

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

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2006

Or

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

For the transition period from _____ to _____

Commission file Number 000-17288

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

Delaware
(State or other jurisdiction of incorporation or
organization)

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

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

77042
(Zip Code)

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

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

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

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

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

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

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

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

SECURE ALLIANCE HOLDINGS CORPORATION

TABLE OF CONTENTS

	<u>Page</u>
PART I. FINANCIAL INFORMATION	
<u>Item 1. Condensed Financial Statements</u>	3
<u>Condensed Balance Sheets as of December 31, 2006 (unaudited) and September 30, 2006</u>	3
<u>Unaudited Condensed Statements of Operations for the Three Months Ended December 31, 2006 and 2005</u>	4
<u>Unaudited Condensed Statements of Comprehensive Income (Loss) for the Three Months Ended December 31, 2006 and 2005</u>	5
<u>Unaudited Condensed Statements of Cash Flows for the Three Months Ended December 31, 2006 and 2005</u>	6
<u>Notes to Condensed Financial Statements</u>	7
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	12
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	19
<u>Item 4. Controls and Procedures</u>	19
PART II. OTHER INFORMATION	
<u>Item 1. Legal Proceedings</u>	20
<u>Item 1A. Risk Factors</u>	20
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	20
<u>Item 6. Exhibits</u>	20
<u>Signatures</u>	21
Certification Pursuant to Section 302	
Certification Pursuant to Section 906	

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS**

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

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

See accompanying Notes to Condensed Financial Statements.

Table of Contents

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

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

See accompanying Notes to Condensed Financial Statements.

Table of Contents

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

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

See accompanying Notes to Condensed Financial Statements.

Table of Contents

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

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

See accompanying Notes to Condensed Financial Statements.

Table of Contents

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

NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

(1) Organization and Summary of Significant Accounting Policies

Organization and Basis of Presentation

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

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

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

Securities held to maturity and securities available for sale

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

(2) Discontinued Operations

Sale of ATM Business

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

Business.

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

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

Table of Contents

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

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

**SELECTED OPERATING DATA
(UNAUDITED)**

	For The Quarters Ended	
	December 31, 2006	December 31, 2005
Net sales	\$ —	\$ 3,847,874
Cost of sales	—	2,592,268
Gross profit	—	1,255,606
Selling, general and administrative	—	880,941
Depreciation and amortization	—	46,048
Operating income	—	328,617
Non-operating (income) expense	—	—
Net income	\$ —	\$ 328,617

Sale of Cash Security Business and Related Agreements with Laurus

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.

We classified the Cash Security business as a discontinued operation for the three months ended December 31, 2005.

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.

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 \$206,798.72) 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 remain payable by the Company to Laurus and, to our knowledge, Laurus does not own any shares of the Company.

We classified the Cash Security business as a discontinued operation for the three months ended December 31, 2005. 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)**

	December 31, 2006	September 30, 2006
ASSETS		
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
LIABILITIES		
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

Table of Contents

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

	For Three Months Ended	
	December 31,	December 31,
	2006	2005
Net sales	\$ —	\$ 4,745,876
Cost of sales	—	2,888,459
Gross profit	—	1,857,417
Selling, general and administrative	—	1,004,460
Depreciation and amortization	—	(7,526)
Operating income	—	860,483
Non-operating expense	—	94
Net income	\$ —	\$ 860,389

(3) Accounting policies related to Discontinued Operations which are Classified as Assets Held for Sale and discontinued operations

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.

Warranties

Certain products are sold under warranty against defects in materials and workmanship for a period of one to two 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 significant investments in billed receivables as of September 30, 2006 and 2005. 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.

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.

Table of Contents**Research and Development Cost**

Research and development costs are expensed as incurred. Research and development costs charged to expense were \$0 and \$474,830 for the quarter ending December 31, 2006 and 2005 respectfully.

Shipping and Handling Cost

There was no Shipping and handling costs billed to customers during the quarter ended December 31, 2006 and a total of \$130,701 for the quarter ended December 31, 2005. We incurred no shipping and handling costs for the quarter ended December 31, 2006 and \$132,462 for the quarter ended December 31, 2005. The net expense of \$1,761 is included in selling expenses in the accompanying statement of operations for the quarter ended December 31, 2005.

