

CYALUME TECHNOLOGIES HOLDINGS, INC.

FORM 10-K/A (Amended Annual Report)

Filed 04/17/09 for the Period Ending 12/31/08

Address	96 WINDSOR STREET, WEST SPRINGFIELD, MA 01089
Telephone	(413) 858-2500
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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

**FORM 10-K / A
(Amendment No. 1)**

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2008

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from – to -

Cyalume Technologies Holdings, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

000-52247
(Commission File
Number)

20-3200738
(I.R.S. Employer
Identification No.)

96 Windsor Street, West Springfield, Massachusetts 01089
(address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **(413) 858-2500**

Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, \$ 0.001 par value	Over-the-Counter Bulletin Board
Common Stock Purchase Warrants	Over-the-Counter Bulletin Board
Units consisting of one share of Common Stock and one Common Stock Purchase Warrant	Over-the-Counter Bulletin Board

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark if the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes No

The aggregate market value of Common Stock held by non-affiliates of the registrant (7,312,500 shares) based on the last reported sale price of the registrant's Common Stock on the OTCBB on June 30, 2008, which was the last business day of the registrant's most recently completed second fiscal quarter, was \$55,209,375. For purposes of this computation, all officers, directors, and 10% beneficial owners of the registrant are deemed to be affiliates. Such determination should not be deemed to be an admission that such officers, directors, or 10% beneficial owners are, in fact, affiliates of the registrant.

As of April 13, 2009, there were outstanding 15,302,774 shares of the registrant's Common Stock, par value \$.001 per share.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Registrant's proxy statement for the 2009 Annual Meeting of Shareholders, which is to be filed subsequent to the date hereof, are incorporated by reference into Items 10 through 13 of this Form 10-K.

EXPLANATORY NOTE

This Amendment No. 1 (the “Amendment”) on Form 10-K/A to the Annual Report on Form 10-K (the “Initial Filing”) of Cyalume Technologies Holdings, Inc. (“Cyalume”) for the year ended December 31, 2008, which was filed with the Securities and Exchange Commission on March 30, 2009, is being filed solely for the limited purpose of making technical corrections to the dates included in the opinions of our independent registered accounting firm, CCR LLP, to include the CCR LLP office location in the opinions found on pages F-2, F-3, S-1, S-2 and in Exhibit 23.1 of this filing and to correct the number of stock options authorized by the Board of Directors in Footnote 25.

Pursuant to Rule 12b-15 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), we have filed the certifications required by Rule 13a-14(a) or 15d-14(a) of the Exchange Act.

Except as contained herein, this Amendment does not modify or update disclosures contained in the Initial Filing. This Amendment should be read in conjunction with Cyalume’s other filings made with the Securities and Exchange Commission subsequent to the date of the Initial Filing.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Selected Quarterly Financial Data

As a smaller reporting company, we are not required to provide information typically disclosed under this item.

Financial Statements

The information required by this item may be found beginning on page F-1 of this Form 10-K/A.

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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Financial Statement Schedules

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Exhibits

Exhibit Number	Description
2.1	Stock Purchase Agreement dated February 14, 2008 by and among Vector Intersect Acquisition Corporation, as the Parent, Cyalume Acquisition Corp., a Delaware corporation, as the Purchaser, Cyalume Technologies, Inc. and GMS Acquisition Partners Holdings, LLC (1)
2.2	Amendment No. 1 to Stock Purchase Agreement, dated October 22, 2008 (2)
2.3	Amendment No. 2 to Stock Purchase Agreement, dated December 17, 2008 (3)
2.4	Amendment No. 3 to Stock Purchase Agreement, dated December 18, 2008 (3)
3.1	Fifth Amended and Restated Certificate of Incorporation (3)
3.2	By-laws (4)
4.1	Specimen Common Stock Certificate (4)
4.2	Specimen Unit Certificate (4)
4.3	Specimen Warrant Certificate (4)
4.4	Form of Unit Purchase Option to be granted to the representative(4)
10.1	Form of Stock Escrow Agreement among the Registrant, American Stock Transfer & Trust Company and the Initial Stockholders (4)
10.2	Form of Registration Rights Agreement among the Registrant, the Initial Stockholders and the Private Placement Purchasers (4)
10.3	Centurion Credit Group Master Fund L.P. Note Purchase Agreement dated December 10, 2008 (5)
10.4	Centurion Credit Group Master Fund L.P. Letter Agreement dated December 10, 2008 (5)
10.5	Centurion Credit Group Master Fund L.P. Escrow Agreement dated December 10, 2008 (5)
10.6	Warrant issued to Centurion Credit Group Master Fund L.P. dated December 10, 2008 (5)
10.7	Subscription Agreement with Catalyst Equity Management dated September 5, 2008 (5)
10.8	Form of Warrant Agreement in favor of Catalyst Private Equity Partners (Israel) II, LP (6)
10.9	Letter Agreement by and between the Registrant and Vector Investment Fund LLC dated December 10, 2008 (5)
10.10	Employment Agreement with Derek Dunaway dated April 1, 2008 (7)
10.11	Employment Agreement with Michael Bielonko dated January 23, 2006 (7)
10.12	Employment Agreement with Thomas McCarthy dated January 23, 2006 (7)
10.13	Employment Agreement with Earl Cranor dated January 23, 2006 (7)
10.14	TD Bank Revolving Credit and Term Loan Agreement dated December 19, 2008 (7)
10.15	TD Bank Security and Pledge Agreement dated December 19, 2008 (7)
10.16	TD Bank Mortgage, Assignment of Leases and Rents and Security Agreement dated December 19, 2008 (7)
21.1	* Subsidiaries of the Registrant
23.1	* Consent of CCR LLP, independent registered public accounting firm
23.2	* Consent of Miller, Ellin & Company, LLP, independent registered public accounting firm
31.1	* Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	* Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	* Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

- (1) Incorporated by reference to the Current Report on Form 8-K dated February 14, 2008 and filed with the Commission February 21, 2008.
- (2) Incorporated by reference to the Current Report on Form 8-K dated October 22, 2008 and filed with the Commission November 4, 2008.
- (3) Incorporated by reference to the Current Report on Form 8-K dated December 17, 2008 and filed with the Commission December 23, 2008.
- (4) Incorporated by reference to the Registration Statement on Form S-1 (File No. 333-127644) filed August 18, 2005.
- (5) Incorporated by reference to the Current Report on Form 8-K dated December 10, 2008 and filed with the Commission on December 16, 2008.
- (6) Incorporated by reference to the Registration Statement on Form S-1 (File No. 333-157827) filed March 11, 2009
- (7) Previously filed

* Filed herewith.

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Cyalume Technologies Holdings, Inc.
Years ended December 31, 2008 and 2007

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and

Stockholders of Cyalume Technologies Holdings, Inc.

We have audited the accompanying consolidated balance sheet of Cyalume Technologies Holdings, Inc. (the "Company") as of December 31, 2008, and the related consolidated statements of income, stockholders' equity and comprehensive income, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cyalume Technologies Holdings, Inc. as of December 31, 2008, and the consolidated results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ CCR LLP
Glastonbury, Connecticut
March 27, 2009

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and

Stockholder of Cyalume Technologies, Inc. and Subsidiary

We have audited the accompanying consolidated balance sheet of Cyalume Technologies, Inc. and Subsidiary (the "Company") as of December 31, 2007, and the related consolidated statements of income, and cash flows for the period January 1, 2008 to December 19, 2008 and the year ended December 31, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cyalume Technologies, Inc. and Subsidiary as of December 31, 2007, and the consolidated results of their operations and their cash flows for the period January 1, 2008 to December 19, 2008 and the year ended December 31, 2007 in conformity with accounting principles generally accepted in the United States of America.

/s/ CCR LLP
Glastonbury, Connecticut
March 27, 2009

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Vector Intersect Security Acquisition Corp.

We have audited the accompanying balance sheet of Vector Intersect Security Acquisition Corp. (a corporation in the development stage) as of December 31, 2007 and the related statements of income, stockholders' equity and cash flows for the year ended December 31, 2007 and the period from July 19, 2005 (inception) to December 31, 2007. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The Corporation is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Vector Intersect Security Acquisition Corp. as of December 31, 2007 and the results of its operations and its cash flows for the year ended December 31, 2007, in conformity with U.S. generally accepted accounting principles.

/s/ Miller Ellin & Company, LLP
April 10, 2008

Cyalume Technologies Holdings, Inc.
(Formerly Vector Intersect Security Acquisition Corporation)
Consolidated Statements of Income
(in thousands, except shares and per share information)

	For the Year Ended December 31, 2008	For the Year Ended December 31, 2007	Predecessor For the Period January 1, 2008 to December 19, 2008	Predecessor For the Year Ended December 31, 2007
Revenues	\$ 316	\$ —	\$ 40,441	\$ 39,026
Cost of goods sold	89	—	20,389	19,072
Gross profit	227	—	20,052	19,954
Other expenses (income):				
Sales and marketing	72	—	2,922	3,412
General and administrative	942	448	4,072	6,397
Research and development	43	—	1,251	1,417
Interest expense (income), net	(968)	(1,347)	4,788	6,366
Interest expense – related party	8	15	—	—
Amortization of intangible assets	131	—	2,543	2,612
Other loss (income), net	23	—	(1,146)	(543)
Total other expenses (income)	251	(884)	14,430	19,661
Income (loss) before income taxes	(24)	884	5,622	293
Provision for (benefit from) income taxes	(600)	87	2,216	270
Net income	<u>\$ 576</u>	<u>\$ 797</u>	<u>\$ 3,406</u>	<u>\$ 23</u>
Net income per common share:				
Basic	\$ 0.06	\$ 0.11		
Diluted	\$ 0.05	\$ 0.09		
Weighted average shares used to compute net income per common share:				
Basic	9,550,362	6,912,329		
Diluted	12,001,471	8,530,207		

The accompanying notes are an integral part of these consolidated financial statements.

