

Source Capital Group, Inc.

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September 14, 2004

AEGIS ASSESSMENTS, Inc. (OTCBB:AGSI - \$2.45)

Initiating Coverage – BUY Rating
12-Month Price Target = \$12.50

For Research Disclosures – see page 13.

HOMELAND SECURITY SOLUTIONS

The Company: Aegis Assessments, Inc. (Aegis” or the “Company”) was formed in January of 2001 to provide emergency communications systems for schools and government facilities. Recognizing that the most significant life threatening public safety incidents, either from terrorism, fire, or natural disasters, take place in or around large buildings, the Company designed and built products that assist first responders in being able to protect life and property. The Company has communication equipment that links disparate radio systems, the Radio Bridge; a Mobile Command Post that lets an incident commander coordinate various agencies and a Wireless Life Safety System that can provide vital information about the condition and status of people, equipment and structures in and around an incident to coordinate rescue and recovery operations.

Shares outstanding	19.5 million
Float	2.7 million
Market Capitalization	\$47.7 million
Avg. Daily Volume (30 days)	20,000
52-Week Range	\$2.25 - \$6.00
Insider ownership	60.0%
FY ends July 31,	
EPS Est. FY2005	\$0.16
EPS Est. FY2006	\$0.50
P/E 2005 E	15.3x
P/E 2006 E	4.9x
www.aegiscorporate.com	

Distribution Agreement and First Orders: Aegis has signed JAD Corporation of America (“JAD”), a leading distributor of building maintenance products through the New York City tri-state area, as a distributor for all of its products. JAD supplies many of the largest residential and commercial buildings in the city. In addition to its direct distribution in the New York area, JAD plans to establish a national dealer network for the sales of Aegis products. JAD issued an initial purchase order for 200 of the Aegis Radio Bridge units in the amount of \$2.4 million. The first of these units were shipped in August of 2004 and the first 100 units are expected to be shipped before the end of the Company’s first quarter of FY2005.

Production Agreement Set: Aegis is outsourcing the production of its Radio Bridge and Wireless Life Safety Systems to 3Netics Corporation. 3Netics, based in Redmond, Washington, will build the Aegis products at its production facility in Marysville, California.

9/11 Commission Report details the needs for Homeland Security: To illustrate the significance put on products such as those produced by Aegis, we have quoted parts of “***The 9/11 Commission Report; Final Report on the National Commission on Terrorist Attacks upon the United States.***” We have used the W. W. Norton & Company Authorized Edition, published in July of 2004. Quotes are in bold italics with page number references. Our quotes in no way imply that the Commission endorses this report or Aegis Assessments, Inc. products.

	EPS (\$) FY July 31,			Revenue (\$ in 000)		
	<u>2005 E</u>	<u>2006 E</u>	<u>2007 E</u>	<u>2005</u>	<u>2006 E</u>	<u>2007 E</u>
1Q	0.01 E	0.09 E		1Q	\$1,800 E	\$5,850 E
2Q	0.02 E	0.12 E		2Q	\$2,700 E	\$6,900 E
3Q	0.05 E	0.16 E		3Q	\$4,050 E	\$9,450 E
4Q	<u>0.07 E</u>	<u>0.13 E</u>		4Q	<u>\$4,950 E</u>	<u>\$10,800 E</u>
Year	\$0.16 E	\$0.50 E	\$0.54 E	Year	\$13,500 E	\$33,000 E
P/E	15.3x	4.9x	4.5x			\$47,850 E

PRODUCTS

Aegis has patent-pending products that it sells under the brand name – SafetyNet.™ The products are designed to be sold to public safety agencies and commercial end-users for a variety of applications. For public safety agencies the Company has the **Radio Bridge** and **Mobile Command Post** (“MCP”). For commercial applications Aegis has for sale the **Wireless Life Safety System** (“WLSS”). These products can be used for security and coordination of first responders in situations such as:

Homeland Security Defense	Natural disaster response and relief
Hazardous materials spills and cleanup	Search and rescue
Mobile surveillance for fairs and parades	Large fires
Prison uprisings or hostage taking	Civilian hostage taking
High rise and public building safety	Schools and Universities
Special security – dignitaries or political events	

“At 9:00 (AM) the PAPD (Port Authority Police Department) commanding officer of the WTC ordered an evacuation of all civilians in the World Trade Center complex, because of the calamity in the North Tower. This order was given over WTC police channel W, which could not be heard by the deputy fire safety director in the South Tower.” 9/11 Report p. 293

