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TIGER TELEMATICS INC
Form 10-Q
July 05, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2004

Commission File Number 001-15977

TIGER TELEMATICS, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
Incorporation or organization)

13-4051167
(IRS Employer
Identification Number)

10201 Centurion Parkway North Ste. 600
Jacksonville, FL
(Address of principal executive offices)

32256
(Zip Code)

(904) 279-9240
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes X No
 --- ---

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| Class | Outstanding as of May 31, 2005 |
|--|-----------------------------------|
| ----- | ----- |
| Common Stock, Par Value \$0.001 per share | 54,890,859 |

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TIGER TELEMATICS, INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS September 30, 2004 and December 31, 2003

| | September 30, 2004 Unaudited | December 31, 2003 |
|-----------------------------|------------------------------------|----------------------|
| ASSETS | | |
| Current Assets | | |
| Cash | \$ 1,116,030 | \$ 8,959 |
| Accounts receivable | 299,004 | 2,104 |
| Other receivables | 1,343,995 | -- |
| Inventories | 35,988 | 35,570 |
| Advances to employees | 208,527 | -- |
| Prepaid expenses | 57,823 | 45,383 |
| | ----- | ----- |
| Total current assets | 3,061,367 | 92,016 |
| Property and equipment, net | 699,469 | 344,376 |
| Goodwill | 3,911,835 | -- |
| | ----- | ----- |
| Total assets | \$ 7,672,671 | \$ 436,392 |
| | ===== | ===== |

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LIABILITIES AND STOCKHOLDERS' DEFICIENCY

| | | |
|--|---------------|--------------|
| Current Liabilities | | |
| Accounts payable | \$ 10,719,519 | \$ 3,667,646 |
| Amount due stockholders | 75,100 | 9,191 |
| Notes payable - current portion | 43,000 | 37,140 |
| Accrued expenses | 6,130,986 | 1,750,005 |
| Deposits on common stock | 10,231,500 | 2,247,891 |
| Liabilities of discontinued operations | 1,144,480 | 1,168,243 |
| | ----- | ----- |
| Total current liabilities | 28,344,585 | 8,880,116 |
| Notes payable after one year | 81,968 | 123,743 |
| | ----- | ----- |
| Total liabilities | 28,426,553 | 9,003,859 |
| | ----- | ----- |
| Stockholders' Deficiency | | |
| Common stock - 0.001 par value authorized 500,000,000 and 250,000,000 shares in 2004 and 2003 respectively. Issued and outstanding 22,975,488 and 9,498,105 in 2004 and 2003 respectively | 22,975 | 9,498 |
| Additional paid-in-capital | 44,135,670 | 13,051,547 |
| Accumulated other comprehensive loss | (688,994) | (763,732) |
| Accumulated deficit | (64,223,533) | (20,864,780) |
| | ----- | ----- |
| Stockholders' deficiency | (20,753,882) | (8,567,467) |
| | ----- | ----- |
| Total liabilities and stockholders' deficiency | \$ 7,672,671 | \$ 436,392 |
| | ===== | ===== |

See Notes to Consolidated Financial Statements

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TIGER TELEMATICS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
For the three months ended September 30, 2004 and 2003
Unaudited

| | 2004 | 2003 |
|----------------------------|------------|-----------|
| | ----- | ----- |
| Net sales | \$ 268,095 | \$ 230 |
| Cost of goods sold | 296,923 | 9,557 |
| | ----- | ----- |
| Gross loss | (28,828) | (9,327) |
| | ----- | ----- |
| Operating expenses | | |
| Selling | 3,971,312 | 68,757 |
| General and administrative | 13,894,092 | 1,034,077 |
| | ----- | ----- |