Cyalume Technologies Holdings, Inc.
(Formerly Vector Intersect Security Acquisition Corporation)
Consolidated Balance Sheets
(in thousands, except shares and per share information)

	<u>December 31, 2008</u>	<u>December 31, 2007</u>	<u>Predecessor December 31, 2007</u>
Assets			
Current assets :			
Cash	\$ 3,952	\$ 570	\$ 5,743
Cash held in trust	—	58,309	—
Accounts receivable, net of allowance for doubtful accounts of \$452, \$0 and \$596 at December 31, 2008, 2007 and 2007, respectively	3,508	—	3,329
Inventories, net	11,447	—	8,743
Income taxes refundable	701	—	—
Deferred income taxes	317	—	553
Prepaid expenses and other current assets	195	94	440
Total current assets	<u>20,120</u>	<u>58,973</u>	<u>18,808</u>
Property, plant and equipment, net	7,882	—	9,974
Goodwill	60,896	—	24,419
Other intangible assets, net	49,426	—	31,805
Other noncurrent assets	188	—	385
Total assets	<u>\$ 138,512</u>	<u>\$ 58,973</u>	<u>\$ 85,391</u>
Liabilities and Stockholders' Equity			
Current liabilities:			
Lines of credit	\$ 3,500	\$ —	\$ —
Current portion of notes payable	3,621	—	3,152
Accounts payable	3,230	—	2,603
Deferred underwriting costs	—	2,340	—
Accrued expenses	2,550	88	3,592
Common stock subject to mandatory redemption	1,123	—	—
Notes payable and advance due to related parties	64	214	—
Income tax payable	5	85	1,305
Total current liabilities	<u>14,093</u>	<u>2,727</u>	<u>10,652</u>
Notes payable, net of current portion	25,581	—	37,737
Notes payable due to related parties, net of current portion	1,000	—	—
Deferred income taxes	9,237	—	4,949
Derivatives	163	—	—
Asset retirement obligation, net of current portion	128	—	166
Total liabilities	<u>50,202</u>	<u>2,727</u>	<u>53,504</u>
Common stock, subject to possible redemption	—	11,144	—
Commitments and contingencies	—	—	—
Stockholders' equity			
Preferred stock, \$0.001 par value; 1,000,000 shares authorized, no shares issued or outstanding	—	—	—
Common stock, \$0.001 par value; 50,000,000 authorized; 13,719,035 and 9,375,000 issued and outstanding at December 31, 2008 and 2007, respectively (including 1,462,449 shares subject to possible redemption at December 31, 2007)	14	9	—
Predecessor common stock, \$.0001 par value; 30,000,000 authorized, issued and outstanding 11,555,331 at December 31, 2007	—	—	1
Additional paid-in capital	87,348	44,440	34,134
Retained earnings (accumulated deficit)	1,229	653	(3,496)
Accumulated other comprehensive income (loss)	(281)	—	1,248
Total stockholders' equity	<u>88,310</u>	<u>45,102</u>	<u>31,887</u>
Total liabilities and stockholders' equity	<u>\$ 138,512</u>	<u>\$ 58,973</u>	<u>\$ 85,391</u>

The accompanying notes are an integral part of these consolidated financial statements.

Cyalume Technologies Holdings, Inc.
(Formerly Vector Intersect Security Acquisition Corporation)
Consolidated Statements of Changes in Stockholders' Equity and Comprehensive Income
(in thousands, except shares)

	<u>Common Stock</u>		<u>Additional Paid-In Capital</u>	<u>Retained Earnings (Accumulated Deficit)</u>	<u>Accumulated Other Comprehensive Loss</u>	<u>Total Stockholders' Equity</u>	<u>Comprehensive Income (Loss)</u>
	<u>Number of Shares</u>	<u>Amount</u>					
Balance at December 31, 2006	1,875,000	\$ 2	\$ 23	\$ (144)	\$ —	\$ (119)	—
Issuance of common stock - private placement	187,500	—	1,500	—	—	1,500	—
Issuance of common stock	7,312,500	7	58,493	—	—	58,500	—
Expenses of June 30, 2007 common stock issuance	—	—	(4,432)	—	—	(4,432)	—
Less: proceeds subject to possible redemption of 1,462,499 shares of common stock and associated deferred interest	—	—	(11,144)	—	—	(11,144)	—
Net income	—	—	—	797	—	797	797
Comprehensive income	—	—	—	—	—	—	\$ 797
Balance at December 31, 2007	9,375,000	9	44,440	653	—	45,102	—
Adjustment of common stock subject to redemption	—	—	11,144	—	—	11,144	—
Issuance of common stock	7,308,428	8	56,114	—	—	56,122	—
Issuance of warrants in conjunction with Acquisition	—	—	33	—	—	33	—
Exchange of note payable for common stock	(93,750)	—	(750)	—	—	(750)	—
Estimated Acquisition purchase price adjustment (see Note 2)	138,165	—	1,056	—	—	1,056	—
Exercise of warrants	79,839	—	—	—	—	—	—
Common stock repurchased	(2,948,797)	(3)	(23,566)	—	—	(23,569)	—
Common stock mandatorily redeemable due to the Acquisition	(139,850)	—	(1,123)	—	—	(1,123)	—
Foreign currency translation adjustments	—	—	—	—	(179)	(179)	(179)
Unrealized loss on cash flow hedges, net of taxes of \$61	—	—	—	—	(102)	(102)	(102)
Net income	—	—	—	576	—	576	576
Comprehensive income	—	—	—	—	—	—	\$ 295
Balance at December 31, 2008	13,719,035	\$ 14	\$ 87,348	\$ 1,229	\$ (281)	\$ 88,310	—

The accompanying notes are an integral part of these consolidated financial statements.

Cyalume Technologies Holdings, Inc.
(Formerly Vector Intersect Security Acquisition Corporation)
Consolidated Statements of Cash Flows
(in thousands, except shares)

	For the Year Ended December 31, 2008	For the Year Ended December 31, 2007	Predecessor For the Period January 1, 2008 to December 19, 2008	Predecessor For the Year Ended December 31, 2007
Cash flows for operating activities:				
Net income	\$ 576	\$ 797	\$ 3,406	\$ 23
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation of property, plant and equipment	23	—	848	610
Amortization	147	—	2,865	2,948
Provision for deferred income taxes	(592)	—	1,370	(1,673)
Other non-cash expenses	61	—	809	1,463
Changes in operating assets and liabilities, net of effect of acquisition:				
Accounts receivable	936	—	(1,201)	(1,083)
Inventories	(309)	—	(1,526)	(1,648)
Prepaid expenses and other current assets	113	(94)	224	(70)
Restricted cash	—	—	—	617
Due from Vector	—	—	(995)	—
Accounts payable and accrued liabilities	(226)	(114)	(1,901)	652
Income taxes payable, net	(87)	85	(2,028)	493
Accrued interest on notes payable to stockholders	18	6	—	—
Net cash provided by operating activities	<u>660</u>	<u>680</u>	<u>1,871</u>	<u>2,332</u>
Cash flows for investing activities:				
Payments from (to) trust account	58,309	(58,309)	—	—
Purchases of long-lived assets	(11)	—	(1,508)	(1,828)
Remediation costs paid relating to asset retirement obligation	—	—	—	(44)
Purchase of CTI common stock, net of cash purchased	(28,668)	—	—	—
Net cash provided by (used in) investing activities	<u>29,630</u>	<u>(58,309)</u>	<u>(1,508)</u>	<u>(1,872)</u>
Cash flows from financing activities:				
Repayment of advances from and notes payable to related parties	(150)	(167)	—	—
Proceeds from private placement	—	1,500	—	—
Proceeds from initial public offering	—	58,500	—	—
Payment of expenses of offering	—	(1,659)	—	—
Net proceeds from line of credit	3,500	—	—	—
Payments of Predecessor notes payable	(40,346)	—	(3,495)	(10,803)
Proceeds from long-term notes payable	28,000	—	—	—
Proceeds from related party notes payable	1,000	—	—	—
Proceeds from issuance of common stock	4,750	—	—	—
Payments to reacquire and retire common stock	(23,569)	—	—	—
Payment of debt issue costs	—	—	—	(268)
Investment by GMS Acquisition Partners Holdings LLC	—	—	—	13,000
Net cash provided by (used in) financing activities	<u>(26,815)</u>	<u>58,174</u>	<u>(3,495)</u>	<u>1,929</u>
Effect of exchange rate changes on cash	(93)	—	26	314
Net increase (decrease) in cash and cash equivalents	<u>3,382</u>	<u>545</u>	<u>(3,106)</u>	<u>2,703</u>
Cash, beginning of year	570	25	5,743	3,040
Cash, end of year	<u>\$ 3,952</u>	<u>\$ 570</u>	<u>\$ 2,637</u>	<u>\$ 5,743</u>

The accompanying notes are an integral part of these consolidated financial statements.

Cyalume Technologies Holdings, Inc.
(Formerly Vector Intersect Security Acquisition Corporation)
Notes to Consolidated Financial Statements

1. BACKGROUND AND DESCRIPTION OF BUSINESS

Before December 19, 2008, we conducted business under the name Vector Intersect Security Acquisition Corporation (“Vector”). Vector was a blank check development stage company, as it had no principal operations. Its objective was to acquire through merger, capital stock exchange, asset acquisition or otherwise one or more businesses in the homeland security, national security and/or command and control industries.

On December 19, 2008, Vector acquired all of the outstanding ownership units of Cyalume Technologies, Inc (“CTI”) from GMS Acquisition Partners Holdings, LLC (“GMS”) (the “Acquisition”). GMS was the sole stockholder in CTI, which also had a wholly-owned subsidiary (Cyalume Technologies, S.A. or “CTSA”). The Acquisition is discussed in detail in Note 2. At the Acquisition date, Vector changed its name to Cyalume Technologies Holdings, Inc (“Cyalume”). In these financial statements and footnotes Cyalume’s operating results include the operations of the former Vector for 2007 and 2008 and CTI’s operations after the Acquisition date. CTI’s operations prior to the Acquisition date are presented as Predecessor.

CTI manufactures and sells chemiluminescent products and reflective and photoluminescent materials to military, commercial and public safety markets. CTSA is geographically located in France and represents us in certain international markets, primarily Europe and Asia.

The accompanying consolidated financial statements include the accounts of Cyalume, CTI and CTSA and are prepared in accordance with accounting principles generally accepted in the United States of America. All significant intercompany balances and transactions have been eliminated in consolidation.

2. ACQUISITION

Accounting for the Acquisition follows the requirements of Statement of Financial Accounting Standards No. 141, *Business Combinations* (“SFAS No. 141”), which requires that purchase accounting treatment of the Acquisition be reflected as a new basis of accounting, resulting in the adjustment of all assets and liabilities to their respective fair values as of the acquisition date. That adjustment to fair value has been determined using the guidance in SFAS No. 141, whereby the purchase price, including assumed liabilities, deferred financing and other transaction costs, has been allocated to the fair value of the tangible and identifiable intangible assets acquired and liabilities assumed, with the excess allocated to goodwill. The factors that contributed to a purchase price that resulted in the recognition of goodwill include (a) CTI’s strong core business position, (b) CTI’s long-term contracts with significant customers (c) the considerable upside of CTI’s ammunition business and (d) valuation analyses and metrics compiled independently by consultants.

