

SECURE ALLIANCE HOLDINGS CORP  
Form 10-K  
January 14, 2008

---

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended September 30, 2007

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.)

5700 Northwest Central Drive, Suite 350  
Houston, Texas  
(Address of principal executive offices)

77092  
(Zip Code)

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

---

Securities Registered Pursuant to Section 12(b) of the Act: None

Securities Registered Pursuant to Section 12(g) of the Act:

common stock, par value \$.01 per share

---

(Title of Class)

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

Edgar Filing: SECURE ALLIANCE HOLDINGS CORP - Form 10-K

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 T

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 \*

---

---

1

---

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this Chapter) is not contained herein, and will not be contained, to the best of 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 whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer \*

Accelerated filer \*

Non-accelerated filer T

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

The aggregate market value of the 19,260,119 shares of common stock held by non-affiliates of the registrant based on the closing sale price on December 31, 2007 of \$0.62 was \$11,941,274. The number of shares of common stock outstanding as of the close of business on December 31, 2007 was 19,441,524.

DOCUMENTS INCORPORATED BY REFERENCE

None.

## SECURE ALLIANCE HOLDINGS CORPORATION

TABLE OF CONTENTS  
ANNUAL REPORT ON FORM 10-K

|                             |   | PAGE |
|-----------------------------|---|------|
| <b>PART I</b>               |   |      |
| <u>Item 1.</u>              | <u>Business</u>   | 4    |
| <u>Item 1A.</u>             | <u>Risk Factors</u>   | 6    |
| <u>Item 2.</u>              | <u>Properties</u>   | 7    |
| <u>Item 3.</u>              | <u>Legal Proceedings</u>  | 8    |
| <u>Item 4</u>               | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>  | 8    |
| <b>PART II</b>              |   |      |
| <u>Item 5.</u>              | <u>Market for Registrant’s Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities</u> | 9    |
| <u>Item 6.</u>              | <u>Selected Financial Data</u>  | 10   |
| <u>Item 7.</u>              | <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>                        | 11   |
| <u>Item 7A.</u>             | <u>Quantitative and Qualitative Disclosure and Market Risk</u>  | 21   |
| <u>Item 8.</u>              | <u>Financial Statements and Supplementary Data</u>  | 21   |
| <u>Item 9.</u>              | <u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>                         | 21   |
| <u>Item 9A.</u>             | <u>Controls and Procedures</u>  | 22   |
| <b>PART III</b>             |   |      |
| <u>Item 10.</u>             | <u>Directors, Executive Officers and Corporate Governance</u>   | 23   |
| <u>Item 11.</u>             | <u>Executive Compensation</u>   | 24   |
| <u>Item 12.</u>             | <u>Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters</u>               | 26   |
| <u>Item 13.</u>             | <u>Certain Relationships and Related Transactions, and Director Independence</u>                                    | 27   |
| <u>Item 14.</u>             | <u>Principal Accounting Fees and Services</u>   | 27   |
| <b>PART IV</b>              |   |      |
| <u>Item 15.</u>             | <u>Exhibits and Financial Statement Schedules</u>   | 28   |
| <u>Financial Statements</u> |   | 29   |
| <u>Signatures</u>           |   | 51   |
| <u>Index to Exhibits</u>    |   | 53   |

Table of Contents

PART I

ITEM 1. BUSINESS

(a) General Development of Business

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). On October 3, 2006 the Company changed its name from Tidel Technologies, Inc. to Secure Alliance Holdings Corporation.

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 below. On October 2, 2006, we became a shell public company with approximately \$12.9 million in cash, cash equivalents and marketable securities held-to-maturity.

Before the sale of our Cash Security and ATM businesses, we were primarily engaged in the development, manufacturing, sale and support of ATM products and the Cash Security products, which were designed for the management of cash within various specialty retail markets.

Following the sale of our Cash Security and ATM businesses, we have had substantially no operations.

Subsequent events

On December 6, 2007, we entered into a definitive Agreement and Plan of Merger (“Merger Agreement”) by and among Sequoia Media Group, LC, a private Utah limited liability company (“Sequoia”), the Company and SMG Utah, LC, a Utah limited liability company and wholly owned subsidiary of the Company (“Merger Sub”). Pursuant to the Merger Agreement, Merger Sub will merge with and into Sequoia (the “Merger”), with Sequoia continuing as the surviving entity in the Merger and each issued and outstanding Sequoia equity interest will automatically be converted into the right to receive 0.5806419 shares of the Company’s common stock, calculated after a 1 for 3 reverse stock split of the Company’s common stock contemplated to be effected prior to the Merger. Immediately following the Merger, the members of Sequoia, in aggregate, will own approximately 80% of the equity interests in the Company and the stockholders of the Company will own the remaining approximately 20% equity interests in the combined company.

In addition, pursuant to a Loan and Security Agreement (“Loan Agreement”) entered into between the Company and Sequoia on December 6, 2007, the Company has agreed to extend up to \$2.5 million in secured financing to Sequoia. Under the terms of the Loan Agreement, Sequoia has agreed to pay interest on the loan at a rate per annum equal to 10%. Interest on the loan is payable on the scheduled maturity date, December 31, 2008. In addition, if the loan obligations have not been paid in full on or prior to the scheduled maturity date, a monthly fee equal to 10% of the outstanding loan obligations is payable to the Company by Sequoia on the last day of each calendar month for which the loan obligations remain outstanding.

In addition, prior to the effectiveness of the Merger, the Company proposes to (i) form a wholly owned subsidiary, and (ii) contribute to such subsidiary approximately \$2.2 million in cash, 2,022,000 shares of Cashbox, a publicly listed UK company, and amounts receivable under certain promissory notes not associated with the Sequoia transaction. The common stock of such subsidiary will be distributed, to the Company stockholders as of a date prior to the Merger, at such time as the distribution can be effected in compliance with applicable law, whether pursuant to an effective registration statement or a valid exemption from registration.

Our Board of Directors approved the Merger Agreement and the foregoing transactions at a special meeting on November 29, 2007. The Merger is subject to stockholder approval and other customary conditions and is expected to be completed during the first quarter of 2008. If the Company terminates the Merger Agreement before the consummation of the Merger in connection with the Company's acceptance of a superior proposal, the Company has agreed to pay Sequoia a termination fee of \$1,000,000 in cash under certain circumstances. At closing of the Merger, outstanding stock options granted to our executive officers, Jerrell G. Clay and Stephen P. Griggs, to purchase an aggregate 1,900,000 shares of our common stock at exercise prices of \$0.62 per share will fully vest and become immediately exercisable.

Sequoia is committed to revolutionizing the way life events and memories are shared and treasured through personal digital expressions. Sequoia developed aVinci Experience products to simplify and automate the process of creating professional-quality multi-media productions using personal photos and videos. The patented technology provides complete, refined products, including DVD's, photo books and posters. aVinci distributes products through leading retailers, photo websites and image service providers.

Table of Contents

(b) Financial Information about Operating Segments

Since October 2, 2006, we have had substantially no operations. Prior to October 2, 2006, we conducted business within one operating segment, principally in the United States.

(c) Narrative Description of Business

Sale of Cash Security Business

On September 25, 2006, the holders of a majority of shares of our outstanding common stock approved the sale of our electronic cash security business, consisting of (a) timed access cash controllers, (b) the Sentinel products, (c) the servicing, maintenance and repair of the timed access cash controllers or Sentinel products and (d) all other assets and business operations associated with the foregoing (the "Cash Security Business Sale") to Sentinel Operating, L.P., a purchaser led by a management buyout team that included our former director and Interim Chief Executive Officer, Mark K. Levenick, and our former director, Raymond P. Landry. The Asset Purchase Agreement for the Cash Security Business Sale provided for a cash purchase price of \$15,500,000, less \$100,000 as consideration for Sentinel Operating, L.P. assuming certain potential liability in connection with ongoing litigation, and less a working capital deficit adjustment of \$1,629,968, resulting in a net purchase price of \$13,770,032. In addition, Sentinel Operating L.P. paid a cash adjustment of \$2,458,718 to the Company at closing. The Cash Security Business Sale was completed on October 2, 2006. During the year ended September 30, 2007, we recorded a gain on the sale of the Cash Security business of \$13,605,066.

Sale of ATM Business

On February 19, 2005, the Company and its wholly-owned subsidiary, Secure Alliance, L.P. (formerly known as Tidel Engineering, L.P.), entered into an asset purchase agreement (the "NCR Asset Purchase Agreement") with NCR EasyPoint LLC f/k/a NCR Texas LLC ("NCR EasyPoint"), a wholly owned subsidiary of NCR Corporation, for the sale of our ATM Business (the "ATM Business Sale"). On December 28, 2005, the holders of a majority of our shares of outstanding common stock approved the NCR Asset Purchase Agreement.

On January 3, 2006, we completed the ATM Business Sale for a purchase price was \$10,440,000 of which \$8,200,000 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 and the remaining \$2,240,000 was paid to the Company. This transaction resulted in a book gain of \$3,536,105.

Agreements with Laurus

Pursuant to the Agreement Regarding the NCR Transaction and Other Asset Sales, dated November 26, 2004 (the "Asset Sales Agreement"), by and between the Company and Laurus Master Fund, Ltd. ("Laurus"), the Company agreed to pay to Laurus a portion of the excess net proceeds from the ATM Business Sale and the Cash Security Business Sale.

On June 9, 2006, we and Laurus entered into the Laurus Termination Agreement which, among other things, provided for the payment of a sale fee of \$8,508,963 to Laurus (the "Sale Fee") in full satisfaction of all amounts payable to Laurus under the Asset Sales Agreement, including fees payable in respect of the ATM Business Sale and the Cash Security Business Sale. The Laurus Termination Agreement further provided that, upon payment of the Sale Fee and performance by the Company of its obligations under the Stock Redemption Agreement described below, neither the Company nor any of its subsidiaries will have any further obligation to Laurus. Further, each of the Company and Laurus has granted each other and their respective affiliates and subsidiaries reciprocal releases from and against any

claims and causes of action that may exist.

We and Laurus entered a Stock Redemption Agreement on January 12, 2006 and as subsequently amended. Pursuant to the terms of the Stock Redemption Agreement: we agreed, among other things, (i) to repurchase from Laurus, upon the closing of the Cash Security Business Sale, all shares of our common stock held by Laurus, and (ii) Laurus agreed to the cancellation as of the closing date of the Cash Security Business Sale of warrants it holds to purchase 4,750,000 shares of our common stock at an exercise price of \$.30 per share, and not to exercise such warrants prior to the earlier to occur of September 30, 2006 and the date on which the Asset Purchase Agreement is terminated.

5

---



## Table of Contents

Following the Cash Security Business Sale, on October 2, 2006, the Company applied the net purchase price, the cash adjustment, and \$5,400,000 in proceeds (together with accrued interest of \$206,799) from the ATM Business Sale, to pay the following amounts to Laurus: (i) \$8,508,963 pursuant to the terms of the Laurus Termination Agreement and (ii) \$6,545,340 representing the purchase from Laurus by the Company of 19,251,000 shares of Company common stock pursuant to the terms of the Stock Redemption Agreement. Following both such payments to Laurus, the Company received \$6,781,246 in net proceeds from the Cash Security Business Sale.

On October 2, 2006, following the foregoing payments to Laurus pursuant to the terms of the Laurus Termination Agreement and the Stock Redemption Agreement, no further fees remained payable by the Company to Laurus and, to our knowledge, Laurus does not own any shares of the Company.

### Customers

We had no operations or customers during the fiscal year ended September 30, 2007. Only one customer accounted for more than 10% of net sales for the fiscal years ended 2006 and 2005.

### Compliance with Federal, State and Local Environmental Laws

Compliance with federal, state and local environmental protection laws had no material effect upon our capital expenditures, earnings or competitive position for the years ended September 30, 2007, 2006 and 2005.

### Employees

At September 30, 2007, we had two employees, which have served as executive officers since October 3, 2006. Following the sale of our Cash Security business on October 2, 2006, we had no employees. At September 30, 2006, we had 57 employees, which consisted of employees of the Cash Security business that became employees of the buyer following the closing of the Cash Security Business Sale on October 2, 2006. At September 30, 2005, we employed approximately 107 people. On January 3, 2006, 56 employees associated with our ATM Business became employees of NCR EasyPoint following the closing of the ATM Business Sale.

### (d) Financial Information about Geographic Areas

We had substantially no operations during the fiscal year 2007. The vast majority of our sales in fiscal 2006 and 2005 were to customers within the United States. Sales to customers outside the United States, as a percentage of total revenues, were approximately 7% and 14% in the fiscal years ended September 30, 2006 and 2005, respectively.

Substantially all of our assets were located within the United States during fiscal years 2007, 2006 and 2005.

## ITEM 1A.

## RISK FACTORS

There are several risks inherent in our business including, but not limited to, the following:

### Risks Relating to Our Business

Following the Cash Security Business Sale, we have no operations.

Following the closing of the Cash Security Business Sale on October 2, 2006, we have substantially no operations and only two employees resulting in a development stage operation.

We have limited management and other resources.

Our ability to manage any future operations effectively will require us to hire new employees, to integrate new management and employees into any future operations, financial and management systems, controls and facilities. Our failure to handle the issues we face effectively, including any failure to integrate new management controls, systems and procedures, could materially adversely affect our company, results of operations and financial condition.

6

---

Table of Contents

Risks Relating to the Merger and Related Transactions

There is no assurance that the Merger will be consummated.

Consummation of the Merger is subject to a number of conditions including, without limitation, its approval by the holders of a majority of shares of our common stock. There is no assurance that the Merger will receive requisite stockholder approval. Should we fail to obtain requisite stockholder approval we will be unable to consummate the Merger.

Consummation of the Merger will result in a change of control and a fundamental change to our operations.

The Merger will result in a change of control of the Company. In addition, following the Merger we will no longer be a shell company but will instead be an operating company and will be subject to any risks associated with Sequoia's business.

The Merger will result in substantial dilution of the ownership interest of current stockholders.

Immediately following the Merger, our stockholders will own approximately 20% of the Company's outstanding common stock on a nondiluted basis. This represents substantial dilution of the ownership interest of current stockholders.

Failure to complete the Merger could cause our stock price to decline and could harm our future business and operations.

The Merger Agreement contains conditions that we must meet in order to consummate the Merger. In addition, the Merger Agreement may be terminated by either us or Sequoia under certain circumstances. If the Merger is not completed for any reason, we may be subject to a number of risks, including the following:

- depending on the reasons for termination, we may be required to pay a termination fee of \$1,000,000 to Sequoia if we have selected a superior proposal;
- the market price of our common stock may decline to the extent that the current market price reflects a market assumption that the Merger will be completed; and
- many costs related to the Merger such as legal, accounting, financial advisor and financial printing fees, have to be paid regardless of whether the Merger is completed;

The reverse stock split may not increase the market price of our common stock by a multiple we expect.

While we expect that the reverse stock split to be effected prior to the Merger will result in an increase in the market price of our common stock, there can be no assurance that the reverse stock split will increase the market price of our common stock by a multiple equal to the exchange number or result in the permanent increase in the market price (which is dependent on many factors, including our performance and prospects). Also, should the market price of our common stock decline, the percentage decline as an absolute number and as a percentage of our overall market capitalization may be greater than would pertain in the absence of a reverse stock split.

The reverse stock split may increase our number of odd lot stockholders.

The reverse stock split to be effected prior to the Merger may increase the number of our stockholders who own odd lots (owners of less than 100 shares). Stockholders who hold odd lots typically will experience an increase in the cost of selling their shares as well as possible greater difficulty in effecting such sales.

ITEM 2.

PROPERTIES

At September 30, 2007, we had no owned or leased real property. At September 30, 2006, the Cash Security business had a leased warehouse facility occupying approximately 50,000 square feet at 2025 W. Beltline Road, Suite 114 Carrollton, Texas 75006. On October 2, 2006, this lease was transferred to the buyer at the closing of the Cash Security Business Sale.

At September 30, 2007, we owned no tangible property and equipment. At September 30, 2006 and 2005, we owned tangible property and equipment with a cost basis of approximately \$1.4 million and \$5.5 million, respectively, which included assets held for sale from discontinued operations.

Table of Contents

ITEM 3.

LEGAL PROCEEDINGS

On June 9, 2005, Corporate Safe Specialists, Inc. (“CSS”) filed a lawsuit against Secure Alliance Holdings Corporation and our wholly owned subsidiary, Secure Alliance, L.P. The lawsuit, Civil Action No. 02-C-3421, was filed in the United States District Court of the Northern District of Illinois, Eastern Division (the “CSS Lawsuit”). CSS alleges that the Sentinel product sold by Secure Alliance, L.P. infringes on one or more patent claims found in CSS patent U.S. Patent No. 6,885,281 (the ‘281 patent). CSS sought injunctive relief against future infringement, unspecified damages for past infringement and attorney’s fees and costs. Secure Alliance Holdings Corporation was released from this lawsuit, but Secure Alliance, L.P. remained a defendant.

As part of the Cash Security Business Sale, the buyer of the Cash Security business, Sentinel Operating, L.P., agreed to undertake and have the sole right to direct on behalf of itself and us, the defense of the CSS Lawsuit, with counsel of its choice, provided that in the event we incur any adverse consequences in connection with the CSS Lawsuit subsequent to the Cash Security Business Sale, then Sentinel Operating, L.P. will indemnify us from and against the entirety of any such adverse consequences to the extent they are incurred as a result of the breach of the Cash Security Asset Purchase Agreement or our negligent action or inaction.

On March 31, 2007, CSS, Secure Alliance Holdings Corporation and Secure Alliance, L.P. (formerly known as Tidel Engineering, L.P.) entered into a settlement and mutual release agreement whereby the parties jointly moved to dismiss all claims and counterclaims in the CSS Lawsuit. The parties agreed to pay no monetary settlement and each bear its own legal costs and expenses. Pursuant to the settlement, we agreed not to make, use, sell or offer for sale any safe that infringes upon the ‘281 patent during the period of time the ‘281 patent is valid; however, we and our predecessor may challenge, contest, or raise as a defense the validity of the ‘281 patent if CSS or any other party files a claim against us asserting infringement of the ‘281 patent.