Radio Bridge: A major problem for first responders, particularly multiple jurisdictions, is the lack of interoperable radio equipment. Fire, police, emergency medical personnel or other responders often have handheld radios that cannot communicate with other agencies. The radios are set to operate on different frequencies or modulations, to prevent too much traffic on one channel, which would make communication unintelligible, and to provide security of message content. The SafetyNet Radio Bridge uses a multiplexing capability to interconnect radios of different frequencies and to coordinate communication between agencies. By connecting one radio from each agency, the Radio Bridge allows a command and control person to receive messages in the frequency of one agency and to transmit the voice of that communication to another agency in their own frequency. The Company has an eight-channel connection capability as well as a 16-channel capability. The different groups maintain the ability to control their own inter-agency communication, on their own channels, while at the same time coordinating overall activity through a central device that allows each agency commander to hear the other.



Mobile Command Post: Through a central command post and strategically placed cameras, microphones and other sensors, the SafetyNet Mobile Command Post provides real-time streaming video, audio, secure messaging and other data from an emergency scene, allowing the incident commander to see exactly what is happening. This instant data allows the incident commander to make better decisions and relay data to fire, police, emergency medical personnel and other agency leaders. The Mobile Command Post can include built-in sensors to identify and monitor nuclear, biological and/or chemical threats.



Wireless Life Safety System: The WLSS uses a variation of the Mobile Command Post, along with wireless remote stations that are placed in high rise buildings or other large commercial or infrastructure locations to provide facility managers and emergency responders with a reliable wireless emergency management and communications system. The remote stations can include broadband video, audio, two-way radio as well as chemical and air flow data from life safety devices that can be used to monitor, direct, communicate and share with public safety agencies. In many instances wired safety systems have become inoperable because of damage to wires, the loss of electricity or damage to remote sensors. The wireless capability is designed to provide another level of safety.



The Wireless Life Safety System can augment wired safety systems for high-rise buildings, provide special event security, expand mobile surveillance for private security, expand border surveillance and a myriad of other applications. For high-rise stairwells, the WLSS provides infrared as well as regular imaging so that first responders can determine where to concentrate rescue personnel. The WLSS for a particular building can be programmed to include a building floor plan and utility schematics to coordinate gas and electricity shut offs and the approach to emergency events.

“Command and control decisions were affected by the lack of knowledge of what was happening 30, 60, 90 and 100 floors above. .. It was impossible to know how much damage was done to the upper floors, whether the stairwells were intact or not.” 9/11 Report p. 298

MARKET SIZE

“Emergency response is a product of preparedness. On the morning of September 11, 2001, the last best hope for the community of people working in or visiting the World Trade Center rested not with national policymakers but with private firms and local public servants, especially the first responders: fire, police, emergency medical service and building safety professionals.” 9/11 Report p.278

The market for Homeland Security products generally parallels emergency response needs for civilian purposes. September 11, 2001 did not create a new market. It accelerated and emphasized the need for new technologies and the importance of coordinating responses among life safety agencies. From what has been a market driven by individual products and services, the complexity of evaluation and incorporation of new technologies has created a need for “solutions-based” products and services. Success in this solutions-based industry may depend on agreements for complementary products or services and agreements with channel partners.

Interoperability: Communications interoperability among first responders is a high priority for the Department of Homeland Security. This means that a significant portion of these expenditures will be

funded largely by federal grants to state and local governments. A prominent initiative is Project Safecom, a multi-agency initiative to improve the interoperability of wireless systems for first responders. One estimate of the market size is gained from statements made by one of the largest suppliers to the market. JPS Communications, a unit of Raytheon Corporation, has indicated that patchwork interoperability, the kind of system sold by Aegis and JPS, could be accomplished nationwide for approximately \$350 million. This compares to an estimated cost of \$18 billion to replace all of the first responder radio systems that would make them compatible.

Another recent study on the Homeland Security market indicates that the potential market for response equipment may be as high as \$1.75 billion.

With 18,000 state and local law enforcement agencies, 26,000 fire departments, 6,000 emergency medical responders and several thousand utility and infrastructure public agencies, the number of potential users of an interoperability system exceeds more than 50,000. In our opinion, this number of users could define **a market potential of over \$1.0 billion**. Since this equipment would last five to ten years, or until technology advances, this market realization could be spread over several years.

Command and Control: Command and control market size could be somewhat less than radio interoperability. The same market study that listed interoperability at \$1.75 billion estimates the **command and control market potential to be \$600 million**.