The consideration for the Acquisition consisted of the following (all amounts in thousands):

	<u>Consideration</u>	<u>Cash Acquired</u>	<u>Cash Paid, Net of Cash Acquired</u>
Cyalume equity issued to acquire CTI equity	\$ 52,460		
Cash paid for CTI equity and closing costs	31,305	\$ 2,637	\$ 28,668
Assumption of debt	40,346		
Liabilities incurred for closing costs	1,058		
Total consideration	<u>\$ 125,169</u>		

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The preliminary allocation of the fair value of the assets acquired and liabilities assumed in the Acquisition are as follows (all amounts in thousands) :

	Cyalume Technologies, Inc. ("CTI")	Cyalume Technologies, S.A. ("CTSA")	Eliminations	Total
Cash	\$ 2,567	\$ 70	\$ —	\$ 2,637
Accounts receivable, net	3,730	1,272	(450)	4,552
Inventories, net	9,246	2,053	—	11,299
Other current assets	126	91	—	217
Deferred income taxes	281	707	—	988
Property, plant and equipment	6,214	1,715	—	7,929
Developed technologies, including patents	10,810	—	—	10,810
Trade name / trademarks	7,390	—	—	7,390
Customer relationships	28,870	2,246	—	31,116
Non-compete agreements	293	—	—	293
Investment in CTSA	11,420	—	(11,420)	—
Debt issue costs, net	808	—	—	808
Goodwill	56,288	4,535	—	60,823
Total assets	138,043	12,689	(11,870)	138,862
Accounts payable	1,615	919	(450)	2,084
Accrued expenses	1,232	350	—	1,582
Deferred income taxes	9,852	—	—	9,852
Asset retirement obligation	175	—	—	175
Total liabilities	12,874	1,269	(450)	13,693
Net assets	\$ 125,169	\$ 11,420	\$ (11,420)	\$ 125,169

The stock purchase agreement dated February 14, 2008, as amended, provided for a purchase price adjustment based on the net amount of our current assets and current liabilities as of December 19, 2008. We have provided for an additional 138,165 shares of our common stock that is due to the former owners of CTI in the total consideration of the Acquisition.

The above purchase price allocation has not been finalized because the valuation of the intangible assets acquired has not yet been finalized. Any differences between the amounts reported herein as of December 31, 2008 for developed technologies, trade name / trademarks, customer relationships and non-compete agreements and the finalized valuations thereof are not expected to be material.

Pro Forma Financial Summary (Unaudited)

The following unaudited pro forma financial summary is presented as if the Acquisition was completed as of January 1, 2007. The pro forma combined results are not necessarily indicative of the actual results that would have occurred had the Acquisition been consummated on that date, or of the future operations of the combined entities. The pro forma results include adjustments for depreciation, intangible asset amortization, inventory step-up amortization, interest expense, interest income and certain allowable restructuring costs. The pro-forma results do not exclude significant nonrecurring items such as the \$1.1 million restructuring charge incurred by the Predecessor in 2008 (see Note 20) and the \$2.8 million arbitration award received by the Predecessor in 2008 (see Note 17).

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	Year Ended December 31,	
	2008	2007
Revenues (in thousands)	\$ 40,757	\$ 39,026
Net income (in thousands)	\$ 4,882	\$ 920
Net income per common share:		
Basic	\$ 0.51	\$.10
Diluted	\$ 0.41	\$.08
Weighted average shares used to compute net income per common share:		
Basic	9,550,362	9,550,362
Diluted	12,001,471	12,001,471

3. SIGNIFICANT ACCOUNTING POLICIES

Foreign Operations

Accounts of CTSA are translated using the local currency as the functional currency. Translation gains and losses are recorded as a separate component of stockholders' equity. Gains and losses resulting from transactions which are denominated in other than the functional currencies are classified as foreign currency gains and losses in the accompanying consolidated statements of income.

Comprehensive Income

Comprehensive income, as defined by SFAS No. 130, *Reporting Comprehensive Income*, accounts for changes in stockholders' equity resulting from non-stockholder sources. All transactions that would cause comprehensive income to differ from net income have been recorded and disclosed and relate to (i) the translation of the accounts of our foreign subsidiary and (ii) the effective portion of hedging activities.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Estimates are used when accounting for certain items such as reserves for inventory, accounts receivable and deferred tax assets; assessing the carrying value of intangible assets including goodwill; determining the useful lives of property, plant and equipment and intangible assets; and in determining asset retirement obligations. Estimates are based on historical experience, where applicable, and assumptions that we believe are reasonable under the circumstances. Due to the inherent uncertainty involved with estimates, actual results may differ.

Fair Value of Financial Instruments

Effective January 1, 2008, we adopted Statement of Financial Accounting Standard No. 157, *Fair Value Measurements*, ("SFAS No. 157"), which establishes a framework for measuring fair value and requires enhanced disclosures about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, except as it relates to nonrecurring fair value measurements of nonfinancial assets and liabilities for which the standard is effective for fiscal years beginning after November 15, 2008. SFAS No. 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. SFAS No. 157 also requires disclosure about how fair value is determined for assets and liabilities and establishes a hierarchy for which these assets and liabilities must be grouped, based on significant levels of inputs.

Based on the three hierarchical levels of categorization defined by SFAS No. 157, we have one financial instrument (interest rate swaps) that requires disclosure under SFAS No. 157. As a result, to the extent the adoption of SFAS No. 157 is required; it did not have a material impact on our consolidated financial statements. In addition, we are evaluating the impact of SFAS No. 157 for measuring non-financial assets and liabilities on future results of operations and financial position.

In February 2007, the FASB issued SFAS No. 159, *Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS No. 159"), which permits entities to choose to measure many financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected would be reported in earnings. SFAS No. 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. We have not elected to measure any financial assets or liabilities at fair value, and therefore, our consolidated financial statements were not affected by adoption of SFAS No. 159.

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See Note 22 for more information, including a listing of our assets and liabilities required to be measured at fair value on a recurring basis and where they are classified within the hierarchy as of December 31, 2008. We have other financial instruments, such as cash, accounts receivable, accounts payable, accrued expenses and long-term debt, whose carrying amounts approximate fair value.

Accounts Receivable

Accounts receivable are recorded at the aggregate unpaid amount less any allowance for doubtful accounts. The allowance is based on historical bad debt experience and the specific identification of accounts deemed uncollectible. We determine an account receivable's delinquency status based on its contractual terms. Interest is not charged on outstanding balances. Accounts are written-off only when all methods of recovery have been exhausted. We control credit risk through initial credit evaluations and approvals, credit limits, and monitoring procedures. We perform ongoing credit evaluations of our customers, but do not require collateral to support accounts receivable.

Inventories

Inventories are stated at the lower of cost (on a first-in first-out ("FIFO") method) or net realizable value. We periodically review the realizability of our inventory. Provisions are established for potential obsolescence. Determining adequate reserves for inventory obsolescence requires management's judgment. Conditions impacting the realizability of our inventory could cause actual asset write-offs to be materially different than the inventory reserve balances as of year-end.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is computed under the straight-line method over the estimated useful lives of four to seven years for equipment and 15 to 30 years for buildings and improvements.

Goodwill

We apply the provisions of SFAS No. 142, *Goodwill and Other Intangible Assets* to goodwill. Goodwill is deemed to have an indefinite life and accordingly, is not subject to annual amortization. Goodwill is subject to annual impairment reviews, and, if conditions warrant, interim reviews based upon its estimated fair value. Impairment charges, if any, are recorded in the period in which the impairment is determined.

Debt Issue Costs

As required by Accounting Principles Board Opinion No. 21, *Interest on Receivables and Payables*, costs paid to lenders to obtain original financing are presented as discounts on the related debt and are amortized to interest expense over the term of the related financing, using the effective interest method (unless the financing is a line of credit, in which case the straight-line method is used). Such costs paid to third parties are presented as assets and are amortized to interest expense in the same manner as costs paid to lenders.

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Intangible Assets

Intangible assets are amortized over their estimated useful lives. Costs associated with renewing or extending the terms associated with the intangible assets are expensed as incurred. The useful lives used for amortization of the intangible assets are as follows:

Patents and developed technologies	9 years
Purchased customer relationships	12 -13 years
Non-compete agreements	2 years

Trademarks and trade names have an indefinite life. The Predecessor amortized these assets over useful lives ranging from 10 -18 years.

Long-Lived Assets

Following the provisions of SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (“SFAS No. 144”), long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Such reviews are based on a comparison of the asset’s undiscounted cash flows to the recorded carrying value for the asset. If the asset’s recorded carrying value exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset, the asset is written-down to its estimated fair value. To estimate that fair value, we will use the most appropriate valuation technique for the circumstances and for which sufficient data is available.

Impairment charges, if any, are recorded in the period in which the impairment is determined. Identifiable assets will continue to be amortized over their useful lives and be reviewed for impairment in accordance with SFAS No. 144.

Derivatives

Derivatives are recorded at their fair value as of the balance sheet date. On the consolidated statement of cash flows, cash flows from derivative instruments accounted for as cash flow hedges are classified in the same category as the cash flows from the items being hedged.

Common Stock Purchase Warrants

Pursuant to Emerging Issues Task Force Issue 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company’s Own Stock* (“EITF 00-19”), common stock purchase warrants issued by us and currently outstanding are recorded at initial fair value and reported in stockholders’ equity as increases to additional paid-in capital. These warrants are reported as equity, rather than liabilities, since they meet EITF 00-19’s equity-classification requirements, such as (i) the warrants may not be net-cash settled, (ii) the warrant contract limits the number of shares to be delivered in a net-share settlement and (iii) we have sufficient unissued common shares available to settle outstanding warrants. Subsequent changes in fair value from the warrants’ initial fair value are not recognized as long as the warrants continue to merit classification as equity.

Revenue Recognition

Revenue from the sale of products is recognized when the earnings process is complete and the risks and rewards of ownership have transferred to the customer. Costs and related expenses to manufacture the products are recorded as costs of goods sold when the related revenue is recognized.

We have several significant contracts providing for the sale of indefinite quantities of items at fixed per unit prices, subject to adjustment for certain economic factors. Revenue under these contracts is recognized when goods ordered under the contracts are received by the customer. Whenever costs change, we review the pricing under these contracts to determine whether they require the sale of products at a loss. To date, we have no loss contracts which would require the accrual of future losses in the current financial statements.

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Taxes Collected from Customers

Sales taxes collected from customers are not considered revenue and are included in accounts payable and accrued liabilities until remitted to the taxing authorities.

Shipping and Handling Costs

Outbound shipping and handling costs are included in selling expenses in the accompanying consolidated statements of income. These costs were \$5,000 and nil for the years ended December 31, 2008 and 2007, respectively. The Predecessor's shipping and handling costs for the period ended December 19, 2008 and the year ended December 31, 2007 were \$514,000 and \$647,000, respectively.

Advertising Costs

Advertising costs are expensed as incurred and are primarily included in selling expenses in the accompanying consolidated statements of income. Advertising expense was \$2,000 and nil for the year ended December 31, 2008 and 2007, respectively. The Predecessor's advertising costs for the period ended December 19, 2008 and the year ended December 31, 2007 were \$83,000 and \$129,000, respectively.

Income Taxes

Income taxes are accounted for in accordance with SFAS No. 109, *Accounting for Income Taxes*. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using enacted tax rates and laws that will be in effect when the differences are expected to reverse. Deferred tax assets are recognized when, based upon available evidence, realization of the assets is more likely than not.

We adopted the provisions of FASB Interpretation No. 48 *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109* ("FIN 48") on January 1, 2007. There were no unrecognized tax benefits and there was no effect on our financial condition or results of operations as a result of adopting FIN 48. When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

Our 2005 through 2008 tax years remain subject to examination by the federal and New Jersey tax authorities. CTI's tax years 2005 through 2008 remain subject to examination by federal and various state tax jurisdictions. CTSA's tax years 2006 and 2007 remain subject to examination as the French tax authorities have completed audits of CTSA's 2004 and 2005 tax years.

We classify interest on tax deficiencies as interest expense and income tax penalties as other miscellaneous expenses. For the years ended December 31, 2008 and 2007, interest expense and penalties relating to tax deficiencies were not significant.

