralized organizations that inhibited information gathering, ‘permeable borders’ and weak immigration controls (e.g. false documents, incomplete watch lists, ‘permeable aviation security’ that led to the use of U.S. planes as weapons against its citizens), and the fact that U.S. banks and financial institutions were used to funnel resources to terrorists living within U.S. borders. Currently, there are a number of initiatives and improvements to Homeland Security that are being undertaken by public and private organizations to address systemic security failures.

In the first quarter of 2005, [Michael Chertoff](#)^v was chosen to head the Department of Homeland Security. In a recent interview with *BusinessWeek*^{vi}, Mr. Chertoff highlighted his ambition to make the private sector more accountable for defending the nation against terrorist attacks and to act as a first responder should such attacks occur. With the exception of the airline industry that has received and will continue to receive attention, other industries are expected to face increased scrutiny. Mr. Chertoff ordered a sixty-day review of the agency to realign priorities and strategies. His focus has been on a cost-benefit study of Homeland Security and to ensure that major security threats are properly being addressed.

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In July 2005 Mr. Chertoff announced reorganization to the Department.^{vii} He announced a number of changes intended to allow the Department to evolve from its 2002 creation and remove bureaucratic inefficiencies and increase ‘nimbleness’ and focus more closely on higher probability events. Mr. Chertoff announced other changes as well such as by adding a Chief Intelligence Officer.

Government Agencies and Initiatives

Below is an [organizational chart](#) detailing the hierarchy for the Department^{viii}:



Source: <http://www.govexec.com/homeland/HSchart.htm>

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A number of major agencies were consolidated under the umbrella of the Department of Homeland Security. Major agencies centralized into the Department include the Department of Immigration and Naturalization Services (INS), U.S. Customs Services, U.S. Coast Guard, and the Transportation Security Agency (TSA). This was seen as necessary from the standpoint of having a more unified front to respond to threats and attacks. For instance, before government agencies were realigned, it was estimated that twelve different federal agencies could have responded to a chemical or biological attack.^{ix}

More Private Sector Opportunities

The Dept of Homeland Security, indirectly admitting that the gargantuan task of securing our borders, has budgeted \$2 billion dollar for a comprehensive project to secure the borders.

The contract will call for the company to design a strategy, utilizing both current border agents and technology. Perhaps utilizing remote controlled cameras. This contract has attracted the attention of large corporations such as Boeing, Raytheon, Northrop Grumman, and even Erickson. Erickson currently provides a similar service for the borders in Finland.

The 2007 vs. 2008 Budget

Overall, the 2008 budget shows an increase of over 7.6% in the discretionary use category to \$37.7 billion, with a net discretionary amount of \$34.3 billion. In addition some of these changes 2008 vs. 2007 show how the Department focuses on different areas. For example, the 2008 budget increases non-defense related homeland security spending by 9.5%. The budget also includes the following items:

- \$13 billion to strengthen border security and management, with \$1 billion in fencing on the Southwest border.
- Funds hiring 3,000 new border agents, doubling the force by the end of 2008, 950 new detention beds.
- \$2billion in First Responder grants
- Enhances the ability to trace the origins of Nuclear and Radiological materials
- Strengthens FEMA’s partnerships with the States
- Increases the number of fingerprints obtained at border entries from 2 to 10.

Department of Homeland Security (In millions of dollars)			
	2006 Actual	Estimate	
		2007	2008
Spending			
Gross Discretionary Budget Authority:			
Departmental Management and Operations	856	915	998
Office of the Inspector General	82	99	99
Citizenship and Immigration Services	114	182	30
Legislative proposal	—	—	—

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Department of Homeland Security			
(In millions of dollars)			
	2006 Actual	Estimate	
		2007	2008
United States Secret Service	1,219	1,277	1,399
Customs and Border Protection	5,865	6,442	8,791
Immigration and Customs Enforcement	3,633	4,444	4,781
Transportation Security Administration	5,891	6,010	6,399
United States Coast Guard	6,710	7,052	7,272
Federal Emergency Management Agency (FEMA)	6,146	6,013	5,187
<i>State and Local Programs (non-add)</i>	3,378	3,393	2,196
Science and Technology	1,467	848	799
Domestic Nuclear Detection Office (DNDO) ¹	—	481	562
National Protection and Programs Directorate	947	941	1,164
Federal Law Enforcement Training Center	279	253	263
Other	4	—	—
Total, Gross	33,213	34,957	37,740
Less fee-funded activities	-2,545	-2,976	-3,452
Total, Discretionary budget authority (net)	30,668	31,981	34,288
<i>Memorandum:</i>			
<i>Budget authority from enacted supplementals</i>	-15,792	1,919	—
<i>Additional funding requirements</i>	—	3,520 ²	225 ²
Total, Discretionary outlays	52,695	46,956	42,904
Mandatory Outlays:			
FEMA	16,519	3,014	343
Citizenship and Immigration Services	1,584	1,776	2,386
United States Secret Service	201	200	210
United States Coast Guard	1,212	1,295	1,431
All Other	-3,104	-2,811	-4,062
Total, Mandatory outlays	16,412	3,474	308
Total, Outlays	69,107	50,430	43,212

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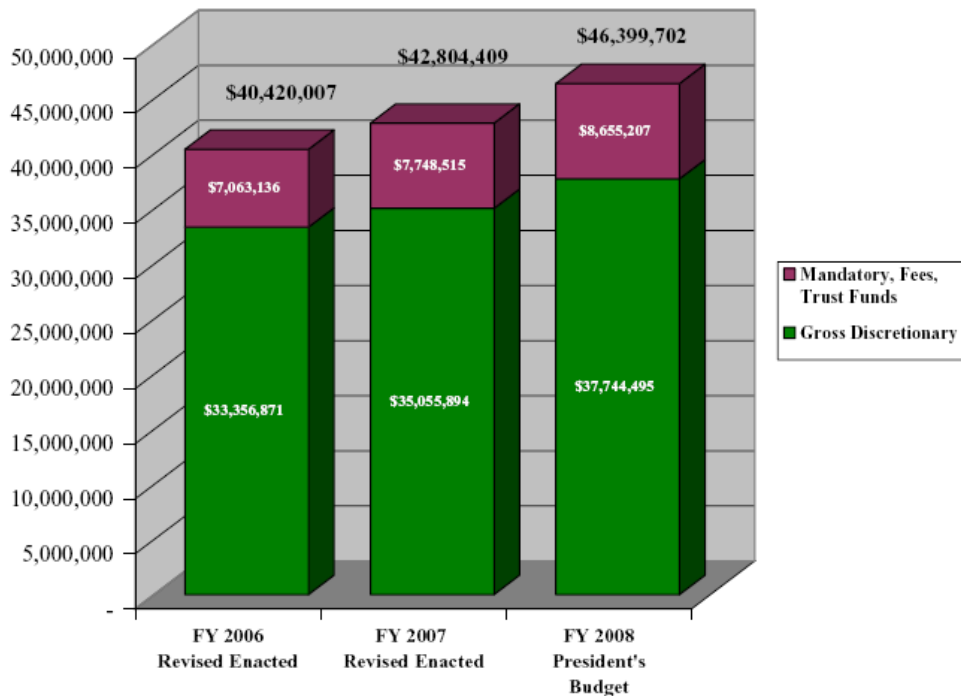
Department of Homeland Security (In millions of dollars)			
	2006 Actual	Estimate	
		2007	2008
Credit activity			
Direct Loan Disbursements:			
Disaster Assistance	629	516	79

¹ DNDO received \$125 million in 2006 in the Science and Technology appropriation.

² \$120 million in 2007 and \$225 million in 2008 is proposed to be transferred from the Department of Defense to the United States Coast Guard.

Source: <http://www.whitehouse.gov/omb/budget/fy2008/homeland.html>

TOTAL BUDGET AUTHORITY
Dollars in Thousands



The budget is based upon meeting the mission objectives and needs of the agency and the nation. These objectives are summarized below. Again, further detail can be obtained by reading the document “Homeland Security, Budget in Brief 2008,” located at:

http://www.dhs.gov/xlibrary/assets/budget_bib-fy2008.pdf.

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The new budget also contained some procedural, staffing and operational changes... I have listed below some of the more relevant items:

- 6,000 guards and 10% staff have increased the National Boarders.
- Non-Mexican immigrants are finding it harder to remain in the United States with the new policy of “Catch and Return”.
- By deterring illegal immigrations security has been strengthened CPB agents have reduced the number of apprehensions by 8%.
- ICE has had a 12% increase in removal of illegal aliens form the prior fiscal year and increased the bed size in its detention centers.
- US Visit Biometric programs have increased 185%. The use of Biometrics has helped the DHS to keep 1,100 criminals and visa violators as well as terrorists off of American soil.
- While responding to the liquid explosive treat the TSA was able to perform necessary passenger screening operations preventing and protecting against adverse actions while attaining a new high in customer satisfaction. In response to the foiled terror plot in England the TSA was able to train it 43,000 security staff to address the threat of liquid explosive.
- The CBP increased the percent of shipping containers processed through its container security initiative prior to entering U.S. ports of 48 % to 82%. This significantly decreases the risk of terrorist materials entering our country while providing processes to facilitate the legitimate trade and travel from more foreign ports.
- DHS deployed 283 new radiation portal monitors throughout the nations ports of entry.
- The Domestic Nuclear Detection Office Awarded over 1Billion for Next Generation Nuclear Detection Devices. The award of Advanced Spectroscopic Portal program enhances the detection of radiological and nuclear materials at the Nations Port of Entry.
- The Coast Guard officially assumed responsibility for air intercept operations in the Nations Capital from the CPS.
- FEMA increased registration capability to 200,000 victims a day through its toll-free registration number, on-line registration process, registering individuals in shelters and using mobile units.
- FEMA implemented the Total Asset Visibility program to provide enhances visibility, awareness and accountability over disaster relief and resources.
- DHS Awarded 2.6 billion for Preparedness, approximately 1.9 billion in funds has been awarded to state, and local governments for equipment, training exercises to increase the level of security, 300 million was awarded to strengthen the nations ability to prevent, protect against, respond to, recover from terrorist attacks, major disaster. 300 million was distributed in fire grants to fire and emergency organizations to enhance their response capabilities.
- The DHS has awarded 34 % of DHS prime contracts to small businesses, exceeding the goal by 4%.

Additional information concerning DHS 2006 accomplishments are contained in the press release under the “Homeland Security – Recent Developments” section inside of the article titled “*Fact Sheet: Select Homeland Security Accomplishments For 2006.*”

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FISCAL YEAR 2008 BUDGET OVERVIEW

	FY 2006 Revised Enacted ¹	FY 2007 Revised Enacted ²	FY 2008 Pres. Budget	FY 2008 +/- FY 2007
	\$000	\$000	\$000	\$000
Net Discretionary:	\$ 30,845,620	\$ 32,392,530	\$ 34,341,481	\$ 1,948,951
Discretionary Fees:	2,659,854	2,976,369	3,451,801	475,432
<i>Less rescission of prior year carryover: ³</i>	<i>(148,603)</i>	<i>(313,005)</i>	<i>(48,787)</i>	<i>264,218</i>
Gross Discretionary	33,356,871	35,055,894	37,744,495	2,688,601
Mandatory, Fee, Trust Funds: ⁴	7,063,136	7,748,515	8,655,207	906,692
Total Budget Authority:	\$ 40,420,007	\$ 42,804,409	\$ 46,399,702	\$ 3,595,293
Supplemental: ⁵	\$ 8,179,035	\$ 1,829,000	-	\$ (1,829,000)
<i>Less rescission of prior year supplemental: ⁶</i>	<i>\$ (23,409,300)</i>	<i>-</i>	<i>-</i>	<i>-</i>
Public Safety Interoperable Communications Grants: ⁷			\$ 1,000,000	\$ 1,000,000

1/ FY 2006 revised enacted reflects a one percent across the board rescission (-\$307.124 million), and USCG Operating Expenses rescission (-\$260.533 million) pursuant to P.L. 109-148, and a rescission for Screening Coordination and Operations (-\$3.960 million) pursuant to P.L. 109-234; a transfer from DOD to USCG (\$100 million) pursuant to P.L. 109-148 and (\$75 million) pursuant to P.L. 109-234; and technical adjustments to reflect USCG Health Care Fund (\$260.533 million) and for revised fee estimates in TSA Transportation Threat Assessment and Credentialing fees (-\$131 million) and Aviation Security offset, FEMA National Flood Insurance Fund offset (-\$62 million) and CBP Small Airport estimates (\$.814 million).

2/ FY 2007 revised enacted reflects a transfer from DOD to USCG (\$90 million) pursuant to P.L. 109-289 and the transfer of FEMA Public Health (\$33.885 million) to the Department of Health and Human Services pursuant to P.L. 109-295; and technical adjustments for revised fee estimates in TSA Transportation Threat Assessment and Credentialing fees (-\$45.101 million) and Aviation Security offset, CBP Small Airport estimates (\$.950 million) and FEMA Radiological Emergency Preparedness Program (-\$6 million) to reflect net of collections based on the FY 2008 request.

