

SECURE ALLIANCE HOLDINGS CORP
Form 10-Q
February 14, 2007

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

T **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended December 31, 2006

Or

o **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from _____ to _____

Commission file Number 000-17288

SECURE ALLIANCE HOLDINGS CORPORATION
(formerly known as Tidel Technologies, Inc.)

Delaware
(State or other jurisdiction of incorporation or
organization)

75-2193593
(I.R.S. Employer Identification No.)

2900 Wilcrest Drive, Suite 205
Houston, Texas
(Address of principal executive offices)

77042
(Zip Code)

Registrant's telephone number, including area code: (713) 783-8200

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 requirement for the past 90 days. YES **T** NO **o**

Indicate by check mark whether the registrant is a large accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes **o** No **T**

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes **o** No **T**

Indicate by check mark whether the registrant is a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes **T** No **o**

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares of Common Stock outstanding as of the close of business on February 14, 2007 was 19,510,285.

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SECURE ALLIANCE HOLDINGS CORPORATION

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**SECURE ALLIANCE HOLDINGS CORPORATION AND SUBSIDIARIES
(FORMERLY TIDEL TECHNOLOGIES, INC.)
CONDENSED BALANCE SHEETS**

	December 31, 2006 (unaudited)	September 30, 2006
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 1,708,935	\$ 1,264,463
Certificate of deposit	7,000,000	—
Restricted cash	—	5,400,000
Marketable securities held-to-maturity	3,724,575	4,899,249
Marketable securities available-for-sale	1,059,648	851,939
Other receivables	73,357	220,689
Prepaid expenses and other	146,911	132,036
Assets held for sale, net of accumulated depreciation of \$0 and \$1,352,463, respectively	—	6,312,663
Total current assets	13,713,426	19,081,039
Other assets	4,000	4,000
Total assets	\$ 13,717,426	\$ 19,085,039
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 59,952	\$ 221,295
Accrued interest payable	—	2,000,000
Shares subject to redemption	—	5,400,000
Other accrued liabilities	52,610	61,610
Income tax payable	271,340	88,584
Liabilities held for sale	—	3,636,369
Total current liabilities	389,902	11,407,858
Commitments and contingencies		
Shareholders' Equity:		
Common stock, \$.01 par value, authorized 100,000,000 shares; issued and outstanding 19,510,285 shares and 38,677,210 shares, respectively	195,103	386,772
Additional paid-in capital	29,857,829	30,782,187
Accumulated deficit	(17,479,056)	(24,043,717)
Accumulated other comprehensive income	759,648	551,939
Total shareholders' equity	13,333,524	7,677,181
Total liabilities and shareholders' equity	\$ 13,717,426	\$ 19,085,039

See accompanying Notes to Condensed Financial Statements.

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SECURE ALLIANCE HOLDINGS CORPORATION AND SUBSIDIARIES
(FORMERLY TIDEL TECHNOLOGIES, INC.)
CONDENSED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended December 31,	
	2006	2005
Revenues	\$ —	\$ —
Selling, general and administrative	376,071	1,374,024
Depreciation and amortization	—	1,366
Operating loss	(376,071)	(1,375,390)
Other income (expense):		
Reorganization fee paid to Laurus	(6,508,963)	—
Amortization of debt discount and deferred debt issuance costs	—	(985,827)
Interest income	168,579	—
Gain from CCC bankruptcy settlement	—	180,000
Interest expense, net	—	(176,584)
Total other expense	(6,340,384)	(982,411)
Loss from continuing operations	(6,716,455)	(2,357,801)
Income from discontinued operations	—	1,189,006
Gain on sale of Cash Security business, net of \$271,340 income tax	13,281,116	—
Total discontinued operations, net of \$271,340 income tax	13,281,116	1,189,006
Net income (loss)	\$ 6,564,661	\$ \$(1,168,795)
Basic earnings (loss) per share:		
Loss from continuing operations	\$ (0.34)	\$ (0.11)
Income from discontinued operations	0.67	0.06
Net income (loss)	\$ 0.33	\$ (0.05)
Weighted average common shares outstanding	19,847,452	20,677,210
Diluted earnings (loss) per share:		
Loss from continuing operations	\$ (0.34)	\$ (0.11)
Income from discontinued operations	0.67	0.06
Net income (loss)	\$ 0.33	\$ (0.05)
Weighted average common and dilutive shares outstanding	20,017,456	20,677,210

See accompanying Notes to Condensed Financial Statements.

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**SECURE ALLIANCE HOLDINGS CORPORATION AND SUBSIDIARIES
(FORMERLY TIDEL TECHNOLOGIES, INC.)
CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(UNAUDITED)**

	Three Months Ended December 31,	
	2006	2005
Net income (loss)	\$ 6,564,661	\$ (1,168,795)
Other comprehensive income:		
Unrealized gain on marketable securities available-for-sale	207,709	—
Unrealized gain on investment in 3CI	—	139,778
Comprehensive income (loss)	\$ 6,772,370	\$ (1,029,017)

See accompanying Notes to Condensed Financial Statements.