Net Income Per Common Share

We account for and disclose net income per common share in accordance with SFAS No. 128, *Earnings per Share*. Basic net income per common share is computed by dividing net income by the weighted average number of common shares outstanding. Diluted net income per common share is computed by dividing net income by the weighted average number of common shares and dilutive potential common share equivalents then outstanding. Potential common shares consist of shares issuable upon the exercise of warrants (using the treasury stock method).

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	Year Ended December 31,	
	2008	2007
Basic:		
Net income (in thousands)	\$ 576	\$ 797
Weighted average shares	9,550,362	6,912,329
Basic income per common share	\$ 0.06	\$ 0.11
Diluted:		
Net income (in thousands)	\$ 576	\$ 797
Weighted average shares	9,550,362	6,912,329
Effect of dilutive warrants	2,451,109	1,617,878
Weighted average shares, as adjusted	12,001,471	8,530,207
Diluted income per common share	\$ 0.05	\$ 0.09

The following potentially dilutive common shares were excluded from the calculation of diluted net income per common share because their effect was antidilutive for each of the periods presented:

	Year Ended December 31,	
	2008	2007
Warrants Issued for Acquisition-Related Costs (see Note 18)	100,000	—
Other Warrants Sold (see Note 18)	118,750	—
Options (see Note 18)	1,462,500	1,462,500

The dilutive effect of outstanding warrants as of December 31, 2008 was considered in computing diluted income per common share. After December 31, 2008, 3,273,494 warrants were exercised, resulting in 1,635,171 common shares being issued.

Reclassifications

Certain amounts in the prior year have been reclassified to conform to the 2008 presentation.

Segments

We operate in a single segment as defined under SFAS No. 131, *Disclosures About Segments of an Enterprise and Related Information*.

Recent Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51* ("SFAS No. 160"). SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The objective of this Statement is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements. We anticipate that the adoption of SFAS No. 160 will not have a significant impact on our consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133* ("SFAS No. 161"). SFAS No. 161 requires enhanced disclosures about an entity's derivative instruments and hedging activities with a view toward improving the transparency of financial reporting and is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. SFAS No. 161 encourages, but does not require, comparative disclosures for earlier periods at initial adoption. Due to our minimal hedging activities and investments in derivatives, we anticipate that the adoption of SFAS No. 161 will not have a significant impact on our consolidated financial statements.

In April 2008, the FASB issued FASB Staff Position ("FSP") No. FAS 142-3, *Determination of the Useful Life of Intangible Assets*. This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized asset under SFAS No. 142, *Goodwill and Other Intangible Assets* ("SFAS 142"). The objective of this FSP is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141(R) and other accounting principles generally accepted in the United States of America. This FSP applies to all intangible assets, whether acquired in a business combination or otherwise; and shall be effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years and applied prospectively to intangible assets acquired after the effective date. Early adoption is prohibited. We are currently evaluating this new FSP and anticipate that it will not have a significant impact on our consolidated financial statements.

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4. INVENTORIES

Inventories consist of the following (all amounts in thousands) :

	Year Ended December 31,		
	2008	2007	(Predecessor) 2007
Raw materials	\$ 5,822	\$ —	\$ 4,753
Work-in-process	3,484	—	2,316
Finished goods	2,141	—	1,674
	<u>\$ 11,447</u>	<u>\$ —</u>	<u>\$ 8,743</u>

Provision for potential obsolescence was \$(2,000) and nil for the years ended December 31, 2008 and 2007, respectively. The Predecessor's provision for potential obsolescence was \$71,000 and \$883,000 for the period ended December 19, 2008 and for the year ended December 31, 2007, respectively. Such provisions are reported as adjustments to our cost of goods sold in the accompanying consolidated statements of income.

5. PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consist of the following (all amounts in thousands):

	Year Ended December 31,		
	2008	2007	(Predecessor) 2007
Value added taxes receivable	\$ 60	\$ —	\$ 281
Prepaid expenses	127	94	131
Other	8	—	28
	<u>\$ 195</u>	<u>\$ 94</u>	<u>\$ 440</u>

6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following (all amounts in thousands) :

	Year Ended December 31,		
	2008	2007	(Predecessor) 2007
Land	\$ 1,042	\$ —	\$ 1,382
Building and improvements	3,427	—	5,330
Machinery and equipment	3,430	—	4,309
	<u>7,899</u>	<u>—</u>	<u>11,021</u>
Less: Accumulated depreciation	17	—	1,047
	<u>\$ 7,882</u>	<u>\$ —</u>	<u>\$ 9,974</u>

7. GOODWILL

Goodwill represents the excess of the cost of acquiring CTI over the net fair value assigned to assets acquired and liabilities assumed. No goodwill existed as of December 31, 2007. The Predecessor's goodwill as of December 31, 2007 of \$ 24.4 million was due to a previous business combination .

Our goodwill was not impaired as of December 31, 2008 pursuant to SFAS No. 142, *Goodwill and Other Intangible Assets* due to the December 19, 2008 valuation of goodwill in connection with the Acquisition.

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8. OTHER INTANGIBLE ASSETS

Intangible assets as of December 31, 2008 consist of the following (all amounts in thousands) :

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Developed technologies, including patents	\$ 10,810	\$ 40	\$ 10,770
Trademarks and trade names	7,390	—	7,390
Purchased customer relationships	31,063	85	30,978
Non-compete agreements	293	5	288
	<u>\$ 49,556</u>	<u>\$ 130</u>	<u>\$ 49,426</u>

Trademarks and trade names have indefinite lives and therefore, they are not amortized. The Predecessor amortized trademarks over estimated lives of 10-18 years. All other intangible assets have similar lives to those used by the Predecessor.

Trademarks can be renewed without substantial cost. On average, our trademarks renew in approximately 7 years.

Amortization of intangible assets was \$131,000 and nil for the years ended December 31, 2008 and 2007, respectively. We do not consider any of our intangible assets to have residual value. We did not have any intangible assets as of December 31, 2007.

As required by SFAS No. 144, we reviewed events and circumstances for indications of possible impairment of the above intangible assets and determined that testing for possible impairment was not necessary at December 31, 2008 due to the December 19, 2008 valuation of the assets in connection with the Acquisition.

The Predecessor's intangible assets as of December 31, 2007 consisted of the following (all amounts in thousands):

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Developed technologies, including patents	\$ 8,009	\$ 1,393	\$ 6,616
Trademarks and trade names	4,255	453	3,802
Purchased customer relationships	23,670	2,829	20,841
Non-compete agreements	885	339	546
	<u>\$ 36,819</u>	<u>\$ 5,014</u>	<u>\$ 31,805</u>

The Predecessor's amortization of intangible assets was \$2.5 million and \$2.6 million for the period ended December 19, 2008 and for the year ended December 31, 2007, respectively.

The future amortization expense relating to intangible assets for the next five years and beyond is estimated at December 31, 2008 to be (all amounts in thousands):

Year Ending December 31,

2009	\$ 3,922
2010	3,918
2011	3,776
2012	3,776
2013	3,776
Thereafter	22,868
	<u>\$ 42,036</u>

9. OTHER NONCURRENT ASSETS

Other noncurrent assets of \$188,000 primarily consist of unamortized costs paid to third parties to obtain our long-term debt and lines of credit ("capitalized debt issue costs"). Such costs were \$185,000 and nil as of December 31, 2008 and 2007, respectively. As of December 31, 2007, the Predecessor's unamortized capitalized debt issue costs were \$385,000.

Amortization of capitalized debt issue costs was \$2,000 and nil for the years ended December 31, 2008 and 2007, respectively. The Predecessor's amortization of capitalized debt issue costs was \$97,000 and \$99,000 for the period ended December 19, 2008 and for the year ended December 31, 2007, respectively.



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The future amortization expense for each of the five succeeding years and beyond relating to capitalized debt issue costs is estimated at December 31, 2008 to be (all amounts in thousands) :

<u>Year Ending December 31,</u>		
2009	\$	53
2010		49
2011		42
2012		25
2013		16
	<u>\$</u>	<u>185</u>

10. LINES OF CREDIT

We have a line of credit with a maximum borrowing capacity of \$5.0 million with TD Bank N.A (“TD Bank”). Interest is payable monthly and is determined, at our discretion, based on (i) the Prime Rate, plus 3% (not to be less than 6% in total) or (ii) an adjusted LIBOR rate (subject to a 3% interest rate floor), plus a margin percentage that is based on financial performance. The line of credit’s interest rate at December 31, 2008 was 6.25%. The line of credit expires on December 19, 2011. This line of credit is subject to (i) the same restrictive covenants imposed on and (ii) the same collateral and guarantees as the Term A Note and Term B Note described in Note 11. At December 31, 2008, there was a \$3.5 million outstanding borrowing on this line of credit.

On May 1, 2007, we entered into a \$500,000 revolving credit agreement with SCP Private Equity Management Company, LLC, (“SCP”), which owns stock in Cyalume and of which three of our Directors are members. Any amounts outstanding under the revolving credit agreement bear interest at a rate of 5.5% per year. Any funds outstanding under the revolving credit agreement were due and payable upon our consummation of a business combination. We have never borrowed funds under this revolving credit agreement which expired on the date of the Acquisition.

CTSA has lines of credit with a combined maximum borrowing capacity of €1.1 million (\$1.5 million as of December 31, 2008), under which there were no outstanding borrowings at December 31, 2008 and 2007. The lines’ interest rates are variable, based on the Euro Overnight Index Average and the 3-month Euro Interbank Offered Rate. The lines are collateralized by substantially all business assets of CTSA. The lines have indefinite termination dates, but can be renegotiated periodically.

As of December 31, 2007, CTI had a line of credit with a maximum borrowing capacity of \$2.0 million. Interest was determined using the same methodology used to determine interest on the Predecessor’s Senior Tranche A Note (see Note 11). The line of credit was collateralized by substantially all assets of CTI. No borrowings were ever made on this line of credit and it was terminated due to and on the date of the Acquisition.

11. NOTES PAYABLE

CTI has two notes payable to TD Bank; a \$25.5 million Term A Note and a \$2.5 million Term B Note, that were entered into in conjunction with the Acquisition.

The Term A Note is payable in monthly principal installments ranging from \$319,000 to \$468,000, plus monthly interest payments as described below, that commence on February 1, 2009, with a final principal payment of \$2.8 million at maturity (December 19, 2013). Interest payments on the 60% of the Term A Note’s principal balance are hedged using a pay-fixed, receive-variable interest rate swap to reduce exposure to changes in cash payments caused by changes in interest rates on the Term A Note. See Note 15 for details on the interest rate swap. Interest on 60% interest rate-swapped portion of the Term A Note is payable monthly and determined based on 1-month LIBOR, plus a margin percentage that is based on financial performance. At December 31, 2008, interest on that portion of the Term A Note was 5.08%, before considering the effect of the interest rate hedging relationship. Interest on the remaining 40% of the Term A Note is also payable monthly and is determined based on 1-month LIBOR (subject to a 3% interest rate floor) plus a margin percentage that is based on our financial performance. At December 31, 2008, that portion of the Term A Note was 7.5%. The Term A Note is collateralized by all of the assets of CTI (except CTI’s equity interests in CTSA, of which only 65% are collateral of the Term A Note) and is guaranteed by Cyalume. The Term A Notes require various restrictive financial and nonfinancial covenants, such as maximum leverage ratios and limitations on capital expenditures and dividends. Outstanding principal on the Term A Note is \$25.5 million at December 31, 2008.