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| | | |
|--|-----------------|----------------|
| Total operating expenses | 17,865,404 | 1,102,834 |
| | ----- | ----- |
| Operating loss | (17,894,232) | (1,112,161) |
| | ----- | ----- |
| Other income (expense) | | |
| Other income | 7,536 | -- |
| Interest expense | (7,179) | (11,475) |
| | ----- | ----- |
| | 357 | (11,475) |
| | ----- | ----- |
| Net loss | \$ (17,893,875) | \$ (1,123,636) |
| | ===== | ===== |
| Basic and diluted net loss per common share | \$ (0.87) | \$ (0.27) |
| | ===== | ===== |
| Weighted average shares outstanding (basic and diluted) | 20,571,366 | 4,158,719 |
| | ===== | ===== |

See Notes to Consolidated Financial Statements

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TIGER TELEMATICS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
For the nine months ended September 30, 2004 and 2003
Unaudited

| | 2004 | 2003 |
|----------------------------|--------------|-------------|
| | ----- | ----- |
| Net sales | \$ 451,924 | \$ 8,477 |
| Cost of goods sold | 446,137 | 13,859 |
| | ----- | ----- |
| Gross profit (loss) | 5,787 | (5,382) |
| | ----- | ----- |
| Operating expenses | | |
| Selling | 5,993,240 | 165,709 |
| General and administrative | 37,332,413 | 1,829,916 |
| | ----- | ----- |
| Total operating expenses | 43,325,653 | 1,995,625 |
| | ----- | ----- |
| Operating loss | (43,319,866) | (2,001,007) |
| | ----- | ----- |

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| | | |
|--|-----------------|----------------|
| Other income (expense) | | |
| Other income | 22,532 | -- |
| Interest expense | (61,419) | (35,853) |
| | ----- | ----- |
| | (38,887) | (35,853) |
| | ----- | ----- |
| Net Loss | \$ (43,358,753) | \$ (2,036,860) |
| | ===== | ===== |
| Basic and diluted net loss per common share | \$ (2.70) | \$ (0.56) |
| | ===== | ===== |
| Weighted average shares outstanding (basic and diluted) | 16,032,697 | 3,640,130 |
| | ===== | ===== |

See Notes to Consolidated Financial Statements

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TIGER TELEMATICS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIENCY
For the nine months ended September 30, 2004
Unaudited

| | Common Stock Shares | Amount | Additional Paid-in Capital | Accumulated Other Comprehensive Loss | Acco D |
|---|------------------------|-----------|----------------------------------|---|-----------|
| Balance (deficiency) December 31, 2003 | 9,498,105 | \$ 9,498 | \$ 13,051,547 | \$ (763,732) | \$ (20 |
| Issuance of common stock: | | | | | |
| Private placement | 6,937,045 | 6,937 | 16,365,521 | -- | |
| Conversion of notes payable and amounts due Stockholders | 65,000 | 65 | 54,935 | -- | |
| Acquisition of subsidiaries | 1,200,000 | 1,200 | 2,831,600 | -- | |
| Services | 5,275,338 | 5,275 | 11,832,067 | -- | |
| Net loss | -- | -- | -- | (43,358,753) | (43 |
| Other comprehensive income -foreign currency translation adjustment | | | | 74,738 | |
| Total comprehensive loss | | | | (43,284,015) | |
| | | | | ===== | |
| Balance (deficiency) September 30, 2004 | 22,975,488 | \$ 22,975 | \$ 44,135,670 | \$ (688,994) | \$ (64 |
| | ===== | ===== | ===== | ===== | ===== |

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See Notes to Consolidated Financial Statements

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TIGER TELEMATICS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the nine months ended September 30, 2004 and 2003
Unaudited