Wireless Life Safety Systems: WLSS systems could be adopted for high-rise offices and apartments, K-12 schools, universities, public utilities, transportation facilities, border surveillance and a significant number of other applications. Helping to accelerate the potential adaptation of WLSS will be the growing codification of ordinances for in-building communication. An important lesson learned in the 1993 bombing of the WTC was that communication was impeded by the steel and concrete in the structure of the buildings, making coordination impossible. In the case of the WTC, a series of radio repeaters were installed in the complex to facilitate communication of emergency responders. Since building codes are generally enacted at the local level, a national trend has yet to be established. However, first mover communities, including Scottsdale, Arizona, have enacted in-building communication ordinances. The intent for these ordinances is to insure the ability to receive and transmit emergency response radio from any place in the building. These ordinances are aimed at high-rise buildings and facilities with large areas to be monitored.

This codification effort is being pushed by a "Public Safety Wireless Network Program" that stresses interoperability. A 2002 report by this group listed seven communities that have enacted codes for interoperability, and a number of other communities where enactment was being considered. This effort will enhance the ability of Aegis to market its WLSS, particularly for new construction. The retrofitting of existing buildings will be dependent on the age of current systems, code requirements for retrofitting, the budgets for upgrading and the importance put on improved safety.

A survey by the U. S. Energy Information Agency shows a 2002 compilation of all commercial buildings to number approximately 4.6 million. Of this number, 705,000 were office buildings, 105,000 were health care facilities, 309,000 were education buildings and 326,000 were public assembly facilities. The utilization of the WLSS can be most effective in large area buildings or high-rise structures. Of the total of 4.6 million buildings, we estimate that more than one million buildings could be potential sites for WLSS. Other surveillance applications, such as border patrol, might exceed over 100,000 units. This could mean that the WLSS product could have the largest market potential for Aegis, exceeding \$50.0 billion over a ten year period. **The annual potential could easily range from \$2.0 - \$3.0 billion.**

The characteristics of the Homeland Security market are: (a) A diffuse set of buyers; nearly 30,000 federal, state, county and city entities and a significantly larger number of private buyers. (Over 80% of the nation's infrastructure is owned and managed by private entities.) (b) Generally, an imbalance

between security needs and the resources of buyers, whether governmental or private. This means that sometimes buying decisions may be postponed until an event or particular circumstances again accelerate the emphasis on safety.

SALES AND MARKETING

To reach a scattered market, Aegis is taking a multi-channel approach to marketing. Management has high level contacts within the Departments of Homeland Security and Defense. These contacts have been used for demonstration of equipment and the sale of a Radio Bridge unit to the Space and Naval Warfare Systems Center (SSC) for test and evaluation. The SSC provides technical support for the Office of Domestic Preparedness, including engineering services in the area of communications interoperability and recommendations regarding available off-the-shelf technologies for potential deployment by state and local governments. These direct marketing efforts will continue as a distributor-dealer network is put in place.

Aegis has signed a distribution agreement with JAD Corporation of America, a New York based distributor of building maintenance products. JAD supplies many of the largest commercial and residential buildings in New York City and surrounding communities. The company is in a perfect location to demonstrate the Aegis product line to first responders and building managers in the New York City area. JAD plans to put in place a dealer network to sell the Aegis product line nation wide.

Aegis is also working with several of the national commercial building development, leasing and management companies to sell and install the WLSS. A relationship with any one of these companies could accelerate the adoption of this product.

The Company's marketing efforts include exhibiting at police and fire trade shows and conventions, building management expositions and conventions and Homeland Security conferences and expositions.

COMPETITION

There are two types of systems being offered in the area of radio interoperability. The first is patchwork interoperability, where radios are connected through a system such as the Radio Bridge. This is generally the most cost effective and quickest way to achieve interoperability. The second is a Standards-Based Shared System that encompasses different systems working on a shared infrastructure, with various agencies working on their own frequencies and being able to switch to a shared network. This larger system change would take years to implement and is estimated to cost upwards of \$18 - \$20 billion nationwide.

In addition to Aegis, companies selling patchwork solutions include JPS Communications, a unit of Raytheon Corporation, Link Communications, with its Tactical Communication Bridge unit and the Incident Commander Radio Interface supplied by Communications-Applied technology. The only company that indicates any significant market penetration at this time is JPS communications.

Promoting the larger Standards-Based systems is Motorola, which supplies nearly 80% of the first responder mobile radio units and infrastructure hardware in the United States. To achieve Motorola's objective, there would need to be major infrastructure upgrades or revisions. Raytheon also supplies a larger, more expensive radio "gateway" that links communications through a mobile command center that costs several million dollars. To date we have not found an installation of this product. MA/COM, a unit of Tyco Corporation also offers a packet switched interoperability system that routes digitized incoming signals through an Internet-Protocol packet switched server and then rebroadcasts in other frequencies. The MA/COM unit is available in two large chassis models and cost thousands of dollars per radio channel.