3/ Reflects scorekeeping adjustment for rescission of prior year unobligated balances: FY 2006 enacted rescission of prior year unobligated balances from USCG (-\$100.103 million), TSA (-\$5.5 million), S&T (-\$20 million), Counterterrorism Fund (-\$8 million), and Working Capital Fund (-\$15 million); FY 2007 enacted rescission of prior year unobligated balances from USCG (-\$102.793 million), TSA (-\$66.712 million), S&T (-\$125 million), USSS (-\$2.5 million), Counterterrorism Fund (-\$16 million); FY 2008 President's Budget proposes rescission of prior year unobligated balance from USCG (-\$48.787 million).

4/ Mandatory, Fee, Trust Funds: FY 2006 revised enacted includes fee estimates for FEMA NFIF mandatory fund (\$2.104 billion), USSS Retirement Fund (\$200 million), USCG Trust Funds (\$269.365 million), CBP Customs Unclaimed Goods (\$5.897 million), and revised fee estimates for CBP (\$70.528 million), ICE (-\$17.552 million), TSA (-\$8 million); FY 2007 revised enacted includes fee estimates for FEMA NFIF mandatory fund (\$2.631 billion), USSS Retirement Fund (\$200 million), USCG Trust Funds (\$244.202 million), CBP Customs Unclaimed Goods (\$5.897 million), and revised fee estimates for CBP (\$36.347 million).

5/ In order to obtain comparable figures, Total Budget Authority excludes: FY 2006 supplemental funding pursuant to P.L. 109-148 for Hurricane Katrina (\$285.1 million: \$206.5 million - USCG, \$3.6 million - USSS, \$17.2 million - FEMA, \$10.3 million - PREP, \$13 million - ICE, \$34.5 million - CBP) and for Avian Flu (\$47.283 million - provided to Office of the Secretary and Executive Management for distribution throughout the Department), supplemental funding pursuant to P.L. 109-234 for the Global War on Terror and Hurricane Recovery (\$7.847 billion: \$2 million - OIG, \$822.7 million - CBP, \$327 million - ICE, \$307.392 million - USCG, \$20 million - USSS, \$15 million - PREP, \$6.324 billion - FEMA, \$25 million - FLETC, \$3.960 - OSEM); and FY 2007 emergency funding pursuant to P.L. 109-295 for the Global War on Terror (1.829 billion: \$22 million - FLETC, \$175.8 million - USCG, \$30 million - ICE, \$1.601 billion - CBP).

6/ Reflects scorekeeping adjustment pursuant to P.L. 109-148 for rescission (-\$23.409 billion) of prior year unobligated balances from P.L. 109-62 Hurricane Katrina supplemental for FEMA Disaster Relief.

7/ In coordination with DHS's State Preparedness Grant Programs, FEMA will be co-administering the \$1 billion Public Safety Interoperable Communications (PSIC) grant program in partnership with the Department of Commerce pursuant to P.L. 109-171 and P.L. 109-459. The funding for this program was appropriated per The Deficit Reduction Act of 2005 from anticipated spectrum auction receipts, and therefore is not included as requested DHS budget authority. However, PSIC will support interoperable communications grants to State and local public safety agencies, and adjusted totals are provided to illustrate the level of grant funding that will become available for State and local preparedness projects.

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DETAILED BUDGET

TOTAL BUDGET AUTHORITY BY ORGANIZATION

Gross Discretionary & Mandatory, Fees, Trust Funds

February 5, 2007

	FY 2006 Revised Enacted ¹	FY 2007 Revised Enacted ²	FY 2008 President's Budget ³	FY 2008 +/- FY 2007 Enacted	FY 2008 +/- FY 2007 Enacted
	\$000	\$000	\$000	\$000	%
Departmental Operations^{4/5}	\$ 559,230	\$ 626,123	\$ 683,189	\$ 57,066	9%
Analysis and Operations	252,940	299,663	314,681	15,018	5%
Office of the Inspector General	82,187	98,685	99,111	426	0%
U.S. Customs & Border Protection	7,113,495	7,743,581	10,174,114	2,430,533	31%
U.S. Immigration & Customs Enforcement	3,866,443	4,696,641	5,014,500	317,859	7%
Transportation Security Administration	6,167,014	6,329,291	6,401,178	71,887	1%
U.S. Coast Guard	8,268,797	8,553,352	8,775,088	221,736	3%
U.S. Secret Service	1,399,889	1,479,158	1,608,996	129,838	9%
National Protection and Programs Directorate⁵	-	-	1,046,567	1,046,567	-
Office of Health Affairs⁵	-	-	117,933	117,933	-
Counter-Terrorism Fund	1,980	-	-	-	-
Federal Emergency Management Agency⁵	4,834,744	5,223,503	5,824,204	600,701	11%
FEMA: Office of Grant Programs⁵	-	-	2,196,000	2,196,000	-
<i>FEMA: Office of Grant Programs with PSIC Grants⁹</i>			[3,196,000]	[3,196,000]	-
U.S. Citizenship & Immigration Services	1,887,850	1,985,990	2,568,872	582,882	29%
Federal Law Enforcement Training Center	279,534	253,279	263,056	9,777	4%
S&T Directorate	1,487,075	973,109	799,100	(174,009)	-18%
Domestic Nuclear Detection Office	-	480,968	561,900	80,932	17%
<i>Legacy DHS Organizations</i>					
Preparedness Directorate⁵	678,395	618,577	-	(618,577)	-100%
Preparedness: Office of Grants & Training⁵	3,352,437	3,393,000	-	(3,393,000)	-100%
US-VISIT⁵	336,600	362,494	-	(362,494)	-100%
TOTAL:	\$ 40,568,610	\$ 43,117,414	\$ 46,448,489	\$ 3,331,075	8%
Less Rescission of Prior Year Carryover Funds:⁶	(148,603)	(313,005)	(48,787)	264,218	-84%
ADJUSTED TOTAL BUDGET AUTHORITY:	\$ 40,420,007	\$ 42,804,409	\$ 46,399,702	\$ 3,595,293	8%
SUPPLEMENTAL:^{7/8}	\$ 8,179,035	\$ 1,829,000	\$ -	\$ (1,829,000)	\$ -

1/ FY 2006 revised enacted reflects a one percent across the board rescission (-\$307.124 million), and USCG Operating Expenses rescission (-\$260.533 million) pursuant to P.L. 109-148, and a rescission for Screening Coordination and Operations (-\$3.960 million) pursuant to P.L. 109-234; a transfer from DOD to USCG (\$100 million) pursuant to P.L. 109-148 and (\$75 million) pursuant to P.L. 109-234; and technical adjustments to reflect USCG Health Care Fund (\$260.533 million), FEMA NFIF mandatory fund (\$2.104 billion), USSS Retirement Fund (\$200 million), USCG Trust Funds (\$269.365 million), CBP Customs Unclaimed Goods (\$5.897 million), and revised fee estimates for CBP (\$70.528 million), ICE (-\$17.552 million), TSA Alien Flight School (-\$8 million), TSA Transportation Threat Assessment and Credentialing fees (-\$131 million) and Aviation Security offset, FEMA National Flood Insurance Fund offset (-\$62 million) and CBP Small Airport estimates (\$.814 million).

2/ FY 2007 revised enacted reflects a transfer from DOD to USCG (\$90 million) pursuant to P.L. 109-289, the transfer of FEMA Public Health (\$33.885 million) to the Department of Health and Human Services, and the transfer from FEMA Disaster Relief (\$13.5 million) to Office of the Inspector General pursuant to P.L. 109-295; and technical adjustments to reflect FEMA NFIF mandatory fund (\$2.631 billion), USSS Retirement Fund (\$200 million), USCG Trust Funds (\$244.202 million), CBP Customs Unclaimed Goods (\$5.897 million), and revised fee estimates for CBP (\$36.347 million), TSA Transportation Threat Assessment and Credentialing fees (-\$45.101 million) and Aviation Security offset, CBP Small Airport estimates (\$.950 million) and FEMA Radiological Emergency Preparedness Program (-\$6 million) to reflect net of collections based on the FY 2008 request.

3/ FY 2008 President's Budget reflects the following proposed transfers: USM receives resources from FLETC (\$1.290 million), OHA receives resources from S&T (\$85.1 million) and NPPD (\$9.218 million), and DHS transfers out of the Department resources from ICE (-\$2 million) to Department of Justice, and from USCG (-\$2.650 million) to Department of Transportation.

4/ Departmental Operations is comprised of the Office of the Secretary & Executive Management, the Office of the Federal Coordinator for Gulf Coast Rebuilding, the Office of the Undersecretary for Management, the Office of the Chief Financial Officer, and the Office of the Chief Information Officer.

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5/ FY 2008 President's Budget reflects transfers to occur in FY 2007 pursuant to Title VI of P.L. 109-295 and the DHS Section 872 proposed reorganization: FEMA receives resources from legacy Preparedness (\$3,440.172 million), OSEM receives resources from legacy Preparedness (\$1.5 million), new Office of Health Affairs receives resources from legacy Preparedness (\$4.980 million), new National Protection and Programs Directorate (NPPD) receives resources from legacy Preparedness (\$570.925 million), CIO (\$18.7 million), S&T (\$5 million), and US-VISIT transfers into NPPD (\$362.494 million).

6/ Reflects scorekeeping adjustment for rescission of prior year unobligated balances: FY 2006 enacted rescission of prior year unobligated balances from USCG (-\$100.103 million), TSA (-\$5.5 million), S&T (-\$20 million), Counterterrorism Fund (-\$8 million), and Working Capital Fund (-\$15 million); FY 2007 enacted rescission of prior year unobligated balances from USCG (-\$102.793 million), TSA (-\$66.712 million), S&T (-\$125 million), USSS (-\$2.5 million), Counterterrorism Fund (-\$16 million); FY 2008 President's Budget proposes rescission of prior year unobligated balance from USCG (-\$48.787 million).

7/ In order to obtain comparable figures, Total Budget Authority excludes: FY 2006 supplemental funding pursuant to P.L. 109-148 for Hurricane Katrina (\$285.1 million: \$206.5 million - USCG, \$3.6 million - USSS, \$17.2 million - FEMA, \$10.3 million - PREP, \$13 million - ICE, \$34.5 million - CBP) and for Avian Flu (\$47.283 million - provided to Office of the Secretary and Executive Management for distribution throughout the Department), supplemental funding pursuant to P.L. 109-234 for the Global War on Terror and Hurricane Recovery (\$7.847 billion: \$2 million - OIG, \$822.7 million - CBP, \$327 million - ICE, \$307.392 million - USCG, \$20 million - USSS, \$15 million - PREP, \$6.324 billion - FEMA, \$25 million - FLETC, \$3.960 - OSEM); and FY 2007 emergency funding pursuant to P.L. 109-295 for the Global War on Terror (1.829 billion: \$22 million - FLETC, \$175.8 million - USCG, \$30 million - ICE, \$1.601 billion - CBP).

8/ The above chart does not reflect scorekeeping adjustment pursuant to P.L. 109-148 for rescission (-\$23.409 billion) of prior year unobligated balances from P.L. 109-62 Hurricane Katrina supplemental for FEMA Disaster Relief.

9/ In coordination with DHS's State Preparedness Grant Programs, FEMA will be co-administering the \$1 billion Public Safety Interoperable Communications (PSIC) grant program in partnership with the Department of Commerce pursuant to P.L. 109-171 and P.L. 109-459. The funding for this program was appropriated per The Deficit Reduction Act of 2005 from anticipated spectrum auction receipts, and therefore is not included as requested DHS budget authority. However, PSIC will support interoperable communications grants to State and local public safety agencies, and adjusted totals are provided to illustrate the level of grant funding that will become available for State and local preparedness projects.

Above chart from: Homeland Security Budget in Brief, 2008

The detailed budget above shows the amounts that the agencies received in discretionary funding and its change from the prior year. Reviewing this chart reveals the administrations 'focus' agencies; i.e. those that are receiving the highest funding growth rate.

Not surprisingly, the highest percentage growth (of 31% vs. 36% revenue growth last year) is again enjoyed by the US Customs & Border Protection division. From our (your) perspective, as investors, this information will allow you to determine what specific area of the Homeland Security Area that you may wish to concentrate your investment funds. What does the US Customs & Border Protection unit buy? Producers of surveillance and Arial border patrol devices may benefit from the increased funding of this unit. One such company, profiled previously in this report, Groen Brothers Aviation (GNBA), produces these types of products.

US Customs and Border Protection (CBP)

Budget: \$10.174b

Percent of Total DHS: 22%

CBP is the responsible for protecting the sovereign borders of the US and at ports of entry. The agency protects the public against terrorists and the instruments of terror, and regulates the lawful movement of goods across the borders.

Some activities of this agency are visible as border agents at airports and other ports of entry.