| | 2004 | 2003 |
|--|----------------|--------------|
| | ----- | ----- |
| Cash Flows from Operating Activities: | | |
| Net Loss | \$(43,358,753) | \$ (2,036,86 |
| Other comprehensive income (loss) | 74,738 | (230,05 |
| Adjustments to reconcile net loss from continuing operations to net cash used in operating activities: | | |
| Depreciation | 140,425 | 52,14 |
| Expenses paid with common stock | 11,837,342 | 151,60 |
| Impairment of goodwill | 55,777 | -- |
| Changes in assets and liabilities: | | |
| (Increase) in other receivables | (1,343,995) | -- |
| Increase in accounts payable | 6,512,675 | 1,137,30 |
| Increase (decrease) in accrued expenses | 4,276,611 | (219,60 |
| Other - net | (214,740) | 253,30 |
| | ----- | ----- |
| Net cash used in operating activities | (22,019,920) | (892,17 |
| | ----- | ----- |
| Cash Flows From Investing Activities: | | |
| Purchase of property and equipment | (463,789) | (38,26 |
| Acquisition of subsidiary | (850,281) | -- |
| | ----- | ----- |
| Net cash used in investing activities | (1,314,070) | (38,26 |
| | ----- | ----- |
| Cash Flows From Financing Activities: | | |
| Issuance of common stock and warrants | 16,372,458 | 901,11 |
| Increase in deposits on common stock | 7,983,609 | 819,12 |
| Loans and advances from stockholders and employees | 120,909 | -- |
| Repayment to stockholders | -- | (548,19 |
| Payments on notes payable | (35,915) | (15,79 |
| | ----- | ----- |
| Net cash provided by financing activities | 24,441,061 | 1,156,25 |
| | ----- | ----- |
| Net change in cash | 1,107,071 | 225,81 |
| Cash: | | |
| Beginning of period | 8,959 | -- |
| | ----- | ----- |

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| | | |
|---|---------------|-----------|
| End of period | \$ 1,116,030 | \$ 225,81 |
| | ===== | ===== |
| Supplemental Disclosure of Cash Flow Information: | | |
| Cash paid for interest | \$ 61,419 | \$ 35,85 |
| | ===== | ===== |
| Supplemental Disclosure of Non-cash Investing and Operating Activities: | | |
| Expenses paid with common stock | \$ 11,837,342 | \$ 151,60 |
| | ===== | ===== |

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CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED

| | | |
|--|--------------|----------|
| Financing Activities: | | |
| Conversion of stockholder debt to common stock | \$ 55,000 | \$ 24,00 |
| | ===== | ===== |
| Investing Activities: | | |
| Cash paid for subsidiary | 850,281 | -- |
| Common stock issued for acquisition | 2,832,800 | -- |
| Liabilities in excess of assets acquired | 284,531 | -- |
| | ----- | ----- |
| | \$ 3,967,612 | \$ -- |
| | ===== | ===== |
| Acquisition of Subsidiaries: | | |
| Goodwill | \$ 3,967,612 | |
| Accounts receivable | 327,308 | |
| Fixed assets | 31,729 | |
| Accounts payable | (539,198) | |
| Due to related parties | (14,437) | |
| Accrued expenses | (89,933) | |
| Cash and common stock paid for subsidiaries | (3,683,081) | |
| | ----- | |
| Cash received | \$ -- | |
| | ===== | |

See Notes to Consolidated Financial Statements

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TIGER TELEMATICS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A - BASIS OF PRESENTATION

The condensed consolidated financial statements as of September 30, 2004 and for the three and nine months ended September 30, 2004 and September 30, 2003, included herein have been prepared by the Company, without audit, pursuant to

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the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations.

In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the financial information for the periods indicated have been included. For further information regarding the Company's accounting policies, refer to the consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the years ended December 31, 2003 and 2002.

The consolidated financial statements include the accounts of Tiger Telematics, Inc. (Company), the public held parent company, Tiger Telematics USA, Inc. (Tiger USA), a near dormant subsidiary, Tiger Telematics Europe, Ltd. (Tiger Europe), ISIS Models Ltd. (ISIS), acquired in May 2004 and Indie Studios, AB (Indie), acquired in August 2004. The Company started Tiger Europe (now named Gizmondo Europe Ltd.) in December 2002 and a related entity Childtracker Ltd. (a development entity) that existed as a part of Tiger Europe's focus on developing new telematics products including next generation fleet telematic products, the child tracker products and the handheld multi-entertainment gaming device now called Gizmondo. Intercompany accounts and transactions have been eliminated.