MANAGEMENT

In any company, management is the driving force for success. In a start-up company, management skills and experience are critical. We have provided full biographies of the key management people at Aegis that details their backgrounds as a precursor to the performance of the Company.

Eric Johnson: Chairman/CEO and Co-Founder. Mr. Johnson has been the Chairman and CEO of Aegis since the company was founded, and also served as the company's first President. As the company grew, he relinquished his operational role as President to concentrate on developing the company's strategic direction, its access to the public markets, and corporate finance. Mr. Johnson has held senior management positions with early stage companies focusing on technology and software. He founded StrategicParts.com, Inc., an on-line collaboration hub for electronics manufacturers and engineering companies. Mr. Johnson served as President and CEO of that company until April 2001, when he resigned to devote his full time to Aegis. In 1983, he joined the United States Army and served for six years in Military Intelligence. Mr. Johnson attended the Defense Language Institute in Monterey, California and is fluent in German. After receiving his Top Secret Security Clearance-SCI, Mr. Johnson worked with the International Security Command (INSCOM) and the National Security Agency (NSA) and was stationed in Europe, where he worked on several classified Counter Terrorism and Military Intelligence projects. After leaving the military in 1990, Mr. Johnson joined Equity Services, Inc., a national full service broker-dealer as a registered representative, where he provided financial planning and investment advisory services to high net worth individuals and closely held businesses. Mr. Johnson is an active member of the Security Industry Association (SIA) and the National Defense Industrial Association (NDIA). Mr. Johnson is a graduate of the University of New York.

Richard C. Reincke: President and Chief Operating Officer. Richard Reincke has been the Company's Chief Operating Officer since its inception and became a director in July of 2002. He assumed the title of President in September 2004. As President and COO, Mr. Reincke is responsible for the day-to-day operations, including executing the Company's business strategy, product distribution and service, the development of new products and technologies, and the efficiency and profitability of the business. Mr. Reincke is actively involved with the homeland security community and has participated in a range of special training exercises with law enforcement, fire departments, National Guard Weapons of Mass Destruction (WMD) teams, corrections personnel and the National Institute of Justice/Office of Law Enforcement Technology Commercialization. He has also completed specialized instruction in WMD/Terrorism awareness for emergency responders from the National Emergency Response and Rescue Training Center. In February 2003, Mr. Reincke authored a special report to the Department of Homeland Security entitled ***"Homeland Security: Information Sharing and Communication Interoperability for Our Nation's First Responders, a comprehensive assessment of technical and political problems which have contributed to the current deficiencies in emergency communications systems available to law enforcement, firefighters, and emergency medical technicians."*** Mr. Reincke has been the Company's primary liaison with law enforcement, the military, and members of Congress, as well as the Department of Homeland Security and its constituent agencies, including the Federal Emergency Management Agency and the United States Coast Guard, for promoting the Company's Aegis SafetyNet™ technologies and products. He is also working closely with the Security Industry Association and marketing and business development consultants in planning regional and national roll-outs of the Company's products. Mr. Reincke was a National Merit Scholar in 1975 and successfully completed training as an undergraduate at Marine Corps Officer Candidate School in Quantico, Virginia in 1976.

David A. Smith: Chief Financial Officer. Mr. Smith has been working with the Company since February 2003 to shape and manage the company's overall financial strategy. His experience includes working for the "big five" public accounting firm KPMG Peat Marwick in Houston, Texas. He was a founder and president of Smith, Goddard & Co., a public accounting firm which provided business planning and management consulting services to developmental stage information technology firms, including Telescan, a leader in the online financial services industry. In 1998, Mr. Smith sold his interest

in Smith, Goddard & Co., and formed Office Network, Inc. (ONI), a firm specializing in the design, development and distribution of electronic commerce software. ONI produced The Electronic System for Purchasing (ESP), an e-commerce system, and SuperServer, a data warehouse solution. Charged with ONI's business development, Mr. Smith created and implemented a system for distributing ESP and SuperServer to Steelcase office furniture dealers and their Fortune 500 customers. He is a 1975 graduate of Baylor University and has been a CPA for over 25 years.