On April 16, 2007, Fire King International, LLC (“Fire King”) filed a lawsuit against Corporate Safe Specialists, Inc., Tidel Technologies, Inc. and Tidel Engineering, LP. The lawsuit, Civil Action No. 03-07CV0655-G, was filed in the United States District Court of the Northern District of Texas, Dallas Division. Fire King alleges that the Sentinel product previously sold by the Company’s predecessor infringes on one or more patent claims found in Fire King patent U.S. Patent No. 7,063,252 (the ‘252 patent). Fire King sought injunctive relief against future infringement, unspecified damages for past infringement and attorney’s fees and costs.

On September 14, 2007, Fire King, Secure Alliance Holdings Corporation and Secure Alliance L.P. (formerly known as Tidel Engineering, L.P.) entered into a confidential settlement and mutual release agreement whereby the parties jointly moved to dismiss all claims in the Fire King lawsuit. In connection therewith, we paid an undisclosed amount to Fire King to settle a disputed claim and admitted no liability or wrongdoing. The court has dismissed Fire King’s claims against the Company with prejudice.

ITEM 4.

SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

Table of Contents

## PART II

## ITEM 5. MARKET FOR OUR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

## Market Information

Our common stock has traded over-the-counter on the Pink Sheets under the symbol “SAHC” since June 19, 2007. From March 26, 2003 to June 18, 2007, our common stock traded over-the-counter on the Pink Sheets under the symbol “ATMS”. From February 1998 to March 25, 2003, our common stock traded on the NASDAQ stock market under the symbol “ATMS”. The following table sets forth the quarterly high and low bid information for our common stock for the three-year period ended September 30, 2007:

| Fiscal Quarter Ended: | 2007    |         | 2006   |        | 2005   |        |
|-----------------------|---------|---------|--------|--------|--------|--------|
|                       | High    | Low     | High   | Low    | High   | Low    |
| December 31,          | \$ 0.48 | \$ 0.35 | \$ .40 | \$ .22 | \$ .72 | \$ .45 |
| March 31,             | 0.67    | 0.46    | .37    | .23    | .47    | .14    |
| June 30,              | 0.96    | 0.62    | .35    | .27    | .36    | .12    |
| September 30,         | 0.90    | 0.71    | .42    | .31    | .50    | .27    |
| Fiscal Year           | 0.96    | 0.35    | .42    | .22    | .72    | .12    |

## Holders

As of September 30, 2007, there were approximately 975 holders of record of our common stock.

## Dividends

We have not paid any dividends in the past, and do not anticipate paying dividends in the foreseeable future. We were restricted from paying dividends pursuant to financing arrangements with Laurus which were terminated on October 2, 2006.

## Securities Authorized for Issuance under Equity Compensation Plans

We adopted the Tidel Technologies, Inc. 1997 Long-Term Incentive Plan (the “1997 Plan”) effective July 15, 1997. The 1997 Plan permits the grant of non-qualified stock options, incentive stock options, stock appreciation rights, restricted stock and other stock-based awards to our employees or directors or our subsidiaries. Under the 1997 Plan, up to 2,000,000 shares of common stock may be awarded. The number of shares issued or reserved pursuant to the 1997 Plan (or pursuant to outstanding awards) are subject to adjustment on account of mergers, consolidations, reorganization, stock splits, stock dividends and other dilutive changes in the common stock. Shares of common stock covered by awards that expire, terminate, or lapse, will again be available for grant under the 1997 Plan. On March 21, 2007, the Company awarded Messrs. Griggs and Clay each 950,000 stock options to purchase our common stock at an exercise price of \$0.62 per share pursuant to the Company's 1997 Long-Term Incentive Plan. Of this award, 34% of the options vest on the first anniversary of the date of the grant, 33% of the options vest on the second anniversary of the date of the grant and the remaining 33% of the options vest on the third anniversary of the date of the grant. In addition, 100% of the options vest upon a change of control.

The following table provides information regarding common stock authorized for issuance under our compensation plans as of September 30, 2007:



Table of ContentsEquity Compensation Plan Information  
As of September 30, 2007

| Plan Category  | Number of securities to be issued upon exercise of outstanding options, warrants and rights<br>(a) | Weighted-average exercise price of outstanding options, warrants and rights<br>(b) | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))<br>(c) |
|--|--|--|--|
| Equity compensation plans approved by security holders     | 1,900,000  | \$0.62   | 32,950   |
| Equity compensation plans not approved by security holders | —  | —  | —  |
| <b>Total</b>   | <b>1,900,000</b>   | <b>\$0.62</b>  | <b>32,950</b>  |

## Recent Sales of Unregistered Securities

At September 30, 2007, we had outstanding warrants to purchase 697,500 shares of common stock that expire at various dates through November 2010. The warrants had exercise prices ranging from \$0.40 to \$0.68 per share and, if exercised, would generate proceeds to us of approximately \$419,000.

The following sales of unregistered securities were sold by the Company during the three years ended September 30, 2007 in reliance on the exemptions from registration contained in Section 4(2) and Regulation D promulgated under the Securities Act of 1933:

During the quarter ended March 31, 2007, we issued 21,739 shares of our restricted common stock with a value of \$10,000 to a company pursuant to a consulting agreement.

During the quarter ended December 31, 2006, stock options issued pursuant to our 1997 Long-Term Incentive Plan were exercised by three individuals for 27,250 shares of our common stock generating aggregate proceeds of \$6,813. During the quarter ended December 31, 2006, warrants were exercised by two holders for 56,825 shares of our common stock generating aggregate proceeds of \$22,500.

In connection with the Cash Security Business Sale and pursuant to the terms of the Exercise and Conversion Agreement we entered into with Laurus on January 12, 2006, Laurus converted \$5,400,000 in aggregate principal amount of convertible Company debt it held into 18,000,000 shares of our common stock.

On October 2, 2006, pursuant to the terms of the Stock Redemption Agreement (i) we agreed, among other things, to repurchase from Laurus, upon the closing of the Cash Security Business Sale, all shares of our common stock held by Laurus, and (ii) Laurus agreed to the cancellation as of the closing date of the Cash Security Business Sale of warrants it held to purchase 4,750,000 shares of our common stock at an exercise price of \$.30 per share.

## ITEM 6.

## SELECTED FINANCIAL DATA

The selected financial data presented below is derived from our Consolidated Financial Statements. This data should be read in conjunction with the Consolidated Financial Statements and its notes and with Part II, Item 7, "Management's



Discussion and Analysis of Financial Condition and Results of Operations” of this Annual Report on Form 10-K.

The Consolidated Financial Statements for 2003 through 2007 were audited by Hein & Associates LLP.

Table of Contents

Years Ended September 30,

SELECTED STATEMENT OF  
OPERATIONS DATA:(1)

|                              | 2007     | 2006     | 2005       | 2004      | 2003       |
|------------------------------|----------|----------|------------|-----------|------------|
| Net income (loss) (2)        | \$ 6,268 | \$ 4,862 | \$ (3,286) | \$ 11,318 | \$ (9,237) |
| Net income (loss) per share: |          |          |            |           |            |
| Basic                        | 0.33     | 0.15     | (0.16)     | 0.65      | (0.53)     |
| Diluted                      | 0.32     | 0.15     | (0.16)     | 0.37      | (0.53)     |

As of September 30,

## SELECTED BALANCE SHEET DATA:

| (1)   | 2007      | 2006      | 2005      | 2004      | 2003      |
|---|-----------|-----------|-----------|-----------|-----------|
| Current assets  | \$ 12,769 | \$ 19,081 | \$ 16,908 | \$ 10,129 | \$ 11,773 |
| Current liabilities   | 141       | 11,408    | 13,177    | 8,190     | 32,109    |
| Working capital (deficit)   | 12,628    | 7,673     | 3,731     | 1,939     | (20,336)  |
| Total assets  | 12,773    | 19,085    | 17,537    | 10,778    | 14,430    |
| Total short-term notes payable and long-term debt, net of debt discount | —         | —         | 4,421     | 175       | 2,279     |
| Shareholders' equity (deficit)  | 12,632    | 7,677     | 2,263     | 2,588     | (17,679)  |

(1) All amounts are in thousands, except per share dollar amounts.

(2) Income tax expense (benefit) was \$75,808, \$159,546, \$0, \$(81,229) and \$0, for the years ended September 30, 2007, 2006, 2005, 2004 and 2003, respectively.

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

## (a) General

On January 3, 2006, we completed the ATM Business Sale. The total purchase price was \$10,440,000 of which \$8,200,000 was funded into a collateral account for the benefit of Laurus to be applied towards the repayment of our outstanding obligations due Laurus. See "Liquidity and Capital Resources" under this item for a detailed discussion of these financing transactions with Laurus.

On October 2, 2006 we completed the Cash Security Business Sale pursuant to the Cash Security Asset Purchase Agreement. The Cash Security Asset Purchase Agreement provided for a cash purchase price of \$15,500,000, less \$100,000 as consideration for the buyer, Sentinel Operating, L.P. assuming certain potential liability in connection with ongoing litigation and less a working capital deficit adjustment of \$1,629,968, which resulted in a net purchase price of \$13,770,032. In addition, Sentinel Operating, L.P. paid a cash adjustment of \$2,458,718 to us at closing. We applied the net purchase price, the cash adjustment, and \$5,400,000 in proceeds (together with accrued interest of \$206,798) from the ATM Business Sale, to pay the following amounts to Laurus: (i) \$8,508,963 pursuant to the terms of the Laurus Termination Agreement and (ii) \$6,545,340 representing the purchase from Laurus by us of 19,251,000 shares of our common stock pursuant to the terms of the Stock Redemption Agreement. Following both such payments to Laurus, we received \$6,781,245 in net proceeds from the Cash Security Business Sale.

Upon closing of the Cash Security Business Sale, we had cash, cash equivalents and marketable securities held-to-maturity of approximately \$12.9 million, or approximately \$0.66 per share based upon 19,426,210 shares outstanding. Since October 2, 2006, we have had substantially no operations.

## Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements. 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 financial statements and the reported amounts of revenue and expenses during the reporting period. We must apply significant, subjective and complex estimates and judgments in this process. Among the factors, but not fully inclusive of all factors, that may be considered by management in these processes are: the range of accounting policies permitted by accounting principles generally accepted in the United States; management's understanding of our business; expected rates of business and operational change; sensitivity and volatility associated with the assumptions used in developing estimates; and whether historical trends are expected to be representative of future trends. Among the most subjective judgments employed in the preparation of these financial statements are the collectibility of contract receivables and claims, the fair value of our inventory, the depreciable lives of and future cash flows to be provided by our equipment and long-lived assets, the expected timing of the sale of products, estimates for the number and related costs of insurance claims for medical care obligations, judgments regarding the outcomes of pending and potential litigation and certain judgments regarding the nature of income and expenditures for tax purposes. We review all significant estimates on a recurring basis and record the effect of any necessary adjustments prior to publication of our financial statements. Adjustments made with respect to the use of estimates often relate to improved information not previously available. Because of the inherent uncertainties in this process, actual future results could differ from those expected at the reporting date.

## Table of Contents

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States, assuming the Company continues as a going concern, which contemplates the realization of the assets and the satisfaction of liabilities in the normal course of business. Our significant accounting policies are described in Note 1 of the Notes to Consolidated Financial Statements included in Part IV of this Annual Report. We consider certain accounting policies to be critical policies due to the significant judgments, subjective and complex estimation processes and uncertainties involved for each in the preparation of our Consolidated Financial Statements. We believe the following represents our critical accounting policies. We have discussed our critical accounting policies and estimates, together with any changes therein, with the audit committee of our Board of Directors.

### (b) Impact of Recently Issued Accounting Standards

In July 2006, the FASB issued Final Interpretation No. (“FIN”) 48, Accounting for Uncertainty in Income Taxes, an Interpretation of SFAS 109, which clarifies the accounting for income taxes by prescribing the minimum recognition threshold an uncertain tax position is required to meet before tax benefits associated with such uncertain tax position are recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. In addition, FIN 48 excludes income taxes from the scope of SFAS 5, Accounting for Contingencies. FIN 48 is effective for fiscal years beginning after December 15, 2006. Differences between the amounts recognized in the consolidated balance sheets prior to the adoption of FIN 48 and the amounts reported after adoption are accounted for as a cumulative-effect adjustment to the beginning balance of retained earnings upon adoption of FIN 48. FIN 48 also requires that amounts recognized in the balance sheet related to uncertain tax positions be classified as a current or non-current liability, based upon the timing of the ultimate payment to a taxing authority. We will adopt FIN 48 as of October 1, 2007 and are in the process of finalizing the effect FIN 48 will have on our financial statements. Under the guidance of FIN 48, management estimates that our income tax reserve may increase to approximately \$2.3 million, which is subject to revision when management completes an analysis of the impact of FIN 48. Upon completion of such analysis, it is possible that this difference will be recorded in retained earnings as a cumulative effect adjustment during the quarter ended December 31, 2007.

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (“SFAS 157”). SFAS 157 defines fair value to be the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and emphasizes that fair value is a market-based measurement, not an entity-specific measurement. It establishes a fair value hierarchy and expands disclosures about fair value measurements in both interim and annual periods. SFAS 157 will be effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company does not expect SFAS 157 to have a material effect on the Company’s consolidated financial position or results of operations.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (“SFAS 159”). SFAS 159 permits entities to choose, at specified election dates, to measure eligible items at fair value (the “fair value option”) and requires an entity to report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. Upfront costs and fees related to items for which the fair value option is elected shall be recognized in earnings as incurred and not deferred. SFAS 159 will be effective for fiscal years beginning after November 15, 2007. The Company does not expect SFAS 159 to have a material effect on the Company’s consolidated financial position or results of operations.

In November 2007, the FASB issued SFAS No. 141(R), Business Combination and SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51 (FAS 160). FAS 141(R) will change

how business acquisitions are accounted for and will impact financial statements both on the acquisition date and in subsequent periods. FAS 160 will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity. FAS 141(R) and FAS 160 are effective for both public and private companies for fiscal years beginning on or after December 15, 2008. FAS 141(R) will be applied prospectively. FAS 160 requires retroactive adoption of the presentation and disclosure requirements for existing minority interests. All other requirements of FAS 160 will be applied prospectively. Early adoption is prohibited for both standards. Management is currently evaluating the requirements of FAS 141(R) and FAS 160 but does not expect them to have a material effect on the Company's consolidated financial position or results of operation.

Table of Contents

## (c) Results of Operations

## Operating Segments

Since October 2, 2006, we have had substantially no operations. Prior to October 2, 2006, we conducted business within one operating segment, principally in the United States.

## Product Net Sales for ATM Business and Cash Security Business

A breakdown of net sales by individual product line is provided in the following table:

|                              | (dollars in thousands) |           |           |
|------------------------------|------------------------|-----------|-----------|
|                              | 2007                   | 2006      | 2005      |
| ATM Business                 | \$ —                   | \$ 3,848  | \$ 15,498 |
| Cash Security Business:      |                        |           |           |
| TACC                         | —                      | 4,219     | 5,269     |
| Sentinel                     | —                      | 10,342    | 12,468    |
| Parts & Other                | —                      | 1,519     | 1,696     |
| Total Cash Security Business | —                      | 16,080    | 19,433    |
| Total                        | \$ —                   | \$ 19,928 | \$ 34,931 |

## Gross Profit, Operating Expenses and Non-Operating Items

## Continuing Operations

Due to the requirement to classify our only two product lines as discontinued operations, the results of continuing operations consist primarily of the corporate overhead and debt-related costs.

Table of Contents

An analysis of continuing operations and assets and liabilities is provided in the following tables:

CONTINUING OPERATIONS  
SELECTED BALANCE SHEET DATA  
(UNAUDITED)

|  | September 30,<br>2007 | September 30,<br>2006 |
|--|-----------------------|-----------------------|
| <b>ASSETS</b>                            |                       |                       |
| Current Assets:                          |                       |                       |
| Cash and cash equivalents                | \$ 882,116            | \$ 1,264,463          |
| Certificates of deposits                 | 11,177,567            | —                     |
| Restricted cash                          | —                     | 5,400,000             |
| Marketable securities held-to-maturity   | —                     | 4,899,249             |
| Marketable securities available-for-sale | 505,500               | 851,939               |
| Trade account receivable                 | —                     | —                     |
| Notes and other receivables              | 204,113               | 220,689               |
| Prepaid expenses and other               | —                     | 132,036               |
| Total current assets                     | 12,769,296            | 12,768,376            |
| Other assets                             | 4,000                 | 4,000                 |
| Total assets                             | \$ 12,773,296         | \$ 12,772,376         |
| <b>LIABILITIES</b>                       |                       |                       |
| Current Liabilities:                     |                       |                       |
| Accounts payable                         | —                     | 221,295               |
| Accrued interest payable                 | —                     | 2,000,000             |
| Shares to be redeemed                    | —                     | 5,400,000             |
| Other accrued liabilities                | 141,401               | 150,194               |
| Total liabilities                        | \$ 141,401            | \$ 7,771,489          |

Table of Contents

CONTINUING OPERATIONS  
SELECTED OPERATING DATA  
(UNAUDITED)

|  | Years Ended September 30, |                |                |
|--|---------------------------|----------------|----------------|
|  | 2007                      | 2006           | 2005           |
| Revenues   | \$                        | —\$            | —\$            |
| Selling, general and administrative                        | 1,333,467                 | 3,065,064      | 1,805,484      |
| Depreciation and amortization                              | —                         | 2,678          | 4,977          |
| Operating loss   | (1,333,467)               | (3,067,742)    | (1,810,461)    |
| Other income (expense):                                    |                           |                |                |
| Reorganization fee paid to Laurus                          | (6,508,963)               | —              | —              |
| Gain on investment in 3CI                                  | —                         | 5,380,121      | —              |
| Gain on collection of account receivable                   | —                         | 598,496        | —              |
| Loss on disposal of fixed assets                           | —                         | (7,455)        | —              |
| Recovery from CCC bankruptcy                               | —                         | 105,000        | —              |
| Amortization of debt discount and deferred financing costs | —                         | (4,078,738)    | (3,816,178)    |
| Interest income  | 580,861                   | 392,564        | —              |
| Interest expense   | —                         | (235,765)      | (2,732,891)    |
| Total other income expense                                 | (5,928,102)               | 2,154,223      | (6,549,069)    |
| Loss before income tax expense                             | (7,261,569)               | (913,519)      | (8,359,530)    |
| Income tax expense   | 75,808                    | 159,546        | —              |
| Loss from continuing operations                            | \$ (7,337,377)            | \$ (1,073,065) | \$ (8,359,530) |

## Year Ended September 30, 2007 Compared with the Year Ended September 30, 2006

Selling, general and administrative expenses for the year ended September 30, 2007 were \$1,333,467, which is a decrease of approximately 56% from the year ended September 30, 2006. The decrease is primarily due to lower professional fees as a result of the sale of both the ATM business and the Cash Security business.