(4) Earnings Per Share

The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share computation:

	Three months ended December 31,	
	2006	2005
Net Income (loss) (numerator for basic earnings per share)	\$ 6,564,661	\$ (1,168,795)
Weighted average common shares outstanding (denominator for basic earnings per share)	19,847,452	20,667,210
Dilutive shares outstanding	170,004	—
Weighted average common and dilutive shares outstanding (denominator for diluted earnings per share)	20,017,456	20,667,210
Basic earnings per share	\$.33	\$ (0.05)
Diluted earnings per share	\$.33	\$ (0.05)

Earnings per share data for all periods presented have been computed pursuant to SFAS No. 128, "Earnings Per Share" that requires a presentation of basic earnings per share (basic EPS) and diluted earnings per share (diluted EPS). Basic EPS excludes dilution and is determined by dividing income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted EPS reflects the potential dilution that could occur if securities and other contracts to issue common stock were exercised or converted into common stock. As of December 31, 2006, we had no outstanding options, and we had outstanding warrants to purchase 697,500 shares with exercise prices ranging from \$.40 to \$.68 per share. Included in the computation of diluted EPS for the three months ended December 31, 2006 are options to purchase 623,150 shares to purchase common stock at a weighted average of \$1.27 per share. Excluded from the computation of diluted EPS for the three months ended December 31, 2005 were options to purchase 1,092,730 shares to purchase common stock at a weighted average of \$1.22 per share. Excluded from computation of diluted EPS for the three months ended December 31, 2005 were 5,890,000 warrants, with a remaining exercise price ranging from \$.30 to \$.40, as they would also be anti-dilutive.

(5) Marketable Securities Available- for- Sale

We own 2,022,000 of the common stock of Cashbox plc pursuant to our exercise of the Share Warrant Agreement in September 2005. On or about March 27, 2006, shares of Cashbox plc began trading on the AIM Market of the London Stock Exchange (the "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 as of June 30, 2006 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 during the three months ended December 31, 2006 was excluded from earnings and recorded net of tax as other comprehensive income.

Table of Contents

As of December 31, 2006, our common stock in Cashbox plc was recorded at a fair value of \$1,059,648. Unrealized gains on these shares of common stock, which were added to stockholders' equity as of December 31, 2006, were \$759,648.

As of December 31, 2006 we were restricted from selling any shares until the second anniversary of its admission to the 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.

(6) Status of Company

It is the present intention of the Company to review its financial position and consider all available alternatives including without limitation the acquisition of a new business or alternatively, the possible dissolution of the Company and liquidation of its assets, the discharge of any remaining liabilities, and the eventual distribution of the remaining assets to stockholders. Although management currently does not expect to liquidate the Company, if it later determines that liquidation is in the best interest of stockholders, such action will require the approval of the holders of a majority of the Company's then outstanding shares of common stock. If liquidation does occur there can be no assurances as to the amount of liquidation proceeds that might eventually be distributed to stockholders.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis together with our consolidated financial statements and notes thereto and the discussion "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Risk Factors" and "Forward-Looking Statements" included in 2006 Annual Report on Form 10-K for the Fiscal Year Ended September 30, 2006. The following information contains forward-looking statements, which are subject to risks and uncertainties. Should one or more of these risks or uncertainties materialize, actual results may differ from those expressed or implied by the forward-looking statements.

General

On October 2, 2006 we completed the Cash Security Business Sale. 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 \$206,798.72) 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.

At December 31, 2006, we had approximately \$12.4 million of cash, cash equivalents, certificates of deposit and marketable securities held-to-maturity.

Results of Operations

Since October 2, 2006, we have had substantially no operations.

Operating Segments

We conducted business within one operating segment, principally in the United States.

12

Table of Contents

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:

	December 31, 2006		December 31, 2005
ATM Business	\$	—\$	3,847,874
Cash Security Business:			
TACC		—	901,104
Sentinel		—	3,361,715
Parts & Other		—	483,057
Total Cash Security Business	\$	—\$	4,745,876

Table of Contents**Gross Profit, Operating Expenses and Non-Operating Items****Continuing Operations**

Due to the sale of our ATM business and our Cash Security business, the results of continuing operations consist of corporate overhead and debt-related costs.