Richard Grosser: Chief Technology Officer. As Chief Technology Officer of Aegis, Mr. Grosser is responsible for all R&D, engineering, and software development. Mr. Grosser is a nationally recognized expert in wireless communications, software, and security solutions. He holds patents on data communications devices, robotic control systems, math processors and security devices. He pioneered advancements in the field of digital servo systems and parallel processing and has extensive experience in a broad range of software development, computing technology, prototype development and robotics. Mr. Grosser remains on the cutting edge of new technologies: he published his methodology for secure wireless networking (entitled "*A Layered Approach to Security for Wireless Networks*") in the October 2002 issue of *Computerworld*. His inventions include techniques for the rapid calculation of transcendental functions; the first digital control system for a large hydraulic robot used to change out nuclear cores in submarines; and new medical diagnostic devices for the non-invasive diagnosis of coronary artery disease by passive sonar. He also invented and prototyped digital signal processing systems for the analysis of electrocardiographic (ECG) data. Mr. Grosser has experience in biometrics, data mining and security applications of neural networks, fiber optic networking, open path laser optical networking, and VOIP (Voice Over Internet Protocol). Mr. Grosser is a founder and chairman of the Philadelphia Chapter of Robotics International and a member of the California HealthCare Foundation and the Society of Manufacturing Engineers. He holds a Bachelor of Science in Economics from The Wharton School, University of Pennsylvania, where he minored in Electrical Engineering and where he built one of the first computerized economic models while a Research fellow for Nobel Laureate, Dr. Laurence Klein. He is a Certified Manufacturing Engineer trained in Neural Network design and has published several technical articles.

Mauro Scigliano: Executive Vice President: Mr. Scigliano oversees the Company's sales, marketing, and customer support. He has been developing the distributor-dealer network and independent sales organizations which will drive sales of the company's SafetyNet™ Radio Bridge to the first responder community throughout the United States. With a background of over 25 years experience in the commercial facilities industry, Mr. Scigliano developed an aggressive marketing and sales campaign for sales of the Company's wireless life safety products to major commercial and industrial facilities across the country. Mr. Scigliano most recently served as president of ABM Facility Services Company, a subsidiary of ABM Industries Incorporated, where he implemented a national sales and marketing plan that resulted in that division's revenues increasing to \$162 million. As president of facility services, Mr. Scigliano's created a bundled facility services program, including integrating all subsidiaries into a comprehensive service provider. He developed performance and benchmarking measures for all subsidiaries and customers. He also participated in the acquisition of complementary businesses for inclusion in the facility services company. His experience creating a "24/7" national service desk and his design of streamlined customer communication and reporting procedures will be invaluable to Aegis as it implements its national sales and marketing program.

Joseph P. King: Co-founder: Master Sergeant King co-founded the Company and is a brother-in-law to Eric Johnson. After completing over 20 years of military service, MSgt. King anticipated retiring from the U.S. Army in 2003 to work for the Company as a full-time employee. Unfortunately, due to the tragic events of 9-11, MSgt. King was informed that his services were vital to the national defense and he was placed on "stop-loss", which made him unable to retire. He served as a director of the Company from July 2002 through November 2003, at which time his military duties forced him to relinquish his seat on the Board of Directors. He is currently on active duty with the U.S. Army Special Forces Command evaluating new technologies and equipment as a Special Operations Combat Developer. MSgt. King has

worked on classified projects directed by the Joint Chiefs of Staff. He has led, trained and supervised individuals in long-range desert navigation, and was one of the special operators who trained the Egyptian Ranger Regiment in close air support during Desert Shield. He led Special Atomic Demolitions Munitions missions, which involved the transport of tactical atomic weapons. He has trained soldiers of Somalia and Kenya in Small Unit Tactics and in the use of small arms, crew-served weapons, anti-aircraft, and anti-armor weapons. He has trained personnel in light infantry, special reconnaissance, unconventional warfare, special operations, internal defense, and special combat operations. MSgt. King's areas of expertise include combat development, communications, anti-terrorism awareness, counter-insurgency, management of intrusion detection systems, operations and intelligence, vulnerability assessments, jungle warfare, special operations weapons, atomic demolition munitions, and desert mobility. MSgt. King currently holds a Top Secret Security Clearance-SCI. He remains a special consultant to the Company.