Depreciation and amortization for the year ended September 30, 2007 and 2006 was \$0 and \$2,678, respectively. We closed our corporate office on March 31, 2006.

Interest expense was \$0 for the year ended September 30, 2007 compared with \$4,314,503 for the year ended September 30, 2006. Interest expense for the fiscal year ended September 30, 2006 included three months of amortization related to debt discount and other deferred debt issuance costs in the amount of \$985,827, and a one-time charge in January 2006 of approximately \$3.1 million of debt discount and deferred debt issuance costs as a result of the early extinguishment of the Laurus debt.

Income tax expense (benefit) related to alternative minimum tax of \$75,808 and \$159,546 incurred during fiscal years ended September 30, 2007 and 2006, respectively. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not, that some portion or all of the deferred tax assets will be realized. We have established a valuation allowance for such deferred tax assets to the extent such amounts are not utilized to offset existing deferred tax liabilities reversing in the same periods.

We recorded a loss from continuing operations of \$(7,337,377) and \$(1,073,065) for the years ended September 30, 2007 and 2006, respectively. The significant change in the loss is primarily a result of the \$6.5 million charge for the reorganization fee paid to Laurus partially offset by interest income of \$0.6 million during the fiscal year ended



September 30, 2007.

15

---

Table of Contents

## Year Ended September 30, 2006 Compared with the Year Ended September 30, 2005

Selling, general and administrative expenses for the year ended September 30, 2006 were \$3,065,064, which is an increase of approximately 70% from the year ended September 30, 2005. The increase primarily related to increased legal and consulting fees and employee bonuses.

Depreciation and amortization for the year ended September 30, 2006 and 2005 was \$2,678 and \$4,977, respectively.

Interest expense was \$4,314,503 for the year ended September 30, 2006 compared with \$6,549,069 for the year ended September 30, 2005. The decrease is a result of the payoff of Laurus debt with the proceeds from the sale of the ATM Business in January 2006.

Income tax expense (benefit). In assessing the realizability of deferred tax asset, management considers whether it is more likely than not, that some portion or all of the deferred tax assets will be realized. We have established a valuation allowance for such deferred tax assets to the extent such amounts are not utilized to offset existing deferred tax liabilities reversing in the same periods.

We recorded a net loss from continuing operations of \$(1,073,065) and \$(8,359,530) for the years ended September 30, 2006 and 2005, respectively. The improvement was principally a result of gains in 2006 from the disposal of the investment in 3CI common stock, collection of an account receivable and the recovery from the CCC bankruptcy.

## Discontinued Operations (ATM Business)

We committed to a plan to sell the ATM Business during the first quarter ended December 31, 2004. On February 19, 2005, the Company and its wholly-owned subsidiary, Secure Alliance, L.P., entered into the NCR Asset Purchase Agreement with NCR EasyPoint, a wholly owned subsidiary of NCR Corporation, for the sale of our ATM Business. We classified our ATM Business as Assets Held for Sale as of September 30, 2005. 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 for a purchase price was \$10,440,000 of which \$8,200,000 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 and the remaining \$2,240,000 was paid to the Company. This sale resulted in a book gain of \$3,536,105.

The ATM products are low-cost, cash-dispensing automated teller machines that are primarily designed for the off-premise, or non-bank, markets. An analysis of the discontinued operations of the ATM Business is as follows:

DISCONTINUED OPERATIONS — ATM BUSINESS  
SELECTED OPERATING DATA  
(UNAUDITED)

|                                     | 2007 | Years Ended September 30, |              |               |
|-------------------------------------|------|---------------------------|--------------|---------------|
|                                     |      | 2006                      | 2005         |               |
| Net sales                           | \$   | —                         | \$ 3,847,874 | \$ 15,497,834 |
| Cost of sales                       |      | —                         | 2,592,268    | 9,508,120     |
| Gross profit                        |      | —                         | 1,255,606    | 5,989,714     |
| Selling, general and administrative |      | —                         | 880,941      | 4,768,880     |
| Depreciation and amortization       |      | —                         | 46,048       | 255,967       |
| Operating income                    |      | —                         | 328,617      | 964,867       |

|                       |    |   |    |         |            |
|-----------------------|----|---|----|---------|------------|
| Non-operating expense |    | — |    | —       |            |
| Net income            | \$ | — | \$ | 328,617 | \$ 964,867 |

Year ended September 30, 2007 Compared with Year Ended September 30, 2006

There were no operations from the ATM business during the fiscal year ended September 30, 2007. The sale of the ATM business was completed on January 3, 2006 and \$3,536,105 was recognized as a gain on sale of the ATM business during the fiscal year ended September 30, 2006.

Table of Contents

Year ended September 30, 2006 Compared with Year Ended September 30, 2005

Net Sales from the ATM Business were \$3.8 million for the year ended September 30, 2006, representing a decrease of 75% from net sales of \$15.5 million for the year ended September 30, 2005. The decrease was a result of the sale of the ATM Business completed on January 3, 2006.

Gross profit on net sales for the year ended September 30, 2006 decreased by approximately \$4.7 million from a year ago. Gross profit as a percentage of sales was 33% and 39% for the year ended September 30, 2006 and 2005, respectively. The decrease in gross profit is primarily related to the sale of the ATM Business completed on January 3, 2006.

Selling, general and administrative expenses for the year ended September 30, 2006 decreased 82% compared with the year ended September 30, 2005. The decrease is primarily related to the sale of the ATM Business completed on January 3, 2006.

Depreciation and amortization for the year ended September 30, 2006 and 2005 was \$46,048 and \$255,967, respectively.

The ATM Business recorded a net income of \$328,617 and \$964,867 for the year ended September 30, 2006 and 2005, respectively.

#### Discontinued Operations (Cash Security Business)

We completed the Cash Security Business Sale on October 2, 2006. We classified the Cash Security Business as Assets Held for Sale as of September 30, 2006. An analysis of the discontinued operations of the Cash Security Business is as follows:

**DISCONTINUED OPERATIONS — CASH SECURITY BUSINESS  
SELECTED BALANCE SHEET DATA  
(UNAUDITED)**

|   | September 30,<br>2007 | September 30,<br>2006 |
|---|-----------------------|-----------------------|
| <b>ASSETS</b>   |                       |                       |
| Current Assets:   |                       |                       |
| Cash and cash equivalents   | \$                    | —\$ 2,048,275         |
| Trade accounts receivable, net of allowance of approximately \$0 and \$45,000, respectively |                       | — 1,591,522           |
| Inventories   |                       | — 2,051,764           |
| Prepaid expenses and other  |                       | — 73,089              |
| Total current assets  |                       | — 5,764,650           |
| Property, plant and equipment, at cost  |                       | — 316,608             |
| Accumulated depreciation  |                       | — (18,595)            |
| Net property, plant and equipment   |                       | — 298,013             |
| Other assets  |                       | — 250,000             |
| Total assets  | \$                    | —\$ 6,312,663         |
| <b>LIABILITIES</b>  |                       |                       |
| Current Liabilities:  |                       |                       |

Edgar Filing: SECURE ALLIANCE HOLDINGS CORP - Form 10-K

|   |    |              |
|---|----|--------------|
| Current maturities                        | —  | 1,981        |
| Accounts payable                          | —  | 1,514,731    |
| Other accrued expenses                    | —  | 2,098,675    |
| Total current liabilities                 | —  | 3,615,387    |
| Long-term debt, net of current maturities | —  | 20,982       |
| Total liabilities                         | \$ | \$ 3,636,369 |

17

---

Table of Contents

DISCONTINUED OPERATIONS — CASH SECURITY BUSINESS  
 SELECTED OPERATING DATA  
 (UNAUDITED)

|                                     | Years Ended September 30, |                |               |
|-------------------------------------|---------------------------|----------------|---------------|
|                                     | 2007                      | 2006           | 2005          |
| Net sales                           | \$                        | —\$ 16,080,069 | \$ 19,435,222 |
| Cost of sales                       |                           | — 9,476,386    | 10,870,947    |
| Gross profit                        |                           | — 6,603,683    | 8,564,275     |
| Selling, general and administrative |                           | — 4,541,774    | 4,449,550     |
| Depreciation and amortization       |                           | — —            | 29,868        |
| Operating income (loss)             |                           | — 2,061,907    | 4,084,857     |
| Non-operating expense               |                           | — (8,529)      | (23,884)      |
| Net income (loss)                   | \$                        | —\$ 2,070,436  | \$ 4,108,741  |

## Year ended September 30, 2007 Compared with Year Ended September 30, 2006

Net Sales from the Cash Security business were \$0 for the year ended September 30, 2007 and \$16.1 million for the year ended September 30, 2006. This decrease is due to the completion of the Cash Security Business Sale on October 2, 2006.

Gross profit on product sales for the year ended September 30, 2007 were \$0 compared with \$6.6 million for the year ended September 30, 2006. The decrease is due to the completion of the Cash Security Business Sale. Gross profit as a percentage of sales was 41% for the year ended September 30, 2006.

Selling, general and administrative expenses for the years ended September 30, 2007 and 2006 was \$0 and \$4.5 million, respectively.

Depreciation and amortization for the years ended September 30, 2007 and 2006 was \$0 and \$0, respectively.

## Year ended September 30, 2006 Compared with Year Ended September 30, 2005

Net Sales from the Cash Security business were \$16.1 million for the year ended September 30, 2006, representing a decrease of \$3.4 million from net sales of \$19.4 million for the year ended September 30, 2005. This decrease was primarily a result of decreased sales to a major convenience store operator.

Gross profit on product sales for the year ended September 30, 2006 decreased approximately \$2.0 million from the year ended September 30, 2005. Gross profit as a percentage of sales was 41% for the year ended September 30, 2006, compared to 44% for the year ended September 30, 2005. The decline is directly related to a decrease in the volume of Sentinel units produced during the fiscal year ended September 30, 2006.

Selling, general and administrative expenses for the year ended September 30, 2006 decreased \$92,225 or 2% from the year ended September 30, 2005.

Depreciation and amortization for the years ended September 30, 2006 and 2005 was \$0 and \$29,868, respectively.

(d) Liquidity and Capital Resources

Our liquidity was negatively impacted by our inability to collect outstanding receivables from certain customers, and under-absorbed fixed costs associated with the low utilization of our production facilities and reduced sales of our products resulting from general difficulties in the ATM market. In order to meet our liquidity needs during the past four years, we incurred a substantial amount of debt.

Table of Contents

On January 3, 2006, we completed the ATM Business Sale. The total purchase price was \$10.4 million of which \$8.2 million was funded into a collateral account for the benefit of Laurus to be applied towards the repayment of our outstanding loans from Laurus. On January 13, 2006, we repaid all of our remaining outstanding debt to Laurus in the principal amount of \$2,617,988 plus accrued but unpaid interest in the amount of \$113,333. In connection therewith, the Company paid a prepayment penalty to Laurus in the amount of \$59,180.

We completed the Cash Security Business Sale on October 2, 2006 pursuant to the Cash Security Asset Purchase Agreement. The Cash Security Asset Purchase Agreement provided for a cash purchase price of \$15,500,000, less \$100,000 as consideration for the Sentinel Operating, L.P., as buyer, assuming certain potential liability in connection with ongoing litigation, and less a working capital deficit adjustment of \$1,629,968, resulting in a net purchase price of \$13,770,032. In addition, the buyer paid a cash adjustment of \$2,458,718 to the Company at closing. The Company applied the net purchase price, the cash adjustment, and \$5,400,000 in proceeds (together with accrued interest of \$206,798 from the ATM Business Sale, to pay the following amounts to Laurus: (i) \$8,508,963 pursuant to the terms of the Laurus Termination Agreement and (ii) \$6,545,340 representing the purchase from Laurus by the Company of 19,251,000 shares of Company common stock pursuant to the terms of the Stock Redemption Agreement. Following both such payments to Laurus, the Company received \$6,781,246 in net proceeds from the Cash Security Business Sale.

On October 2, 2006, we became a shell public company with approximately \$12.9 million in cash, cash equivalents and marketable securities held-to-maturity; or approximately \$0.66 per share based upon 19,426,210 shares outstanding.

Following the foregoing payments to Laurus pursuant to the terms of the Laurus Termination Agreement and the Stock Redemption Agreement, no further fees remain payable by the Company to Laurus and, to our knowledge, Laurus does not own any shares of the Company.

|                      | (dollars in 000's) |          |          |
|----------------------|--------------------|----------|----------|
|                      | 2007               | 2006     | 2005     |
| Cash                 | \$ 882             | \$ 6,164 | \$ 1,004 |
| Restricted cash      | —                  | 5,400    | —        |
| Working capital      | 12,628             | 7,673    | 3,731    |
| Total assets         | 12,773             | 19,085   | 17,537   |
| Shareholders' equity | 12,632             | 7,677    | 2,263    |

## Cash Flows

Cash used in operations was \$(707,789), \$(2,771,470) and \$(462,324) for 2007, 2006 and 2005, respectively. The cash used in operations was primarily attributable to operating losses, the increase in trade accounts receivable and the delays in collection of these receivables.

## Working Capital

As of September 30, 2007, we had a working capital of \$12,627,895, compared with a working capital of \$7,673,181 at September 30, 2006. The increase was due to the completion of the Cash Security Business Sale on October 2, 2006.

## Indebtedness

## Agreements with Laurus



Pursuant to the Agreement Regarding the NCR Transaction and Other Asset Sales, dated November 26, 2004 (the “Asset Sales Agreement”), by and between the Company and Laurus Master Fund, Ltd. (“Laurus”), the Company agreed to pay to Laurus a portion of the excess net proceeds from the ATM Business Sale and the Cash Security Business Sale.

19

---

## Table of Contents

On June 9, 2006, we and Laurus entered into the Laurus Termination Agreement which, among other things, provided for the payment of a sale fee of \$8,508,963 to Laurus (the "Sale Fee") in full satisfaction of all amounts payable to Laurus under the Asset Sales Agreement, including fees payable in respect of the ATM Business Sale and the Cash Security Business Sale. The Laurus Termination Agreement further provided that, upon payment of the Sale Fee and performance by the Company of its obligations under the Stock Redemption Agreement described below, neither the Company nor any of its subsidiaries will have any further obligation to Laurus. Further, each of the Company and Laurus has granted each other and their respective affiliates and subsidiaries reciprocal releases from and against any claims and causes of action that may exist.

We and Laurus entered a Stock Redemption Agreement on January 12, 2006 and as subsequently amended. Pursuant to the terms of the Stock Redemption Agreement: we agreed, among other things, (i) to repurchase from Laurus, upon the closing of the Cash Security Business Sale, all shares of our common stock held by Laurus, and (ii) Laurus agreed to the cancellation as of the closing date of the Cash Security Business Sale of warrants it holds to purchase 4,750,000 shares of our common stock at an exercise price of \$.30 per share, and not to exercise such warrants prior to the earlier to occur of September 30, 2006 and the date on which the Asset Purchase Agreement is terminated.

Following the Cash Security Business Sale, on October 2, 2006, the Company applied the net purchase price, the cash adjustment, and \$5,400,000 in proceeds (together with accrued interest of \$206,799) from the ATM business sale, to pay the following amounts to Laurus: (i) \$8,508,963 pursuant to the terms of the Laurus Termination Agreement and (ii) \$6,545,340 representing the purchase from Laurus by the Company of 19,251,000 shares of Company common stock pursuant to the terms of the Stock Redemption Agreement. Following both such payments to Laurus, the Company received \$6,781,246 in net proceeds from the Cash Security Business Sale.

On October 2, 2006, following the foregoing payments to Laurus pursuant to the terms of the Laurus Termination Agreement and the Stock Redemption Agreement, no further fees remained payable by the Company to Laurus and, to our knowledge, Laurus does not own any shares of the Company.

### Marketable Securities Available- for- Sale

We own 2,022,000 of the common stock of Cashbox plc pursuant to our exercise of a warrant in September 2005. On or about March 27, 2006, shares of Cashbox plc began trading on the AIM Market of the London Stock Exchange. Prior to Cashbox plc going public, we considered their shares not marketable, thus the shares were carried at cost. Since the shares are now public and market value is readily available, we determined the market value of the shares and pursuant to SFAS No. 115 "Accounting for Investments in Equity and Debt Securities" we classified these shares as available for sale. Pursuant to the SFAS No. 115 the unrealized change in fair value was excluded from earnings and recorded net of tax as other comprehensive income.

As of September 30, 2007 and 2006, our common stock in Cashbox plc was recorded at a fair value of \$505,500 and \$851,939, respectively. Unrealized gains on these shares of common stock, which were added to other comprehensive income as a component of stockholders' equity as of September 30, 2007 and 2006, were \$205,500 and \$551,939, respectively.

As of September 30, 2007 we were restricted from selling any shares until the second anniversary of its admission to the London Stock Exchange unless we (i) consult with Cashbox's primary broker prior to the disposal of any shares and (ii) effect the disposal of the shares through Cashbox's primary broker from time to time and in such manner as such broker may require with a view to the maintenance of an orderly market in the shares of Cashbox.

### Off-Balance Sheet Transactions

We do not have any significant off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

#### Indebtedness

We had no indebtedness or obligations under operating leases at September 30, 2007.

#### Research and Development Expenditures

The Company had no research and development expenditures in fiscal 2007. Our research and development expenditures for fiscal 2006 and 2005 were approximately \$1,229,617 and \$2,060,071, respectively. The majority of these expenditures were applicable to enhancements of existing product lines and the development of new technology to facilitate the dispensing of cash and cash-value products.