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The Term B Note is payable in monthly principal installments of \$10,000, plus monthly interest payments as described below, that commence on February 1, 2009, with a final principal payment of \$1.9 million at maturity (December 19, 2013). Interest payments on the Term B Note's principal balance are hedged using a pay-fixed, receive-variable interest rate swap to reduce our exposure to changes in cash payments caused by changes in interest rates on the Term B Note. See Note 15 for details on the interest rate swap. Interest is payable monthly and is determined based on 1-month LIBOR plus a margin percentage that is based on our financial performance. The Term B Note's interest rate at December 31, 2008 was 5.08% before considering the effect of the interest rate hedging relationship discussed in Note 15. The Term B Note is collateralized by all of the assets of CTI (except CTI's equity interests in CTSA, of which only 65% are collateral of the Term B Note) and is guaranteed by Cyalume. The Term B Notes require various restrictive financial and nonfinancial covenants, such as such as maximum leverage ratios and limitations on capital expenditures and dividends. Outstanding principal on the Term B Note is \$2.5 million at December 31, 2008.

The Term A Note, Term B Note and the TD Bank line of credit described in Note 10 are senior in payment priority to all of our other notes payable described here and in Note 10.

We have a \$1.8 million note payable to our underwriter that was entered into in conjunction with the Acquisition. The note bears an interest rate of 8%, which is paid-in-kind (added to the unpaid principal balance of the note) quarterly. The note is unsecured and all principal and accrued interest is payable at maturity (June 30, 2014). Outstanding principal on this note is \$1.8 million at December 31, 2008. See Note 12 for further discussion of this note.

As of December 31, 2008, future minimum payments due for long-term debt for each of the five succeeding years and beyond are as follows (all amounts in thousands):

Year Ending December 31,

2009	\$	3,621
2010		4,184
2011		4,673
2012		5,182
2013		10,340
Thereafter		1,818
		<u>29,818</u>
Less: unamortized debt discount		(616)
	\$	<u><u>29,202</u></u>

Amortization of the debt discount was \$4,000 and nil for the years ended December 31, 2008 and 2007, respectively. The Predecessor's amortization of debt discount was \$225,000 and \$237,000 for the period ended December 19, 2008 and for the year ended December 31, 2007, respectively.

CTSA had a mortgage loan with a bank, which was due in monthly installments of €7,000 (\$10,000), including interest. The loan bore interest at a fixed rate of 5.95% per year. The mortgage loan was collateralized by the real property of CTSA. The loan was repaid in full during 2008.

In 2006, we issued two notes with an aggregate principal amount of \$144,000 to SCP. The notes bore interest at a rate of 5.5% per annum, with principal and accrued interest due no later than April 24, 2008 (the first anniversary of the initial public offering). We repaid these notes in full during 2007.

Before the Acquisition, CTI had notes payable to various lenders with a total original principal amount of \$53.0 million. These notes payable consisted of \$27.5 million Senior Tranche A Notes, \$12.5 million Senior Tranche B Notes and \$13.0 million Subordinated Notes. The Senior Tranche A Notes were senior in payment priority to the Senior Tranche B Notes, which were all senior in payment priority to the Subordinate Notes. All of these notes were paid in full in conjunction with the Acquisition.

The Senior Tranche A Notes were payable in quarterly principal installments of \$700,000, which commenced on April 23, 2006 and were scheduled to end on October 23, 2010 (except for (a) April 23, 2007, on which a \$10.0 million principal payment was required and (b) July 23 and October 23, 2007 and January 23, 2008, on which no principal payments were required) with one final payment of \$7.0 million due on January 23, 2011. Outstanding principal was \$14.7 million at December 31, 2007. Interest was also payable quarterly and was determined based on the unpaid principal balance at a margin percentage that was based on financial performance, plus either (a) the greater of (i) the Prime Rate or (ii) the Federal Funds Effective Rate, plus 0.5% or (b) the average British Bankers Association Interest Settlement Rate (adjusted for certain Federal Reserve System reserves) until the note was repaid in full. The interest rate charged as of December 31, 2007 was 8.80%. The Senior Tranche A Notes were collateralized by substantially all assets of CTI and required various restrictive financial and nonfinancial covenants, such as minimum EBITDA thresholds, maximum leverage ratios and a restriction on dividends. In January 2008, CTI reached an arbitration settlement with the Sellers (see Note 17) pursuant to which CTI received \$3.0 million in cash. A provision of the debt agreements required CTI to make an additional one-time principal payment equal to the amount of any settlement received, less direct third-party costs incurred in pursuit of the settlement. Accordingly, in May 2008 a principal payment of \$950,000 was made on the

Senior Tranche A Notes in addition to the principal payments described above.

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The Senior Tranche B Notes were originally payable in one principal installment of \$12.5 million on July 23, 2011. Interest was payable quarterly and was determined based on the unpaid principal balance at a margin percentage that was based on CTI's financial performance plus either (a) the greater of (i) the Prime Rate or (ii) the Federal Funds Effective Rate, plus 0.5% or (b) the average British Bankers Association Interest Settlement Rate (adjusted for certain Federal Reserve System reserves) until the notes were repaid in full. The interest rate charged as of December 31, 2007 was 13.9%. The Senior Tranche B Notes were collateralized by substantially all assets of CTI and required various restrictive financial and nonfinancial covenants, such as minimum EBITDA thresholds, maximum leverage ratios and a restriction on dividends.

The Subordinated Notes bore interest at 15.5% (11% of which was payable quarterly in cash, while the remaining 4.5% was paid-in-kind (added to the unpaid principal balance of the Subordinated Notes) and was determined based on the unpaid principal balance. The Subordinated Notes were originally payable in one principal installment of \$13.0 million plus all paid-in-kind interest on January 23, 2012. Outstanding principal, including paid-in-kind interest, was \$14.1 million at December 31, 2007. The Subordinated Notes were collateralized by substantially all assets of CTI.

12. DEFERRED UNDERWRITING COSTS

On April 25, 2007, we completed a private placement (the "Private Placement") and received gross proceeds of \$1.5 million. On May 1, 2007, we consummated our initial public offering and received gross proceeds of \$58.5 million. Of the combined gross proceeds of \$60.0 million, \$2.3 million would be paid for deferred underwriting compensation fees to Rodman & Renshaw, LLC ("Rodman") if, and only if, we acquired a target business and 100% of the shares voted approved the acquisition. On December 19, 2008, we acquired CTI with less than 100% of shares voting to approve the Acquisition (as discussed in Note 2) and therefore \$2.1 million of these fees became payable to Rodman. Before December 19, 2008, however, as full payment of these costs, Rodman accepted a cash payment of \$250,000, \$1.1 million in deferred underwriting fees and 93,750 shares of our common stock. On December 30, 2008, Rodman exchanged the deferred underwriting fee obligation and the 93,750 shares in exchange for the \$1.8 million note payable described in Note 11.

13. ACCRUED EXPENSES

Accrued expenses consist of the following (all amounts in thousands) :

	Year Ended December 31,		
	2008	2007	(Predecessor) 2007
Payroll	\$ 1,649	\$ —	\$ 1,260
Interest	107	—	918
Professional fees	357	—	598
Other	437	88	816
	<u>\$ 2,550</u>	<u>\$ 88</u>	<u>\$ 3,592</u>

14. NOTES PAYABLE AND ADVANCE DUE TO RELATED PARTIES

There are seven unsecured notes payable to six stockholders at December 31, 2008.

Four of these notes were entered into December 19, 2008, and are payable to Messrs. Yaron Eitan, Winston Churchill, Thomas Rebar and Wayne Weisman (partners of SCP) in principal amounts of \$150,000, \$650,000, \$100,000 and \$100,000, respectively. Each note bears interest at 6%, which is calculated quarterly and paid in-kind (added to the unpaid principal balance). These notes are payable in one combined installment of \$1.0 million, plus all paid-in-kind interest on June 19, 2014. At December 31, 2008, outstanding principal on these notes totaled \$1.0 million.

The remaining three notes are payable to two stockholders (Messrs. Isaac Applbaum and Marc Abramowitz) in original principal amounts totaling \$118,000 and \$87,000, respectively. Each note bears interest at 4% and is calculated on an annual basis. These three notes were due to be paid in 2006, but under mutually satisfactory arrangement, remain unpaid. At December 31, 2008 the total outstanding balance on these notes is \$55,000.

In 2006, a stockholder advanced us a total of \$32,000 to pay operating expenses. We repaid \$23,000 to the stockholder in 2007. The amount outstanding at December 31, 2008 of \$9,000 is non-interest bearing and due on demand.

15. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Simultaneous with the Acquisition and the incurrence of the Term A Note and Term B Note discussed in Note 11, we entered into two pay-fixed, receive-variable, interest rate swaps to reduce exposure to changes in cash payments caused by changes in interest rates on the Term A Note and the Term B Note. Both relationships are designated as cash flow hedges and meet the criteria for the shortcut method for assessing hedge effectiveness; therefore, the hedge is assumed to be 100% effective and all changes in the fair value of the interest rate swaps are recorded in consolidated other comprehensive income. See Note 18 for a description of changes in accumulated other comprehensive income due to derivatives and hedging activities. Such changes were due to unrealized losses on the interest rate swaps. These unrealized losses must be reclassified in whole or in part into earnings if, and when, a comparison of the swap(s) and the related hedged cash flows demonstrates that the shortcut method is no longer applicable. We expect these hedges to meet the criteria of the shortcut method for the duration of the hedging relationship and therefore we do not expect to reclassify any portion of these unrealized losses from consolidated other comprehensive income to earnings in the future.

The fair value of these interest rate swaps at December 31, 2008 is \$(163,000) and is presented as a liability on our consolidated balance sheet. The fair values of the swaps were determined by discounting the estimated cash flows to be received and paid due to the swaps over the swap's contractual life using an estimated risk-free rate for each swap settlement date.

We did not hold any derivative instruments before the Acquisition and have not engaged in any other hedging activities.

16. ASSET RETIREMENT OBLIGATION

As part of the Acquisition, we assumed CTI's asset retirement obligation associated with remediation of certain known occurrences of asbestos at the manufacturing facility in West Springfield, Massachusetts.