A detailed budget request is provided below. Source: http://www.dhs.gov/xlibrary/assets/budget_bib-fy2008.pdf

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BUDGET REQUEST

Dollars in Thousands

	FY 2006 Revised Enacted ¹		FY 2007 Enacted		FY 2008 Pres. Budget		FY 2008 +/- FY 2007	
	FTE	\$000	FTE	\$000	FTE	\$000	FTE	\$000
Headquarters Management and Administration	3,553	\$1,313,233	3,647	\$1,248,389	3,676	\$1,277,407	29	\$29,018
Border Security Inspections and Trade Facilitation at POE's	16,017	\$1,605,117	16,084	\$1,860,491	16,547	\$2,057,354	463	\$196,863
Border Security and Control Between POE's	13,515	\$2,115,268	14,924	\$2,277,510	18,371	\$3,037,232	3,447	\$759,722
Air and Marine Operations – Salaries	1,265	\$186,672	1,281	\$175,796	1,438	\$207,740	157	\$31,944
Air and Marine Interdiction, Operations, Maintenance and Procurement	--	\$496,029	--	\$602,187	--	\$477,287	--	(\$124,900)
Automation Modernization	62	\$451,440	62	\$451,440	63	\$476,609	1	\$25,169
Construction	--	\$582,500	--	\$232,978	--	\$249,663	--	\$16,685
Border Security Fencing, Infrastructure, and Technology	--	--	80	\$1,187,565	120	\$1,000,000	40	(\$187,565)
Subtotal	34,412	\$6,750,259	36,078	\$8,036,356	40,215	\$8,783,292	4,137	\$746,936
Small Airports	51	\$7,099	51	\$7,180	51	\$7,057	--	(\$123)
Gross Discretionary	34,463	\$6,757,358	36,129	\$8,043,536	40,266	\$8,790,349	4,137	\$746,813
Customs Unclaimed Goods	--	\$5,897	--	\$5,897	--	\$5,897	--	\$0
Mandatory fees	8,285	\$1,207,440	8285	\$1,295,348	8,285	\$1,377,867	--	\$82,519
Total	42,748	\$7,970,695	44,414	\$9,344,782	48,551	\$10,174,113	4,137	\$829,331

¹ FY 2006 Revised enacted includes funding provided by the Emergency Supplemental (P.L. 109-234) and DOD Appropriations Act (P.L. 109-148)

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US Immigration and Customs Enforcement (ICE)

Budget: \$5.0b

Percent of Total DHS: 11%

ICE is the largest investigative and enforcement portion of the DHS. This unit is responsible to detect vulnerabilities and prevent violations that affect national security.

The agency has discontinued the government practice of “catch and release” of suspected non-Mexican immigration offenders. Some activities of this agency include Investigations, Detention and Removal, Federal Protective Service, Intelligence operations, and Principal Legal Advisor (for immigration issues that arise in the court system).

BUDGET REQUEST

Dollars in Thousands

	FY 2006 Revised Enacted		FY 2007 Enacted		FY 2008 Pres. Budget		FY 2008 +/- FY 2007	
	FTE	\$000	FTE	\$000	FTE	\$000	FTE	\$000
Salaries & Expenses ^{1, 2}	14,422	\$3,417,414	15,083	\$3,887,000	16,023	\$4,162,000	940	\$275,000
Federal Protective Service	1,438	\$487,000	1,295	\$516,011	950	\$613,000	(345)	\$96,989
Automation Modernization ²	0	\$39,749	7	\$15,000	7	0	0	(\$15,000)
Construction ²	9	\$26,281	9	\$56,281	9	\$6,000	0	(\$50,281)
Gross Discretionary	15,869	\$3,970,443	16,394	\$4,474,292	16,989	\$4,781,000	595	\$306,708
Fee Accounts	446	\$236,000	460	\$252,349	474	\$233,500	14	(\$18,849)
Total	16,315	\$4,206,444	16,854	\$4,726,641	17,463	\$5,014,500	609	\$287,859

¹ FY 2006 Salaries and Expenses includes funding received through the Hurricane Katrina (\$13 million) and Secure Border Initiative (\$327 million) Supplemental Appropriations.

² FY 2006 reflects a 1% rescission of \$31.085 million from Salaries and Expenses, \$0.265 million from Construction and \$0.402 million from Automation.

Source: http://www.dhs.gov/xlibrary/assets/budget_bib-fy2008.pdf

Transportation Security Administration

Budget: \$6.4b

Percent of Total DHS: 13.8%

Priorities of the agency include the detection and elimination of explosive elements placed into the air transportation system. The TSA employees over 50,000 personnel charged with protecting the transportation system and ensuring the freedom of movement of people and goods. This job is demanding as it must police the open port commerce system to stop dangerous and illegal items / people from entering the country, and yet it must do this without hindering the system to the point of shutting it down. All in all these seem to be contradictory goals.

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BUDGET REQUEST
Dollars in Thousands

	FY 2006 Revised Enacted ¹		FY 2007 Enacted		FY 2008 Pres. Budget		FY 2008 +/- FY 2007	
	FTE	\$000	FTE	\$000	FTE	\$000	FTE	\$000
Aviation Security	48,540	\$4,571,487	47,259	\$4,731,814	48,237	\$4,953,159	978	\$221,345
Surface Transportation Security	297	\$35,640	288	\$37,200	288	\$41,413	--	\$4,213
Transportation Threat Assessment and Credentialing	111	\$120,671	166	\$68,700	166	\$158,091	--	\$89,391
Transportation Security Support	1,415	\$505,378	1,476	\$525,283	1,476	\$ 524,515	--	(\$768)
Federal Air Marshals	--	\$681,838	--	\$714,294	--	\$722,000	--	\$7,706
Gross Discretionary	50,363	\$5,915,014	49,189	\$6,077,291	50,167	\$ 6,399,178	978	\$321,887
Fee Accounts (Mandatory)	--	\$252,000	6	\$252,000	6	\$2,000	--	(\$250,000)
Gross Budgetary Resources	50,363	\$6,167,014	49,195	\$6,329,291	50,173	\$6,401,178	978	\$71,887
Less Prior Year Resources	--	(\$5,500)	--	(\$66,712)	--	--	--	\$66,712
Total	50,363	\$6,161,514	49,195	\$6,262,579	50,173	\$ 6,401,178	978	\$138,599

¹ FY 2006 Appropriation included \$5.5M rescission from prior year Aviation Security funds, 1% rescission across appropriations, and FY 2006 Transfers/Reprogrammings.

² FY 2007 Appropriation included \$66.712M rescission from prior year Aviation Security and Transportation Security Support funds.

Source: http://www.dhs.gov/xlibrary/assets/budget_bib-fy2008.pdf

Federal Law Enforcement Training Center

Budget: \$ 0.263b

Percent Total of DHS: 0.56%

As an interagency training unit the Federal Law Enforcement Training Center provides training and development services to other Federal law enforcement agencies. The FLETC serves over 82 different enforcement agencies, provides technical assistance to state and local agencies, and develops and presents training courses.

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These services are provided at four facilities through the US. They are located at Glynco, GA, Artesia, NM, Charleston, SC, and Cheltenham, MD. In addition, an international training center is operated in Garbarone, Botswana.

During 2006, the agency effectively trained over 51,249 law enforcement agents, an increase of over 7.8% from 2005 levels.

BUDGET REQUEST
Dollars in Thousands

	FY 2006 Revised Enacted ¹		FY 2007 Enacted ²		FY 2008 Pres. Budget		FY 2008 +/- FY 2007	
	FTE	\$000	FTE	\$000	FTE	\$000	FTE	\$000
Law Enforcement Training	992	\$303,178	1,040	\$273,989	1,049	\$263,056	9	(\$10,933)
Accreditation	9	\$1,356	7	\$1,290	0	\$0	(7)	(\$1,290)
Total	1,001	\$304,534	1,047	\$275,279	1,049	\$263,056	2	(\$12,223)

¹ The original appropriation for FLETC in FY 2006 was \$282,358,000. FLETC received a supplemental of \$25,000,000 and FLETC's portion of the FY 2006 1% across the board rescission was \$2,824,000.

² The FY 2007 total includes \$22,000,000 in one time emergency funding in FY2007.

Source: http://www.dhs.gov/xlibrary/assets/budget_bib-fy2008.pdf

US Coast Guard

Budget: \$ 8.7

Percent Total of DHS: 18.9%

The US Coast Guard makes up one of the 5 armed services agencies in the DHS and is responsible for maritime safety, security and stewardship. The USCG protects waterways, from inland waterways to US ports, the coast waters, and any other maritime region where there are US interests.

The agency has over 6,726 civilian, 41,398 military personnel, an additional 8,100 military reservist employees and 31,900 in an auxiliary workforce.

During 2006, the USCG responded to over 28,000 emergency calls saving the lives of over 5,200 mariners. In addition, it has seized over 93,209 pounds of illicit drugs, well over the 83,149 seized during 2005. The service also took on the added responsibility for the defense of the airspace of the National Capital Region with the implementation of its Rotary Air Wing Intercept capability.

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BUDGET REQUEST ^{1,2,3,4,5,6}

Dollars in Thousands

	FY 2006 Revised Enacted		FY 2007 Enacted		FY 2008 Pres. Budget		FY 2008 +/- FY 2007	
	FTE	\$000	FTE	\$000	FTE	\$000	FTE	\$000
Search & Rescue	4,652	\$914,119	4,720	\$918,018	4,723	\$916,309	3	\$(1,709)
Marine Safety	4,012	\$804,584	3,982	\$700,089	3,996	\$753,914	14	\$53,825
Aids to Navigation	7,526	\$1,198,860	7,621	\$1,140,184	7,644	\$1,229,921	23	\$89,737
Ice Operations	906	\$116,588	1,111	\$148,023	1,118	\$157,638	7	\$9,615
Marine Environmental Protection	1,356	\$370,757	1,376	\$340,776	1,385	\$371,771	9	\$30,995
Living Marine Resources	4,208	\$868,088	4,231	\$850,244	4,239	\$796,851	8	\$(53,393)
Drug Interdiction	6,333	\$1,436,747	6,268	\$1,349,229	6,300	\$1,292,658	32	\$(56,571)
Migrant Interdiction	2,467	\$574,515	2,547	\$515,120	2,574	\$520,879	27	\$5,759
Other Law Enforcement	703	\$122,135	815	\$160,728	803	\$131,377	(12)	\$(29,351)
Port Waterways & Coastal Security	12,906	\$1,718,372	13,040	\$1,840,398	13,268	\$1,928,230	228	\$87,832
Defense Readiness	2,076	\$550,354	2,087	\$664,055	2,074	\$626,754	(13)	\$(37,301)
Total	47,145	\$8,675,119	47,798	\$8,626,864	48,124	\$8,726,302	326	\$99,438
Adjustments	--	(\$689,088)	--	(\$266,305)	--	--	--	--
Adjusted Budget Authority	47,145	\$7,986,031	47,798	\$8,360,559	48,124	\$8,726,302	326	\$99,438

¹ The USCG develops estimates of mission-specific spending using a sophisticated activity-based costing model (the model). Data presented in the "FY 2006 Revised Enacted," "FY 2007 Enacted" and "FY 2008 President's Budget" columns are based on the model's most current performance assumptions. The FY 2006 and FY 2007 funding amounts are revised from the estimates reported in the FY 2007 President's Budget submission.

² Figures do not include mandatory fee funded activity from the Miscellaneous Trust Revolving Funds account. Fee accounts reflect actual collections for FY 2006.

³ Adjustments include Department of Defense transfers and Supplemental Appropriations.

⁴ FTE figures include service members and civilian employees. Military service members are measured in end strength vice FTE.

⁵ FY 2007 total funding includes prior year rescissions for the Fast Response Cutter - \$78.7M (P.L. 109-295), Offshore Patrol Cutter - \$20M (P.L. 109-90) and Nationwide Automatic Identification System - \$4.1M (P.L. 109-90).

⁶ FY 2007 funding includes \$505K received as a result of the sale of a lighthouse. The National Historic Lighthouse Preservation Act of 2000 (NHLPA), 16 U.S.C. § 470w-7, authorizes the funds received from the sale of lighthouses to be credited to the Coast Guard Operating Expenses appropriation account, and shall be available for obligation and expenditure for the maintenance of light stations.

Source: http://www.dhs.gov/xlibrary/assets/budget_bib-fy2008.pdf

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US Secret Service

Budget: \$1.6b
Percent Total of DHS: 3.5%

Common responsibilities for this agency include a protection detail for the President and his family, the Vice-President, and visiting dignitaries. In addition it enforces laws related to US securities and investigating fraud involving financial institutions.

Additional protective duties include securing the President and Vice-President residences, foreign diplomatic facilities, and the building and grounds of the DHS and treasury departments.

BUDGET REQUEST
Dollars in Thousands

	FY 2006 Revised Enacted ¹		FY 2007 Enacted		FY 2008 Pres. Budget		FY 2008 +/- FY 2007	
	FTE	\$000	FTE	\$000	FTE	\$000	FTE	\$000
Salaries & Expenses	6,564	\$1,219,827	--	--	--	--	--	--
Protection, Administration, and Training	--	--	4,564	\$961,779	4,841	\$1,095,078	277	\$133,299
Investigations and Field Operations	--	--	2,085	\$311,154	1,859	\$300,193	(226)	(\$10,961)
Acquisition, Construction, Improvements, and Related Expenses	--	\$3,662	--	\$3,725	--	\$3,725	--	--
DC Annuity	--	\$200,000	--	\$200,000	--	\$210,000	--	\$10,000
Gross Discretionary	6,564	\$1,423,489	6,649	\$1,476,658	6,700	\$1,608,996	51	\$132,338

Note: Congress enacted one appropriation for Salaries and Expenses in FY 2006. In FY 2007, Congress separated the Salaries and Expenses appropriation into two appropriations – Protection, Administration, and Training and Investigations and Field Operations.