Table of Contents

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

At September 30, 2007, our exposure to market risk for changes in interest rates relates to our investment portfolio, which consists of taxable, short-term money market instruments and certificates of deposit and debt securities with maturities between 90 days and one year. We do not use derivative financial instruments in our investment portfolio. We place our investments with high-credit quality issuers and we mitigate default risk by investing in only safe and high-credit quality securities and by monitoring the credit rating of investment issuers.

Forward-Looking Statements

This Form 10-K contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are intended to be covered by the safe harbors created thereby. Investors are cautioned that all forward-looking statements involve risks and uncertainty (including without limitation, our future gross profit, selling, general and administrative expense, our financial position, working capital, as well as general market conditions). Though we believe that the assumptions underlying the forward-looking statements contained herein are reasonable, any of the assumptions could be inaccurate, and therefore, there can be no assurance that the forward-looking statements included in this Annual Report on Form 10-K will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by us or any other person that our objectives and plans will be achieved.

ITEM 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our consolidated financial statements, notes thereto and supplementary data appear in this report and are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

On March 24, 2005, we engaged Hein & Associates LLP (“Hein”) to serve as our independent registered public accounting firm and dismissed KPMG LLP (“KPMG”). The change in independent registered public accounting firms was approved by the Audit Committee of our Board of Directors and reported on a Current Report on Form 8-K, dated March 24, 2005. KPMG audited our financial statements for the fiscal year ended September 30, 2002 and for all the prior years, and Hein audited our financial statements as of and for the fiscal years ended September 30, 2007, 2006, 2005 and 2004.

The audit report of KPMG on our consolidated financial statements for fiscal year ended September 30, 2002 did not contain an adverse opinion or disclaimer of opinion, and such audit report was not qualified or modified as to any uncertainty, audit scope or accounting practice.

During fiscal 2002 and subsequent interim periods through the date we changed independent registered public accounting firms, there were no disagreements between us and KPMG on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedures, which disagreements, if not resolved to the satisfaction of KPMG, would have caused KPMG to make reference to the subject matter of the disagreement in connection with its report. In addition, during those same periods, no reportable events, as defined in Item 304(a)(1)(v) of Regulation S-K, occurred, and we did not consult with Hein regarding the application of accounting principles to a specific transaction, either completed or proposed, or the type of audit opinion that might be rendered

on our consolidated financial statements, or any other matters or reportable events as set forth in Item 304(a)(2) of Regulation S-K.

21

---

Table of Contents

ITEM 9A. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

Jerrell G. Clay, our Chief Executive Officer and Stephen P. Griggs, our Principal Financial Officer, have evaluated the effectiveness of the design and operation of our “disclosure controls and procedures”, as such term is defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”).

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations on all control systems, no evaluation of controls can provide absolute assurance that all errors, control issues and instances of fraud, if any, with a company have been detected. The design of any system of controls is also based in part on certain assumptions regarding the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Our Chief Executive Officer and our Principal Financial Officer have concluded that the Company’s disclosure controls and procedures are effective at this reasonable assurance level as of September 30, 2007.

(b) Changes in Internal Controls

In the ordinary course of business, we routinely enhance our information systems by either upgrading our current systems or implementing new systems. There were no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to date of the evaluation.

Table of Contents

## PART III

## ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Set forth below are the names and ages of our directors and executive officers and their principal occupations at present and for the past five years. There are, to our knowledge, no agreements or understandings by which these individuals were selected. No family relationships exist between any directors or executive officers (as such term is defined in Item 401 of Regulation S-K), except as otherwise stated below.

| Name                  | Age | The Company's Officers   | Director Since |
|-----------------------|-----|--|----------------|
| Jerrell G. Clay (1)   | 66  | Chief Executive Officer  | 1990           |
| Stephen P. Griggs (2) | 50  | President, Chief Operating Officer, Principal Financial Officer, and Secretary | 2002           |

(1) Jerrell G. Clay was appointed Chief Executive Officer of the Company effective October 3, 2006.

(2) Stephen P. Griggs was appointed President and Chief Operating Officer of the Company effective October 3, 2006. Mr. Griggs was appointed Principal Financial Officer and Secretary on April 20, 2007.

## (a) Business Background

The following is a summary of the business background and experience of each of the persons named above:

JERRELL G. CLAY has served as a Director since December 1990, and as Chief Executive Officer since October 3, 2006. Mr. Clay is also the Chief Executive Officer of 3 Mark Financial, Inc., an independent life insurance marketing organization, and has served as president of one of its predecessors for in excess of five years. Mr. Clay also serves as a member of the Independent Marketing Organization's Advisory Committee of Protective Life Insurance Company of Birmingham, Alabama.

STEPHEN P. GRIGGS has served as a Director since June 2002, as President and Chief Operating Officer since October 3, 2006, and as Principal Financial Officer and Secretary since April 20, 2007. Mr. Griggs has been primarily engaged in managing his personal investments since 2000. From 1988 to 2000, Mr. Griggs held various positions, including President and Chief Operating Officer, with RoTech Medical Corporation, a NASDAQ-traded company. He holds a Bachelor of Science degree in Business Management from East Tennessee State University and a Bachelor of Science degree in Accounting from the University of Central Florida. Mr. Griggs was appointed to the Board of Directors during 2002 to fill the vacancy created by the mid-term resignation of a former director.

The Company had a separately designated standing Audit Committee established in accordance with Section 3(a)(58)(A) of the Exchange Act, which is responsible for reviewing the financial information which will be provided to shareholders and others, the systems of internal controls, which management and the Board of Directors have established, and the financial reporting processes. On August 26, 2005, Mr. Raymond P. Landry, director, resigned from the Audit Committee and Mr. Griggs was appointed as Chairman of the Audit Committee, and the Board of Directors determined that Mr. Griggs is an "audit committee financial expert" as defined in Item 401(h) of Regulation S-K. On September 30, 2005, the Audit Committee consisted of Messrs. Griggs, and Clay. During the 2007, 2006 and 2005 fiscal years, the Audit Committee held four, three and six meetings, respectively. Each member of the Audit Committee was an "independent director" as defined in Rule 4200 of the Marketplace Rules of the National Association of Securities Dealers, Inc. ("NASD") as of September 30, 2006. Effective October 3, 2006, Messrs. Griggs and Clay were appointed executive officers of the Company and were no longer considered "independent directors".

The Compensation Committee consists of Messrs. Clay and Griggs and is responsible for reviewing the performance and development of management in achieving corporate goals and objectives and ensuring that the Company's senior executives are compensated effectively in a manner consistent with the Company's strategy, competitive practice, and the requirements of the appropriate regulatory bodies. Toward that end, the Compensation Committee oversees all of the Company's compensation, equity and employee benefit plans and payments. The Compensation Committee held one meeting each year during the fiscal years 2007, 2006 and 2005. For each of the 2006 and 2005 fiscal years, each of the members of the Compensation Committee was an "independent director" as defined in Rule 4200 of the Marketplace Rules of the NASD, and an "outside director" as defined in Section 162(m) of the Internal Revenue Code of 1986. Effective October 3, 2006, Messrs. Griggs and Clay were appointed executive officers of the Company and were no longer considered "independent directors" or "outside directors".



## Table of Contents

### Code of Conduct and Ethics

The Company has adopted a Code of Conduct and Ethics that applies to the Company's principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. This Code of Conduct and Ethics was filed as an exhibit to our Annual Report on Form 10-K for the 2005 fiscal year. Our Code of Conduct and Ethics addresses conflicts of interest, usurpation of corporate opportunities, the protection and proper use of Company assets, confidentiality, compliance with laws, rules, and regulations, prompt reporting of any illegal or improper activity to an officer, supervisor, manager, or other appropriate personnel of the Company. A copy of the Code of Conduct and Ethics is available in print, free of charge, to any stockholder who requests a copy. Interested parties may address a written request for a printed copy of the Code of Conduct and Ethics to: Secure Alliance Holdings Corporation, 5700 Northwest Central Drive, Suite 350, Houston, Texas 77092, Attention: Corporate Secretary.

### (b) Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires our directors and officers, and persons who own more than 10% of a registered class of our equity securities, to file reports of ownership and changes in ownership of such equity securities with the Securities and Exchange Commission ("SEC"). Such entities are also required by SEC regulations to furnish us with copies of all Section 16(a) forms filed.

Based solely on a review of the copies of Forms 3, 4 and 5 furnished to us, and any amendments thereto, and any written representations with respect to the foregoing, we believe that our directors and officers, and greater than 10% beneficial owners, have complied with all Section 16(a) filing requirements.

## ITEM 11. EXECUTIVE COMPENSATION

### Compensation Discussion and Analysis

#### Overview

This compensation discussion and analysis describes the material elements of compensation awarded to, earned by or paid to each of our executive officers who served as named executive officers during the fiscal year ended September 30, 2007. This compensation discussion focuses on the information contained in the following tables and related footnotes and narrative for primarily the last completed fiscal year, but we also describe compensation actions taken before or after the last completed fiscal year to the extent that it enhances the understanding of our executive compensation disclosure. The Board of Directors currently oversees the design and administration of our executive compensation program. We currently have no operations and, accordingly, our current executive compensation program provides for a limited cash compensation to our executives in the form of base salary and for a stock option grant to each executive.

#### Executive Compensation Objectives

The objectives of our executive compensation program are to:

- Ensure officer compensation is aligned with our corporate strategies, business objectives and the long-term interests of our stockholders; and
- Provide stability for the Company.

#### Summary Compensation Table

The following table sets forth the amount of all cash and other compensation we have paid for services rendered during the fiscal years ended September 30, 2007, 2006 and 2005 to Jerrell G. Clay, Chief Executive Officer and Stephen P. Griggs, Principal Financial Officer. On October 3, 2006, Messrs. Clay and Griggs became the sole executive officers of the Company

Table of Contents

| Name and<br>Principal<br>Position                 | Year | Salary<br>(\$) | Bonus<br>(\$) | Stock<br>Awards<br>(\$) | Option<br>Awards<br>(\$) | Non-Equity Non-qualified  |                              | All<br>Other<br>Compensation<br>(\$)(3) | Total<br>(\$) |
|---|------|----------------|---------------|-------------------------|--------------------------|---------------------------|------------------------------|---|---------------|
|   |      |                |               |                         |                          | Plan Compensation<br>(\$) | Deferred<br>Earnings<br>(\$) |   |               |
| Jerrell G. Clay<br>(1)                            | 2007 | \$ 100,000     | —             | —                       | —\$ 69,746               | —                         | —                            | —\$                                     | 169,746       |
| Chief Executive<br>Officer and<br>director        | 2006 | —\$            | 100,000       | —                       | —                        | —                         | —                            | —\$                                     | 12,000        |
|   | 2005 | —              | —             | —                       | —                        | —                         | —                            | —\$                                     | 12,000        |
| Stephen P.<br>Griggs (2)                          | 2007 | \$ 100,000     | —             | —                       | —\$ 69,746               | —                         | —                            | —\$                                     | 169,746       |
| Principal<br>Financial<br>Officer and<br>director | 2006 | —\$            | 100,000       | —                       | —                        | —                         | —                            | —\$                                     | 12,000        |
|   | 2005 | —              | —             | —                       | —                        | —                         | —                            | —\$                                     | 12,000        |

(1) Jerrell G. Clay was appointed Chief Executive Officer of the Company effective October 3, 2006. All compensation for 2006 and 2005 was for Mr. Clay's services as a director of the Company.

(2) Stephen P. Griggs was appointed President and Chief Operating Officer of the Company effective October 3, 2006. Mr. Griggs was appointed Principal Financial Officer and Secretary on April 20, 2007. All compensation for 2006 and 2005 was for Mr. Griggs's services as a director of the Company.

(3) Represents annual board fees paid to each of Mr. Clay and Mr. Griggs in their capacities as directors for such years.

## Narrative Disclosure to Summary Compensation Table

The compensation paid to the named executive officers includes salary and equity compensation. On March 21, 2007, the Company awarded Messrs. Griggs and Clay each 950,000 stock options to purchase our common stock at an exercise price of \$0.62 per share pursuant to the Company's 1997 Long-Term Incentive Plan. Of this award, 34% of the options vest on the first anniversary of the date of the grant, 33% of the options vest on the second anniversary of the date of the grant and the remaining 33% of the options vest on the third anniversary of the date of the grant. In addition, 100% of the options vest upon a change of control.

For the year ended September 30, 2007, salaries accounted for approximately 59% of total compensation for our executive officers.

There is no employment agreement between the Company and either of our executive officers regarding their employment with the Company.

## Grants of Plan-Based Awards

The following table sets forth information concerning each grant of an award made to named executive officers in the last completed fiscal year under the 1997 Long-Term Incentive Plan.

| Name | Grant Date | Estimated<br>Future<br>Payouts | Estimated<br>Future<br>payouts | All Other<br>Stock<br>Awards: | All Other<br>Option<br>Awards: | Exercise or<br>Base Price<br>of Option | Grant Date<br>Fair Value of<br>Stock and |
|------|------------|--------------------------------|--------------------------------|-------------------------------|--------------------------------|--|--|
|------|------------|--------------------------------|--------------------------------|-------------------------------|--------------------------------|--|--|

Edgar Filing: SECURE ALLIANCE HOLDINGS CORP - Form 10-K

|                      |            | Under<br>Non-Equity<br>Incentive<br>Plan<br>Awards (\$) | Under<br>Equity<br>Incentive<br>Plan<br>Awards (\$) | Number of<br>Shares of<br>Stock or<br>Units (#) | Number of<br>Securities<br>Underlying<br>Options (#) | Awards<br>(\$/Sh) | Option<br>Awards |
|----------------------|------------|---|---|---|--|-------------------|------------------|
| Jerrell G. Clay      | 03/21/2007 | —   | —   | —   | 950,000  | \$ 0.62           | \$ 543,472       |
| Stephen P.<br>Griggs | 03/21/2007 | —   | —   | —   | 950,000  | \$ 0.62           | \$ 543,472       |

25

Table of Contents

The following table sets forth information concerning unexercised options; stock that has not vested; and equity incentive plan awards for each named executive officer in the last completed fiscal year under the 1997 Long-Term Incentive Plan.

| Name              | Outstanding Equity Awards at Fiscal Year-End                        |   |  |                            |                        |              |
|-------------------|---|---|--|----------------------------|------------------------|--------------|
|                   | Option Awards   |   | Equity Incentive Plan Awards:                                    |                            |                        |              |
|                   | Number of Securities Underlying Unexercised Options (#) Exercisable | Number of Securities Underlying Unexercised Options (#) Unexercisable | Number of Securities Underlying Unexercised Unearned Options (#) | Option Exercise Price (\$) | Option Expiration Date | Stock Awards |
| Jerrell G. Clay   | —   | 950,000   | —  | \$ 0.62                    | 03/21/2017             | —            |
| Stephen P. Griggs | —   | 950,000   | —  | \$ 0.62                    | 03/21/2017             | —            |

## Director Compensation

No member of our Board of Directors earned any compensation for his services as a member of our Board of Directors for the year ended September 30, 2007. See the Summary Compensation Table above for a description of compensation earned by members of our Board in their capacities as officers of the Company for such period.

## Deferred Compensation Agreements

Other than with respect to the vesting of stock options upon a change of control of the Company discussed above, no plan or arrangement exists which results in compensation to a named executive officer in excess of \$100,000 upon such officer's future termination of employment or upon a change-of-control.

## Compensation Committee Interlocks and Insider Participation

Jerrell G. Clay and Stephen P. Griggs, the members of our Compensation Committee, have served as our Chief Executive Officer and Principal Financial Officer, respectively, since October 3, 2006. None of our executive officers serves as a member of the board of directors or as a member of the compensation committee of any other company that has an executive officer serving as a member of our Board of Directors.

## Compensation Committee Report

We recommend to the Board of Directors that the Executive Compensation and Compensation Discussion and Analysis provisions referred to above be included in the Company's Annual Report on Form 10-K.

SUBMITTED BY THE COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS

Jerrell G. Clay  
Stephen P. Griggs

ITEM SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND  
12. RELATED STOCKHOLDER MATTERS

Securities Authorized for Issuance under Equity Compensation Plans

Options to purchase 1,900,000 shares of our common stock have been issued to our executives under the Company's 1997 Long-Term Incentive Plan as described under "Item 5 – Market For Our Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities" above. 32,950 options remain available for future issuance under such plan.

26

---

Table of Contents

## Security Ownership of Certain Beneficial Owners and Management

The following table sets forth as of December 31, 2007, the number of shares of common stock beneficially owned by (i) the beneficial owners of more than 5% of our voting securities, (ii) each of our directors and executive officers of the Company individually and (iii) all of our directors and the executive officers as a group. Except as otherwise indicated, and subject to applicable community property laws, each person has sole investment and voting power with respect to the shares shown. Ownership information is based upon information furnished by the respective holders and contained in our records or upon public filings made by such persons with the SEC.

| Name and Address of Beneficial Owner  | Amount and Nature of Beneficial Ownership | Percent of Class (1) |
|---|---|----------------------|
| Kellogg Capital Group LLC<br>55 Broadway, 4th Floor<br>New York, New York 10006               | 2,190,023                                 | 11.3%                |
| Alliance Developments<br>One Yorkdale Rd., Suite 510<br>North York, Ontario M6A 3A1<br>Canada | 1,080,362                                 | 5.6%                 |
| Springview Group LLC<br>666 Fifth Avenue, 8th Floor<br>New York, New York 10103               | 1,049,191                                 | 5.4%                 |
| Jerrell G. Clay<br>1600 Highway 6, Suite 400<br>Sugarland, Texas 77478                        | 181,405                                   | *                    |
| Stephen P. Griggs<br>c/o Nexus Group<br>3305 Bartlett Blvd.<br>Orlando, Florida 32811         | —   | *                    |
| Directors and Executive Officers as a group (2 persons)                                       | 181,405                                   | *                    |

\* Less than one percent.  
(1) Based upon 19,441,524 shares outstanding as of December 31, 2007.

## ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

For information concerning our directors and their independence, see “Item 10 – Directors, Executive Officers and Corporate Governance” above.

There were no transactions with related persons during the year ended September 30, 2007 other than the issuance of 950,000 stock options to each of Jerrell G. Clay and Stephen P. Griggs on March 21, 2007 as described under “Item 5 - Market For Our Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities” above.