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SECURE ALLIANCE HOLDINGS CORPORATION AND SUBSIDIARIES
(FORMERLY TIDEL TECHNOLOGIES, INC.)
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Three Months Ended December 31,	
	2006	2005
Cash flows from operating activities:		
Net income (loss)	\$ 6,564,661	\$ (1,168,795)
Adjustments to reconcile net income (loss) to net cash provided by (used in) continuing operating activities:		
Depreciation and amortization	—	1,366
Amortization of debt discount and financing costs	—	985,827
Changes in assets and liabilities:		
Trade accounts receivable, net	—	15,542
Notes and other receivables	147,332	(396)
Prepaid expenses and other assets	(14,875)	39,946
Income Tax Payable	271,340	
Accounts payable and accrued expenses	(2,258,927)	830,817
Net cash flows provided by (used in) discontinued operations	(13,552,456)	1,247,078
Net cash provided by (used in) operating activities	(8,842,925)	1,951,385
Cash flows from investing activities:		
Increase in time deposits	(7,000,000)	—
Decrease in marketable securities held-to-maturity	1,174,674	—
Net cash flows provided by discontinued investing activities	16,228,750	—
Net cash provided by investing activities	10,403,424	—
Cash flows from financing activities:		
Redemption of shares held by Laurus	(6,545,340)	—
Proceeds from exercise of warrants and options	29,313	—
Repayments of notes payable	—	(150,000)
Decrease in restricted cash	5,400,000	—
Net cash (used in) financing activities	(1,116,027)	(150,000)
Net increase in cash and cash equivalents	444,472	1,801,385
Cash and cash equivalents at beginning of period	1,264,463	1,003,663
Cash and cash equivalents at end of period	\$ 1,708,935	\$ 2,805,048
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ —	\$ 140,455
Cash paid for taxes	\$ 90,000	\$ —
Supplemental disclosure of non-cash financing activities:		
Unrealized gain on marketable securities available-for-sale	\$ 207,709	\$ —

See accompanying Notes to Condensed Financial Statements.

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**SECURE ALLIANCE HOLDINGS CORPORATION AND SUBSIDIARIES
(FORMERLY TIDEL TECHNOLOGIES, INC.)**

NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

(1) Organization and Summary of Significant Accounting Policies

Organization and Basis of Presentation

Secure Alliance Holdings Corporation (the “Company,” “we,” “us,” or “our”) is a Delaware corporation which, through its wholly-owned subsidiaries, developed, manufactured, sold and supported automated teller machines (“ATMs”) and electronic cash security systems, consisting of the Timed Access Cash Controller (“TACC”) products and the Sentinel products (together, the “Cash Security” products), which were designed for the management of cash within various specialty retail markets, primarily in the United States.

We completed the sale of our ATM business on January 3, 2006 and the sale of our Cash Security business on October 2, 2006 as described more fully in our Annual Report on Form 10-K for the fiscal year ended September 30, 2006. On October 2, 2006, we became a shell public company and have had substantially no operations since that time.

The accompanying condensed consolidated interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, assuming we continue as a going concern, which contemplates the realization of the assets and the satisfaction of liabilities in the normal course of business, and are unaudited. In the opinion of management, the unaudited condensed consolidated interim financial statements include all adjustments, consisting only of normal, recurring adjustments, necessary for a fair presentation of the financial position as of December 31, 2006, the statements of operations and comprehensive loss and the statements of cash flows for the three months ended December 31, 2006 and 2005. Although management believes the unaudited interim disclosures in these condensed consolidated interim financial statements are adequate to make the information presented not misleading, certain information and footnote disclosures normally included in annual audited financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the rules of the Securities and Exchange Commission (the “SEC”). The unaudited results of operations for the three months ended December 31, 2006 are not necessarily indicative of the results to be expected for any quarterly period or for the entire year ending September 30, 2007. The unaudited consolidated interim financial statements included herein should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2006.

Securities held to maturity and securities available for sale

Securities held to maturity are carried at amortized cost. Securities are designated as held to maturity only if the Company has the positive intent and ability to hold these securities to maturity. Securities available for sale are carried at fair value with the resulting unrealized gains or losses recorded in equity, net of tax. Premiums are amortized and discounts are accreted using the interest method over the estimated remaining term of the underlying security.

(2) Discontinued Operations

Sale of ATM Business

On February 19, 2005, the Company and its wholly-owned subsidiary, Secure Alliance, L.P., entered into NCR Asset Purchase Agreement with NCR EasyPoint, a wholly owned subsidiary of NCR Corporation, for the sale of our ATM

Business.

On December 28, 2005, the holders of 62.2% of our shares of outstanding common stock approved the NCR Asset Purchase Agreement.

On January 3, 2006, we completed the ATM Business Sale. The total purchase price was approximately \$10.4 million of which \$8.2 million was paid to Laurus into a collateral account to be held by Laurus as collateral for the satisfaction of all monetary obligations payable to Laurus, \$0.5 million was paid into an escrow account pending a post closing net asset value adjustment, and the remaining \$1.7 million was paid to the Company to be used for necessary working capital. This transaction resulted in a book gain of approximately \$3.5 million.

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We classified the ATM business as Assets Held for Sale as of December 31, 2005.

An analysis of the discontinued operations of the ATM business is as follows:

**SELECTED OPERATING DATA
(UNAUDITED)**

	For The Quarters Ended	
	December 31, 2006	December 31, 2005
Net sales	\$ —	\$ 3,847,874
Cost of sales	—	2,592,268
Gross profit	—	1,255,606
Selling, general and administrative	—	880,941
Depreciation and amortization	—	46,048
Operating income	—	—