H. Kenneth Edge: Sales & Marketing Consultant. Mr. Edge served as the President of Aegis for the last half of its 2004 fiscal year before relinquishing that position to focus on assisting the Company's management in sales, marketing, and business development activities in the United States and Europe. He will serve as an independent consultant. According to the Company, Mr. Edge formerly served as Executive Vice President of ABM Industries, Inc., where he was responsible for all domestic and international sales and marketing. While at ABM, Mr. Edge developed and implemented sales strategies and plans that resulted in revenue growth from \$325 million to \$1.2 billion during his tenure. He also supervised both ABM's national accounts executives and ABM's sales and marketing training program, which included the development of sales and marketing materials and the establishment of a national sales and marketing division to assist local sales efforts in support of ABM's national customer base. Mr. Edge directed and supervised activities for all ABM's international alliances, including those in the United Kingdom and Asia, and expanded ABM's International Alliance Program for all subsidiaries. Mr. Edge developed ABM's senior management training program in conjunction with the Dale Carnegie Institute, and also developed ABM's sales and marketing strategies to create a bundled services package for all national customers to optimize ABM's complete line of facility services. With a career in sales, marketing, business development and public relations spanning over 20 years, Mr. Edge's significant experience in training sales and management personnel will prove instrumental in our implementation of a national sales and marketing program.

FINANCIAL DISCUSSION

Development Company Until Now: Aegis is now transitioning from a development company to an operating company. Until now, financial concentration has been on funding product development, initial product exposure and now, market development. The Company has been generally funded through private placement of common stock. For FY 2004, ending July 31, there was no revenue generated.

Additional Share Sales May be Necessary: Given the scattered nature of the market for the Company's products and the fact that dealer operations are just being established, the Company may need to sell additional shares to fund near-term operations. Our model has assumed an additional 1.5 million shares sold before the end of FY2005. If those shares are not sold, and our estimates are met, then our EPS numbers could be low.

Potential Cash Generation: The Company's operating model assumes outsourcing of product manufacturing and sales through a distributor-dealer network. If the product sales are achieved at the now estimated product pricing and costs, the company has the potential of being a substantial cash generator. This potential is reflected in our annual model on the following page.

Tax Loss Carry-forward: During its development phase the Company has generated approximately \$10 million in income tax loss carry-forwards. Our model utilizes those loss carry forwards in FY2005 and FY2006. Under our model the Company will not face a full income tax accrual until FY2007.

Aegis Assessments	(OTCBB:AGSI)		Quarterly Operating Summary		
Fiscal Year ending July 31,	Dollars in thousands - except earnings per share				
	Qtr E <u>10/31/04</u>	Qtr E <u>1/30/05</u>	Qtr E <u>4/30/05</u>	Qtr E <u>7/31/05</u>	Year E <u>7/31/05</u>
Operating statement					
Revenues	\$ 1,800	\$ 2,700	\$ 4,050	\$ 4,950	\$ 13,500
Cost of sales	<u>525</u>	<u>775</u>	<u>1,163</u>	<u>1,413</u>	<u>3,875</u>
Gross Profit	1,275	1,925	2,888	3,538	9,625
Administrative Expense	460	522	525	550	2,057
Marketing	341	600	750	750	2,441
Sales Commissions	<u>255</u>	<u>385</u>	<u>578</u>	<u>708</u>	<u>1,925</u>
Total operating expenses	1,056	1,507	1,853	2,008	6,423
Operating income	219	418	1,035	1,530	3,202
Interest expense, net	-	-	-	-	-
Other Expenses	-	-	-	-	-
Earnings before taxes	<u>219</u>	<u>418</u>	<u>1,035</u>	<u>1,530</u>	<u>3,202</u>
Provision for income taxes	-	-	-	-	-
Net income	<u>\$ 219</u>	<u>\$ 418</u>	<u>\$ 1,035</u>	<u>\$ 1,530</u>	<u>\$ 3,202</u>
Earnings per share - diluted	\$ 0.01	\$ 0.02	\$ 0.05	\$ 0.07	\$ 0.16
Weighted share outstanding - diluted	18,000	19,500	19,500	21,000	19,500
Margin analysis					
Gross margin	70.8%	71.3%	71.3%	71.5%	71.3%
Administrative	25.6%	19.3%	13.0%	11.1%	15.2%
Marketing	18.9%	22.2%	18.5%	15.2%	18.1%
Sales Commission	14.2%	14.3%	14.3%	14.3%	14.3%
Operating income	12.2%	15.5%	25.6%	30.9%	23.7%
Interest expense, net	0.0%	0.0%	0.0%	0.0%	0.0%
Income tax rate	0.0%	0.0%	0.0%	0.0%	0.0%
Net income	12.2%	15.5%	25.6%	30.9%	23.7%

Aegis Assessments, Inc

Fiscal Year ending July 31,

(OTCBB:AGSI)