¹ Includes a 1% rescission (\$12.120M) pursuant to P.L. 109-48, an Emergency Hurricane Katrina Supplemental (\$3.600M), and Global WAR on Terror, and Hurricane Recovery Supplemental (\$20.000M).

Source: http://www.dhs.gov/xlibrary/assets/budget_bib-fy2008.pdf

Federal Emergency Management Administration

Budget: \$5.82b

Percent of Total DHS: 12.5%

FEMA, a much-maligned agency, responds to disasters, whether caused by natural phenomenon or manmade terrorist attacks. Recent news reports suggest some members of congress are questioning the inclusion of FEMA under the direction of the Dept. of Homeland Security.

FEMA has been instrumental in assisting citizens survive and recover from four major hurricanes during 2004. The agency is developing other response systems, such as mobile medical treatment facilities that can be used to give aid in the event of a large-scale event that may overwhelm the community's existing facilities.

Other initiatives undertaken by the agency include increased support for the Nuclear Incident Response Team (NIRT), securing its data network with the Homeland Security Data Network program, and the National Pre-Disaster Mitigation Fund (grants to assist local governments to improve their infrastructure to lessen the impact of disasters).

(continued on next page)

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Budget Request

Dollars in Thousands

	FY 2006 Revised Enacted ¹		FY 2007 Enacted ²		FY 2008 Pres. Budget		FY 2008 +/- FY 2007	
	FTE	\$000	FTE	\$000	FTE	\$000	FTE	\$000
Operations, Planning, and Support (OPS) ³	1,854	\$520,045 ⁴	2,326	\$526,000	2,487	\$667,600	183	\$141,600
Public Health ⁵	40	\$33,660	40	\$33,885	--	--	(40)	(\$33,885)
Disaster Relief Fund	3,493	(\$17,160,500) ⁶	3,243	\$1,486,500 ⁷	3,243	\$1,700,000	--	\$213,500
Disaster Assistance Direct Loan Program	3	\$1,032,861 ⁸	3	\$569	3	\$875	--	\$306
Pre-Disaster Mitigation Fund	15	\$49,500	15	\$100,000	15	\$100,053	--	\$53
National Flood Mitigation Fund	--	\$28,000	--	\$31,000	--	\$34,000	--	\$3,000
Emergency Food and Shelter	--	\$151,470	--	\$151,470	--	\$140,000	--	(\$11,470)
National Flood Insurance Fund – Discretionary	270	\$95,854	270	\$97,588	300	\$111,000	30	\$13,412
Flood Map Modernization Fund	33	\$198,000	33	\$198,980	33	\$194,881	--	(\$4,099)
State and Local Programs	[200]	[\$2,729,287] ⁹	203	\$2,736,500	225	\$1,896,000	22	(\$840,500)
<i>State and Local Programs with PSIC Grants¹⁰</i>	[200]	[\$2,729,287]	203	[\$2,736,500]	225	[\$2,896,000]	22	[\$195,500]
Assistance to Firefighter Grants	[33]	[\$648,450]	33	\$662,000	54	\$300,000	22	(\$362,000)
Radiological Emergency Preparedness Program (REPP)	[90]	[\$(1,266)]	130	(\$6,477)	170	(\$505)	40	\$6,477
United States Fire Administration (USFA)	[113]	[\$44,499]	114	\$41,349 ¹¹	114	\$43,300	--	\$1,951
Gross Discretionary	5,078	(\$15,051,110)	6,410	\$6,059,364	6,644	\$5,187,204	234	(\$871,655)
National Flood Insurance Fund – Mandatory	--	\$2,443,836	--	\$2,631,396	7	\$2,833,000	7	\$201,604
Total Budget Authority	5,078	(\$12,607,274)¹²	6,410	\$8,690,760	6,651	\$8,020,204	241	(\$670,051)
<i>Total w/ PSIC Grants¹⁰</i>	<i>5,078</i>	<i>(\$12,607,274)</i>	<i>6,410</i>	<i>\$8,690,760</i>	<i>6,651</i>	<i>\$9,020,204</i>	<i>241</i>	<i>\$329,444</i>

[Items in brackets do not contribute to Total Budget Authority line] – See footnotes for additional detail.

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¹ FY 2006 funding reflects a 1% recession for all appropriations pursuant to P.L. 109-148. Program funding in brackets [] represents programs appropriated under the Preparedness Directorate in FY 2006 and are not included in the FY 2006 funding totals for FEMA but shown for comparability purposes. These programs were transferred to FEMA in FY 2007 pursuant to the Post-Katrina Emergency Reform Act of 2006 (P.L. 109-295).

² The FY 2008 President's Budget request reflects the transfer of State and Local Programs, Assistance to Firefighter Grants, REPP, and USFA from the Preparedness Directorate in FY 2007 pursuant to the Post-Katrina Emergency Reform Act of 2006 (P.L. 109-295). The funding for these programs in FY 2007 was provided under the Preparedness Directorate. In order to provide a thorough comparison of funding changes from FY 2007 to FY 2008, the funding levels for these programs are included in both FY 2007 and FY 2008.

³ The Operations, Planning and Support (OPS) appropriation represents the combined funding totals from the *Administrative and Regional Operations (ARO)* appropriation and the *Readiness, Mitigation, Response and Recovery (RMRR)* appropriation in FY 2006 and FY 2007. The FY 2008 budget proposed to combine ARO and RMRR into a single OPS appropriation.

⁴ FY 2006 funding includes supplemental funding of \$89.0 million in ARO pursuant to P.L. 109-148 and P.L. 109-234 and \$10.0 million in RMRR pursuant to P.L. 109-234.

⁵ The National Disaster Medical System (NDMS), funded through the Public Health appropriation, was transferred out of FEMA to the Department of Health and Human Services in FY 2007.

⁶ FY 2006 Disaster Relief funding includes: supplemental funding of \$5.962 billion dollars pursuant to P.L. 109-234 to support continuing recovery operations as a result of the 2005 hurricane season; a recession of prior year balances of -\$23.4 billion pursuant to P.L. 109-148; a transfer of \$752.5 million to the Disaster Assistance Direct Loan Program pursuant to P.L. 109-88 and P.L. 109-148 FY 2006; and a transfer of \$712 million to the Small Business Administration to support relief efforts in the Gulf Region. Direct FY 2006 funding for the Disaster Relief Fund, not including the recession of prior year balances, was \$6.250 billion.

⁷ FY 2007 funding includes a transfer out of \$13.5M to the OIG for disaster related audits pursuant to P.L. 109-295.

⁸ FY 2006 funding includes supplemental funding of \$751.0 million pursuant to P.L. 109-88, \$1.5 million pursuant to P.L. 109-148, and \$279.8 million pursuant to P.L. 109-234 in support of Community Disaster Loans for the Gulf Region.

⁹ FY 2006 funding includes supplemental funding of \$10.3 million pursuant to P.L. 109-148 and \$15.0 million pursuant to P.L. 109-234.

¹⁰ In coordination with DHS's State Preparedness Grant Programs, FEMA will be co-administering the \$1 billion Public Safety Interoperable Communications (PSIC) grant program in partnership with the Department of Commerce pursuant to P.L. 109-171 and P.L. 109-459. The funding for this program was appropriated per The Deficit Reduction Act of 2005 from anticipated spectrum auction receipts, and therefore is not included as requested DHS budget authority. However, PSIC will support interoperable communications grants to State and local public safety agencies, and adjusted totals are provided to illustrate the level of grant funding that will become available for State and local preparedness projects.

¹¹ FY 2007 enacted funding reflects a transfer out of \$5.5M for the Noble Training Center to State and Local Programs pursuant to P.L. 109-295. This transfer is also reflected in the FY 2007 enacted funding level for State and Local Programs.

¹² Due to the recession of prior-year balances of \$23.4 billion pursuant to P.L. 109-148 in FY 2006, the total funding level shown does not represent FEMA's total budget authority for that year. FY 2006 direct appropriations for FEMA, excluding the recession but including all other supplemental funding, totaled \$10.5 billion in budget authority.

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US Citizenship and Immigration Services

Budget: \$2.56b

Percent Total of DHS: 5.5%

This agency is responsible for the management of the legal immigration community. A major goal is the elimination of the backlog that is slowing legal immigrants into the US; the goal is get the processing time down to 6 months or less.

Fraud Detection in immigration applications is also emphasized and the agency works closely with the appropriate law enforcement departments.

BUDGET REQUEST
Dollars in Thousands

	FY 2006 Revised Enacted ¹		FY 2007 Enacted		FY 2008 Pres. Budget		FY 2008 +/- FY 2007	
	FTE	\$000	FTE	\$000	FTE	\$000	FTE	\$000
Immigration Security and Integrity	1,137	\$340,668	1,137	\$348,331	1,407	\$510,137	270	\$161,806
Adjudication Services	7,766	\$1,346,041	7,490	\$1,317,782	8,036	\$1,777,643	546	\$459,861
Information and Customer Services	1,109	\$174,086	1,109	\$178,197	811	\$221,753	(298)	\$43,556
Citizenship	21	\$6,555	21	\$6,690	21	\$7,787	-	\$1,097
Immigration Status Verification	174	\$20,500	365	\$134,990	439	\$51,552	74	(\$83,438)
Total	10,207	\$1,887,850	10,122	\$1,985,990	10,714	\$2,568,872	592	\$582,882

¹ FY 2006 Revised Enacted reflects a 1% across-the-board rescission pursuant to P.L. 109-148. USCIS' portion was \$1.15 million.

Source: http://www.dhs.gov/xlibrary/assets/budget_bib-fy2008.pdf

National Protection and Programs Directorate

Budget: \$ 1.046b

Percent of Total DHS: 2.3%

The NPPD's job is to strengthen risk management efforts, define doctrine for security protection initiatives, and deliver grants and training activities. This last job will be eventually to FEMA.



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BUDGET REQUEST¹

Dollars in Thousands

	FY 2006 Revised Enacted		FY 2007 Enacted		FY 2008 Pres. Budget		FY 2008 +/- FY 2007	
	FTE	\$000	FTE	\$000	FTE	\$000	FTE	\$000
Management and Administration ²	85	\$15,918	106	\$30,572	59	\$46,290	(47)	\$15,718
Infrastructure Protection and Information Security ³	445	\$619,244	447	\$547,633	485	\$538,277	38	(\$9,356)
US-VISIT	102	\$336,600	102	\$362,494	102	\$462,000	0	\$99,506
Total	632	\$971,762	655	\$940,699	646	\$1,046,567	(9)	\$105,868

¹ The FY 2007 Appropriations Act (P.L. 109-295) for the Department of Homeland Security realigned the Directorate of Preparedness by transferring the following Preparedness Appropriations to FEMA: State and Local Programs (SLP), US Fire Administration (USFA), Assistance to Firefighter Grants (AFG), and the Radiological Emergency Preparedness Program (REPP). In addition, FEMA also received the Office of Faith Based and Community Preparedness, the Office of the National Capital Region Coordination (NCRC), and the State and Local Government Coordination Office (SLGC) from the Preparedness Management and Administration (M&A) Appropriation. The National Protection and Programs Directorate is proposed to combine the Infrastructure Protection and Information Security Appropriation (the Biosurveillance program is proposed to transfer to the Office of Health Affairs (OHA)), the remaining portion of the Preparedness M&A Appropriation, and the US-VISIT Appropriation.

² The Management and Administration line represents the enacted FY 2006 and FY 2007 Preparedness M&A Appropriation, prior to the FY 2007 realignment. The FY 2008 requested M&A Appropriation reflects transfers to FEMA for NCRC (7 FTE and \$2.741M); Faith Based Initiatives (1 FTE and \$1M); SLGC (17 FTE and \$2.6M); Public Affairs for the Ready Campaign (\$1.5M); and OHA for the former CMO (15 FTE and \$4.98M).

³ The Infrastructure Protection and Information Security (IPIS) line represents the Preparedness Directorate enacted amounts for FY 2006 and FY 2007. In FY 2008, IPIS includes Infrastructure Protection, Cyber Security, NS/EP Telecommunications, and the Office of Emergency Communications. The Biosurveillance program is transferred to OHA.

Source: http://www.dhs.gov/xlibrary/assets/budget_bib-fy2008.pdf

Office of Health Affairs

Budget: \$0.117b
Percent of DHS Budget: 0.25%

The OHA is the principal advisor to the Department and FEMA in health related matters. This agency works across all government departments from State, Federal, Tribal, and Local Governments to Territorial agencies and private sector parties.

The department is charged with providing timely guidance and medical advice in the event of disasters. In addition it leads the defense department's biodefense activities.

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 Gary Vassalotti, Analyst**

BUDGET REQUEST

Dollars in thousands

	FY 2006 Revised Enacted		FY 2007 Enacted		FY 2008 Pres. Budget		FY 2007 +/- FY 2006	
	FTE	\$000	FTE	\$000	FTE	\$000	FTE	\$000
Office of Health Affairs ¹	--	--	--	--	49	\$117,933	49	\$117,933
Biodefense Countermeasures	--	--	--	--	--	--	--	--
Total	--	--	--	--	49	\$117,933	49	\$117,933

¹ FY 2008 includes transfers of: \$85.1 million for BioWatch and Rapidly Deployable Chemical Defense System from the Science & Technology Directorate; \$9.2 million for Biosurveillance from the Preparedness Directorate; and \$4.9 million for the Chief Medical Officer (Preparedness). In addition to the increments transferred in, a total of \$18.7 million is requested as a program increase.