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

**CONTINUING OPERATIONS
SELECTED BALANCE SHEET DATA
(UNAUDITED)**

	December 31, 2006	September 30, 2006
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 1,708,935	\$ 1,264,463
Certificate of deposit	7,000,000	—
Restricted cash	—	5,400,000
Marketable securities held-to-maturity	3,724,575	4,899,249
Marketable securities available-for-sale	1,059,648	851,939
Trade account receivable	—	—
Other receivables	73,357	220,689
Prepaid expenses and other	146,911	132,036
Total current assets	\$ 13,713,426	\$ 12,768,376
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 59,952	\$ 221,295
Accrued interest payable	—	2,000,000
Shares subject to redemption	—	5,400,000
Income tax payable	271,340	88,584
Other accrued liabilities	52,610	61,610
Total current liabilities	\$ 383,902	\$ 7,771,489

Table of Contents

**CONTINUING OPERATIONS
SELECTED OPERATING DATA
(UNAUDITED)**

	Quarter Ended December 31,	
	2006	2005
Revenues	\$ —	\$ —
Selling, general and administrative	376,071	1,374,024
Depreciation and amortization	—	1,366
Operating loss	(376,071)	(1,375,390)
Other income (expense):		
Reorganization fee paid to Laurus	(6,508,963)	—
Amortization of debt discount and deferred debt issuance costs	—	(985,827)
Interest income	168,579	—
Gain from CCC bankruptcy settlement	—	180,000
Interest expense, net	—	(176,584)
Total other expense	(6,340,384)	(982,411)
Continuing loss before taxes	(6,716,455)	(2,357,801)
Net loss from continuing operations	\$ (6,716,455)	\$ (2,357,801)

Quarter Ended December 31, 2006 Compared with the Quarter Ended December 31, 2005

Selling, general and administrative expenses for the quarter ended December 31, 2006 decreased by approximately \$1.0 million due lower professional fees as a result of the sales of the ATM business and the Cash Security business.

Depreciation and amortization for the quarter ended December 31, 2006 and December 31, 2005 was \$0 and \$1,366, respectively. The decrease was due to the closure of the corporate office on March 31, 2006.

Interest expense was \$0 for the quarter ended December 31, 2006 compared with \$176,584 for the quarter ended December 31, 2005. The decrease was the result of the repayment of all indebtedness due to Laurus on January 12, 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 recorded a tax provision of \$271,340 for the quarter ended December 31, 2006. We had established a valuation allowance for deferred tax assets to the extent such amounts are not utilized to offset existing deferred tax liabilities reversing in the same periods This allowance has been removed due to the net income during the first quarter of 2007.

We recorded a net (loss) from continuing operations of \$(6,716,455) and \$(2,357,801) for the quarters ended December 31, 2006 and December 31, 2005, respectively.

Table of Contents**Discontinued Operations (ATM Business)**

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

DISCONTINUED OPERATIONS — ATM BUSINESS
SELECTED OPERATING DATA
(UNAUDITED)

	Quarters Ended	
	December 31, 2006	December 31, 2005
Net sales	\$ —	\$ 3,847,874
Cost of sales	—	2,592,268
Gross profit	—	1,255,606
Selling, general and administrative	—	880,941
Depreciation and amortization	—	46,048
Operating loss	—	328,617
Non-operating (income) expense	—	—
Net income (loss)	\$ —	\$ 328,617

Quarter ended December 31, 2006 compared with Quarter ended December 31, 2005

Net Sales from the ATM business were \$0 for the quarter ended December 31, 2006 compared with \$3.8 million for the quarter ended December 31, 2005. The decrease was a result of the sale of the ATM business on January 3, 2006.

Gross profit on net sales and profit as a percentage of sales were \$0 for the quarter ended December 31, 2006 compared with \$1.3 million for the quarter ended December 31, 2005, respectively. The decrease was a result of the sale of the ATM business on January 3, 2006.

Selling, general and administrative expenses for the quarter ended December 31, 2006 were \$0 compared with \$0.9 million for the same period last year. The decrease was a result of the sale of the ATM business on January 3, 2006.