The financial statements for the three and nine months ended September 30, 2003, were not reviewed by the Company's independent certified public accountants. However, the financial statements for the year ended December 31, 2003, have been audited by the Company's independent certified public accountants. The Company's management believes that a review by the Company's independent certified public accountants of the financial statements mentioned above would not result in any material changes to these financial statements. See Note J to the financial statements - Restatement of 2003 financial statements.

Liquidity:

The Company has sustained net losses over the past three years and at September 30, 2004, had a net working capital deficit of approximately \$25,283,000. The Company reclassified deposits on common stock of \$10,231,500 to equity in the fourth quarter of 2004 when the Company issued the common share certificates.

Management sold off its unprofitable flooring business and is pursuing its telematics business and the wireless handheld multi-entertainment gaming device, Gizmondo. The Company anticipates issuing equity securities to meet working capital requirements and to fund development costs incurred in connection with developing Gizmondo and telematics related products until sales of these products generate sufficient cash to fund its operations.

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Description of the Business:

The Company and its wholly owned subsidiaries are engaged in the business of developing and marketing the Gizmondo wireless handheld multi-entertainment gaming device.

The Company started Gizmondo Europe, Ltd. in late 2002 to focus on developing new telematics products including next generation fleet telematics products.

In early 2003, the Company began developing a new multi-entertainment wireless handheld gaming device that is now referred to as Gizmondo. Since then the Company's primary business strategy has been to develop and market Gizmondo. The

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Company initially launched a limited production version of the Gizmondo in the UK on October 29, 2004, and launched the full-scale production of Gizmondo in 2005.

Segment Information: The Company focuses primarily all of its business in one segment, the development, production, and sale of the handheld multi-entertainment gaming device, Gizmondo.

NOTE B - ADVANCES TO AND AMOUNTS DUE EMPLOYEES AND STOCKHOLDERS AND OTHER RECEIVABLES

The advances are due from employees and stockholders of subsidiaries of the Company of \$208,527 and 0 in 2004 and 2003, respectively, are due on demand, without interest.

Amounts due to employees and stockholders of \$75,100 and \$9,191 in 2004 and 2003, respectively, are due on demand, without interest.

Other receivables of \$1,343,995 at September 30, 2004 primarily consist of VAT tax recoverable from government agencies.

NOTE C - EQUITY TRANSACTIONS

The Company issued 1,684,289 shares of restricted common stock during the third quarter of 2004 in payment of services provided by unrelated vendors, principally consulting, related to product development. The shares issued were valued at \$2.32 to \$3.08 per share.

During the third quarter of 2004, the Company sold 2,775,806 shares of restricted common stock primarily for \$1.25 to \$11.25 per share.

During the year ended December 31, 2004, the Company issued approximately 26,808,502 shares of restricted common stock, as follows:

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| | Shares | Dollars |
|---|----------------|---------------|
| Private placement | 13,284,731 | \$ 55,119,987 |
| Conversion of debt to equity | 80,000 | \$ 107,650 |
| Satisfaction of contingencies | 160,000 | -- |
| Acquisition of subsidiaries | 1,537,866 | \$ 4,450,864 |
| Payment for services | 11,745,905 | \$ 34,313,896 |
| | ----- | ----- |
| Total | 26,808,502 | \$ 93,992,397 |
| | ===== | ===== |
| Shares issued during the first quarter of 2005 | 16,928,664 | |
| | ===== | |
| Shares issued and outstanding at March 31, 2005 | 53,235,271 | |
| | ===== | |
| Shares issued from April 1 to May 31, 2005 | 1,655,588 | |
| | ===== | |

NOTE D- REVERSE STOCK SPLIT AND INCREASE IN AUTHORIZED SHARES

In July 2004, the Company's shareholders approved a 1 for 25 reverse stock

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split. The number of authorized shares and par value were unchanged. All common stock amounts have been adjusted to reflect this change for all periods presented.

In May 2003, the Company's shareholders approved an increase in the number of authorized shares from 100 million shares to 250 million shares. In January 2004, the authorized shares were increased to 500 million shares.