Dollars in thousands - except EPS

Estimates for Annual Operating Results**Operating statement**

	Year Est <u>2005</u>	Year Est <u>2006</u>	Year Est <u>2007</u>
Revenues	\$ 13,500	\$ 33,000	\$ 47,850
Cost of Sales	<u>3,875</u>	<u>9,300</u>	<u>13,877</u>
Gross Profit	9,625	23,700	33,974
Administrative	2,057	2,550	3,828
Marketing Expense	2,441	3,525	4,785
Sales Commission	<u>1,925</u>	<u>4,740</u>	<u>6,699</u>
Total operating expenses	6,423	10,815	15,312
Operating income	3,202	12,885	18,662
Interest expense, net	-	-	-
Other Expenses	-	-	-
Earnings before taxes	<u>3,202</u>	<u>12,885</u>	<u>18,662</u>
Income Taxes & Pfd Dividend	-	2,314	7,278
Net income	<u>\$ 3,202</u>	<u>\$ 10,571</u>	<u>\$ 11,384</u>
Earnings per share - diluted	\$ 0.16	\$ 0.50	\$ 0.54
Weighted share outstanding - diluted	19,500	21,000	21,000

Margin analysis

Gross Margins	71.3%	71.8%	71.0%
Administrative	15.2%	7.7%	8.0%
Marketing	18.1%	10.7%	10.0%
Sales commissions	14.3%	14.4%	14.0%
Operating income	23.7%	39.0%	39.0%
Income tax rate	0.0%	18.0%	39.0%
Net income	23.7%	32.0%	23.8%

Condensed balance sheet- July 31,

	<u>2005 E</u>	<u>2006 E</u>	<u>2007 E</u>
Cash	\$ 2,915	\$ 12,605	\$ 24,902
Receivables	\$ 1,688	\$ 4,125	\$ 5,981
Inventory	<u>\$ 310</u>	<u>\$ 744</u>	<u>\$ 1,110</u>
Current assets - including cash	4,913	17,474	31,993
Property Plant & equipment	375	500	750
Other assets	25	50	75
Total assets	<u>\$ 5,313</u>	<u>\$ 18,024</u>	<u>\$ 32,818</u>
Liabilites & Equity			
Accounts Payable	\$ 310	\$ 744	\$ 1,110
Accrued Payroll	803	1,352	1,914
Income Tax Payable	<u>\$ -</u>	<u>\$ 579</u>	<u>\$ 1,819</u>
Current Liabilites	\$ 1,113	\$ 2,674	\$ 4,844
Long Term Debt	-	-	-
Stockholders' equity	<u>4,200</u>	<u>14,771</u>	<u>26,155</u>
Total liabilites & equity	<u>\$ 5,313</u>	<u>\$ 18,024</u>	<u>\$ 32,818</u>

VALUATION

High Valuations for Homeland Security Companies: In today's market, one thing is evident; the market has high hopes for growth of companies developing and/or selling products and services for homeland security. This hope is showing up in the valuation of Companies like Ionatron, Inc.(IOTN), an Arizona company that has a market cap of nearly \$600 million, and has yet to ship its first product. Last Quarter's revenue for IONT was \$1.6 million and consisted of research fees paid by the military for product development. Another indication of the prospects seen for the industry is General Electric's purchase of Invision (INVN), a baggage screening equipment company. GE has agreed to pay over 30 times trailing EPS for Invision, and is looking to expand its overall effort in homeland security products.

For our valuation comparison we looked at over 40 companies. Since many did not have revenue and earnings for valid comparisons, we selected five companies that represented the diversity of products and services being offered for homeland security. Although none of these five have communication products, one of the highest priorities for the Department of Homeland Security, the sample is representative of the valuations being placed on companies in this industry. Our valuation comps are:

Analogic, Inc. – (ALOG) Explosive detection systems.

ID Systems – (IDSY) RFID asset tracking equipment.

Invision Technology - (INVN) Luggage screening equipment.

RAE Systems – (RAE) – Chemical and radiation detection monitors.

Taser International - (TASR) Non-lethal weapons.

<u>Company</u>	<u>Symbol</u>	<u>9/14/04 Price</u>	<u>Market Cap (\$000)</u>	<u>EPSE 2004</u>	<u>EPSE 2005</u>	<u>P/E 2004 E</u>	<u>P/E 2005 E</u>
Analogic, Inc.	ALOG	\$44.53	\$589	\$0.80	\$1.56	54x	28x
ID Systems	IDSY	\$13.51	\$102	\$0.06	\$0.25	225x	54x
Invision Tech	INVN	\$45.25	\$798	\$1.47	\$1.70	31x	27x
RAE Systems	RAE	\$ 6.00	\$340	\$0.05	\$0.11	120x	54x
Taser Int'l	TASR	\$34.68	\$999	\$0.57	\$0.82	61x	42x
Price Earnings Averages						66x	41x
Aegis Assess	AGSI	\$2.45	\$	\$0.16 (05)	\$0.50 (06)	15x	4.9x

An average multiple of 41 times 2005 EPS estimates reflects the high growth expectations for companies situated to meet homeland security needs. We are initiating coverage on Aegis Assessments, Inc. with a **BUY Recommendation** and a 12-month price target of \$12.50. This price target is only 25 times our 2005 estimate. The lower multiple reflects the fact that all of the above companies have established commercial operations. We are using a discount from the industry multiple because of the potential time delays in market development and market penetration.