Source: http://www.dhs.gov/xlibrary/assets/budget_bib-fy2008.pdf

Science & Technology Directorate

Budget: \$0.799b

Percent Total DHS: 1.7%

Charged with procuring technology and equipment to prevent the importation of nuclear and biological agents into the US, the S&T Directorate works with other law enforcement agencies to transfer developments to the proper operational department of the DHS.

The S&T Directorate is the agency responsible for the testing and adaptation of technology to meet the differing needs of the various departments of the DHS. Some accomplishments of the agency include a radiation detection unit in place at the Port Authority of New York.

(continued on next page)

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BUDGET REQUEST

Dollars in Thousands

	FY 2006 Revised Enacted ¹		FY 2007 Enacted		FY 2008 Pres. Budget		FY 2008 +/- FY 2007	
	FTE	\$000	FTE	\$000	FTE	\$000	FTE	\$000
Management and Administration ²	387	\$80,288	383	\$135,000	381	\$142,632	(2)	\$7,632
Border and Maritime	--	\$43,268	--	\$33,436	--	\$25,936	--	(\$7,500)
Chemical and Biological	--	\$387,000	--	\$313,553	--	\$228,949	--	(\$84,604)
Command, Control and Interoperability	--	\$108,133	--	\$62,612	--	\$63,600	--	\$988
Explosives	--	\$261,548	--	\$105,231	--	\$63,749	--	(\$41,482)
Human Factors	--	\$6,459	--	\$6,800	--	\$12,600	--	\$5,800
Infrastructure and Geophysical	--	\$86,095	--	\$74,781	--	\$24,000	--	(\$50,781)
Innovation	--	--	--	\$38,000	--	\$59,900	--	\$21,900
Laboratory Facilities	--	\$83,250	--	\$105,649	--	\$88,814	--	(\$16,835)
Test and Evaluations, Standards	--	\$34,649	--	\$25,432	--	\$25,520	--	\$88
Transition	--	\$19,180	--	\$24,040	--	\$24,700	--	\$660
University Programs	--	\$62,371	--	\$48,575	--	\$38,700	--	(\$9,875)
Domestic Nuclear Detection Office ²	--	\$314,834	--	--	--	--	--	--
Gross Discretionary	387	\$1,487,075	383	\$973,109	381	\$799,100	(2)	(\$174,009)
<i>Less Prior Year Rescission³</i>	--	(\$20,000)	--	(\$125,000)	--	--	--	--
Total	387	\$1,467,075	383	\$848,109	381	\$799,100	(2)	(\$49,009)

¹ FY 2006 Revised Enacted budget includes 1% rescission. These figures represent historical alignment with the new S&T PPA structure.

² The Domestic Nuclear Detection Office received separate appropriations in FY 2007. FY 2006 DNDO funding: \$314,834 in RDA&O and \$2,558 in M&A.

³ Rescission of prior year balances in accordance with Public Law 109-90 and Public Law 109-295.

Source: http://www.dhs.gov/xlibrary/assets/budget_bib-fy2008.pdf

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Domestic Nuclear Detection Office

Budget: \$ 0.561b

Percent of DHS Budget: 1.2%

The DNDO, with 121 employees, coordinates federal efforts to detect and protect against nuclear and radiological threats against the US. This agency, utilizing an interdepartmental staff, is charged with developing nuclear detection systems.

BUDGET REQUEST

Dollars in Thousands

	FY 2006 Revised Enacted ¹		FY 2007 Enacted		FY 2008 Pres. Budget		FY 2008 +/- FY 2007	
	FTE	\$000	FTE	\$000	FTE	\$000	FTE	\$000
Management and Administration	[14]	[\$2,558]	112	\$30,468	121	\$34,000	9	\$3,532
Research, Development, and Operations	--	[\$189,834]	--	\$272,500	--	\$319,900	--	\$47,400
Systems Acquisition	--	[\$125,000]	--	\$178,000	--	\$208,000	--	\$30,000
Gross Discretionary	[14]	[\$317,392]	112	\$480,968	121	\$561,900	9	\$80,932
Fee Accounts	--	--	--	--	--	--	--	--
Total	[14]	[\$317,392]	112	\$480,968	121	\$561,900	9	\$80,932

¹ DNDO funding was included within DHS Science and Technology appropriations in FY 2006: \$314,834 in RDA&O and \$2,558 M&A.

Source: http://www.dhs.gov/xlibrary/assets/budget_bib-fy2008.pdf

Analysis and Operations

Budget: \$ 0.318b

Percent of DHS Budget: 0.68%

Analysis and Operations is more of a budgetary item than an actual, physical department. This agency, with 518 employees, provides support and resources for the Office of Intelligence and Analysis and the Office of Operations and coordination. This is a new agency, beginning in FY 2006.

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BUDGET REQUEST

Dollars in Thousands

	FY 2006 Revised Enacted		FY 2007 Enacted		FY 2008 Pres. Budget		FY 2008 +/- FY 2007	
	FTE	\$000	FTE	\$000	FTE	\$000	FTE	\$000
Analysis and Operations	283	\$252,940	475	\$299,663	518	\$314,681	43	\$15,018

Source: http://www.dhs.gov/xlibrary/assets/budget_bib-fy2008.pdf

Office of the Inspector General

Budget: \$ 0.099b

Percent of DHS Budget: 0.213 %

The OIG reports to both Congress and the Department of Homeland Security (DHS). The unit's responsibilities are to audit and investigate the programs of the DHS. In addition, it has overall responsibility for the oversight of management and expenditures of all contracts, grants, and government efforts in an on-going hurricane relief effort.

BUDGET REQUEST

Dollars in Thousands

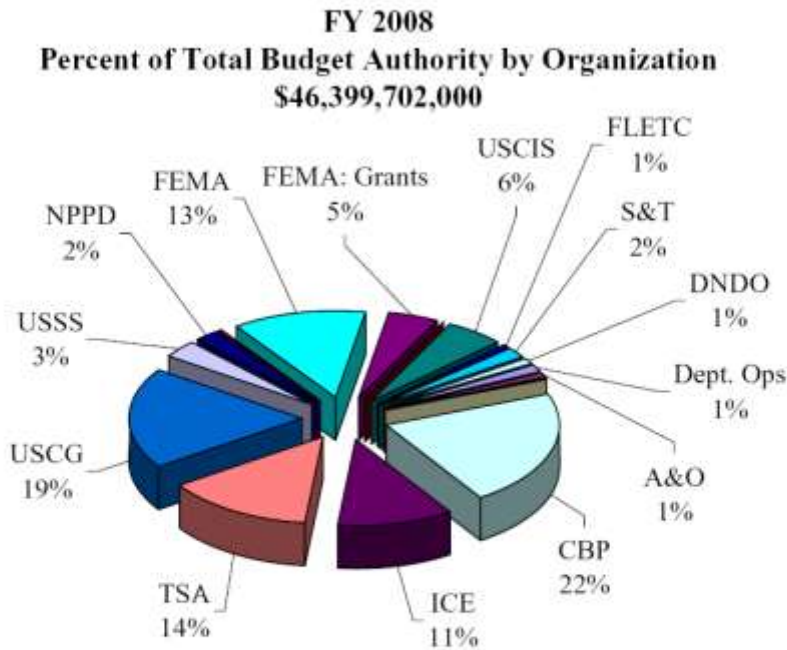
	FY 2006 Revised Enacted ¹		FY 2007 Enacted ²		FY 2008 Pres. Budget		FY 2008 +/- FY 2007	
	FTE	\$000	FTE	\$000	FTE	\$000	FTE	\$000
Audit, Inspections & Investigations	540	\$84,187	545	\$85,185	551	\$99,111	6	\$13,926

¹ Includes \$2 million supplemental appropriation (P.L. 109-234)

² Excludes a \$13.5 million transfer from the Disaster Relief Fund (P.L. 109-295)

Source: http://www.dhs.gov/xlibrary/assets/budget_bib-fy2008.pdf

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Notes:

1. The following offices are less than one percent of the total budget authority and are not labeled in the chart above: Office of the Inspector General, Office of Health Affairs.

2. Departmental Operations is comprised of the Office of the Secretary & Executive Management, the Office of the Federal Coordinator for Gulf Coast Rebuilding, the Office of the Undersecretary for Management, the Office of the Chief Financial Officer, and the Office of the Chief Information Officer.

Above chart from: Homeland Security Budget in Brief, 2008

Estimated DHS Procurement Amounts

With the detailed budget information detailed above, we can make some educated guesses about the departments appropriations and how they relate to product procurement. The VA Polytechnic Institute issued a report in July 2005 that calculated the percentage of each department's budget that was spent on procurement from the reporting system (http://www.mi.vt.edu/uploads/Mayerhomeland_security_issue%20papert.pdf).

By applying these percentages to the budget items above, I have arrived at an estimated government market size for each segment of the budget (were data was available).

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Department	Total Budget	Procurement Percentage	Procurement Budget	Sample Recipient Industries
Customs & Borders (CBP)	\$10.174b	10%	\$ 1.017b	Aircraft and Marine Manufacturers, Electronic Security Products (ex RFID components for shipping container tracking),
Immigration & Customs	\$ 5.01b	11%	\$ 0.551b	Personal Protective Devices (bullet proof vests), Surveillance Product Manufacturers.
Transportation Security Administration (TSA)	\$ 6.4b	36%	\$ 2.3b	Explosives detection equipment, Passenger screening devices,
Federal Law Enforcement Training Centers	\$ 0.263b	59%	\$ 0.155b	Simulation / Training Devices
US Coast Guard	\$ 8.7b	23%	\$ 2.0b	Marine, Ordnance, Search & Rescue craft, Surveillance product manufacturers
US Secret Service	\$ 1.6b	4%	\$ 0.06b	Personal Protective Device, Surveillance Products, Monetary Tracking devices / software.
Federal Emergency Management Administration (FEMA)	\$ 5.82b	15%	\$ 0.873b	Search & Rescue Craft / Product Manufacturers, Vehicle Manufacturers, Nuclear / Radiological Emergency Equipment & Detection Manufactures.
Citizen & Immigration Services	\$ 2.56b	11% (NA – used Immigration & Customs percentage as a proxy)	\$ 0.281b	Fraud detection devices / software, Investigative Service providers / devices.
National Protection and Programs Directorate *	\$ 1.046b	NA		
Office of Health Affairs *	\$ 0.117b	NA		
Science and Technology Directorate *	\$ 0.799b	NA		
Domestic Nuclear Detection Office *	\$ 0.56b	NA		
Analysis & Operations *	\$ 0.31b	NA		
Office of the Inspector General *	\$ 0.099b	NA		
* These agencies are either support agencies or may eventually be absorbed into other agencies and procurements expenditures may be included in these other agencies budget figures.				

Technology Update

Changes are being made in border security and the documents needed to pass across the US border. In the past, travelers to and from Canada, Mexico, and the Caribbean have for the most part only needed a government issued picture id for travel (i.e., a drivers license).

This procedure implicitly relied on the border security of the US, Mexico, Canada, and the Caribbean nations to provide a unified barrier to ‘un-wanted’ travelers. The strength in the system was only as strong as the weakest link.

Now travel will require a valid passport. Some exceptions still exist for travel between the countries mentioned above, but most travelers will require a valid passport. How does this relate to a technology update?? Well, the new passports incorporate RFID tags, a topic that has been discussed in this update in the past.

These RFID tags will contain encrypted data that confirms the data printed in the passport. The state department has insisted this is a new security measure being adopted by the major world countries. Some organizations have raised security concerns questioning whether these tags would broadcast “American Citizen” that terrorists could use as a means to select victims to abduct or worse. But, is this a valid concern?

An opposite point of view, that these passports may be less secure, can be found at the following web site: <http://www.securityfocus.com/news/10908>

INVESTMENT CHARACTERISTICS

Homeland Security companies in general are in the product development/introduction phase of the product life cycle. These phases are characterized by large amounts of R&D to develop technology and know-how, infusions of capital from outside sources as most companies are not yet generating significant amounts of internally generated funds, and insignificant revenues to date. Larger defense companies most likely operate in the maturity phase of the product life cycle due to large, recurring amounts of revenue and already established products. The creation of the Department of Homeland Security and initiatives to drastically change the nation’s security efforts have shifted the industry towards the left-hand side of the life cycle as focus has moved to innovation and as-of-yet unproven technologies.

Investment Merits/Drawbacks

In the public sector, major players in the Homeland Security market include federal agencies, state governments, and first responder organizations such as local municipalities. In the private sector, major players can be divided into incumbent security firms, large firms with a security presence, and smaller, entry-level players with niche products or burgeoning technologies.

Valuation Methodologies/How to Analyze

More incumbent Homeland Security companies can be analyzed employing traditional valuation techniques such as Price/Earnings ratios, Enterprise Value/Sales, or Price/Growth metrics. For younger firms, R&D as a percentage of revenue is a useful measure to gauge the amount being invested in future technologies. It is also useful to look at macro trends and attempt to identify significant technologies with potentially lucrative commercial opportunities. The potential of investing in the space is also one of its main drawbacks: the relatively small size of companies competing in the space means that they can grow rapidly and quickly take advantage of new opportunities. However, this means that the companies have less diversified product mixes and customer bases; as such, any contract or customer loss can adversely affect profitability and at times survival of smaller firms.