The significant assumptions used to estimate the obligation are:

Annual inflation rate	5.01%
Credit-adjusted risk-free rate	5.37%
Range of estimated remediation completion dates	September 30, 2007 to September 30, 2015
Initial estimated remediation costs (undiscounted and not adjusted for inflation)	\$ 200,000

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The following is a reconciliation of the beginning and ending aggregate carrying amounts of asset retirement obligation for the years ended December 31, 2008 and 2007 (all amounts in thousands):

	<u>Year Ended December 31,</u>			(Predecessor)
	<u>2008</u>	<u>2007</u>	<u>(Predecessor)</u>	For the Period
			<u>2007</u>	January 1, 2008
				to December 19,
				2008
Balance, beginning	\$ —	\$ —	\$ 200	\$ 166
Liability assumed at Acquisition	175	—	—	—
Additional liabilities incurred	—	—	—	—
Liabilities settled	—	—	(44)	—
Accretion expense	1	—	10	9
Revisions in estimated cash flows	—	—	—	—
Balance, ending	<u>\$ 176</u>	<u>\$ —</u>	<u>\$ 166</u>	<u>\$ 175</u>

Accretion expense on the asset retirement obligation is included in general and administrative expenses in the accompanying consolidated statements of income.

As of December 31, 2008, future settlement payments for each of the five succeeding years and beyond are estimated to be as follows (all amounts in thousands):

<u>Year Ending December 31,</u>	
2009	\$ 48
2010	—
2011	52
2012	—
2013	58
Thereafter	64
Total estimated undiscounted payments (adjusted for estimated inflation)	<u>\$ 222</u>

The \$48,000 expected to be paid in 2009 per the above table is reported as accrued expenses in our consolidated balance sheet as of December 31, 2008.

The difference between the \$176,000 liability as of December 31, 2008 and the estimated undiscounted future payments of \$222,000 is the time value of money at the credit-adjusted risk-free rate of 5.37%.

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17. COMMITMENTS AND CONTINGENCIES

Operating Leases with Third Parties

We lease certain equipment, automobiles and other assets under cancelable and non-cancelable operating leases. Expenses associated with these leases total \$3,000 in 2008. There was no expense in 2007. The Predecessor's lease expense for such equipment, automobiles and other assets for the period ended December 19, 2008 and the year ended December 31, 2007 was \$52,000 and \$14,000, respectively. Future minimum lease payments under non-cancelable lease obligations at December 31, 2008 are as follows (all amounts in thousands):

Year Ending December 31,

2009	\$	36
2010		22
2011		11
2012		9
2013		7
Thereafter		—
	<u>\$</u>	<u>85</u>

Operating Leases with Related Parties

We previously occupied office space provided by SCP, which had agreed that, until we acquired a target business, it would make such office space, as well as certain accounting, office and secretarial services, available to us. We agreed to pay SCP \$8,000 per month for such services commencing April 25, 2007. Payments made under this agreement were \$90,000 for the years ended December 31, 2008 and 2007. Use of this office space and these services ceased in 2008, after the Acquisition of CTI.

Legal

We do not expect that the various legal proceedings we are involved in, including those discussed in the following paragraph, will have a material adverse effect on our future financial position, operating results, or cash flows.

As discussed in Note 2, we acquired CTI on December 19, 2008. As part of the Acquisition we acquired CTI's exposure to litigation that existed at the acquisition date. On January 23, 2006, GMS acquired all of the outstanding capital stock of Omniglow Corporation (the "Transaction") and changed the name of the company to Cyalume Technologies, Inc. (CTI). Prior to, or substantially simultaneously with, the Transaction, CTI sold certain assets and liabilities related to Omniglow Corporation's novelty and retail business to certain former Omniglow Corporation stockholders and management ("the Omniglow Buyers"). This was done because CTI sought to retain only the Omniglow Corporation assets and current liabilities associated with its government, military and safety business. During 2006, CTI and the Omniglow Buyers commenced litigation and arbitration proceedings against one another. Claims include breaches of a lease and breaches of various other agreements between CTI and the Omniglow Buyers. The Omniglow Buyers seek compensatory damages of \$1.4 million, to be trebled, and recovery of costs and legal fees. We have filed for damages of \$368,000 against the Omniglow Buyers. We continue to rigorously defend our position on these matters, as we believe the Omniglow Buyers' claims to be without merit.

During 2006, CTI and the former stockholders of Omniglow ("Sellers") commenced arbitration proceedings against one another that are separate and distinct from those discussed in the previous paragraph. These arbitration proceedings included claims with respect to certain representations, warranties, contracts, covenants and other agreements in connection with the transaction and a number of other unrelated items. In January 2008, CTI reached settlement with the Sellers on all matters, which resulted in CTI receiving \$3.0 million in cash. The terms of the settlement, which was reached to minimize the parties' risk, time and cost of further litigation, gave no explicit consideration as to whether the disputes being resolved arose in the purchase process or pursuant to subsequent events. As a result, CTI followed the guidance in SFAS No. 141, *Business Combinations* and SFAS No. 16, *Prior Period Adjustments* and reflected the settlement as a gain in 2008, rather than an adjustment to the purchase price. The net gain of \$2.8 million is included in other income on the accompanying consolidated financial statements of the Predecessor for the period ended December 19, 2008.

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Other Commitments

On April 25, 2007, we had engaged the representative of the underwriters of our initial public offering, on a non-exclusive basis for five years, as an agent for the solicitation of an acquisition target. We agreed to pay the representative of the underwriters a cash transaction fee equal to 3% of the aggregate consideration paid in such an acquisition with a target business the representative of the underwriters introduced to us, if the acquisition was consummated within twenty-four months of the introduction.

On April 25, 2007, we engaged the representative of the underwriters of our initial public offering, on a non-exclusive basis for five years, as our agent for the solicitation of the exercise of our common stock purchase warrants (see Note 18 for a description of those warrants). To the extent not inconsistent with the guidelines of the NASD and the rules and regulations of the Securities and Exchange Commission, we agreed to pay the representative of the underwriter for bona fide services rendered a commission equal to 3% of the exercise price for each common stock purchase warrant exercised more than one year after April 25, 2007 (the effective date of our initial public offering) if the exercise was solicited by the representative. In addition to soliciting, either orally or in writing, the exercise of the common stock purchase warrants, the representative's services may also include disseminating information, either orally or in writing, to warrant holders about our Company or the market for our securities, and assisting in the processing of the exercise of the warrants. No compensation will be paid to the representative upon the exercise of the warrants if:

- The market price of the underlying shares of common stock is lower than the exercise price;
- The holder of the warrants has not confirmed in writing that the representative solicited the exercise;
- The warrants are held in a discretionary account;
- The warrants are exercised in an unsolicited transaction; or
- The representative has not provided to the holder of the warrants solicited for exercise, a copy of the prospectus with respect to the shares of common stock underlying the warrants.

There is no compensation due under this agreement.

On June 19, 2007, we entered into a consulting agreement with Derek Dunaway prior to Mr. Dunaway becoming our CEO. Mr. Dunaway's duties were to assist our officers with our reporting obligations and in our search for a target business to acquire. Pursuant to the consulting agreement, Mr. Dunaway received \$10,000 per month (including retroactive compensation to May 2, 2007) and the agreement could have been terminated by either party on 15 days prior written notice to the other party. Under the agreement, if we consummated a business combination, we were required to (i) pay Mr. Dunaway \$10,000 for each month he performed as a consultant for us and (ii) issue Mr. Dunaway warrants to purchase 100,000 shares of our common stock, exercisable at \$5.00 per share. In February 2008 Mr. Dunaway became CEO of CTI and ceased being a consultant for us. Therefore, we discontinued the \$10,000 monthly consulting payments to him.

Mr. Dunaway is still owed the \$10,000 per month fee due upon successful completion of a business combination. On December 19, 2008, we consummated such a business combination when we acquired CTI (as discussed in Note 2). This obligation has been included in G&A expense for 2008 and is an accrued expense at December 31, 2008. Mr. Dunaway has declined the warrants and therefore none were issued to him and no expense has been accrued for them.

18. STOCKHOLDERS' EQUITY

Preferred Stock

We are authorized to issue 1,000,000 shares of preferred stock with such designations, voting and other rights and preferences as may be determined from time to time by our Board of Directors. No preferred stock was issued or outstanding as of December 31, 2008 or 2007.

Common Stock

We are authorized to issue 50,000,000 shares of common stock. Stockholders are entitled to one vote for each share held of record on all matters to be voted on by stockholders. Stockholders have no conversion, preemptive or other subscription rights and there are no sinking fund or redemption provisions applicable to the common stock.

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At December 31, 2007, 1,462,499 (or 19.99%) of the 7,312,500 common stock shares issued in our initial public offering were subject to possible redemption. Holders of common stock that voted against our acquisition of CTI had the right to demand redemption of their common stock for a pro rata portion of the cash and cash equivalents held in trust. That pro rata share at December 31, 2007 was estimated to be \$7.62 per common share or \$11.1 million. After the December 19, 2008 approval of the Acquisition of CTI, holders of common stock who voted against the Acquisition were owed \$8.03 per common share, or \$7.9 million, of which \$6.8 million was paid in 2008 and \$1.1 million was still payable as of December 31, 2008.

Common Stock Purchase Warrants

As of December 31, 2008, we had 7,468,750 common stock purchase warrants (“warrants”) outstanding, of which 7,062,500 were sold in a public offering, 187,500 were sold in a private placement, 100,000 were issued as payment of Acquisition-related costs and 118,750 were sold to a third party.

Public Offering Warrants

On May 1, 2007 we sold 7,312,500 units in our initial public offering for \$58.5 million, or \$8.00 per unit. Each unit consisted of one share of our common stock and one common stock purchase warrant. Each warrant entitles the holder to purchase one share of common stock at an exercise price of \$5.00 per share. These warrants may be exercised now that, among other things, we have completed the acquisition of a business (which occurred on December 19, 2008). These warrants expire April 25, 2012 unless earlier redeemed. These warrants are redeemable by us at a price of \$0.01 per warrant upon 30 days notice, only in the event that the last sales price of the common stock is at least \$11.50 per share for any 20 trading days within a 30- trading-day period ending on the third business day prior to date on which notice of redemption is given. 225,000 of these warrants were exercised in December 2008. See Note 25 for information on exercises in 2009.

Holders of warrants (a) sold in a public offering and (b) included as part of the units underlying the option sold (see below) will be able to receive shares upon exercise of the warrants only if (i) a current registration statement under the Securities Act of 1933 relating to the shares of common stock underlying the warrants is then effective and a current prospectus is then available or such shares are exempt from registration and (ii) such shares are qualified for sale or exempt from qualification under the applicable securities laws of the states in which the various holders of warrants reside. Such a registration became effective on February 9, 2009.

Private Placement Warrants

On April 25, 2007 we sold 187,500 units in a private placement to two current Directors, Yaron Eitan, Chief Executive Officer at that time, and Winston Churchill, Chairman of the Board at that time, for \$1.5 million. Each unit consisted of one share of common stock and one common stock purchase warrant. Each warrant entitled the holder to purchase one share of common stock at an exercise price of \$5.00 per share. These warrants may be exercised now that we have completed an acquisition of a business (which occurred on December 19, 2008). These warrants expire April 25, 2012 unless earlier redeemed. These warrants are redeemable by us at a price of \$0.01 per warrant upon 30 days notice after the warrant becomes exercisable, only in the event that the last sales price of the common stock is at least \$11.50 per share for any 20 trading days within a 30- trading-day period ending on the third business day prior to date on which notice of redemption is given. These warrants were exercised in February 2009.