ITEM 14.

PRINCIPAL ACCOUNTING FEES AND SERVICES

(a)

Audit Fees

The aggregate fees billed by Hein & Associates LLP for professional services rendered for the audit of our annual financial statements set forth in the Annual Reports on Form 10-K and the related reviews of interim financial statements included in the Quarterly Reports on Form 10-Q were approximately \$60,000 for the fiscal year ended September 30, 2007 and \$243,000 for the fiscal year ended September 30, 2006.

27

---



(b) Other Audit-Related Fees

There were no other audit-related fees incurred during the fiscal years ended September 30, 2007 and 2006.

(c) Tax Fees

The aggregate fees billed by Hein & Associates LLP for tax services for the fiscal year ended September 30, 2007 were \$70,000 consisting of \$30,000 related to an IRS Audit and \$40,000 related to tax compliance. The aggregate fees billed for the fiscal year ended September 30, 2006 were \$107,000 consisting of \$12,000 related to an IRS Audit for the year 2005, \$65,000 related to other tax services, and approximately \$30,000 related to tax consulting.

(d) All Other Fees

There were no fees for other professional services rendered during the fiscal years ended September 30, 2007, 2006 and 2005.

Our Audit Committee has determined that the non-audit services rendered by Hein & Associates LLP during the most recent fiscal year are compatible with maintaining the independence of such auditors.

Our policy is to pre-approve all professional fees associated with audit, tax and audit-related services as they are proposed to us by Hein & Associates LLP and other professional service firms. The Audit Committee approved of 100% of the services described in each of sections (a) through (d) above pursuant to 17 CFR 210.2-01(C)(7)(i)(C).

#### PART IV

#### ITEM 15. FINANCIAL STATEMENT SCHEDULES, EXHIBITS AND REPORTS ON FORM 8-K

##### Documents Filed

##### Financial Statements and Financial Statement Schedules

Our audited consolidated financial statements and related financial statement schedules and the report of an independent registered public accounting firm as required by Item 8 of Form 10-K and Regulation S-X are filed as a part of this Annual Report, as set forth in the accompanying Index to Financial Statements. Such audited financial statements and related financial statement schedules include, in the opinion of our management, all required disclosures in the accompanying notes.

##### Consolidated Financial Statements of Secure Alliance Holdings Corporation and Subsidiaries

##### Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets — September 30, 2007 and 2006

Consolidated Statements of Operations for the years ended September 30, 2007, 2006 and 2005

Consolidated Statements of Comprehensive Income (Loss) for the years ended September 30, 2007, 2006 and 2005

Consolidated Statements of Shareholders' Equity for the years ended September 30, 2007, 2006 and 2005

Consolidated Statements of Cash Flows for the years ended September 30, 2007, 2006 and 2005

Notes to Consolidated Financial Statements

Schedule II Valuation and Qualifying Accounts — as filed as part of this Annual Report on Form 10-K

##### Exhibits

The Exhibits required by Item 601 of Regulation S-K and Regulation S-X are filed as a part of this Report, and are listed in the accompanying Index to Exhibits.

Table of Contents

## Index to Financial Statements

|  | Page |
|--|------|
| CONSOLIDATED FINANCIAL STATEMENTS OF SECURE ALLIANCE HOLDINGS CORPORATION AND SUBSIDIARIES                   |      |
| Report of Independent Registered Public Accounting Firm  | 29   |
| Consolidated Balance Sheets — September 30, 2007 and 2006  | 30   |
| Consolidated Statements of Operations for the years ended September 30, 2007, 2006 and 2005                  | 31   |
| Consolidated Statements of Comprehensive Income (Loss) for the years ended September 30, 2007, 2006 and 2005 | 32   |
| Consolidated Statements of Shareholders' Equity for the years ended September 30, 2007, 2006 and 2005        | 33   |
| Consolidated Statements of Cash Flows for the years ended September 30, 2007, 2006 and 2005                  | 34   |
| Notes to Consolidated Financial Statements   | 36   |
| Schedule II Valuation and Qualifying Accounts — as filed as part of this Annual Report on Form 10-K          | 49   |

All other schedules are omitted because they are not required, are not applicable or the required information is presented elsewhere herein.

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors

Secure Alliance Holdings Corporation:

We have audited the consolidated financial statements of Secure Alliance Holdings Corporation and subsidiaries as listed in the accompanying index. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule as listed in the accompanying index. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule 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 has determined that it 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Secure Alliance Holdings Corporation and subsidiaries as of September 30, 2007 and 2006, and the results of their operations and their cash flows for each of the years in the three-year period ended September 30, 2007 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As further discussed in notes 1 and 2 to the consolidated financial statements, the Company disposed of its remaining operating assets and liabilities in October 2006, and currently has no operations.

/s/ HEIN & ASSOCIATES LLP

Houston, Texas  
January 14, 2008

Table of Contents

SECURE ALLIANCE HOLDINGS CORPORATION AND SUBSIDIARIES  
(A DEVELOPMENT STAGE COMPANY)  
CONSOLIDATED BALANCE SHEETS

|  | September 30,        |                      |
|--|----------------------|----------------------|
|  | 2007                 | 2006                 |
| <b>ASSETS</b>  |                      |                      |
| Current Assets:  |                      |                      |
| Cash and cash equivalents  | \$ 882,116           | \$ 1,264,463         |
| Certificates of deposit  | 11,177,567           | —                    |
| Restricted cash  | —                    | 5,400,000            |
| Marketable securities held-to-maturity   | —                    | 4,899,249            |
| Marketable securities available-for-sale   | 505,500              | 851,939              |
| Interest and other receivables   | 204,113              | 220,689              |
| Prepaid expenses and other   | —                    | 132,036              |
| Assets held for sale, net of accumulated depreciation of \$0 and \$1,352,463, respectively (See Note 2)                                    | —                    | 6,312,663            |
| <b>Total current assets</b>  | <b>12,769,296</b>    | <b>19,081,039</b>    |
| Other assets   | 4,000                | 4,000                |
| <b>Total assets</b>  | <b>\$ 12,773,296</b> | <b>\$ 19,085,039</b> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>  |                      |                      |
| Current Liabilities:   |                      |                      |
| Accounts payable   | \$ —                 | \$ 221,295           |
| Accrued interest payable   | —                    | 2,000,000            |
| Shares subject to redemption   | —                    | 5,400,000            |
| Other accrued liabilities  | 141,401              | 150,194              |
| Liabilities held for sale (See Note 2)   | —                    | 3,636,369            |
| <b>Total liabilities</b>   | <b>141,401</b>       | <b>11,407,858</b>    |
| Commitments and contingencies  | —                    | —                    |
| Shareholders' Equity:  |                      |                      |
| Common stock, \$.01 par value, authorized 100,000,000 shares; issued and outstanding 19,441,524 shares and 38,677,210 shares, respectively | 194,415              | 386,772              |
| Additional paid-in capital   | 30,008,008           | 30,782,187           |
| Accumulated deficit  | (17,776,028)         | (24,043,717)         |
| Accumulated other comprehensive income   | 205,500              | 551,939              |
| <b>Total shareholders' equity</b>  | <b>12,631,895</b>    | <b>7,677,181</b>     |
| <b>Total liabilities and shareholders' equity</b>  | <b>\$ 12,773,296</b> | <b>\$ 19,085,039</b> |

See accompanying Notes to Consolidated Financial Statements

Table of Contents

SECURE ALLIANCE HOLDINGS CORPORATION AND SUBSIDIARIES  
(A DEVELOPMENT STAGE COMPANY)  
CONSOLIDATED STATEMENTS OF OPERATIONS

|   | Years Ended September 30, |              |                |
|---|---------------------------|--------------|----------------|
|   | 2007                      | 2006         | 2005           |
| Revenues  | \$                        | —\$          | —\$            |
| Selling, general and administrative                                       | 1,333,467                 | 3,065,064    | 1,805,484      |
| Depreciation and amortization   | —                         | 2,678        | 4,977          |
| Operating loss  | (1,333,467)               | (3,067,742)  | (1,810,461)    |
| Other income (expense):   |                           |              |                |
| Reorganization fee paid to Laurus   | (6,508,963)               | —            | —              |
| Gain on disposal of investment in 3CI pursuant to class-action settlement | —                         | 5,380,121    | —              |
| Amortization of debt discount and deferred financing costs                | —                         | (4,078,738)  | (3,816,178)    |
| Interest income   | 580,861                   | 392,564      | —              |
| Interest expense  | —                         | (235,765)    | (2,732,891)    |
| Gain on collection of receivable  | —                         | 598,496      | —              |
| Gain on CCC bankruptcy settlement   | —                         | 105,000      | —              |
| Other expense   | —                         | (7,455)      | —              |
| Total other income (expense)  | (5,928,102)               | 2,154,223    | (6,549,069)    |
| Loss before taxes and discontinued operations                             | (7,261,569)               | (913,519)    | (8,359,530)    |
| Income tax expense  | 75,808                    | 159,546      | —              |
| Loss from continuing operations   | (7,337,377)               | (1,073,065)  | (8,359,530)    |
| Discontinued operations:  |                           |              |                |
| Income from discontinued operations                                       | —                         | 2,399,053    | 5,073,608      |
| Gain on sale of ATM business, net of taxes                                | —                         | 3,536,105    | —              |
| Gain on sale of Cash Security business, net of taxes                      | 13,605,066                | —            | —              |
| Total discontinued operations   | 13,605,066                | 5,935,158    | 5,073,608      |
| Net income (loss)   | \$ 6,267,689              | \$ 4,862,093 | \$ (3,285,922) |
| Basic earnings (loss) per share:  |                           |              |                |
| Loss from continuing operations   | \$ (0.37)                 | \$ (0.03)    | \$ (0.41)      |
| Income from discontinued operations                                       | 0.70                      | 0.18         | 0.25           |
| Net income (loss)   | \$ 0.33                   | \$ 0.15      | \$ (0.16)      |
| Basic weighted average common shares outstanding                          | 19,563,447                | 33,499,128   | 20,292,796     |
| Diluted earnings (loss) per share:  |                           |              |                |
| Loss from continuing operations   | \$ (0.37)                 | \$ (0.03)    | \$ (0.41)      |
| Income from discontinued operations                                       | 0.69                      | 0.18         | 0.25           |
| Net income (loss)   | \$ 0.32                   | \$ 0.15      | \$ (0.16)      |
| Diluted weighted average common and dilutive shares outstanding           | 19,674,772                | 33,499,128   | 20,292,796     |

See accompanying Notes to Consolidated Financial Statements

32

---

Table of Contents

SECURE ALLIANCE HOLDINGS CORPORATION AND SUBSIDIARIES  
 (A DEVELOPMENT STAGE COMPANY)  
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

|  | Years Ended September 30, |              |                |
|--|---------------------------|--------------|----------------|
|  | 2007                      | 2006         | 2005           |
| Net income (loss)  | \$ 6,267,689              | \$ 4,862,093 | \$ (3,285,922) |
| Other comprehensive income:  |                           |              |                |
| Unrealized gain (loss) on marketable securities available-for-sale | (346,439)                 | 551,939      | —              |
| Unrealized gain on investment in 3CI                               | —                         | —            | 35,093         |
| Comprehensive income (loss)  | \$ 5,921,250              | \$ 5,414,032 | \$ (3,250,829) |

See accompanying Notes to Consolidated Financial Statements



Table of Contents

SECURE ALLIANCE HOLDINGS CORPORATION AND SUBSIDIARIES  
(A DEVELOPMENT STAGE COMPANY)  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

|   | Shares<br>Issued and<br>Outstanding | Common<br>Stock | Additional<br>Paid-In<br>Capital | Retained<br>Earnings<br>(Accumulated<br>Deficit) | Other       | Total<br>Shareholders<br>Equity |
|---|-------------------------------------|-----------------|----------------------------------|--|-------------|---------------------------------|
| Balances, September 30,<br>2004   | 17,426,210                          | \$ 174,262      | \$ 28,100,674                    | \$ (25,619,888)                                  | \$ (66,599) | \$ 2,588,449                    |
| Net loss  | —                                   | —               | —                                | (3,285,922)                                      | —           | (3,285,922)                     |
| Issuance of shares to Laurus<br>in payment of fees  | 1,251,000                           | 12,510          | 625,500                          | —  | —           | 638,010                         |
| Issuance of shares in<br>connection with settlement<br>of class-action litigation                               | 2,000,000                           | 20,000          | 1,544,490                        | —  | —           | 1,564,490                       |
| Shares received from<br>officer in connection with<br>settlement  | —                                   | —               | (31,675)                         | —  | 31,675      | —                               |
| Unrealized gain on<br>investment in 3CI   | —                                   | —               | —                                | —  | 35,093      | 35,093                          |
| Issuance of warrants in<br>connection with debt with<br>beneficial conversion<br>premium on convertible<br>debt | —                                   | —               | 723,198                          | —  | —           | 723,198                         |
| Balances, September 30,<br>2005   | 20,677,210                          | 206,772         | 30,962,187                       | (28,905,810)                                     | 169         | 2,263,318                       |
| Net income  | —                                   | —               | —                                | 4,862,093  | —           | 4,862,093                       |
| Issuance of shares subject<br>to redemption   | 18,000,000                          | 180,000         | (180,000)                        | —  | —           | —                               |
| Unrealized gain on<br>marketable securities<br>available-for-sale   | —                                   | —               | —                                | —  | 551,939     | 551,939                         |
| Disposal of investment in<br>3CI pursuant<br>to class-action settlement   | —                                   | —               | —                                | —  | (169)       | (169)                           |
| Balances, September 30,<br>2006   | 38,677,210                          | 386,772         | 30,782,187                       | (24,043,717)                                     | 551,939     | 7,677,181                       |
| Net income  | —                                   | —               | —                                | 6,267,689  | —           | 6,267,689                       |
| Redemption of shares from<br>Laurus   | (19,251,000)                        | (192,510)       | (952,830)                        | —  | —           | (1,145,340)                     |
| Cancellation of shares<br>received from officer in  | (90,500)                            | (905)           | 905                              | —  | —           | —                               |

|   |            |            |               |                 |            |               |
|---|------------|------------|---------------|-----------------|------------|---------------|
| connection with settlement                                  |            |            |               |                 |            |               |
| Unrealized loss on marketable securities available-for-sale | —          | —          | —             | —               | (346,439)  | (346,439)     |
| Issuance of stock options to officers                       | —          | —          | 139,491       | —               | —          | 139,491       |
| Issuance of shares pursuant to consulting agreement         | 21,739     | 217        | 9,783         | —               | —          | 10,000        |
| Issuance of shares on exercise of warrants and options      | 84,075     | 841        | 28,472        | —               | —          | 29,313        |
| Balances, September 30, 2007                                | 19,441,524 | \$ 194,415 | \$ 30,008,008 | \$ (17,776,028) | \$ 205,500 | \$ 12,631,895 |

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

SECURE ALLIANCE HOLDINGS CORPORATION AND SUBSIDIARIES  
(A DEVELOPMENT STAGE COMPANY)  
CONSOLIDATED STATEMENTS OF CASH FLOWS

|   | Years Ended September 30, |              |                |
|---|---------------------------|--------------|----------------|
|   | 2007                      | 2006         | 2005           |
| Cash flows from operating activities:   |                           |              |                |
| Net income (loss)   | \$ 6,267,689              | \$ 4,862,093 | \$ (3,285,922) |
| Amortization of stock options issued to officers  | 139,491                   | —            | —              |
| Expenses related to issuance of stock pursuant to consulting agreement                          | 10,000                    | —            | —              |
| Adjustments to reconcile net income (loss) to net cash used in continuing operating activities: |                           |              |                |
| Reorganization fee expense  | 6,508,963                 | —            | —              |
| Depreciation and amortization   | —                         | 2,678        | 4,977          |
| Amortization of debt discount and financing costs   | —                         | 4,078,738    | 3,816,178      |
| Gain on disposal of investment in 3CI pursuant to class-action settlement                       | —                         | (5,380,121)  | —              |
| Loss on disposal of fixed assets  | —                         | 7,455        | —              |
| Changes in assets and liabilities:  |                           |              |                |
| Trade accounts receivable, net  | —                         | 250,000      | —              |
| Interest and other receivables  | 16,576                    | (207,724)    | 1,022,433      |
| Prepaid expenses and other assets   | 132,036                   | 38,196       | (131,140)      |
| Accounts payable and accrued liabilities  | (174,478)                 | (487,110)    | 2,013,106      |
| Net cash flows used in discontinued operations  | (13,605,066)              | (5,935,675)  | (3,901,956)    |
| Net cash used in operating activities   | (707,789)                 | (2,771,470)  | (462,324)      |
| Cash flows from continuing investing activities:  |                           |              |                |
| Increase in time deposits   | (11,177,567)              | —            | —              |
| Proceeds from class-action settlement on investment in 3CI                                      | —                         | 5,659,507    | —              |
| Decrease (increase) in marketable securities held-to-maturity                                   | 4,899,249                 | (4,899,249)  | —              |
| Purchases of property, plant and equipment, net   | —                         | —            | (11,566)       |
| Net cash provided by discontinued investing activities  | 16,228,750                | 10,440,000   | —              |
| Net cash provided by (used in) investing activities   | 9,950,432                 | 11,200,258   | (11,566)       |
| Cash flows from financing activities:   |                           |              |                |
| Redemption of shares held by Laurus   | (6,545,340)               | —            | —              |
| Proceeds from exercise of warrants and options  | 29,313                    | —            | —              |
| Proceeds from borrowings  | —                         | —            | 2,100,000      |
| Repayments of notes payable   | —                         | (2,767,988)  | (600,000)      |
| Borrowing on revolver   | —                         | 1,204,391    | 2,251,203      |
| Payments of revolver  | —                         | (1,204,391)  | (2,251,203)    |
| Repayments of convertible debentures  | —                         | —            | —              |
| Decrease (increase) decrease in restricted cash   | 5,400,000                 | (5,400,000)  | —              |
| Reorganization fee paid to Laurus   | (8,508,963)               | —            | —              |
| Increase in deferred financing costs  | —                         | —            | (280,567)      |
| Net cash provided by discontinued financing activities  | —                         | —            | —              |

Edgar Filing: SECURE ALLIANCE HOLDINGS CORP - Form 10-K

|   |             |              |              |
|---|-------------|--------------|--------------|
| Net cash provided by (used in) financing activities | (9,624,990) | (8,167,988)  | 1,219,433    |
| Net change in cash and cash equivalents             | (382,347)   | 260,800      | 745,543      |
| Cash and cash equivalents at beginning of year      | 1,264,463   | 1,003,663    | 258,120      |
| Cash and cash equivalents at end of year            | \$ 882,116  | \$ 1,264,463 | \$ 1,003,663 |

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

SECURE ALLIANCE HOLDINGS CORPORATION AND SUBSIDIARIES  
(A DEVELOPMENT STAGE COMPANY)  
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

|   | Years Ended September 30, |              |              |
|---|---------------------------|--------------|--------------|
|   | 2007                      | 2006         | 2005         |
| Supplemental disclosure of cash flow information:                                       |                           |              |              |
| Cash paid for interest  | \$ —                      | \$ 314,314   | \$ 755,808   |
| Cash paid for taxes   | \$ 94,402                 | \$ 70,962    | \$ —         |
| Supplemental disclosure of non-cash financing activities:                               |                           |              |              |
| Conversion of debt into common stock subject to redemption                              | \$ —                      | \$ 5,400,000 | \$ —         |
| Discount on issuance of debt with beneficial conversion premium and detachable warrants | \$ —                      | \$ —         | \$ 723,198   |
| Issuance of shares to lender in payment of fees   | \$ —                      | \$ —         | \$ 638,010   |
| Issuance of shares in connection with settlement of class-action litigation             | \$ —                      | \$ —         | \$ 1,564,490 |
| Unrealized gain on 3CI investment   | \$ —                      | \$ —         | \$ 35,093    |
| Unrealized gain (loss) on marketable securities available-for-sale                      | \$ (346,439)              | \$ 551,939   | \$ —         |

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

SECURE ALLIANCE HOLDINGS CORPORATION AND SUBSIDIARIES  
(A DEVELOPMENT STAGE COMPANY)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2007, 2006 AND 2005

(1) Summary of Significant Accounting Policies for Continued Operations

Description of Business

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).