NOTE E - STOCK BASED COMPENSATION

The Company uses the intrinsic-value method of accounting for stock based compensation. Under this method, compensation cost is the excess, if any, of the quoted market price over the amount an employee must pay to acquire the stock at the date of the grant. The Company generally grants options with an exercise price equal to the market value of the common stock at the date of grant.

The Black-Scholes option price model was used to estimate the fair value as of the date of grant using the following assumptions:

| | |
|--|---------|
| Dividend yield | 0% |
| Risk-free interest rates | 4.35% |
| Volatility | 163.00% |
| Expected option term (years) | 9.61 |
| Weighted-average fair value of options granted during the year | \$1.50 |

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If the Company had determined compensation expense for the Plan based on the fair value at the grant dates consistent with the method of SFAS No. 123 and SFAS No. 148, the Company's pro-forma net loss and basic loss per share would have been as follows:

| | Nine Months Ended September 30, 2004 ----- | Nine Months Ended September 30, 2003 ----- |
|--|--|--|
| Net loss as reported | \$ (43,358,753) | \$ (2,036,860) |
| Stock based compensation expense under the fair value based method, net of tax (\$0) | \$ (40,500) | \$ (40,500) |
| Pro forma net loss | \$ (43,399,253) | \$ (2,077,360) |
| Basic and diluted net loss per share, as reported | \$ (2.70) | \$ (.56) |
| Pro forma basic and diluted net loss per share | \$ (2.71) | \$ (.57) |

NOTE F - RELATED PARTY TRANSACTIONS

Included in accrued expenses are amounts owed an executive officer and director of \$244,615 and \$136,571 at September 30, 2004 and December 31, 2003, respectively, for back salary and reimbursable expenses incurred on behalf of the Company.

NOTE G - INVENTORY

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Inventories are stated at the lower of cost (specific identification basis) or market, and consist of electronic components.

NOTE H - CONTINGENCIES

A shareholder of the Company borrowed some of the funds advanced to the Company (with funds going to Tiger Telematics, Ltd. (Tiger Ltd), a former subsidiary of the Company) from a private investment bank, London International Mercantile Bank (LIM), based in London. The shareholder failed to repay the note when due and LIM made demand on Tiger Ltd to repay the funds. The Company maintained that it was not responsible for that obligation and responded to the demand accordingly. Tiger Ltd entered into a settlement agreement the Court approved as a Tomblin Order where the demand note payable to the shareholder was forgiven in exchange for the Company entering into an installment note for approximately \$475,000, to be paid over time directly to LIM. The shareholder remained contingently obligated for the sum owed plus interest in event that the payment was not made timely by Tiger Ltd. The Company issued a limited guaranty for the obligation to LIM.

The settlement agreement called for monthly payments at a variable interest rate. Tiger Ltd repaid approximately \$80,000 prior to the sale of the business on December 17, 2002. Following the sale of Tiger Ltd, the Company was apprised that Tiger Ltd was placed in liquidation insolvency under the laws of the United Kingdom for failure to make the payments required under this arrangement.

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LIM made demand on the Company for approximately \$450,000 under the guarantee but has made no attempt to collect on the guaranty as it pursues its direct remedies against the original borrower of the funds. LIM also holds 140,000 shares of the Company's common stock and certain real estate provided by the original borrower as collateral. The Company has reserved an amount that it believes will cover any obligation that may arise. The Company has been advised by the Shareholder that the obligation has now been retired.

On April 26, 2002, the Company entered into a Lease Agreement with Christian and Timbers UK Ltd (C&T) for office premises for its subsidiary for a term of five years. The Company paid the first year's rent by issuing 20,000 shares of common stock. The subsidiary subsequently defaulted on the lease arrangement. In the summer of 2003, C&T sued the Company pursuant to the Company's guarantee. In October 2003, the Company entered into a judgment stipulation for \$300,000 to settle all obligations under the guarantee. The Company has issued shares of common stock to C&T that it believes will satisfy the amount of the outstanding judgment.