Warrants Issued for Acquisition-Related Costs

On December 10, 2008, we issued 100,000 common stock purchase warrants as payment for Acquisition-related costs. Each warrant entitles the holder to purchase one share of common stock at an exercise price of \$8.00 per share. These warrants expire three years from the date of the Acquisition (December 19, 2011) unless earlier redeemed. We estimated, based upon a Black-Scholes model, that the fair value of the purchase option, on the date of sale is \$0.33 per share (or \$33,000 in the aggregate), using an expected life of 3 years, volatility of 27.14%, and a risk-free rate of 1.21%. However, because our common stock did not have a trading history that was representative of an operating company as of December 10, 2008, the volatility assumption was derived using historical data of another public company operating in our industry. We believe the volatility estimate calculated from that company is a reasonable benchmark to use in estimating the expected volatility of our common stock; however, that estimated volatility may not necessarily be representative of the volatility of the underlying securities in the future.

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Warrants Sold to a Third Party

On October 15, 2008, we sold 118,750 common stock purchase warrants and 593,750 shares of common stock for a combined price of \$4.8 million. Each warrant entitles the holder to purchase one share of common stock at an exercise price of \$8.00 per share. These warrants expire three years from the date of the Acquisition (December 19, 2011) unless earlier redeemed.

Options

In connection with our initial public offering on April 25, 2007, we sold to the representative of the underwriter an option to purchase up to a total of 731,250 units for \$100. Each unit consists of one share of common stock and one common stock purchase warrant. Each warrant entitles the holder to purchase one share of common stock at an exercise price of \$5.50 per share, which may be exercised on a cashless basis. This option is exercisable at \$8.80 per unit upon the completion of an acquisition of a business (which occurred on December 19, 2008). This option expires five years from the date of our initial public offering (April 25, 2012).

We accounted for this purchase option as a cost of raising capital and have included the instrument as equity in the financial statements. Accordingly, there was no net impact on our financial position or results of operations, except for the recording of the proceeds from the sale. We estimated, based upon a Black-Scholes model, that the fair value of the purchase option, on the date of sale is \$3.40 per unit (or \$2.5 million in the aggregate), using an expected life of 5 years, volatility of 44%, and a risk-free rate of 5%. However, because these units did not have a trading history, the volatility assumption was based on information then available to management. The volatility estimate was derived using historical data of public companies in the proposed industry. We believe the volatility estimate calculated from these companies is a reasonable benchmark to use in estimating the expected volatility of our units; however, the use of an index to estimate volatility may not necessarily be representative of the volatility of the underlying securities.

Accumulated Other Comprehensive Income (Loss)

The ending accumulated balances for each item in accumulated other comprehensive income and loss are as follows (all amounts in thousands):

	Year Ended December 31,		
	2008	2007	(Predecessor) 2007
Foreign currency translation adjustments	\$ (179)	\$ —	\$ 1,248
Unrealized gain (loss) on cash flow hedges, net of taxes	(102)	—	—
	<u>\$ (281)</u>	<u>\$ —</u>	<u>\$ 1,248</u>

Changes in accumulated other comprehensive income due to derivatives and hedging activities are as follows (all amounts in thousands):

Balance December 31, 2007	\$ —
Unrealized losses on interest rate swaps	(102)
Unrealized losses (gains) reclassified to current period earnings	—
Balance, December 31, 2008	<u>\$ (102)</u>

Changes in accumulated other comprehensive income due to currency translation adjustments (all amounts in thousands):

Balance December 31, 2007	\$ —
Adjustments due to translation of CTSA financial statements from Euros into U.S. Dollars	(179)
Reclassifications to current period earnings	—
Balance, December 31, 2008	<u>\$ (179)</u>

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19. INCOME TAXES

Income taxes consisted of the following (all amounts in thousands) :

	<u>Year Ended December 31,</u>		<u>Predecessor</u>	
	<u>2008</u>	<u>2007</u>	<u>For the Period January 1, 2008 to December 19, 2008</u>	<u>For Year Ended December 31, 2007</u>
Current:				
Federal	\$ —	\$ 87	\$ —	\$ —
State	5	—	—	—
Foreign	(13)	—	846	1,943
Deferred:				
Federal	(575)	—	980	(1,343)
State	(17)	—	390	(330)
Foreign	—	—	—	—
Provision for (benefit from) income taxes	<u>\$ (600)</u>	<u>\$ 87</u>	<u>\$ 2,216</u>	<u>\$ 270</u>

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The principal sources of these differences include the carrying value of inventories, fixed asset depreciation, debt issue costs and certain accruals and reserves for financial statement purposes which are not deductible for tax purposes.

Deferred income tax assets and liabilities consist of the following (all amounts in thousands):

	<u>December 31, 2008</u>		<u>December 31, 2007</u>		<u>(Predecessor) December 31, 2007</u>	
	<u>Current</u>	<u>Non-current</u>	<u>Current</u>	<u>Non-current</u>	<u>Current</u>	<u>Non-current</u>
Deferred tax assets:						
Federal	\$ 477	\$ 6,730	\$ —	\$ —	\$ 465	\$ 6,734
State	112	1,056	—	—	109	1,586
Foreign	—	—	—	—	—	—
Less: valuation allowance	—	(1,068)	—	—	—	—
	<u>589</u>	<u>6,718</u>	<u>—</u>	<u>—</u>	<u>574</u>	<u>8,320</u>
Deferred tax liabilities:						
Federal	(220)	(12,931)	—	—	(16)	(10,753)
State	(52)	(3,024)	—	—	(5)	(2,516)
Foreign	—	—	—	—	—	—
	<u>(272)</u>	<u>(15,955)</u>	<u>—</u>	<u>—</u>	<u>(21)</u>	<u>(13,269)</u>
Deferred tax assets (liabilities)	<u>\$ 317</u>	<u>\$ (9,237)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 553</u>	<u>\$ (4,949)</u>

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Principal components of our net liability representing deferred income tax balances are as follows (all amounts in thousands):

	Year Ended December 31,		
	2008	2007	(Predecessor) 2007
Intangible assets	\$ (15,856)	\$ —	\$ (12,293)
Property, plant and equipment	(221)	—	(976)
U.S. loss carryforwards and tax credits	4,070	—	7,079
Subsidiary dividend income	2,107	—	646
Provisions for expenses	758	—	988
Suspended capital loss on sale of subsidiary	161	—	160
Interest rate swaps	61	—	—
	<u>\$ (8,920)</u>	<u>\$ —</u>	<u>\$ (4,396)</u>

Income taxes computed using the federal statutory income tax rate differ from our effective tax rate primarily due to the following (all amounts in thousands):

	Year Ended December 31,		Predecessor	
	2008	2007	For the Period January 1, 2008 to December 19, 2008	For Year Ended December 31, 2007
Provision for federal income taxes expected at 34% statutory rate	\$ (8)	\$ 301	\$ 1,911	\$ 100
Increase (reduction) resulting from:				
Tax on global activities	(15)	—	(38)	376
State income taxes, less federal income tax benefit	(14)	87	257	(218)
Exempt interest income	(358)	(301)	—	—
Change in valuation account	(205)	—	—	—
Other	—	—	86	12
Provision for (benefit from) income taxes	<u>\$ (600)</u>	<u>\$ 87</u>	<u>\$ 2,216</u>	<u>\$ 270</u>

The majority of the deferred tax assets relate to domestic net operating loss carryforwards that expire in 2025 through 2028. The realization of these assets is based on estimates of future taxable income.

Deferred income taxes on undistributed earnings of CTSA have not been recognized, since such earnings are considered to be reinvested indefinitely. If the earnings, which were \$4.1 million through December 31, 2008, were distributed in the form of dividends, they would be subject, in certain cases, to both United States income taxes and foreign withholding taxes. Because of the availability of U.S. foreign tax credits, it is not practicable to determine the U.S. federal income tax liability that would be payable if such earnings were not reinvested indefinitely. Deferred taxes are provided for earnings of the subsidiary when we plan to remit those earnings.

Cyalume Technologies Holdings, Inc.
(Formerly Vector Intersect Security Acquisition Corporation)
Notes to Consolidated Financial Statements (Continued)

20. RESTRUCTURING COSTS

During the period ended December 19, 2008, the Predecessor underwent a corporate restructuring pursuant to which the CEO and two Vice-Presidents left the Company, resulting in a restructuring charge of \$1.1 million. The following table summarizes restructuring cost activity from December 31, 2007 through December 31, 2008 (all amounts in thousands):

Balance on December 31, 2007 (Predecessor)	\$	—
Restructuring charges		1,087
Cash payments		(830)
Balance on December 19, 2008 assumed at the Acquisition		<u>257</u>
Cash payments		(28)
Balance on December 31, 2008	\$	<u><u>229</u></u>

The \$229,000 of accrued and unpaid restructuring costs as of December 31, 2008 is included in accrued liabilities on the accompanying consolidated balance sheet. The \$1.1 million of restructuring charges is included in the Predecessor's consolidated statement of income as an other loss for the period ended December 19, 2008.

21. EMPLOYEE BENEFIT PLANS

The CTI Employee Savings and Retirement Plan (the "Plan"), is intended to be qualified under Section 401(k) of the Internal Revenue Code. Employees of CTI who have reached the age of 18 are eligible for participation on the first entry date after three months of service. Entry dates are the first day of January, April, July and October. At December 31, 2007, employees of CTI who had reached the age of 21 were eligible for participation after completing six months of service. Employees may defer receiving compensation up to the maximum permitted under the Internal Revenue Code. Matching contributions to the Plan equal (i) 3% of employee compensation plus (ii) 50% of between 3% and 5% of employee compensation. For the year ended December 31, 2008, employer matching contributions were \$7,000. For the period ended December 19, 2008 and the year ended December 31, 2007, the Predecessor's employer matching contributions were \$184,000 and \$145,000, respectively.

22. FAIR VALUE

SFAS 157 (see Note 3) requires disclosure about how fair value is determined for assets and liabilities and establishes a hierarchy for which such assets and liabilities must be grouped, based on significant levels of inputs as follows:

Level 1	Quoted prices in active markets for identical assets or liabilities.
Level 2	Quoted prices in active markets for similar assets or liabilities and inputs that are observable for the asset or liability.
Level 3	Unobservable inputs for the asset or liability, such as discounted cash flow models or valuations.

Cyalume Technologies Holdings, Inc.
(Formerly Vector Intersect Security Acquisition Corporation)
Notes to Consolidated Financial Statements (Continued)

The determination of where assets and liabilities fall within this hierarchy is based upon the lowest level of input that is significant to the fair value measurement. As of December 31, 2008, the only liabilities required to be measured at fair value on a recurring basis were the interest rate swaps described in Note 15, both of which are measured at fair value using level 3 inputs and presented as derivatives on the December 31, 2008 consolidated balance sheet. The following table reflects their activity for the year ended December 31, 2008 (all amounts in thousands) :

	Interest Rate Swaps
Balance as of December 31, 2007	\$ —
Transfers into level 3 from level 1 or level 2	—
Transfers out of level 3 into level 1 or level 2	—
Total gains or (losses), realized or unrealized:	
Included in earnings	—
Included in comprehensive income	163
Purchases, issuances and settlements, net	—
Balance as of December 31, 2008	\$ 163

As discussed in the Recent Accounting Pronouncements section of Note 3, SFAS 157 is does not apply to the nonrecurring fair value measurements of our nonfinancial assets and liabilities, such as for intangible assets and goodwill, until January 1, 2009.