We completed the sale of our ATM business on January 3, 2006 and the sale of our Cash Security business on October 2, 2006. On October 2, 2006, we became a shell public company and have had substantially no operations.

Principles of Consolidation

The consolidated financial statements include our accounts and our wholly-owned subsidiaries. All significant intercompany items have been eliminated in consolidation.

Cash and Cash Equivalents

For purposes of consolidated financial statement presentation and reporting cash flows, all liquid investments with original maturities at the date of purchase of three months or less are considered cash equivalents.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets. Expenditures for major renewals and betterments are capitalized; expenditures for repairs and maintenance are charged to expense as incurred.

Federal Income Taxes

Income taxes are accounted for under the asset and liability method, whereby deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in determining income or loss in the period that includes the enactment date.

Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) includes all non-equity holder changes in shareholders’ equity. As of September 30, 2007 and 2006, our only component of accumulated other comprehensive loss relates to unrealized gains and losses on our investment in Cashbox common stock.

Net Income (Loss) Per Share

In accordance with Statement of Financial Accounting Standards No. 128, "Earnings Per Share" ("SFAS No. 128"), we compute and present both basic and diluted earnings per share ("EPS") amounts. Basic EPS is computed by dividing income (loss) available to common shareholders by the weighted-average number of common shares outstanding for the period, and excludes the effect of potentially dilutive securities (such as options, warrants and convertible securities), which are convertible into common stock. Dilutive EPS reflects the potential dilution from options, warrants and convertible securities.

Table of Contents

## Stock-Based Compensation

In December 2004, the FASB issued SFAS No. 123(R), which amends SFAS No. 123 and supersedes APB Opinion No. 25. SFAS No. 123(R) requires compensation expense to be recognized for all share-based payments made to employees based on the fair value of the award at the date of grant, eliminating the intrinsic value alternative allowed by SFAS No. 123. Generally, the approach to determining fair value under the original pronouncement has not changed. However, there are revisions to the accounting guidelines established, such as accounting for forfeitures that will change our accounting for stock-based awards in the future.

The statement allows companies to adopt its provisions using either of the following transition alternatives:

- The modified prospective method, which results in the recognition of compensation expense using SFAS 123(R) for all share-based awards granted after the effective date and the recognition of compensation expense using SFAS 123 for all previously granted share-based awards that remain unvested at the effective date; or
- The modified retrospective method, which results in applying the modified prospective method and restating prior periods by recognizing the financial statement impact of share-based payments in a manner consistent with the pro forma disclosure requirements of SFAS No. 123. The modified retrospective method may be applied to all prior periods presented or previously reported interim periods of the year of adoption.

We adopted SFAS No. 123(R) on October 1, 2005, using the modified prospective method. This change in accounting has not materially impacted our financial position. We applied the fair-value criteria established by SFAS No. 123(R) to previous stock option grants, the impact to our results of operations would have approximated the impact of applying SFAS No. 123, which was a decrease to net income of approximately \$19,433 in 2005.

We recognize expense related to stock options and other types of equity-based compensation beginning in fiscal year 2006 and such cost must be recognized over the period during which an employee is required to provide service in exchange for the award. The requisite service period is usually the vesting period. The standard also requires us to estimate the number of instruments that will ultimately be issued, rather than accounting for forfeitures as they occur.

The following table reflects the pro forma effect of SFAS No. 123 (R) had it been in effect in 2005.

|   | 2005           |
|---|----------------|
| Net loss as reported  | \$ (3,285,922) |
| Deduct:   |                |
| Total stock-based employee compensation expense determined under SFAS 123, net of taxes | (19,433)       |
| Net loss pro forma  | \$ (3,305,355) |
| Basic earnings (loss) per share:  |                |
| As reported   | (0.16)         |
| Pro forma   | (0.16)         |
| Diluted earnings (loss) per share:  |                |
| As reported   | (0.16)         |
| Pro forma   | (0.16)         |

## Use of Estimates

The preparation of the accompanying consolidated financial statements requires the use of estimates by management in determining our assets and liabilities at the date of the Consolidated Financial Statements and the reported amount of revenues and expenses during the period. Actual results could differ from these estimates.



Fair Value of Financial Instruments

Statement of Financial Accounting Standards No. 107, "Disclosures About Fair Value of Financial Instruments," requires the disclosure of estimated fair values for financial instruments. Fair value estimates are made at discrete points in time based on relevant market information. These estimates may be subjective in nature and involve uncertainties and matters of significant judgment and therefore, cannot be determined with precision. We believe that the carrying amounts of our financial instruments included in current assets and current liabilities approximate the fair value of such items due to their short-term nature.

38

---

## Table of Contents

The carrying amount of long-term debt, excluding the discounts related to the warrants issued with the debt, approximates its fair value because the interest rates approximate market.

### New Accounting Pronouncements

In July 2006, the FASB issued Final Interpretation No. (“FIN”) 48, Accounting for Uncertainty in Income Taxes, an Interpretation of SFAS 109, which clarifies the accounting for income taxes by prescribing the minimum recognition threshold an uncertain tax position is required to meet before tax benefits associated with such uncertain tax position are recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. In addition, FIN 48 excludes income taxes from the scope of SFAS 5, Accounting for Contingencies. FIN 48 is effective for fiscal years beginning after December 15, 2006. Differences between the amounts recognized in the consolidated balance sheets prior to the adoption of FIN 48 and the amounts reported after adoption are accounted for as a cumulative-effect adjustment to the beginning balance of retained earnings upon adoption of FIN 48. FIN 48 also requires that amounts recognized in the balance sheet related to uncertain tax positions be classified as a current or non-current liability, based upon the timing of the ultimate payment to a taxing authority. We will adopt FIN 48 as of October 1, 2007 and are in the process of finalizing the effect FIN 48 will have on our financial statements. Under the guidance of FIN 48, management estimates that our income tax reserve may increase to approximately \$2.3 million, which is subject to revision when management completes an analysis of the impact of FIN 48. Upon completion of such analysis, it is possible that this difference will be recorded in retained earnings as a cumulative effect adjustment during the quarter ended December 31, 2007.

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (“SFAS 157”). SFAS 157 defines fair value to be the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and emphasizes that fair value is a market-based measurement, not an entity-specific measurement. It establishes a fair value hierarchy and expands disclosures about fair value measurements in both interim and annual periods. SFAS 157 will be effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company does not expect SFAS 157 to have a material effect on the Company’s consolidated financial position or results of operations.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (“SFAS 159”). SFAS 159 permits entities to choose, at specified election dates, to measure eligible items at fair value (the “fair value option”) and requires an entity to report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. Upfront costs and fees related to items for which the fair value option is elected shall be recognized in earnings as incurred and not deferred. SFAS 159 will be effective for fiscal years beginning after November 15, 2007. The Company does not expect SFAS 159 to have a material effect on the Company’s consolidated financial position or results of operations.

In November 2007, the FASB issued SFAS No. 141(R), Business Combination and SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51 (FAS 160). FAS 141(R) will change how business acquisitions are accounted for and will impact financial statements both on the acquisition date and in subsequent periods. FAS 160 will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity. FAS 141(R) and FAS 160 are effective for both public and private companies for fiscal years beginning on or after December 15, 2008. FAS 141(R) will be applied prospectively. FAS 160 requires retroactive adoption of the presentation and disclosure requirements for existing minority interests. All other requirements of FAS 160 will be applied prospectively. Early adoption is prohibited for both standards. Management is currently evaluating the requirements of FAS 141(R) and

FAS 160 but does not expect them to have a material effect on the Company's consolidated financial position or results of operation.

(2) Discontinued Operations

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.

39

---

Table of Contents

On January 3, 2006, we completed the ATM Business Sale for a purchase price was \$10,440,000 of which \$8,200,000 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 and the remaining \$2,240,000 was paid to the Company. This transaction resulted in a book gain of \$3,536,105.

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

DISCONTINUED OPERATIONS — ATM BUSINESS  
SELECTED OPERATING DATA  
(UNAUDITED)

|                                     | Years Ended September 30, |              |               |
|-------------------------------------|---------------------------|--------------|---------------|
|                                     | 2007                      | 2006         | 2005          |
| Net sales                           | \$ —                      | \$ 3,847,874 | \$ 15,497,834 |
| Cost of sales                       | —                         | 2,592,268    | 9,508,120     |
| Gross profit                        | —                         | 1,255,606    | 5,989,714     |
| Selling, general and administrative | —                         | 880,941      | 4,768,880     |
| Depreciation and amortization       | —                         | 46,048       | 255,967       |
| Operating loss                      | —                         | 328,617      | 964,867       |
| Non-operating (income) expense      | —                         | —            | —             |
| Net income (loss)                   | \$ —                      | \$ 328,617   | \$ 964,867    |

#### Cash Security Business

On September 25, 2006, the holders of a majority of shares of our outstanding common stock approved the sale of our electronic cash security business, consisting of (a) timed access cash controllers, (b) the Sentinel products, (c) the servicing, maintenance and repair of the timed access cash controllers or Sentinel products and (d) all other assets and business operations associated with the foregoing (the “Cash Security Business Sale”) to Sentinel Operating, L.P., a purchaser led by a management buyout team that included our former director and Interim Chief Executive Officer, Mark K. Levenick, and our former director, Raymond P. Landry. The Cash Security Asset Purchase Agreement provided for a cash purchase price of \$15,500,000, less \$100,000 as consideration for the Buyer assuming certain potential liability in connection with ongoing litigation, and less a working capital deficit adjustment of \$1,629,968, resulting in a net purchase price of \$13,770,032. In addition, Sentinel Operating L.P. paid a cash adjustment of \$2,458,718 to the Company at closing. The Cash Security Business Sale was completed on October 2, 2006. During the year ended September 30, 2007, we recorded a gain on the sale of the Cash Security business, net of taxes, of \$13,605,066.

We classified the Cash Security business as a discontinued operation for the year ended September 30, 2007. We classified the Cash Security business as Assets Held for Sale as of September 30, 2006.

An analysis of the discontinued operations of the Cash Security business is as follows:

Table of Contents

DISCONTINUED OPERATIONS — CASH SECURITY BUSINESS  
 SELECTED BALANCE SHEET DATA  
 (UNAUDITED)

|   | September 30,<br>2007 | September 30,<br>2006 |
|---|-----------------------|-----------------------|
| <b>ASSETS</b>   |                       |                       |
| Current Assets:   |                       |                       |
| Cash and cash equivalents   | \$                    | —\$ 2,048,275         |
| Trade accounts receivable, net of allowance of approximately \$0 and \$45,000, respectively |                       | — 1,591,522           |
| Inventories   |                       | — 2,051,764           |
| Prepaid expenses and other  |                       | — 73,089              |
| Total current assets  |                       | — 5,764,650           |
| Property, plant and equipment, at cost  |                       | — 316,608             |
| Accumulated depreciation  |                       | — (18,595)            |
| Net property, plant and equipment   |                       | — 298,013             |
| Other assets  |                       | — 250,000             |
| Total assets  | \$                    | —\$ 6,312,663         |
| <b>LIABILITIES</b>  |                       |                       |
| Current Liabilities:  |                       |                       |
| Current maturities  | \$                    | —\$ 1,981             |
| Accounts payable  |                       | — 1,514,731           |
| Other accrued expenses  |                       | — 2,098,675           |
| Total current liabilities   |                       | — 3,615,387           |
| Long-term debt, net of current maturities   |                       | — 20,982              |
| Total liabilities   | \$                    | —\$ 3,636,369         |

DISCONTINUED OPERATIONS — CASH SECURITY BUSINESS  
 SELECTED OPERATING DATA  
 (UNAUDITED)

|                                     | Years Ended September 30, |                |               |
|-------------------------------------|---------------------------|----------------|---------------|
|                                     | 2007                      | 2006           | 2005          |
| Net sales                           | \$                        | —\$ 16,080,069 | \$ 19,435,222 |
| Cost of sales                       |                           | — 9,476,386    | 10,870,947    |
| Gross profit                        |                           | — 6,603,683    | 8,564,275     |
| Selling, general and administrative |                           | — 4,541,774    | 4,449,550     |
| Depreciation and amortization       |                           | — —            | 29,868        |
| Operating income (loss)             |                           | — 2,061,907    | 4,084,857     |
| Non-operating expense               |                           | — (8,529)      | (23,884)      |
| Net income (loss)                   | \$                        | —\$ 2,070,436  | \$ 4,108,741  |

(3) Notes to Discontinued Operations which are Classified as Assets Held For Sale

#### Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the standard cost method and includes materials, labor and production overhead which approximates an average cost method. Reserves are provided to adjust

any slow moving materials or goods to net realizable values.

41

---

## Table of Contents

### Warranties

Certain products are sold under warranty against defects in materials and workmanship for a period of one to three years. A provision for estimated warranty costs is included in accrued liabilities and is charged to operations at the time of sale.

### Accounts Receivable

We had substantially no operations during the fiscal year 2007. We had significant investments in billed receivables as of September 30, 2006. Billed receivables represent amounts billed upon the shipments of our products under our standard contract terms and conditions. Allowances for doubtful accounts and estimated non-recoverable costs primarily provide for losses that may be sustained on uncollectible receivables and claims. In estimating the allowance for doubtful accounts, we evaluate our contract receivables and thoroughly review historical collection experience, the financial condition of our customers, billing disputes and other factors. When we ultimately conclude that a receivable is uncollectible, the balance is charged against the allowance for doubtful accounts. As of September 30, 2007 and 2006, the allowance for doubtful contract receivables was \$0 and \$45,000, respectively.

### Revenue Recognition

Revenues are recognized at the time products are shipped to customers. We have no continuing obligation to provide services or upgrades to our products, other than a warranty against defects in materials and workmanship. We only recognize such revenues if there is persuasive evidence of an arrangement, the products have been delivered; there is a fixed or determinable sales price and a reasonable assurance of our ability to collect from the customer.

Our products contain imbedded software that is developed for inclusion within the equipment. We have not licensed, sold, leased or otherwise marketed such software separately. We have no continuing obligations after the delivery of our products and we do not enter into post-contract customer support arrangements related to any software embedded into our equipment.

### Research and Development Cost

Research and development costs are expensed as incurred. Research and development costs charged to expense were approximately \$0, \$1,229,617, and \$2,060,071 for the years ended September 30, 2007, 2006 and 2005, respectively.

### Shipping and Handling Cost

Shipping and handling costs billed to customers totaled \$0, \$429,881, and \$781,442 for the years ended September 30, 2007, 2006, and 2005, respectively. We incurred shipping and handling costs of \$0, \$458,633, and \$978,957 for the years ended September 30, 2007, 2006 and 2005 respectively. The net expense of \$0, \$28,752 and \$197,515 is included in selling expenses in the accompanying statement of operations for the years ended September 30, 2007, 2006, and 2005, respectively.

### (4) Major Customers and Credit Risks

We had substantially no operations during the fiscal year 2007. Only one customer accounted for more than 10% of net sales for the fiscal years 2006 and 2005. Two customers accounted for more than 10% of our total outstanding trade receivable as of September 30, 2006 and 2005.

The vast majority of our sales in fiscal 2006 and 2005 were to customers within the United States. Sales to customers outside the United States, as a percentage of total revenues, were approximately 6.8 % and 14% in the fiscal years ended September 30, 2006 and 2005, respectively. Most of our foreign sales were to one customer.

(5) Inventories

Inventories related to discontinued operations consisted of the following at September 30, 2007 and 2006:

42

---



Table of Contents

|   | 2007 | 2006         |
|---|------|--------------|
| Raw materials                             | \$ — | \$ 1,953,305 |
| Work in process                           | —    | —            |
| Finished goods                            | —    | 143,459      |
| Other                                     | —    | —            |
|   |      | 2,096,764    |
| Inventory reserve                         | —    | (45,000)     |
| Total, classified as assets held for sale | \$ — | \$ 2,051,764 |

## (6) Property, Plant and Equipment

Property, plant and equipment consisted of the following at September 30, 2007 and 2006:

|  | 2007 | 2006        | Useful Life  |
|--|------|-------------|--------------|
| Machinery and equipment                                      | \$ — | \$ 544,498  | 2 - 10 years |
| Computer equipment and systems                               | —    | 605,712     | 2 - 7 years  |
| Furniture, fixtures and other improvements                   | —    | 500,267     | 3 - 5 years  |
|  |      | 1,650,476   |              |
| Less classified as discontinued                              | —    | (1,650,476) |              |
| Total property, plant and equipment for continued operations | \$ — | \$ —        |              |

Depreciation expense was \$0, \$99,789, and \$285,835 for the years ended September 30, 2007, 2006 and 2005, respectively. Repairs and maintenance expense was \$0, \$64,420, and \$86,043 for the years ended September 30, 2007, 2006 and 2005 respectively. All such amounts are classified in discontinued operations.