Major Industry Players

In addition to firms identified above in the *Commercial Opportunities* section, large, incumbent firms are best able to offer a broad range of services to the federal government and other security organizations. Companies such as Honeywell (NYSE: HON - security equipment) Siemens (NYSE: SI - fire monitoring, systems integration), General Electric (NYSE: GE - security equipment and services), Ingersoll Rand (NYSE: IR - systems services and integration) United Technologies (NYSE: UTX - monitoring, guard services), Tyco (NYSE: TYC - through ADT, its home security segment) Marsh McLennan (NYSE: MMC - through its acquisition of Kroll O'gara), Stanley Works (NYSE: SWK - systems integration and services), and Diebold (NYSE: DBD - systems services and integration) are already well established in the space and are expected to remain dominant as customers demand 'turn-key' solutions, or the ability of one provider to offer a broad array of services and allow one source for a number of services.

Defense Companies are a logical fit in terms of being able to offer a multitude of Homeland Security services and products. Due to longstanding relationships with government entities, international security expertise, and well-established infrastructure, defense firms are serious competitors in the space. Examples of such firms include Armor Holdings (NYSE: AH), Lockheed Martin (NYSE: LMT), Boeing (NYSE: BA), L-3 Communications (NYSE: LLL), General Dynamics (NYSE: GD), Northrop Grumman (NYSE: NOC) and Raytheon (NYSE: RTN).

Medium-size players usually represent pure plays in the areas in which they do business. Medium players include firms such as The Brink's Company (NYSE: BCO), Symbol Technologies (NYSE: SBL), and Identix (NASDAQ: IDNX), among others.

HOMELAND SECURITY – RECENT DEVELOPMENTS^x

Many countries still seem determined to undermine the US... including Iran, Venezuela and Hugo Chavez, and of course Al Qaida. Recent developments with Iran are becoming confusing... on one hand they are negotiating with the US about security issues in Iraq and seem to be close to an agreement, on the other, they are still pursuing nuclear weapon technology that would undermine security in the area. How this will play out will have serious implications for security in the region, and maybe for the security industry itself.

These continued threats still lead to a greater emphasis on detection and detention of nuclear, radiological and biological devices and the terrorists that attempt to deliver them.

Excerpts from the Department of Homeland Security Press Room:

DHS Establishes Rail Test Center for Radiation Detection

Release Date: May 11, 2007

For Immediate Release

Office of the Press Secretary

Contact: 202-282-8010

The U.S. Department of Homeland Security (DHS) will soon begin conducting multiple projects in the Port of Tacoma, Wash., to evaluate technology and concepts of operations for radiation detection that will scan cargo at various points in transfer from ship to rail. By establishing a Rail Test Center (RTC) at the port, DHS will identify and evaluate radiological and nuclear detection solutions for intermodal rail port facilities that can be used across the country.

“The deployment of radiation portal monitors can be much more challenging at seaports where cargo containers depart the port by rail,” said Vayl Oxford, director of the Domestic Nuclear Detection Office (DNDO). “DNDO is particularly interested in testing the operational needs as well as evaluating innovative technical solutions to fit the unique radiological and nuclear detection requirements of intermodal terminals. Advances in this area will provide greater capabilities to our partners such as the Customs and Border Protection, the United States Coast Guard and the Transportation Security Administration.”

Projects being considered for further evaluation at the RTC include scanning cargo on the dock, during transport to the rail yard, entering the rail yard, in the container storage stack, during train assembly, and as the train leaves the port.

The Port of Tacoma fulfills the requirements mandated by Section 121(i) of the SAFE Port Act of 2006. The Port of Tacoma is a publicly owned facility and the seventh largest container port in North America – handling more than 70 percent of its total import cargo volume by rail at multiple inter modal rail terminals.

The U.S. Department of Homeland Security’s DNDO is a jointly staffed, national office established to improve the nation’s capability to detect and report unauthorized attempts to import, possess, store, develop, or transport nuclear or radiological material for use against the nation, and to further enhance this capability over time.

**Fact Sheet: Strengthening Border Security and Facilitating Entry into the United States
*Moving Toward WHTI Implementation for Cross-Border Travel by Land and Sea***

Release Date: June 20, 2007

Contact: DHS Press Office, (202) 282-8010

DOS Press Office, (202) 647-2979

Access to our nation is critical for a terrorist to plan and carry out attacks on our homeland. As the 9/11 Commission's Final Report states, "For terrorists, travel documents are as important as weapons. Terrorists must travel clandestinely to meet, train, plan, case targets, and gain access to attack. To them, international travel presents great danger, because they must surface to pass through regulated channels to present themselves to border security officials, or attempt to circumvent inspection points."

The Intelligence Reform and Terrorism Prevention Act of 2004 (IRTPA) required the Department of Homeland Security (DHS) and Department of State (State) to develop and implement a plan to require all travelers, U.S. citizens and foreign nationals alike, to present a passport or other secure document or combination of documents that denote identity and citizenship when entering or re-entering the United States.

The Western Hemisphere Travel Initiative (WHTI) is the plan to implement this 9/11 Commission recommendation and Congressional mandate. This travel initiative is being implemented in phases. WHTI requirements are in effect, as of Jan. 23, 2007, for air travel, and the departments are announcing the phases for land and sea compliance. The goal of WHTI is to strengthen border security and facilitate entry into the United States for U.S. citizens and legitimate international travelers.

A Phased Approach

WHTI Air: Implemented on Jan. 23, 2007, the WHTI regulation for air travel requires generally all U.S. citizens and citizens of Canada, Mexico, and Bermuda traveling by air between the U.S. and Canada, Mexico, the Caribbean, and Bermuda to present a valid passport to enter, or re-enter, the U.S. As a result of close coordination with federal government partners, private sector travel, tourism industry and the air carriers, 99

percent of U.S. citizens and affected international travelers have complied with this new requirement.

DHS and State recently announced that U.S. citizens traveling to Canada, Mexico, the Caribbean, and Bermuda who have applied for but not yet received passports can nevertheless temporarily enter and depart from the United States by air with a government issued photo identification and Department of State official proof of application for a passport through Sept. 30, 2007. The federal government is making this accommodation for air travel due to longer than expected processing times for passport applications in the face of record-breaking demand.

WHTI Land and Sea Transition: Beginning Jan. 31, 2008, DHS plans to begin initial elements of WHTI implementation at land and sea ports of entry by ending the routine practice of accepting oral declarations alone. At that point, U.S. and Canadian citizens will need to present either a WHTI-compliant document or a government-issued photo ID, such as a driver's license, plus proof of citizenship, such as a birth certificate. DHS also proposes to begin alternative procedures for U.S. and Canadian children in January, whereby children ages 15 and younger would be required to present certified copies of their birth certificates. Groups of U.S. and Canadian children ages 16 through 18, traveling with public or private school groups, religious groups, social or cultural organizations or teams associated with youth athletics organizations would also be able to enter, under adult supervision, with certified copies of their birth certificates.

WHTI Land and Sea: At a date to be determined by the Secretary of Homeland Security, in consultation with the Secretary of State, the departments will implement the full requirements of the land and sea phase of WHTI. The implementation date will be determined based on a number of factors, including the progress of actions undertaken by the Department of Homeland Security to implement the WHTI requirements and the availability of WHTI compliant documents on both sides of the border. DHS and State expect the date of full WHTI implementation to be in the summer of 2008. The precise implementation date will be formally announced with at least 60 days notice.

A Notice of Proposed Rulemaking (NPRM) proposing new documentation requirements for U.S. citizens and certain nonimmigrant aliens entering the U.S. by land or sea from

within the Western Hemisphere is now available at www.dhs.gov. These documents include: a U.S. passport; a U.S. passport card; a trusted traveler card (NEXUS, FAST, or SENTRI); a valid Border Crossing Card; a valid Merchant Mariner Document when traveling in conjunction with official maritime business; or a valid U.S. Military identification card when traveling on official orders or permit. The NPRM also outlines ongoing efforts to provide other alternative documents. The departments welcome comments to the NPRM and note that it has been developed with consideration of extensive consultation and constructive dialogue with various stakeholders, members of Congress, border community residents, and officials on both sides of our nation's borders.

A Secure, Verifiable Travel Document

- Standardized, secure and reliable documentation will allow DHS to quickly, reliably and accurately identify a traveler.
- Currently, Customs and Border Protection (CBP) Officers must satisfy themselves that an individual who merely makes a verbal claim of U.S. or Canadian citizenship is in fact a citizen. These individuals provide whatever they have on their persons to support the claim – including more than 8,000 different documents. A CBP officer has to assess the authenticity of the document, regardless of when or where it was issued.
- The challenge at the borders is assessing individual travelers, based on the documents they present, without significantly slowing the processing time for admission into the United States. Limiting and standardizing the types of documents presented will result in a more secure and efficient border.

Certifications

Congress called for the DHS and State to fulfill specific certifications prior to implementing WHTI at land and sea ports of entry. These certifications and their status are outlined in the NPRM, and include:

National Institute of Standards and Technology (NIST) Certification:

- NIST certified that the Radio Frequency Identification (RFID) card architecture (security and privacy protection measures) to be incorporated in the proposed Passport Card met or exceeded accepted standards. RFID technology has been used successfully as a border management tool since 1995.

Flexible Treatment of Minors:

- DHS announced in February that it would propose a flexible approach to the new document requirements for children, permitting birth certificates as acceptable proof of identity and citizenship for minors age 15 and under, as well as for minors age 16 – 18 who meet certain requirements, such as traveling with school or youth groups.

Alternative Documents:

- NEXUS, SENTRI and FAST frequent traveler programs are all proposed alternative documents, and leverage RFID technology. With 300,000 members combined, CBP is expanding these programs to additional enrollment facilities to help meet growing demand.
- The Passport Card, to be produced by Department of State, is a secure, less costly document that represents a direct response to initial public concerns that passports were cost-prohibitive. State has developed an ambitious and aggressive schedule to begin issuing the Passport Card to the public as soon as possible in 2008.
- DHS announced in March its commitment to the State of Washington to accept its enhanced state driver's licenses as proof of identity and citizenship for WHTI purposes. DHS is encouraging other states to submit similar proposals to enhance their driver's licenses and identification documents for use at land and sea ports of entry. Several border states have commenced discussions with DHS to this end.

Consultation with Canadian and Mexican Officials:

- DHS and State have consulted with Canadian and Mexican officials regarding WHTI implementation since the enactment of IRTPA.
- We remain committed to such consultations. In particular, DHS officials have been involved in extensive discussions with their Canadian counterparts regarding alternative documents that could be available to Canadian citizens for WHTI purposes.

A detailed list of Frequently Asked Questions about WHTI is available at www.cbp.gov. Travelers are also encouraged to visit www.travel.state.gov for additional information on their destinations, as well as helpful resources provided by the Department of State's Bureau of Consular Affairs.

Fact Sheet: Securing Our Nation's Chemical Facilities

Release Date: June 12, 2007

Chemical security is not solely a federal responsibility; it is a shared responsibility among federal, state and local governments, and also with the private sector. Government and industry have to work together to implement the best possible measures to strengthen the security of America's chemical facilities, while not undercutting an important part of the nation's economy.

Overall Goals

Risk-based Approach to Protecting the Chemical Sector:

- Different sites, facilities and chemicals pose different levels of risk and therefore require different kinds and levels of protection.
- Ensure high-risk facilities are protected and that owners and operators across the sector are doing their part.

A Comprehensive Approach:

- Secure not only chemical sites and facilities, but also chemicals in transit. In other words, secure the end points of the system as well as the links in between.
- Target the highest risk chemicals and work with industry to demonstrably reduce risk without breaking the system. For example, last December, the Department of Homeland Security (DHS) put forward a proposed regulation to reduce the standstill time for rail cars carrying toxic inhalation hazards (TIH) around our major cities. This regulation ensures that the relatively small number of cars that carry TIH chemicals on a given day are not left unattended, can be efficiently tracked, and take the safest, most economically practicable route.

Working Together in a Spirit of True Partnership:

- Share knowledge, information, and intelligence about threats and vulnerabilities across the sector.
- Develop a common understanding of risk, define roles and responsibilities, and establish clear metrics to measure progress against national priorities.
- Ensure accountability so that the hard work done to protect this sector is not undermined by a small number of facilities not acting responsibly.

Build on Substantial Investments Made by the Chemical Industry Itself:

- Many facilities have taken significant steps to conduct security assessments and develop security plans.
- So as not to duplicate those efforts, DHS will look at what a plant or facility has already done in terms of security measures and protocols.

Chemical Facility Anti-Terrorism Standards

In April 2007, DHS released an interim final rule establishing comprehensive federal security regulations for high-risk chemical facilities. As of June 8th the Department now has the ability to enforce that regulation, which, for the first time, sets national standards for chemical facility security.

Process

- DHS will determine which plants and facilities pose the greatest risk across the sector. Risk is defined by evaluating a combination of threat, vulnerability, and consequence.
- DHS will consider the types and quantities of chemicals at a particular facility, the vulnerabilities that could be exploited to do harm to the facility or the surrounding community, and the potential consequences to human life and the nation's economy.
- Plants and facilities across the country can now register online and complete a Chemical Security Assessment or "Top Screen," which is an on-line assessment that indicates whether the facility should be covered by the regulation.
- In April, DHS released a proposed list of chemicals as part of the interim final rule. The Department expects to release Appendix A in its final format in the near future.
- From the date that the finalized list of chemicals of concern and related threshold quantities is published in the Federal Register, affected facilities will have 60 days to provide information for the Department's risk-assessment process.