23. CONCENTRATIONS

Our business depends significantly on two key customers: the United States Department of Defense (“US DOD”) and the N.A.T.O. Maintenance and Supply Agency (“NAMSA”), which accounted for 34% of net revenues for the year ended December 31, 2008. These two key customers accounted for 68% and 69% of the Predecessor’s net revenues in the period ended December 19, 2008 and the year ended December 31, 2007, respectively.

Three customers, including the US DOD, account for 68% of net revenues for the year ended December 31, 2008 and a different set of three customers, including the US DOD, account for 55% of gross accounts receivable as of December 31, 2008 due to the limited period for sales between the December 19, 2008 Acquisition of CTI and December 31, 2008. The US DOD accounted for 30% of the Predecessor’s gross accounts receivable as of December 31, 2007. We did not have any revenues during the year ended December 31, 2007 or accounts receivable at December 31, 2007.

We sell to customers located in the United States of America and in international markets, including NAMSA. Revenues to customers outside the United States represent 10% of net revenues for the year ended December 31, 2008. Revenues from the Predecessor’s customers outside the United States represented 29% of net revenues for the period ended December 19, 2008 and 38% of net revenues for the year ended December 31, 2007.

We maintain cash in several different financial institutions in amounts that typically exceed U.S. federally insured limits and in financial institutions in international jurisdictions where insurance is not provided. We have not experienced any losses in such accounts and believe we are not exposed to significant credit risk.

24. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash Paid for Interest and Income Taxes (all amounts in thousands) :

	Year Ended December 31,		Predecessor	
			For the Period	For Year Ended
	2008	2007	January 1, 2008	December 31,
			to December 19,	December 31,
			2008	2007
Interest	\$ 624	\$ 9	\$ 4,186	\$ 5,418
Income taxes	\$ 31	\$ —	\$ 2,874	\$ 1,456

Cyalume Technologies Holdings, Inc.
(Formerly Vector Intersect Security Acquisition Corporation)
Notes to Consolidated Financial Statements (Continued)

Non-Cash Investing and Financing Activities (all amounts in thousands) :

	<u>Year Ended December 31,</u>		<u>Predecessor</u>	
	<u>2008</u>	<u>2007</u>	<u>For the Period January 1, 2008 to December 19, 2008</u>	<u>For Year Ended December 31, 2007</u>
Accrual of deferred underwriting costs	\$ —	\$ 2,340	\$ —	\$ —
Change in estimate of deferred underwriting costs	272	—	—	—
Payment of deferred underwriting costs via issuance of note payable	1,818	—	—	—
Fair value of warrants issued in conjunction with the Acquisition	33	—	—	—
Fair value of common stock issued in conjunction with the Acquisition	52,460	—	—	—
Unpaid capitalized debt issuance costs	154	—	—	—
Adjustment of property, plant and equipment to fair value due to the Acquisition	(2,373)	—	—	—
Adjustment of inventory to fair value due to the Acquisition	738	—	—	—
Adjustment of intangible assets to fair value due to the Acquisition	20,192	—	—	—

25. SUBSEQUENT EVENTS

During the first quarter of 2009 we paid \$1.1 million to repurchase 139,850 shares of common stock from stockholders who voted against the Acquisition of CTI.

On February 9, 2009, we registered the issuance of shares of our common stock upon exercise of warrants issued in our May 2007 initial public offering. Between February 10, 2009 and February 17, 2009, 3,267,994 of those warrants were exercised on a cashless basis into 1,629,671 common shares.

On March 3, 2009, our Board of Directors adopted the Cyalume Technologies Holdings, Inc. 2009 Omnibus Securities and Incentive Plan (the "Plan"). The purpose of the Plan is to benefit our stockholders by assisting us to attract, retain and provide incentives to key management employees and non-employee directors of, and non-employee consultants to, Cyalume Technologies Holdings, Inc. and its subsidiaries, and to align the interests of such employees, non-employee directors and non-employee consultants with those of our stockholders. Accordingly, the Plan provides for the granting of Distribution Equivalent Rights, Incentive Stock Options, Non-Qualified Stock Options, Performance Share Awards, Performance Unit Awards, Restricted Stock Awards, Stock Appreciation Rights, Tandem Stock Appreciation Rights, Unrestricted Stock Awards or any combination of the foregoing, as may be best suited to the circumstances of the particular employee, director or consultant as provided herein. Two million shares have been reserved under the Plan. On March 3, 2009, the Board of Directors authorized the following (i) 30,000 restricted shares of common stock to non-employee consultants; (ii) 114,000 restricted shares of common stock and 200,000 restricted options to officers and other management; and, (iii) a total of 82,500 options to directors. Subsequent to approval by shareholders at the 2009 Annual Meeting of Shareholders, we expect to file Form S-8 with the SEC to register the shares under the Plan.

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
ON CONSOLIDATED FINANCIAL STATEMENT SCHEDULE**

To the Board of Directors and
Stockholders of Cyalume Technologies Holdings, Inc.

We have audited the consolidated financial statements of Cyalume Technologies Holdings, Inc. (the "Company") as of December 31, 2008, and for year then ended, and have issued our report thereon dated March 27, 2009. Such consolidated financial statements and report thereon are included in the Company's Form 10-K/A (Amendment No. 1) filed with Securities and Exchange Commission for the year ended December 31, 2008. Our audit also included the consolidated financial statement schedule for the year ended December 31, 2008 of the Company, listed in Item 15. This consolidated financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this consolidated financial statement schedule based on our audit. In our opinion, such consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements as of December 31, 2008, and for the year then ended, taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ CCR LLP
Glastonbury, Connecticut
March 27, 2009

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
ON CONSOLIDATED FINANCIAL STATEMENT SCHEDULE**

To the Board of Directors and
Stockholder of Cyalume Technologies, Inc. and Subsidiary

We have audited the consolidated financial statements of Cyalume Technologies, Inc. and Subsidiary (the "Company") as of December 31, 2007, and for the period from January 1, 2008 to December 19, 2008 and the year ended December 31, 2007, and have issued our report thereon dated March 27, 2009. Such consolidated financial statements and report thereon are included in the Cyalume Technologies Holdings, Inc. Form 10-K/A (Amendment No. 1) filed with the Securities and Exchange Commission for the year ended December 31, 2008. Our audits also included the consolidated financial statement schedule for the period from January 1, 2008 to December 19, 2008 and the year ended December 31, 2007 of the Company, listed in Item 15. This consolidated financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this consolidated financial statement schedule based on our audits. In our opinion, such consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements as of December 19, 2008 and December 31, 2007, and for the period from January 1, 2008 to December 19, 2008 and the year ended December 31, 2007, taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ CCR LLP
Glastonbury, Connecticut
March 27, 2009

Cyalume Technologies Holdings, Inc.
(Formerly Vector Intersect Security Acquisition Corporation)
Consolidated Financial Statement Schedule
Schedule II – Valuation and Qualifying Accounts

<u>Description</u>	<u>Balance at Beginning of Period</u>	<u>Additions</u>		<u>Deductions (Describe)</u>	<u>Balance at End of Period</u>
		<u>Charged to costs and expenses</u>	<u>Charged to other accounts (Describe)</u>		
Year ended December 31, 2008					
Allowance for Doubtful Accounts	\$ —	\$ 62	\$ 458 ⁽¹⁾	\$ (68) ⁽²⁾	\$ 452
Deferred Tax Asset Valuation Allowance	—	—	1,068 ⁽¹⁾	—	1,068
Year ended December 31, 2007					
Allowance for Doubtful Accounts	—	—	—	—	—
Deferred Tax Asset Valuation Allowance	—	—	—	—	—

(1) Acquired as part of the acquisition of Cyalume Technologies, Inc.

(2) Write-offs and currency translation.

For the Predecessor:

<u>Description</u>	<u>Balance at Beginning of Period</u>	<u>Additions</u>		<u>Deductions (Describe)</u>	<u>Balance at End of Period</u>
		<u>Charged to costs and expenses</u>	<u>Charged to other accounts (Describe)</u>		
Period ended December 19, 2008					
Allowance for Doubtful Accounts	\$ 596	\$ (26)	\$ —	\$ (112) ⁽¹⁾	\$ 458
Deferred Tax Asset Valuation Allowance	—	1,068	—	—	1,068
Year ended December 31, 2007					
Allowance for Doubtful Accounts	646	(76)	26 ⁽²⁾	—	596
Deferred Tax Asset Valuation Allowance	—	—	—	—	—

(1) Write-offs and currency translation.

(2) Currency translation.

Subsidiaries of the Registrant

Name of Subsidiary	Place of Incorporation
Cyalume Technologies, Inc.	Delaware, U.S.A
Cyalume Technologies, S.A.	France

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement of Cyalume Technologies Holdings, Inc. in the Post-Effective Amendment No. 1 of Form S-3 (No. 333-12764 4), of our report dated March 27 , 2009, relating to the consolidated financial statements of Cyalume Technologies Holdings, Inc. as of December 31, 2008 and for the year then ended and of our report dated March 27 , 2009 relating to the consolidated financial statements of Cyalume Technologies, Inc. and Subsidiary as of December 31, 2007 and for the period January 1, 2008 to December 19, 2008 and the year ended December 31, 2007 appearing in the Annual Report on Form 10-K /A (Amendment No. 1) for the year ended December 31, 2008.

We also consent to the reference to us under the heading “Experts” in such Registration Statement.

/s/ CCR LLP
Glastonbury, Connecticut
April 16, 2009

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement of Cyalume Technologies Holdings, Inc. (formerly Vector Intersect Security Corp.) (a corporation in the development stage) in the Post-Effective Amendment No.1 of Form S3 (No. 333-127644), of our report dated April 10, 2008, on our audit of the financial statements of Cyalume Technologies Holdings, Inc. (formerly Vector Intersect Security Corp.) (a corporation in the development stage) as of December 31, 2007, for the year ended December 31, 2007 and for the period from July 19, 2005 (inception) through December 31, 2007 appearing in the Annual Report on Form 10-K/A (Amendment No. 1) for the year ended December 31, 2008.

We also consent to the reference to us under the heading "Experts" in such Registration Statement.

/s/ Miller, Ellin & Company, LLP
CERTIFIED PUBLIC ACCOUNTANTS

New York, New York
April 17, 2009

CERTIFICATION

I, Derek Dunaway, certify that:

1. I have reviewed this Amendment to the Annual Report on Form 10-K /A of Cyalume Technologies Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 16, 2009

/s/ DEREK DUNAWAY

Derek Dunaway, Chief Executive Officer

CERTIFICATION

I, Michael Bielonko, certify that:

1. I have reviewed this Amendment to the Annual Report on Form 10-K /A of Cyalume Technologies Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 16, 2009

/s/ MICHAEL BIELONKO

Michael Bielonko, Chief Financial Officer