Twelve-month price target = \$12.50

INVESTMENT RISKS

Commercial Risk: Aegis is introducing new products into a market that is a hard sell. Police and fire departments work within tight budgets and therefore evaluation periods can be quite long. The Company has the challenge of building awareness about its products, convincing the agencies of reliability and ease of use and then having the departments find the means of purchase. A large part of this risk may be ameliorated by the Department of Homeland Security that: (1) has a high priority on interoperability among radio systems. (2) The DHS is evaluating equipment that it will recommend to first responders, thereby shortening the potential evaluation period, and (3) Money has been appropriated by the U.S. Congress to fund programs like radio interoperability among first responders. In many cases funding will be available from grants to these first responders.

The Wireless Life Safety System is aimed at building managers and other public agencies where emergency event monitoring is of a high priority. For commercial applications, the immediacy may be overshadowed by current budgets. Adaptation may come faster with new construction, but retrofitting existing buildings may be delayed. Schools and other high occupancy buildings may need time to find money to fund improvements.

In both markets, the buyer population is scattered and hard to reach. The distributor-dealer organization may take longer to establish than we anticipate to build product awareness and performance credibility.

Financial Risk: The Company has to date funded its operation by private placements of common stock. There may be a need to sell additional stock before operations become cash flow positive. To the degree that additional stock is sold, it could dilute current shareholders.

Management Risk: The management team at Aegis has done a good job of developing products to meet an emerging need and funding the operation to date. The sales and marketing team is new to the Company and the current management has worked as a team in an operating environment. We believe that Aegis has recruited strong functional leaders who have previously demonstrated the ability to accomplish their goals, now they have to demonstrate their effectiveness as a team.

Trading Risk: The thin float, small trading volume and concentration of ownership of shares may inhibit the ability of investors in Aegis shares to build the size of position desired or to sell a large number of shares without unduly affecting the share price. The Bulletin Board listing and share price under \$5.00 will limit some funds and larger wire-houses from buying the Company's shares. There are a number of funds that focus on micro-cap and small capitalization that should find the shares of Aegis attractive.

Disclosures for Aegis Assessments, Inc. (AGSI)

The Analyst certifies that the views expressed in this report are his own, without undue influence by Source Capital, the subject-company or the future prospects of business between Source Capital and the company.

The analyst has not received any compensation, either directly or indirectly, from investment banking services provided to the Company by Source Capital and does not expect to receive any compensation from such services in the next three months.

Source Capital and its brokers and investment advisors offer individual account management and 401(k) advisory services for which they solicit the company and its management and board of directors as clients. The analyst may receive compensation in the form of commissions or investment advisory fees from his role as broker or investment advisor to management or members of the board of directors of the subject-company. The amount and timing of any indirect compensation received by the analyst in the form of commissions and/or investment advisory fees cannot be determined at this time. To the degree that indirect compensation may be received in the form of commissions or investment advisory fees they may influence the opinions reflected in reports about the Company.

Source Capital has not performed any investment-banking services for the subject-company over the past twelve months and does not expect to perform any investment banking service in the next 90 days. Source Capital will solicit the subject-company for investment-banking services and may receive compensation for such services over the next 12 months.

Source Capital is not a Market Maker in shares for the subject-company.

Meaning of Ratings:

The ratings used by Source Capital in its reports have the following meanings:

BUY: The analyst expects the stock price of the subject company to exceed the performance of the major market indices (Standard & Poor's 500 or Dow Jones Industrials) by 20% or more over the coming 12-18 months.

NEUTRAL: The analyst expects the stock price of the subject company to perform at or near (plus 5% - to minus 5%) of the major market averages over the coming 12 – 18 months.

SELL: The analyst expects the stock price of the subject company to decline or perform worse than major market averages by 10% or more over the coming 12 – 18 months.

Rating Distribution:

	<u>BUY</u>	<u>NEUTRAL</u>	<u>SELL</u>
Percentage of Covered Companies assigned this rating:	75%	25%	
Percentage of Covered Companies for whom Source Capital has provided investment banking services during the past 12 months.	0%		