In March 2004, Jordan Grand Prix Limited, filed suit against the Company in the High Court of Justice, Queen's Bench Division (Central Office), London, UK, alleging violation of a sponsorship agreement and dated letter agreement entered into in July 2003. Jordan sued the Company for \$3 million and alleged that the Company defaulted on a payment of \$500,000, due on January 1, 2004, under the sponsorship agreement, and a payment for \$250,000, due on the same date under the letter agreement. On February 26, 2004, Jordan terminated both agreements. In order to avoid summary judgment in favor of the plaintiff, the Company escrowed with the court 70,000 shares of its common stock and prior to trial is required to substitute \$1.5 million for the escrowed shares. In June 2005 the Company placed an additional 60,000 shares of its restricted stock in escrow. Trial is set for the week of July 14, 2005. The Company is currently engaged in court-authorized mediation with Jordan to settle the case. While the Company is unable to predict the outcome of this litigation, it believes that it has good and meritorious defenses to the suit and intends to defend vigorously the claims made against it.

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In January 2005, the Company filed a lawsuit against a former investment advisor of the Company, based on a breach of the agreement between the advisor and the Company. As payment for investment advisory services, the Company originally issued 40,000 (1,000,000 pre reverse split) shares of common stock in 2002 and 2003. The advisor subsequently alleged in December 2004 that the Company owed him an additional 960,000 shares of common stock to maintain his ownership in the Company at 1,000,000 shares. In April 2005, the Company and the advisor agreed to settle all claims, with the Company issuing an additional 60,000 shares of common stock to the advisor.

In October 2004, Gizmondo Europe Ltd. (Gizmondo), a subsidiary of the Company signed a contract with SCi Entertainment Group Plc (SCi), a games publisher, under which Gizmondo has licensed the right to develop and publish twelve SCi products for the Gizmondo platform. The agreement covers both currently released titles as well as those in the pipeline, and establishes the structure for continuing collaboration between the two companies.

The agreement has Gizmondo paying a minimum guarantee of approximately \$1,250,000 allocated by and among 12 products. The guarantee, which has been paid, is non-refundable but fully recoverable against earned royalties of each product. An earned royalty of 50% of net receipts is to be paid on each product.

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On March 22, 2005, the Board of Regents of the University of Texas System filed an action against the Company and one of its subsidiaries, Gizmondo Europe, Ltd. in the United States District Court for the Western District of Texas, Austin Division, alleging that predictive text software used in the Company's Gizmondo gaming device infringes a patent held by the Board of Regents. The Company believes that its software does not infringe the Board of Regents' patent. The Company licenses this software from another company, which under the license agreement has indemnified the Company for infringement claims. The Company and its licensor intend to vigorously defend the infringement claims against the Company and Gizmondo Europe, Ltd.

Early in the third quarter of 2004, Hand Held Games, Ltd. filed suit against the Company for \$75,000 plus damages and costs as a result of a dispute between the Company and Hand Held Games over a game development contract for the game "Chicane". The suit is in the discovery stages, but the Company believes it has meritorious defenses and does not expect the outcome of the matter to have a material effect on the financial condition of the Company.

NOTE I - WARRANTS

The Company had outstanding at September 30, 2004, warrants to purchase 250,000 shares of common stock at an exercise price of \$5 per share. The warrants are exercisable immediately and expire on September 30, 2009. The Company also had outstanding warrants to purchase 245,525 shares of common stock at an exercise price of \$11.25 per share, which are exercisable immediately and expire on June 30, 2006.

NOTE J - RESTATEMENT OF 2003 FINANCIAL STATEMENTS:

The net loss for the quarter ended September 30, 2003 has been restated by \$314,202 from \$(1,437,838) to \$(1,123,636) to reflect the effect of audit adjustments made during the 2002 and 2003 audit that was completed subsequent to the date these financial statements were originally issued and the effect of reclassifying foreign currency exchange losses from operations to Accumulated Other Comprehensive Loss. The net loss for the nine months ended September 30, 2003 has been restated by \$340,173 from \$(2,377,033) to \$(2,036,860) for the

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same reasons as stated in the preceding sentence.