Implementation

- Once the final list of chemicals and threshold quantities is published, chemical facilities will have to review the list and determine if they meet the requirements for submitting information to the Top Screen.
- Top Screen is now available for on-line access. Any facility may begin the process at any time.
- Upon completion of the Top Screen, if the facility is deemed "high risk," they must prepare and submit vulnerability assessments and site security plans. DHS will evaluate those plans for quality and compliance with the established performance standards.
- DHS strives to create flexibility so that the individual plant or facility can determine the most appropriate solution provided it meets the Department's performance standards.
- Performance standards being considered include: how long and how effectively the facility secures the perimeter and the facility itself; how they control access; how they deter and prevent theft of potentially dangerous chemicals; and how they prevent internal sabotage.
- DHS will provide technical assistance to help plants submit an acceptable plan.
- The Department will use site inspections and audits to ensure that security measures will, in fact, be implemented.

Accountability

- Facilities that fail to meet the Department's performance standards could face penalties of up to \$25,000 for each day a violation occurs, or they could be ordered to halt operations until security is brought up to a level DHS deems appropriate.

U.S. Citizens with Pending Passport Applications Allowed Temporary Travel Flexibility Within Western Hemisphere

Release Date: June 8, 2007

For Immediate Release

Office of the Press Secretary

Contact: 202-282-8010

The U.S. Departments of State and Homeland Security announced today that U.S. citizens traveling to Canada, Mexico, the Caribbean, and Bermuda who have applied for but not yet received passports can nevertheless temporarily enter and depart from the United States by air with a government issued photo identification and Department of State official proof of application for a passport through September 30, 2007. The federal government is making this accommodation for air travel due to longer than expected processing times for passport applications in the face of record-breaking demand.

The Western Hemisphere Travel Initiative (WHTI) was mandated by Congress in the Intelligence Reform and Terrorism Prevention Act of 2004 to strengthen border security and facilitate entry into the United States for citizens and legitimate international visitors.

WHTI requirements for air travel took effect on January 23, 2007.

Adults who have applied for but not yet received a passport should present government-issued photo identification and an official proof of application from the U.S. Department of State. Children under the age of 16 traveling with their parents or legal guardian will be permitted to travel with the child's proof of application. Travelers who have not applied for a passport should not expect to be accommodated. U.S. citizens with pending passport applications can obtain proof of application at: <http://travel.state.gov>.

This accommodation does not affect entry requirements to other countries. Americans traveling to a country that requires passports must still present those documents.

Since implementation, U.S. Customs and Border Protection has and will continue to exercise its current authorities in unique circumstances to allow individuals subject to the WHTI requirements into the United States based on other evidence of identity and citizenship.

As early as January 2008, the departments will begin to implement WHTI at land and sea ports of entry. A Notice of Proposed Rulemaking outlining a phased implementation is expected to be published in the *Federal Register* within the next two weeks.

Travel document security remains a top priority for the U.S. Government. Both the 9/11 Commission and the U.S. Congress urged strengthening of travel documents to prevent entry of terrorists across our borders, reduce use of fraudulent documents, and speed up entry procedures.

Science and Technology Directorate Establishes TechSolutions Program to Support Emergency Response Community

Release Date: March 28, 2007

For Immediate Release

Office of the Press Secretary

Contact: 202-282-8010

The Department of Homeland Security's Science and Technology (S&T) directorate has established a program, TechSolutions, to support the first responder community by accelerating delivery of emerging technologies. TechSolutions is designed to collect technological requirements and provide solutions for first responders.

"No one understands the needs of first responders better than first responders," said Jay M. Cohen, Under Secretary for S&T. "Every day, hundreds of law enforcement officers, fire fighters, emergency medical services personnel and bomb-squad members think, 'there's a better way to do this,' and we want to hear from them."

S&T's commitment to spiral development and rapid prototyping ensures funding for selected proposals within 45 days, and a solution demonstrated within 12 months of funding. Costs of the solutions should be commensurate with the proposal, but less than \$1 million per project. Solutions also should deliver up to 100 percent of identified requirements, and first responders will partner with the department from start to finish. First responders are encouraged to submit ideas that would aid the first responder community by increasing efficiency and on-the-job safety at:

www.dhs.gov/techsolutions.

DHS Awards \$8.8 Million for Exploratory Research on Advanced Nuclear Detection Technology

Release Date: March 26, 2007

For Immediate Release

Office of the Press Secretary

Contact: 202-282-8010

Washington — The U.S. Department of Homeland Security's (DHS) Domestic Nuclear Detection Office (DNDO) announced ten contract awards today totaling \$8.8 million to nine companies that will perform exploratory research in advanced nuclear detection technology. The Exploratory Research Program is designed to transform nuclear detection technology by funding aggressive research and development that is unconstrained by pre-existing user expectations and initial technical risks.

The nine companies selected are: Alliant Techsystems Incorporated, Mission Research Division; Canberra; EIC Laboratories, Incorporated; General Electric Global Research Center (two awards); Physical Optics Corporation; Radiation Monitoring Devices, Incorporated; Rapiscan Systems Corporation; Science Applications International Corporation (SAIC); and Westinghouse Electric Company.

Each contract consists of multiple phases, including an advanced technology demonstration, before potentially transitioning to a systems development and acquisition program. Successful technologies will be deployed to provide port-of-entry (POE) and non-POE radiological and nuclear detection capability.

Earlier this year, DHS announced the award of Exploratory Research Cooperative Agreements with Academia totaling approximately \$3.1 million to make significant advances in basic nuclear detection technology. Seven universities were awarded cooperative agreements: California Institute of Technology, Florida Institute of Technology, Rensselaer Polytechnic Institute, State University of New York at Stony Brook, University of Michigan, University of Nebraska at Lincoln, and Washington University.

Aircraft Cargo Screening Program to Begin at Cincinnati / Northern Kentucky Airport

Release Date: March 26, 2007

For Immediate Release

Office of the Press Secretary

Contact: 202-282-8010

Washington — The U.S. Department of Homeland Security (DHS) will begin testing air cargo screening technologies this spring at the Cincinnati/Northern Kentucky International Airport (CVG) as part of the department's previously announced \$30 million Air Cargo Explosives Detection Pilot Program (ACEDPP). The CVG pilot program is designed to test the screening of significant amounts of cargo within an air cargo facility and will focus on areas to include assessing the flow and speed of cargo screening.

The ACEDPP was launched in June 2006 and is currently conducting pilot programs at the San Francisco International Airport (SFO) and at the Seattle-Tacoma International Airport. Testing of this nature will provide critical knowledge to help the Transportation Security Administration (TSA) make future decisions on air cargo and assist in technological research and development planning for the nation's air cargo security infrastructure. DHS is interested in data that illustrates economic and operational impacts to air carriers from enhanced screening levels. Deployed technology at SFO includes x-ray systems, explosive trace detectors, and automated explosives detection systems. At Seattle-Tacoma International Airport, the focus is on detecting hidden intruders and stowaways.

While DHS expects new ideas to emerge from the testing to bring about future improvements, some advancements have already been made. As part of its advanced air cargo research and development program, DHS is funding the development of new systems that can screen entire pallets to look for explosives.

ACEDPP is a DHS-collaboration between the Science and Technology directorate and TSA. In addition to local airport and TSA personnel, organizations involved in the tests are the Oak Ridge National Laboratory, Lawrence Livermore National Laboratory, Pacific Northwest National Laboratory and the Transportation Security Laboratory.

DHS Issues Proposal for States to Enhance Driver's Licenses

Release Date: March 1, 2007

For Immediate Release

Office of the Press Secretary

Contact: (202) 282-8010

[Notice of Proposed Rulemaking: REAL ID](#)

The Department of Homeland Security (DHS) announced today its proposal to establish minimum standards for state-issued driver's licenses and identification cards in compliance with the REAL ID Act of 2005. The REAL ID requirements are a result of recommendations made by the 9/11 Commission, which Congress passed into law, and will enhance the security and integrity of driver's licenses.

"Raising the security standards on driver's licenses establishes another layer of protection to prevent terrorists from obtaining and using fake documents to plan or carry out an attack. These standards correct glaring vulnerabilities exploited by some of the 9/11 hijackers who used fraudulently obtained drivers licenses to board the airplanes in their attack against America," said Homeland Security Secretary Michael Chertoff. "We will work closely with states to implement these standards and protect American's privacy against identity theft and the use of fraudulent documents. We are also pleased to have been able to work with Senator Susan Collins, and I believe that the proposed regulations reflect her approach."

The department's proposed regulations set standards for states to meet the requirements of the REAL ID Act, including: security features that must be incorporated into each card; verification of information provided by applicants to establish their identity and lawful status in the United States; and physical security standards for locations where licenses and identification cards are issued.

As proposed, a REAL ID driver's license will be required in order to access a federal facility, board federally-regulated commercial aircraft, and enter nuclear power plants. Because states may have difficulty complying before the May 11, 2008, deadline, DHS will grant an extension of the compliance deadline until December 31, 2009. States that

have received extensions will, over the course of the waiver period, submit proposed timetables for compliance.

DHS also announced that up to 20 percent of a state's Homeland Security Grant Program funds can be used to help implement REAL ID. This additional flexibility will be made available during the current 2007 grant cycle.

In May 2005, President Bush signed the "Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Tsunami Relief Act" into law. Among the provisions contained in the law was the REAL ID Act.

The proposed regulations have been submitted to the Federal Register for a 60-day public comment period. To view the proposed regulations, go to www.dhs.gov.

Additional Homeland Security news can be found at: www.ccmsectorinvest.com

DHS Awards \$445 Million to Secure Nation's Critical Infrastructure

Release Date: May 10, 2007

For Immediate Release

Office of the Press Secretary

Contact: 202-282-8010

[Transit Security Grant Program: FY 2007 Awards and Funding History](#)

[Port Security Grant Program - Award Comparison by Port Area](#)

[Overview: FY2007 Infrastructure Protection Program Final Awards](#) (PDF, 38 pages - 773 KB)

The U.S. Department of Homeland Security (DHS) announced today final awards totaling \$445 million in grant programs that strengthen the ability of ports, transit, and intercity bus systems to prevent, protect against, respond to and recover from terrorist attacks, major disasters and other emergencies. The awards are part of the fiscal year (FY) 2007 Infrastructure Protection Program (IPP), which has provided nearly \$2 billion in grants to strengthen critical infrastructure facilities and transportation systems.

"These grants will help to protect our nation's critical infrastructure from threats and hazards that could cause major loss of life, economic impact, and disruption of services," said Homeland Security Deputy Secretary Michael Jackson. "These risk-

based investments will increase security for vital assets such as ports, mass transit systems, long-distance bus carriers, chemical facilities, and nuclear power plants.” Funding was directly allocated in January as part of the IPP to Tier I Transit grants, the Buffer Zone Protection Program and the Trucking Security Program. Today’s announcement outlines the final competitively-bid portions of these grants, which includes Port Security grants, Tier II Transit Security grants, and Intercity Bus Security grants.

Final awards for the FY 2007 IPP include:

- **Port Security Grant Program (PSGP): \$202 million (Tiers I – IV)**
The FY 2007 PSGP will provide a total of \$202 million to 183 public and private entities to create sustainable, risk-based efforts to protect critical port infrastructure from terrorism. Eight of the highest risk port regions were placed in Tier I and were eligible to apply for a combined total of \$120 million, or roughly 60 percent of total FY 2007 PSGP funding. Port areas in Tiers II, III and IV were eligible to compete for the additional 40 percent of available funds. Funding priorities included training, exercises, and other activities to mitigate the risk of improvised explosive devices (IEDs) and to improve employee credentialing and access controls. In some cases, multiple port areas were grouped together to reflect geographic proximity, shared risk, and a common waterway.
- **Transit Security Grant Program (TSGP): \$14.2 million (Tier II) and Ferry Security (\$7.2 million)**
The FY 2007 TSGP will provide a total of \$171 million to high-risk urban areas. \$141 million was announced in January for the eight highest-risk Tier I urban areas; 24 Tier II urban areas will receive a total of \$14.2 million; 17 ferry systems in 13 regions will receive a total of \$7.2 million; and the National Passenger Railroad Corporation (Amtrak) will receive a total of \$8.3 million. In order to provide local transit agencies greater flexibility in allocating TSGP funds, in FY 2007, DHS combined transit rail grants and transit bus grants to allow them to decide where they can better focus their resources.
- **Intercity Bus Security Grant Program (IBSGP): \$11.6 million**
The FY 2007 IBSGP will provide a total of \$11.6 million to owners and operators of fixed route intercity and charter bus companies servicing one or more defined Urban Areas Security Initiative (UASI) jurisdictions. Of this total, \$8.2 million was allocated for Tier I to six recipients with the largest bus fleets and most extensive services to high-risk urban areas, and the remaining \$3.5 million was allocated for eligible recipients in Tier II. Proposals from 33 Tier II companies were selected for award. DHS places a strong emphasis on preventing and detecting IEDs. Other funding priorities included: the protection of high-risk/high-consequence assets; use of visible, unpredictable deterrence; targeted antiterrorism training emergency preparedness drills and exercises; and public awareness and preparedness campaigns.