## (7) Agreements with Laurus

Pursuant to the Agreement Regarding the NCR Transaction and Other Asset Sales, dated November 26, 2004 (the "Asset Sales Agreement"), by and between the Company and Laurus Master Fund, Ltd. ("Laurus"), the Company agreed to pay to Laurus a portion of the excess net proceeds from the ATM business sale and the Cash Security Business Sale.

On June 9, 2006, we and Laurus entered into the Laurus Termination Agreement which, among other things, provided for the payment of a sale fee of \$8,508,963 to Laurus (the "Sale Fee") in full satisfaction of all amounts payable to Laurus under the Asset Sales Agreement, including fees payable in respect of the ATM business sale and the Cash Security Business Sale. The Laurus Termination Agreement further provided that, upon payment of the Sale Fee and performance by the Company of its obligations under the Stock Redemption Agreement described below, neither the Company nor any of its subsidiaries will have any further obligation to Laurus. Further, each of the Company and Laurus has granted each other and their respective affiliates and subsidiaries reciprocal releases from and against any claims and causes of action that may exist.

We and Laurus entered a Stock Redemption Agreement on January 12, 2006 and as subsequently amended. Pursuant to the terms of the Stock Redemption Agreement: we agreed, among other things, (i) to repurchase from Laurus, upon the closing of the Cash Security Business Sale, all shares of our common stock held by Laurus, and (ii) Laurus agreed to the cancellation as of the closing date of the Cash Security Business Sale of warrants it holds to purchase 4,750,000 shares of our common stock at an exercise price of \$.30 per share, and not to exercise such warrants prior to the earlier

to occur of September 30, 2006 and the date on which the Asset Purchase Agreement is terminated.

Following the Cash Security Business Sale, on October 2, 2006, the Company applied the net purchase price, the cash adjustment, and \$5,400,000 in proceeds (together with accrued interest of \$206,799) from the ATM business sale, to pay the following amounts to Laurus: (i) \$8,508,963 pursuant to the terms of the Laurus Termination Agreement and (ii) \$6,545,340 representing the purchase from Laurus by the Company of 19,251,000 shares of Company common stock pursuant to the terms of the Stock Redemption Agreement. Following both such payments to Laurus, the Company received \$6,781,246 in net proceeds from the Cash Security Business Sale.

Table of Contents

On October 2, 2006, following the foregoing payments to Laurus pursuant to the terms of the Laurus Termination Agreement and the Stock Redemption Agreement, no further fees remained payable by the Company to Laurus and, to our knowledge, Laurus does not own any shares of the Company.

## (8) Accrued Expenses

Accrued expenses consisted of the following at September 30, 2007 and 2006:

|   | 2007       | 2006         |
|---|------------|--------------|
| Reserve for warranty charges                            | \$         | -\$ 826,152  |
| Taxes:  |            | —            |
| Sales and use   |            | — 11,049     |
| Ad valorem  |            | — 44,000     |
| Wages and related benefits                              |            | — 662,348    |
| Other   |            | — 555,126    |
| Other accrued expenses related to continuing operations | 141,401    | 150,194      |
| Total accrued expenses                                  | \$ 141,401 | \$ 2,248,869 |
| Less: discontinued liabilities                          |            | (2,098,675)  |
| Total accrued expenses related to continuing operations | \$ 141,401 | \$ 150,194   |

## (9) Warrants

At September 30, 2007, we had outstanding warrants to purchase 697,500 shares of common stock that expire at various dates through November 2010. The warrants have exercise prices ranging from \$0.40 to \$0.68 per share and, if exercised, would generate proceeds to us of approximately \$419,000.

## Common Stock Purchase Warrants:

|   | Warrants | Expiration Date | Exercise Price | Relative Fair Value |
|---|----------|-----------------|----------------|---------------------|
| Other parties in connection with Laurus financing |          |                 |                |                     |
| (1)   | 197,500  | 11/24/2010      | 0.40           | 127,951             |
| AIG/National Union Fire Insurance Co. (2)         | 500,000  | 11/01/2007      | 0.68           | 224,490             |
| Outstanding warrants as of September 30, 2007     | 697,500  |                 |                | \$ 352,441          |

## Value calculated using Black-Scholes:

|     |           | Stock Price<br>At Issuance | Expected<br>Term | Volatility | Risk Free<br>Rate |
|-----|-----------|----------------------------|------------------|------------|-------------------|
| (1) | Variables | \$ 0.72                    | 7 years          | 111.00%    | 3.72%             |
| (2) | Variables | \$ 0.67                    | 3 years          | 108.00%    | 3.85%             |

## (10) Employee Stock Option Plans

We adopted a Long-Term Incentive Plan in 1997 (the "1997 Plan") pursuant to which our Board of Directors may grant stock options to officers and key employees. The 1997 Plan, as amended, authorizes grants of options to purchase up to 2,000,000 shares of our common stock. Options are granted with an exercise price equal to the fair market value of the common stock at the date of grant. Options granted under the 1997 Plan vest over three-year periods and expire no later than 10 years from the date of grant. At September 30, 2007, there were 1,900,000 options outstanding and

32,950 shares available for grant under the 1997 Plan,. There were 648,150 options outstanding and 1,310,800 shares available for grant at September 30, 2006. There were 1,099,810 options outstanding and 855,890 shares available for grant at September 30, 2005.

Table of Contents

On March 21, 2007, the Company awarded Messrs. Griggs and Clay an aggregate of 1,900,000 stock options to purchase our common stock at an exercise price of \$0.62 per share pursuant to the Company's 1997 Long-Term Incentive Plan. Of this award, 34% of the options vest on the first anniversary of the date of the grant, 33% of the options vest on the second anniversary of the date of the grant and the remaining 33% of the options vest on the third anniversary of the date of the grant. In addition, 100% of the options vest upon a change of control. There were no stock options granted during the fiscal year ended 2006 and 363,810 stock options granted during the fiscal year ended 2005.

At September 30, 2007, the options outstanding under the 1997 Plan had exercise prices of \$0.62 per share with a remaining contractual life of 9.47 years. At September 30, 2006, the range of exercise prices was \$2.50 to \$0.25 per share with a weighted average remaining contractual life of 4.56 years. At September 30, 2005, the range of exercise prices was \$2.50 to \$0.25 per share with a weighted-average remaining contractual life of the outstanding options was 5.32 years.

Activity during the periods indicated was as follows:

|                               | Number of<br>Shares | Weighted<br>Average<br>Exercise Price |
|-------------------------------|---------------------|---------------------------------------|
| Balance at September 30, 2004 | 786,000             | 1.67                                  |
| Granted                       | 363,810             | 0.25                                  |
| Exercised                     | —                   | —                                     |
| Canceled                      | (50,000)            | 1.16                                  |
| Balance at September 30, 2005 | 1,099,810           | 1.22                                  |
| Granted                       | —                   | —                                     |
| Exercised                     | —                   | —                                     |
| Canceled                      | (451,660)           | 1.19                                  |
| Balance at September 30, 2006 | 648,150             | 1.24                                  |
| Granted                       | 1,900,000           | 0.62                                  |
| Exercised                     | (27,250)            | 0.25                                  |
| Canceled                      | (620,900)           | 1.28                                  |
| Balance at September 30, 2007 | 1,900,000           | 0.62                                  |

(11) Income Taxes

Income tax expense (benefit) attributable to income from operations consisted of the following for the years ended September 30, 2007, 2006 and 2005:

|                                       | 2007      | 2006       | 2005 |
|---------------------------------------|-----------|------------|------|
| Federal current tax Expense (Benefit) | \$ 75,808 | \$ 159,546 | \$ — |
| Federal deferred tax benefit          | —         | —          | —    |
| State tax                             | —         | —          | —    |
|                                       | \$ 75,808 | \$ 159,546 | \$ — |

The income tax differed from the amounts computed by applying the U.S. statutory federal income tax rate of 34% to income (loss) before taxes as a result of the following:

Table of Contents

|   | 2007         | 2006         | 2005          |
|---|--------------|--------------|---------------|
| Computed "expected" tax expense (benefit)     | \$ 2,156,789 | \$ 1,707,357 | \$(1,117,213) |
| Change in valuation allowances                | (1,867,170)  | (4,156,100)  | 1,638,969     |
| Nondeductible items and permanent differences | (272,618)    | 1,499,031    | (521,756)     |
| AMT   | 75,808       | 70,962       | —             |
| Other   | (17,001)     | 1,038,296    | —             |
|   | \$ 75,808    | \$ 159,546   | \$ (0)        |

The tax effects of temporary differences that were the sources of the deferred tax assets consisted of the following at September 30, 2007 and 2006:

|                                 | 2007      | 2006        |
|---------------------------------|-----------|-------------|
| Deferred tax assets:            |           |             |
| Fixed assets                    | \$ —      | \$ 286,643  |
| Accounts receivable             | —         | 15,151      |
| Inventories                     | —         | 268,704     |
| Accrued expenses                | —         | 511,398     |
| Stock Option                    | 47,427    | —           |
| Other                           | —         | 39,332      |
| Net operating losses            | 138,304   | 931,673     |
| Total gross deferred tax assets | 185,731   | 2,052,900   |
| Less: valuation allowance       | (185,731) | (2,052,900) |
| Net deferred tax assets         | —         | —           |
| Other deferred tax liabilities  | —         | —           |
| Net deferred tax assets         | \$ —      | \$ —        |

In assessing the realizability of deferred assets, management considers whether it is more likely than not some portion or all of the deferred tax assets will be realized. The Company has established a valuation allowance for such deferred tax assets to the extent such amounts are not utilized to offset existing deferred tax liabilities reversing in the same periods.

As of September 30, 2007, the Company had remaining net operating losses of approximately \$406,775, which will begin to expire in 2024. The Company utilized net operating loss carryforwards of \$4,190,420, \$2,964,614 and \$3,273,117 in the fiscal years ended September 30, 2007, 2006 and 2005, respectively, to offset gains as a result of the Cash Security Business Sale, the ATM Business Sale and other income from discontinued operations.

(12) Earnings Per Share

The following is a reconciliation of the numerators and denominators of the basic and diluted computations for the years ended September 30, 2007, 2006 and 2005:

Table of Contents

|  | 2007         | 2006         | 2005           |
|--|--------------|--------------|----------------|
| Net income (loss) (numerator for diluted earnings (loss) per share)                          | \$ 6,267,689 | \$ 4,862,093 | \$ (3,285,922) |
| Weighted average common shares outstanding (denominator for basic earnings (loss) per share) | 19,563,447   | 33,499,128   | 20,292,796     |
| Dilutive shares outstanding  | 111,325      | —            | —              |
| Weighted average common and dilutive shares outstanding                                      | 19,674,772   | 33,499,128   | 20,292,796     |
| Basic earnings (loss) per share  | \$ 0.33      | \$ 0.15      | \$ (0.16)      |
| Diluted earnings (loss) per share  | \$ 0.32      | \$ 0.15      | \$ (0.16)      |

Common stock equivalent shares consisting of warrants, options and convertible debt of 1,127,725; 5,874,687 and \$29,717,185 were excluded from the computation of diluted earnings per share due to their anti-dilutive effect for the years ended September 30, 2007, 2006 and 2005, respectively.

## (13) Marketable Securities Available- for- Sale

We own 2,022,000 of the common stock of Cashbox plc pursuant to our exercise of a warrant in September 2005. On or about March 27, 2006, shares of Cashbox plc began trading on the AIM Market of the London Stock Exchange. Prior to Cashbox plc going public, we considered their shares not marketable, thus the shares were carried at cost. Since the shares are now public and market value is readily available, we determined the market value of the shares and pursuant to SFAS No. 115 "Accounting for Investments in Equity and Debt Securities" we classified these shares as available for sale. Pursuant to the SFAS No. 115 the unrealized change in fair value was excluded from earnings and recorded net of tax as other comprehensive income.

As of September 30, 2007 and 2006, our common stock in Cashbox plc was recorded at a fair value of \$505,500 and \$851,939, respectively. Unrealized gains on these shares of common stock, which were added to stockholders' equity as of September 30, 2007 and 2006, were \$205,500 and \$551,939, respectively.

As of September 30, 2007 we were restricted from selling any shares until the second anniversary of its admission to the London Stock Exchange unless we (i) consult with Cashbox's primary broker prior to the disposal of any shares and (ii) effect the disposal of the shares through Cashbox's primary broker from time to time and in such manner as such broker may require with a view to the maintenance of an orderly market in the shares of Cashbox.

## (14) Investment in 3CI Complete Compliance Corporation

We formerly owned 100% of 3CI Complete Compliance Corporation ("3CI"), a company engaged in the transportation and incineration of medical waste, until we divested our majority interest in February 1994. At September 30, 2005, we continued to own 698,889 shares of the common stock of 3CI and the value of our investment was marked to the market value of \$279,556, or \$.40 per share.

On May 30, 2006, we received a settlement payment of \$4,489,963 and on September 6, 2006, the Company received an additional settlement payment in the amount of \$1,169,544 arising out of our ownership of the 3CI shares under a class action settlement paid out to minority shareholders of 3CI. Under the terms of the settlement and in order to participate in the settlement, we tendered all 698,889 shares that we owned to Stericycle, Inc., the current majority shareholder of 3CI and the defendant under the class action, and accordingly we no longer hold any ownership interest in 3CI. As a result, we recognized a gain of \$5,380,121 on the disposal of these shares during the year ended September 30, 2006, which represented the difference between the settlement payment amount and our carrying amount.





Table of Contents

(15) Leases

We had no leases for real property or equipment in 2007. We leased office and warehouse space, transportation equipment and other equipment under terms of operating leases which were transferred in the sale of the Cash Security business and the sale of the ATM business. Rental expense under those leases for the years ended September 30, 2006 and 2005, was approximately \$210,820 and \$453,000, respectively.

(16) Litigation

We and our subsidiaries are each subject to certain other litigation and claims arising in the ordinary course of business. In our management's opinion, the amounts ultimately payable, if any, resulting from such litigation and claims will not have a materially adverse effect on our financial position.

On June 9, 2005, Corporate Safe Specialists, Inc. ("CSS") filed a lawsuit against Secure Alliance Holdings Corporation and our wholly owned subsidiary, Secure Alliance, L.P. The lawsuit, Civil Action No. 02-C-3421, was filed in the United States District Court of the Northern District of Illinois, Eastern Division (the "CSS Lawsuit"). CSS alleges that the Sentinel product sold by Secure Alliance, L.P. infringes on one or more patent claims found in CSS patent U.S. Patent No. 6,885,281 (the '281 patent). CSS sought injunctive relief against future infringement, unspecified damages for past infringement and attorney's fees and costs. Secure Alliance Holdings Corporation was released from this lawsuit, but Secure Alliance, L.P. remained a defendant.

As part of the Cash Security Business Sale, the buyer of the Cash Security business, Sentinel Operating, L.P., agreed to undertake and have the sole right to direct on behalf of itself and us, the defense of the CSS Lawsuit, with counsel of its choice, provided that in the event we incur any adverse consequences in connection with the CSS Lawsuit subsequent to the Cash Security Business Sale, then Sentinel Operating, L.P. will indemnify us from and against the entirety of any such adverse consequences to the extent they are incurred as a result of the breach of the Cash Security Asset Purchase Agreement or our negligent action or inaction.

On March 31, 2007, CSS, Secure Alliance Holdings Corporation and Secure Alliance, L.P. (formerly known as Tidel Engineering, L.P.) entered into a settlement and mutual release agreement whereby the parties jointly moved to dismiss all claims and counterclaims in the CSS Lawsuit. The parties agreed to pay no monetary settlement and each bear its own legal costs and expenses. Pursuant to the settlement, we and our predecessor agreed not to make, use, sell or offer for sale any safe that infringes upon the '281 patent during the period of time the '281 patent is valid; however, we and our predecessor may challenge, contest, or raise as a defense the validity of the '281 patent if CSS or any other party files a claim against us asserting infringement of the '281 patent.

On April 16, 2007, Fire King International, LLC ("Fire King") filed a lawsuit against Corporate Safe Specialists, Inc., Tidel Technologies, Inc. and Tidel Engineering, LP. The lawsuit, Civil Action No. 03-07CV0655-G, was filed in the United States District Court of the Northern District of Texas, Dallas Division. Fire King alleges that the Sentinel product previously sold by the Company's predecessor infringes on one or more patent claims found in Fire King patent U.S. Patent No. 7,063,252 (the '252 patent). Fire King sought injunctive relief against future infringement, unspecified damages for past infringement and attorney's fees and costs.

On September 14, 2007, Fire King, Secure Alliance Holdings Corporation and Secure Alliance, L.P. entered into a confidential settlement and mutual release agreement whereby the parties jointly moved to dismiss all claims in the Fire King lawsuit. In connection therewith, we paid an undisclosed amount to Fire King to settle a disputed claim and admitted no liability or wrongdoing. The court has dismissed Fire King's claims against the Company with prejudice.

(17) Subsequent Events

On December 6, 2007, we entered into a definitive Agreement and Plan of Merger (“Merger Agreement”) by and among Sequoia Media Group, LC, a private Utah limited liability company (“Sequoia”), the Company and SMG Utah, LC, a Utah limited liability company and wholly owned subsidiary of the Company (“Merger Sub”). Pursuant to the Merger Agreement, Merger Sub will merge with and into Sequoia (the “Merger”), with Sequoia continuing as the surviving entity in the Merger and each issued and outstanding Sequoia equity interest will automatically be converted into the right to receive 0.5806419 shares of the Company common stock, calculated after a 1 for 3 reverse stock split of the Company’s common stock contemplated to be effected prior to the Merger. Immediately following the Merger, the members of Sequoia, in aggregate, will own approximately 80% of the equity interests in the Company and the stockholders of the Company will own the remaining approximately 20% equity interests in the combined company.