Depreciation and amortization for the quarter ended December 31, 2006 and December 31, 2005 was \$0 and \$46,048, respectively. The decrease was a result of the sale of the ATM business on January 3, 2006.

The ATM business recorded a net income of \$328,617 for the quarter ended December 31, 2005.

Table of Contents**Discontinued Operations (Cash Security Business)**

We completed the Cash Security Business Sale on October 2, 2006. We classified the Cash Security business as a discontinued operation for the three months ended December 31, 2005. 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)

	December 31, 2006	September 30, 2006
ASSETS		
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
LIABILITIES		
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)

	December 31, 2006	December 31, 2005
Net sales	\$ —	\$ 4,745,876
Cost of sales	—	2,888,459
Gross profit	—	1,857,417
Selling, general and administrative	—	1,004,460
Depreciation and amortization	—	(7,526)
Operating income	—	860,483
Non-operating expense	—	94

Net income	\$	—\$	860,389
------------	----	-----	---------

17

Table of Contents

Quarter ended December 31, 2006 compared with Quarter ended December 31, 2005

Net Sales from the Cash Security business were \$0 for the quarter ended December 31, 2006, compared to net sales of \$4,745,876 for the quarter ended December 31, 2005. The decrease was a result of the Cash Security Business Sale.

Gross profit on product sales for the quarter ended December 31, 2006 was \$0 compared to \$1.9 million from the quarter ended December 31, 2005. Gross profit as a percentage of sales was 39% for the quarter ended December 31, 2005. The decrease was a result of the Cash Security Business Sale.

Selling, general and administrative expenses for the quarter ended December 31, 2006 was \$0 compared with \$1,004,460 for this same period last year. The decrease was a result of the Cash Security Business Sale.

Depreciation and amortization for the quarter ended December 31, 2006 and December 31, 2005 was \$0 and \$(7,526) respectively. The decrease was a result of the Cash Security Business Sale.

Liquidity and Capital Resources

Completion of the Cash Security Business Sale and Related Agreements with Laurus

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.

We classified the Cash Security business as a discontinued operation for the three months ended December 31, 2005.

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: (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 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 \$206,798.72) 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 remain payable by the Company to Laurus and, to our knowledge, Laurus does not own any shares of the Company.

Cash Flows

Cash used by operations was \$8,842,925 for the quarter ended December 31, 2006 compared with cash provided by operations of \$1,951,385 for the same period last year.

Working Capital

As of December 31, 2006, we had working capital of \$13.6 million compared with working capital of \$526,856 at December 31, 2005 due to the completion of the Cash Security Business Sale.

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 December 31, 2006.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

At December 31, 2006, 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.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

An evaluation was performed by Jerrell G. Clay, our Chief Executive Officer and Robert D. Peltier, our Acting Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934. Based on this evaluation, our Chief Executive Officer and our Acting Chief Financial Officer concluded that our disclosure controls and procedures at December 31, 2006 were effective to ensure that information required to be disclosed by us in reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the timeframe specified in Securities and Exchange Commission rules and forms. Disclosure controls and procedures include without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and our Acting Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in internal control over financial reporting

There were no changes in our internal controls over financial reporting during three months ended December 31, 2006 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On June 9, 2005, Corporate Safe Specialists, Inc. ("CSS") filed a lawsuit against Secure Alliance Holdings Corporation and 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. 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 seeks 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 litigation, with counsel of its choice, provided that in the event we incur any adverse consequences in connection with the litigation 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.

ITEM 1A. RISK FACTORS

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

Following the Cash Security Business Sale, the Company has no operations.

Following the consummation of the ATM Business Sale on January 3, 2006 and the closing of the Cash Security Business Sale on October 2, 2006, we have substantially no operations and no 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.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

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.

ITEM 6. EXHIBITS

*31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

*31.2

Certification of Acting Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

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

*32.2 Certification of Acting Chief Financial Officer pursuant to 18 U.S.C. Section 1350 adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* - Filed herewith.

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)

February 14, 2007

/s/ JERRELL G. CLAY

Jerrell G. Clay

Chief Executive Officer

February 14, 2007

/s/ ROBERT D. PELTIER

Robert D. Peltier

Acting Chief Financial Officer