The following grant programs received direct allocation funding and were announced in January:

- **Transit Security Grant Program – Tier I: \$141 million**
The eight highest-risk urban areas will receive \$141 million to protect their mass transit systems. This represents roughly 90 percent of the total FY 2007 TSGP funding for intracity rail and bus systems. In January, DHS identified specific target investment levels for each of these eight areas. Each Tier I applicant must still submit a fully compliant application, which will undergo a preliminary review prior to final submission. Once completed, these grants will be awarded through cooperative agreements with the state, who in turn works with the transit system. Final Investment Justifications are due 90 days from the date the grant is awarded by DHS.

- **Buffer Zone Protection Program (BZPP): \$48.5 million**
The FY 2007 Buffer Zone Protection Program (BZPP) will provide a total of \$48.5 million and will be awarded to states through their State Administrative Agency. BZPP provides grant funding to build security and risk-management capabilities at the state and local level to secure pre-designated Tier I and Tier II critical infrastructure sites, including chemical facilities, financial institutions, nuclear and electric power plants, dams, stadiums, and other high-risk/high-consequence facilities.

- **Trucking Security Grant Program (TSP): \$11.6 million**
The Highway Watch program is operated under a cooperative agreement with the American Trucking Associations. The TSP recruits and trains truckers and other highway professionals to identify and report security and safety situations on our nation's roads. It also operates and maintains a Highway Information Sharing and Analysis Center located at the Transportation Security Operations Center in Herndon, Va.

In making grant determinations, the department considered the threat, vulnerability, and consequences of an attack on critical infrastructure as well as the effectiveness of proposed solutions. The IPP grants affirm Homeland Security's commitment to risk-based funding and deepen the department's commitment to assisting with regional planning and security coordination. The risk-based methodology for the IPP programs is consistent across the modes and is linked to the risk methodology used to determine eligibility for the core Homeland Security state and local grant programs.

For the list of individual grants and further information on the Infrastructure Protection Program, please visit www.dhs.gov.

ISE-CCM HOMELAND SECURITY INDEX

The International Security Exchange – Cronus Capital Markets (ISE-CCM) Homeland Security Index (HSX) includes companies engaged in contractual work with the Department of Homeland Security, law enforcement agencies, or providing products or services for the following efforts: intelligence and warning; border and transportation security; domestic counterterrorism; protection of critical infrastructure; defense against catastrophic threats; and, emergency preparedness and response.

The following is excerpted from the ICE-CCM Homeland Security Index December 2006 report:^{xi}

The ISE-CCM HOMELAND SECURITY INDEX is a sampled, fixed-number constituent, modified market capitalization-weighted index that is adjusted for free-float shares. It is a “RIC” (Regulated Investment Company) compliant index of 30 select, small, mid, and large capitalizations US companies. These Homeland Security companies are some of the largest, most liquid, and most mature of the entire sector. The index strongly represents, in a balanced fashion, the complete Homeland Security Sector and its related missions. Due to the non-uniform weight distribution across the sector, a “modified” market capitalization-weighted methodology is used to limit individual component weightings to 25%. This modification prevents a few large component stocks from dominating the index and distorting an index return that is representative of an industry sector. The modified approach promotes portfolio diversification by retaining the economic attributes of capitalization ranking.

The ISE-CCM HOMELAND SECURITY INDEX has been constructed specifically to isolate “Homeland Security Companies” in order to present an accurate and pure representation of the Homeland Security Sector. Defense contractors and large conglomerates have been excluded for reasons of purity, even though they may be a contractor with the Department of Homeland Security and have a presence in the sector.

The ISE-CCM HOMELAND SECURITY INDEX is calculated on a price and total return basis. The price Index is calculated in real-time and disseminated via the Options Price Reporting Authority (OPRA) and market data vendors every day the U.S. equity markets are open. The total return Index is calculated on an end-of-day basis. Both sets of values are freely available on ISE’s website, www.iseoptions.com.

HSX always contains 30 different component stocks at all times. New companies are added to the Index only when there is a vacancy. Companies may not apply, and may not be nominated, for inclusion in the Index. Companies are added or removed by the ISE and CCM based on the methodology described herein. Whenever possible, ISE will publicly announce changes to the index on its website at least five trading days in advance of the actual change.

The HSX was jointly developed by ISE and CCM. CCM, an independent and privately owned capital market research and consulting firm, provides specific research and support for the Index.

The index includes thirty stocks in a modified cap-weighted portfolio. Therefore, the larger companies within the index will have a slightly greater weighting within the index compared to smaller firms. Figure 1.8 shows the components of the HSX. L-3 Communications, Harris Corp (NYSE: HRS), and Thermo Electron (NYSE: TMO) are the three largest and account for approximately 46% of the overall index.

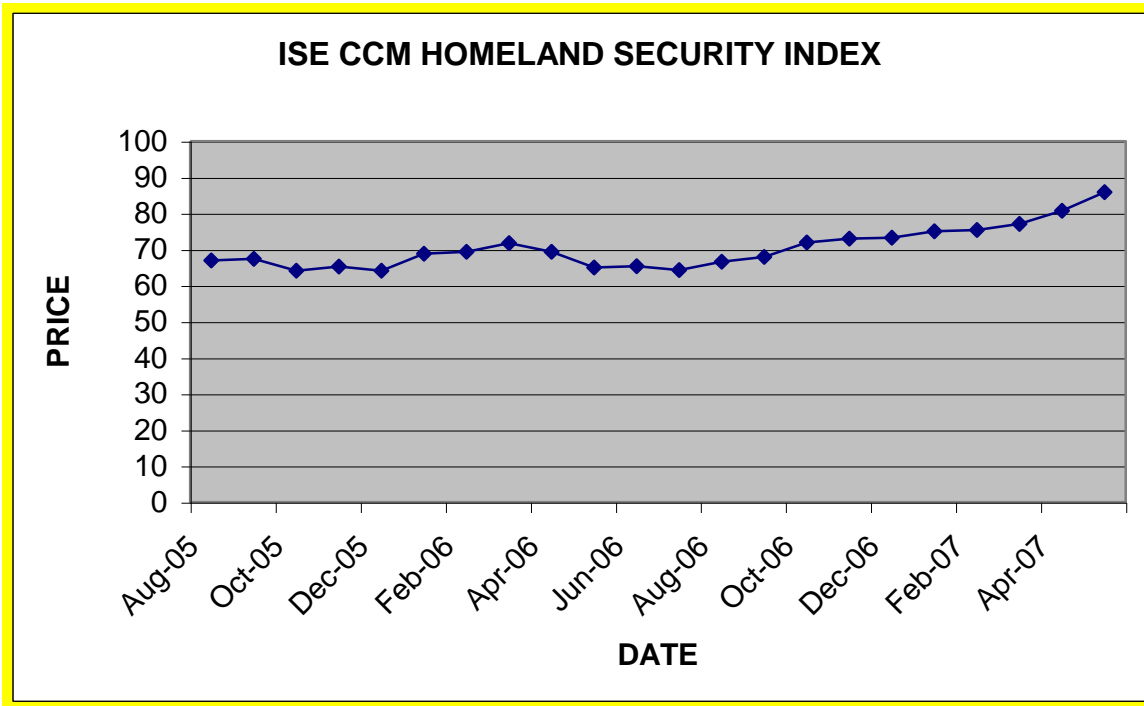
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Figure 1.8
ISE-CCM Homeland Security Index (HSX)

Ticker	Name	Weight
ACTI	ActivIdentity Corp	0.32
AH	ARMOR HOLDINGS	4.04
APSG	Applied Signal Technology	0.31
ASEI	American Science Engineering	0.77
AVII	Avi Biopharm Inc.	0.25
BCRX	BioCryst Pharmaceutical Inc	0.30
CAI	CACI International Services	2.47
CHKP	Check Pint Software	4.71
COGT	Cogent Inc	1.05
CPHD	CEPHEID Inc.	1.00
FLIR	FLIR Systems	4.22
HEB	Hemisphere BioPharma Inc	0.17
HEPH	Hollis-Eden Pharmaceuticals	0.10
HRS	Harris Corp.	8.30
ID	L-1 Identity Solutions Inc.	2.04
LLL	L-3 Communications Holdings	14.71
MANT	ManTech International 'A'	0.91
MSA	Mine Safety Appliances CO.	2.00
MFE	McAfee Inc.	7.27
OSIS	OSI Systems Inc.	0.70
RAE	RAE Systems	0.15
SINT	SI International Inc	0.64
SRX	SRA International	1.63
STE	STERIS Corp.	3.04
TASR	Taser International	1.02
TMO	Thermo Electron	23.34
TTEK	Tetra Tech	1.99
UIS	Unisys Corp.	4.47
WNG	Washington Group Intl Inc	3.77
ZBRA	Zebra Technologies 'A'	4.30
		100.0

Like most index options, the contract settles European style and for cash. Therefore, exercise and assignment can only take place at expiration. In addition, exercise involves the transfer of cash and not shares as with stock options..^{xii}

Expected Return of HSX



I ran a valuation model on the constituents of the Homeland Security Index (HSX) to determine the expected return against the broad market indexes. My valuation model is a ‘relative’ model. It utilizes some historical price ratios, some estimated ratios, with some of the ratios relative to the broader market indexes. Utilizing this model, and weighting the individual expected returns, I obtained an implied 12-18 month expected return of 5.16%. This valuation should be viewed in context of the broader market indexes, and not as an absolute expected change.

The updated expected return reflects the increase in value of the HSX. The prior expected return was a little over 16%. Given the appreciation recently experienced, I am adjusting the rating of the index to Hold / 3.

SUMMARY & CONCLUSION

The need to improve detection systems and border security is still as valid as it was in the prior reports. While some enhancements have been made to standard documents such as passports, there is a lot more to be accomplished. This ongoing need is positive for the companies in the HSX Index and the industry in general, and the capital improvements that are needed will give ample investing opportunities.

ⁱ National Strategy for Homeland Security – Office of Homeland Security; July 2002
ⁱⁱ National Strategy for Homeland Security – Office of Homeland Security; July 2002, pg 25
ⁱⁱⁱ http://www.rand.org/pubs/testimonies/2005/RAND_CT250-1.pdf
^{iv} <http://www.9-11commission.gov/report/911Report.pdf#search='9/11%20Commission%20Report'>
^v <http://www.dhs.gov/dhspublic/display?theme=11&content=4353>
^{vi} ‘Homeland Security’s New Broom – Business Week, April 19, 2005
^{vii} http://www.economist.com/displaystory.cfm?story_id=4174486
^{viii} http://www.dhs.gov/interweb/assetlibrary/DHS_OrgChart_2004.pdf
^{ix} Washington’s Mega-merger – The Economist, November 21, 2002.
^x <http://www.dhs.gov/dhspublic/archdisplay?theme=43,44,45,47&monthyear=092005>
^{xi} http://www.iseoptions.com/pdf/HSX_REPORT.pdf
^{xii} Frederick Ruffy – Optionetics.com

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Analyst's Statement: "I have prepared this report, and the content within it, including all opinions, are solely my own." The analyst is Gary Vassalotti. The analyst's biographical details are at <http://www.investrend.com/articles/secondlevel.asp?level=238>

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The following is from the Final Report of the SEC Advisory Committee on Smaller Public Companies, adopted February 21, 2006: http://www.sec.gov/info/smallbus/acspc/acspc-finalreport_d.pdf

"In order to address the need for more independent research for smaller public companies, [the **U.S. Securities and Exchange Advisory Committee on Smaller Public Companies** recommends] that the Commission:

"Maintain policies that allow company-sponsored research to occur with full disclosure by the research provider as to the nature of the relationship with the company being covered.

"Entities providing such research should disclose and adhere to a set of ethical standards* that ensure quality and transparency and minimize conflicts of interest."

Further, **"the trading markets for public companies are assisted in great measure by the dissemination of quality investment research.** Investment research coverage for public companies in general, and for smaller public companies in particular, has declined dramatically in recent years, however, as economic and regulatory pressures have led the financial industry to dramatically reduce research budgets.

"The problem is particularly pronounced in the case of smallcap companies, of which less than half receive coverage by even a single analyst, and in the microcap universe, where analyst coverage is virtually non-existent ...

"A lack of independent coverage has several adverse effects, both for individual companies and for the capital markets as a whole:

- "companies with no independent analyst coverage have a reduced market capitalization in comparison with companies that do have such coverage, and are subject to higher financing costs when compared with their analyst-covered peers;
- "a lack of coverage by independent analysts limits shareholders' and prospective shareholders' ability to obtain an informed outsider's perspective on identifying strengths and weaknesses and areas for improvement;
- "the lack of coverage lessens the entire "mix of information" made available to investment bankers, fund managers and individual investors, which makes markets less efficient; and
- "because analyst reports trigger the buying and selling of shares, the lack of such reports frustrates the formation of a robust trading market."

*The sole model referenced in testimony to the SEC Advisory Committee in establishing this language is the **"Standards For Independent Research Providers"** at <http://www.firstresearchconsortium.com> which is the ethical foundation for Investrend Research.

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