In addition, pursuant to a Loan and Security Agreement (“Loan Agreement”) entered into between the Company and Sequoia on December 6, 2007, the Company has agreed to extend up to \$2.5 million in secured financing to Sequoia. Under the terms of the Loan Agreement, Sequoia has agreed to pay interest on the loan at a rate per annum equal to 10%. Interest on the loan is payable on the scheduled maturity date, December 31, 2008. In addition, if the loan obligations have not been paid in full on or prior to the scheduled maturity date, a monthly fee equal to 10% of the outstanding loan obligations is payable to the Company by Sequoia on the last day of each calendar month for which the loan obligations remain outstanding.

Table of Contents

In addition, prior to the effectiveness of the Merger, the Company proposes to (i) form a wholly owned subsidiary, and (ii) contribute to such subsidiary approximately \$2.2 million in cash, 2,022,000 shares of Cashbox, a publicly listed UK company, and amounts receivable under certain promissory notes not associated with the Sequoia transaction. The common stock of such subsidiary will be distributed, to the Company stockholders as of a date prior to the Merger, at such time as the distribution can be effected in compliance with applicable law, whether pursuant to an effective registration statement or a valid exemption from registration.

Our Board of Directors approved the Merger Agreement and the foregoing transactions at a special meeting on November 29, 2007. The Merger is subject to stockholder approval and other customary conditions and is expected to be completed during the first quarter of 2008. If the Company terminates the Merger Agreement before the consummation of the Merger in connection with the Company's acceptance of a superior proposal, the Company has agreed to pay Sequoia a termination fee of \$1,000,000 in cash under certain circumstances. At closing of the Merger, outstanding stock options granted to our executive officers, Jerrell G. Clay and Stephen P. Griggs, to purchase an aggregate 1,900,000 shares of our common stock at exercise prices of \$0.62 per share will fully vest and become immediately exercisable.

Sequoia is committed to revolutionizing the way life events and memories are shared and treasured through personal digital expressions. Sequoia developed aVinci Experience products to simplify and automate the process of creating professional-quality multi-media productions using personal photos and videos. The patented technology provides complete, refined products, including DVD's, photo books and posters. aVinci distributes products through leading retailers, photo websites and image service providers.

(18) Status of Company

On October 2, 2006, we completed the Cash Security Business Sale and became a shell public company with approximately \$12.9 million in cash, cash equivalents and marketable securities held-to-maturity; or approximately \$0.66 per share based on 19,426,210 shares outstanding. See Note (17) above for a discussion of the Merger Agreement and other matters.

Table of Contents

## SCHEDULE II

SECURE ALLIANCE HOLDINGS CORPORATION AND SUBSIDIARIES  
(FORMERLY TIDEL TECHNOLOGIES, INC.)  
VALUATION AND QUALIFYING ACCOUNTS

| Classification  | Balance at<br>Beginning of<br>Period | Additions<br>Charged to<br>Costs and<br>Expenses | Charged to<br>Other<br>Accounts | Deductions   | Balance at<br>End of Period |
|---|--------------------------------------|--|---------------------------------|--------------|-----------------------------|
| For the year ended September 30, 2007:                  |                                      |  |                                 |              |                             |
| Allowance for doubtful accounts and<br>notes receivable | \$ 44,943                            | \$ —   | —                               | 44,943       | \$ —                        |
| Inventory reserve                                       | 45,000                               | —  | —                               | 45,000       | —                           |
|   | \$ 89,943                            | \$ —   | —                               | \$ 89,943    | \$ —                        |
| For the year ended September 30, 2006:                  |                                      |  |                                 |              |                             |
| Allowance for doubtful accounts and<br>notes receivable | \$ 1,132,382                         | \$ —   | —                               | 1,087,439    | \$ 44,943                   |
| Inventory reserve                                       | 100,558                              | —  | —                               | 55,558       | 45,000                      |
|   | \$ 1,232,940                         | \$ —   | —                               | \$ 1,142,997 | \$ 89,943                   |
| For the year ended September 30, 2005:                  |                                      |  |                                 |              |                             |
| Allowance for doubtful accounts and<br>notes receivable | \$ 1,076,055                         | \$ 56,327  | —                               | —            | \$ 1,132,382                |
| Reserve for settlement of class action<br>litigation    | 1,564,490                            | —  | —                               | 1,564,490    | —                           |
| Inventory reserve                                       | 1,900,000                            | —  | —                               | 1,799,442    | 100,558                     |
|   | \$ 4,540,545                         | \$ 56,327  | —                               | \$ 3,363,932 | \$ 1,232,940                |

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SECURE ALLIANCE HOLDINGS CORPORATION  
(Company)

January 14, 2008

/s/ Jerrell G. Clay  
Jerrell G. Clay  
Principal Executive Officer

January 14, 2008

/s/ Stephen P. Griggs  
Stephen P. Griggs  
Principal Financial Officer

51

---

Table of Contents

POWER OF ATTORNEY

Secure Alliance Holdings Corporation and each of the undersigned do hereby appoint Jerrell G. Clay its or his true and lawful attorney to execute on behalf of Secure Alliance Holdings Corporation and the undersigned any and all amendments to this Annual Report on Form 10-K and to file the same with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission; each of such attorneys shall have the power to act hereunder with or without the other.

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

| SIGNATURE                                  | TITLE   | Date             |
|--|---|------------------|
| /s/ Jerrell G. Clay<br>Jerrell G. Clay     | Director and Chief Executive<br>Officer   | January 14, 2008 |
| /s/ Stephen P. Griggs<br>Stephen P. Griggs | Director, President, Principal<br>Financial Officer, Operating<br>Officer and Secretary | January 14, 2008 |

Table of Contents

## INDEX TO EXHIBITS

Except as otherwise indicated, the following documents are incorporated by reference as Exhibits to this Report:

| Exhibit Number | Description   |
|----------------|---|
| 2.01.          | Asset Purchase Agreement dated February 19, 2005 by and among Tidel Engineering, L.P., NCR Texas LLC and us (incorporated by reference to Exhibit 2.01 of our Annual Report on Form 10-K for the fiscal years ended September 30, 2004 and 2003).   |
| 2.02.          | Asset Purchase Agreement, dated as of January 12, 2006, by and among Sentinel Operating, L.P., Tidel Technologies, Inc., and Tidel Engineering, L.P.(incorporated by reference to Exhibit 10.1 of Form 8-K filed on January 19, 2006).  |
| 2.03.          | Amended and Restated Asset Purchase Agreement, dated as of June 9, 2006, by and among Sentinel Operating, L.P., Tidel Technologies, Inc. and Tidel Engineering, L.P.(incorporated by reference to Exhibit 10.1 of Form 8-K filed on June 14, 2006).   |
| 2.04.          | Agreement and Plan of Merger, dated as of December 6, 2007, by and among Sequoia Media Group, LC, Secure Alliance Holdings Corporation, and SMG Utah, LC (incorporated by reference to Exhibit 10.1 of Form 8-K filed on December 6, 2007).   |
| 3.01.          | Certificate of Incorporation of American Medical Technologies, Inc. (filed as Articles of Domestication with the Secretary of State, State of Delaware on November 6, 1987 and incorporated by reference to Exhibit 2 of our Form 10 dated November 7, 1988 as amended by Form 8 dated February 2, 1989). |
| 3.02.          | Amendment to Certificate of Incorporation dated July 16, 1997 (incorporated by reference to Exhibit 3 of our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1997).   |
| 3.03.          | Our By-Laws (incorporated by reference to Exhibit 3 of our Form 10 dated November 7, 1988 as amended by Form 8 dated February 2, 1989).   |
| 3.04.          | Certificate of Amendment of Certificate of Incorporation, filed with the State of Delaware Secretary of State on October 3, 2006 (incorporated by reference to Exhibit 3.04 of our Annual Report on Form 10-K for the fiscal year ended September 30, 2006).  |
| 4.01.          | Form of Agreement under our 1997 Long-Term Incentive Plan (incorporated by reference to Exhibit 4.3 of our Form S-8 dated February 14, 2000).   |
| 4.02.          | Convertible Term Note in favor of Laurus Master Fund, Ltd. in the principal amount of \$6,450,000 dated November 25, 2003 (incorporated by reference to Exhibit 4.35 of our Annual Report on Form 10-K for the fiscal year ended September 30, 2002, filed February 1, 2005).                             |
| 4.03.          | Convertible Term Note in favor of Laurus Master Fund, Ltd. in the principal amount of \$400,000 dated November 25, 2003 (incorporated by reference to Exhibit 4.36 of our Annual Report on Form 10-K for the fiscal year ended September 30, 2002, filed February 1, 2005).                               |
| 4.04.          | Equity Pledge Agreement by and between Laurus Master Fund, Ltd. and us dated November 25, 2003 (incorporated by reference to Exhibit 4.39 of our Annual Report on Form 10-K for the fiscal year ended   |

September 30, 2002, filed February 1, 2005).

- 4.05. Partnership Interest Pledge Agreement by and among Tidel Cash Systems, Inc., Tidel Services, Inc. and Laurus Master Fund, Ltd., dated as of November 25, 2003 (incorporated by reference to Exhibit 4.40 of our Annual Report on Form 10-K for the fiscal year ended September 30, 2002, filed February 1, 2005).
- 4.06. Registration Rights Agreement by and between Laurus Master Fund, Ltd. and us, dated November 25, 2003 (incorporated by reference to Exhibit 4.41 of our Annual Report on Form 10-K for the fiscal year ended September 30, 2002, filed February 1, 2005).



Table of Contents

- 4.07. Common Stock Purchase Warrant issued to Laurus Master Fund, Ltd. dated November 25, 2003 (incorporated by reference to Exhibit 4.42 of our Annual Report on Form 10-K for the fiscal year ended September 30, 2002, filed February 1, 2005).
- 4.08. Guaranty by and among Tidel Engineering, L.P., Tidel Cash Systems, Inc., Tidel Services, Inc., Laurus Master Fund, Ltd. and us, dated as of November 25, 2003 (incorporated by reference to Exhibit 4.44 of our Annual Report on Form 10-K for the fiscal year ended September 30, 2002, filed February 1, 2005).
- 4.09. Convertible Term Note in favor of Laurus Master Fund, Ltd. in the principal amount of \$600,000 dated November 26, 2004 (incorporated by reference to Exhibit 10.2 of our Current Report on Form 8-K dated November 26, 2004).
- 4.10. Convertible Term Note in favor of Laurus Master Fund, Ltd. in the principal amount of \$1,500,000 dated November 26, 2004 (incorporated by reference to Exhibit 10.3 of our Current Report on Form 8-K dated November 26, 2004).
- 4.11. Common Stock Purchase Warrant issued to Laurus Master Fund, Ltd. dated November 26, 2004 (incorporated by reference to Exhibit 10.4 of our Current Report on Form 8-K dated November 26, 2004).
- 4.12. Agreement of Amendment and Reaffirmation by and among Tidel Engineering, L.P., Tidel Cash Systems, Inc., AnyCard International, Inc., Tidel Services, Inc., Laurus Master Fund, Ltd., and us, dated as of November 26, 2004 (incorporated by reference to Exhibit 10.5 of the Current Report on Form 8-K dated November 26, 2004).
- 4.13. Convertible Promissory Note in favor of Laurus Master Fund, Ltd. in the principal amount of \$1,250,000 dated November 26, 2004 (incorporated by reference to Exhibit 10.3 of our Current Report on Form 8-K dated November 26, 2004).
- 4.14. Guaranty in favor of Laurus Master Fund, Ltd. dated as of November 26, 2004 (incorporated by reference to Exhibit 10.8 to our Current Report on Form 8-K dated November 26, 2004).
- 9.01. Voting Agreement, dated as of January 12, 2006, by and between Tidel Technologies, Inc., Sentinel Technologies, Inc., Sentinel Operating, L.P. and the individuals named therein (incorporated by reference to Exhibit 10.6 of Form 8-K/A filed on January 31, 2006).
- 9.02. Voting Agreement, dated as of January 12, 2006, by and between Tidel Technologies, Inc., Sentinel Technologies, Inc., Sentinel Operating, L.P. and Laurus Master Fund, Ltd. (incorporated by reference to Exhibit 10.7 of Form 8-K/A filed on January 31, 2006).
- 9.03. Amendment to Voting Agreement, dated as of February 28, 2006, by and among Tidel Technologies, Inc., Sentinel Technologies, Inc., Sentinel Operating, L.P. and Laurus Master Fund, Ltd. (incorporated by reference to Exhibit 10.3 of Form 8-K filed on March 7, 2006).
- 9.04. Second Amendment to Voting Agreement, dated as of June 9, 2006, by and among Tidel Technologies, Inc., Sentinel Technologies, Inc., Sentinel Operating, L.P. and Laurus Master Fund, Ltd. (incorporated by reference to Exhibit 10.5 of Form 8-K filed on June 14, 2006).

(1) 10.01.

1997 Long-Term Incentive Plan (incorporated by reference to Exhibit 4.1 of our Form S-8 dated February 14, 2000).

10.02. Securities Purchase Agreement by and between Laurus Master Fund, Ltd. and us dated November 25, 2003 (incorporated by reference to Exhibit 10.17 of our Annual Report on Form 10-K for the fiscal year ended September 30, 2002, filed February 1, 2005).

10.03. Securities Purchase Agreement by and between Laurus Master Fund, Ltd. and us dated November 26, 2004 (incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K dated November 26, 2004).

Table of Contents

- 10.04. Purchase Order Finance and Security Agreement dated as of November 26, 2004 between Laurus Master Fund, Ltd. and Tidel Engineering, L.P. (incorporated by reference to Exhibit 10.6 of our Current Report on Form 8-K dated November 26, 2004).
- 10.05. Agreement Regarding NCR Transaction and Other Asset Sales by and between Laurus Master Fund, Ltd., and us, dated November 26, 2004 (incorporated by reference to Exhibit 10.22 of our Annual Report on Form 10-K for the fiscal years ended September 30, 2004 and 2003).
- (1) 10.06. Tidel/Peltier Agreement dated February 23, 2005 (incorporated by reference to Exhibit 99.1 to this Annual Report on Form 8-K dated February 23, 2005).
- (1) 10.07. Settlement Agreement by and between Tidel Engineering, L.P., Michael F. Hudson and us, dated June 22, 2005.
- 10.08. Exercise and Conversion Agreement, dated as of January 12, 2006, by and among Sentinel Technologies, Inc., Sentinel Operating, L.P., Tidel Technologies, Inc. and Laurus Master Fund, Ltd. (incorporated by reference to Exhibit 10.2 of Form 8-K filed on January 19, 2006).
- 10.09. Cash Collateral Deposit Letter, dated as of January 12, 2006, by and between Laurus Master Fund, Ltd., Tidel Technologies, Inc., Tidel Engineering, L.P., Tidel Cash Systems, Inc., Tidel Services, Inc. and AnyCard International, Inc. (incorporated by reference to Exhibit 10.3 of Form 8-K filed on January 19, 2006).
- 10.10. Stock Redemption Agreement, dated as of January 12, 2006, by and among Tidel Technologies, Inc. and Laurus Master Fund, Ltd. (incorporated by reference to Exhibit 10.4 of Form 8-K filed on January 19, 2006).
- 10.11. Reaffirmation, Ratification and Confirmation Agreement, dated as of January 12, 2006, by and between Tidel Technologies, Inc. and Laurus Master Fund, Ltd. (incorporated by reference to Exhibit 10.5 of Form 8-K filed on January 19, 2006).
- 10.12. Amendment to Exercise and Conversion Agreement, dated as of February 28, 2006, by and among Sentinel Technologies, Inc., Sentinel Operating, L.P., Tidel Technologies, Inc. and Laurus Master Fund, Ltd. (incorporated by reference to Exhibit 10.1 of Form 8-K filed on March 7, 2006).
- 10.13. Amendment to Stock Redemption Agreement, dated as of February 28, 2006, by and between Tidel Technologies, Inc. and Laurus Master Fund, Ltd. (incorporated by reference to Exhibit 10.2 of Form 8-K filed on March 7, 2006).
- 10.14. Agreement, dated as of June 9, 2006, by and between Tidel Technologies, Inc. and Laurus Master Fund, Ltd. (incorporated by reference to Exhibit 10.2 of Form 8-K filed on June 14, 2006).
- 10.15. Second Amendment to Stock Redemption Agreement, dated as of June 9, 2006, by and among Tidel Technologies, Inc. and Laurus Master Fund, Ltd. (incorporated by reference to Exhibit 10.3 of Form 8-K filed on June 14, 2006).
- 10.16. Second Amendment to Exercise and Conversion Agreement, dated as of June 9, 2006, by and among Sentinel Technologies, Inc., Sentinel Operating, L.P., Tidel Technologies, Inc. and Laurus Master Fund, Ltd. (incorporated by reference to Exhibit 10.4 of Form 8-K filed on June 14, 2006).

(1) 10.17. Agreement, dated as of June 9, 2006, between Tidel Engineering, L.P. and Mark K. Levenick. (incorporated by reference to Exhibit 10.6 of Form 8-K filed on June 14, 2006).

\*10.18. Loan and Security Agreement, dated as of December 6, 2007, between Sequoia Media Group, LC and Secure Alliance Holdings Corporation.

14.01. Code of Conduct and Ethics of Tidel Technologies, Inc (incorporated by reference to Exhibit 2.01 of our Annual Report on Form 10-K for the fiscal years ended September 30, 2004 and 2003).

Table of Contents

21.01. Subsidiaries.

\*31.1. Certification of Chief Executive Officer, Jerrell G. Clay, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

\*31.2. Certification of Principal Financial Officer, Stephen P. Griggs, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

\*32.1. Certification of Chief Executive Officer, Jerrell G. Clay, pursuant to 18 U.S.C. Section 1350 adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

\*32.2. Certification of Principal Financial Officer, Stephen P. Griggs, pursuant to 18 U.S.C. Section 1350 adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

---

\* Filed herewith.

(1) Indicates management contract or compensatory plan or arrangement.