NOTE K - ACQUISITIONS

ISIS Models Ltd.

In May 2004 Gizmondo Europe, Ltd. acquired a seventy-five percent (75%) interest in ISIS Models Ltd., for 40,000 shares of the Company's restricted common stock issued in the third quarter of 2004, valued at \$92,800. Because liabilities acquired exceed assets obtained and the Company is expected to absorb future losses, the minority interest is valued at zero and any allocation of future net income or losses is not expected to be material. ISIS was acquired to provide marketing support and arrangements for Gizmondo. The Company also assumed liabilities in excess of the value of tangible assets acquired of \$223,099. ISIS is the successor company to ISIS Models Management Limited, a company that has previously ceased operations. From the date of acquisition through June 30, 2004, ISIS generated revenue of \$183,829. The excess of purchase price over the value of the tangible assets acquired (\$315,899), was assigned to Goodwill. The Company subsequently realized an impairment loss of approximately \$56,000, which is included in general and administrative expenses.

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Indie Studios

On August 2, 2004, Gizmondo closed the purchase of 100% of the net assets of Indie pursuant to a Purchase Agreement dated May 20, 2004 for one million shares of the Company's restricted common stock. Indie was acquired to enhance the Company's game development operations. There are also 600,000 contingent shares reserved for future issuance based on the completion of two games in progress as of the acquisition date. The games were completed in January 2005 and the contingent shares were issued. The value of the contingent shares, approximately \$4,560,000, was charged to Research & Development expense in the first quarter of 2005. The Company assumed the excess of liabilities over the value of tangible assets acquired of approximately \$61,400; paid cash of approximately \$850,000 and issued stock valued at \$2,740,000. The excess of purchase price over the value of the tangible assets acquired (\$3,651,713), was assigned to Goodwill.

Indie had no sales and total expenses incurred in 2004 prior to the acquisition were approximately \$375,000.

The following proforma information reflects the net sales, net loss and per share amounts for the nine-month period ended September 30, 2004, as if the Company had acquired ISIS and Indie on January 1, 2004. Neither ISIS nor Indie had operations prior to September 30, 2003. Therefore, no proforma amounts are shown for the nine-month period ended September 30, 2003.

| | | |
|---|----|--------------|
| Pro forma net sales | \$ | 1,444,000 |
| Pro forma net loss | \$ | (43,935,000) |
| Pro forma basic and diluted net loss per common share | \$ | (2.57) |
| Weighted average shares outstanding - basic and diluted | | 17,072,697 |

Goodwill represents the excess of the cost of an acquisition over the fair value of the net assets acquired. The Company tests goodwill and other intangible assets on an annual basis, or more frequently if events or circumstances

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indicate that there may have been impairment. The goodwill impairment test estimates the fair value of each reporting unit, through the use of a discounted cash flows model, and compares this fair value to the reporting unit's carrying value. The goodwill impairment test requires management to make judgments in determining the assumptions used in the calculations. Management believes the remaining goodwill is not impaired and is properly recorded in the financial statements.

NOTE L - SUBSEQUENT EVENTS

Warthog Plc

The Company executed an Asset Purchase Agreement dated November 3, 2004 and closed the transaction on that date, for the acquisition of Warthog Plc's

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subsidiaries, intellectual property and assets, in a move to further expand the Company's games development agenda and management infrastructure. Within two days of closing, the Company injected approximately \$1.3 million into the Warthog subsidiaries for working capital purposes.

As a result the Company paid \$1,113,000 in cash and issued 497,866 shares of its restricted common stock on November 3, 2004.

Integra SP

The Company executed a share Purchase Agreement dated October 29, 2004 to buy the shares of Integra SP (Integra), which owns several UK subsidiaries that provide software for process management and integration of real-time systems. Integra's domain expertise and Altio product set enable businesses to provide integration to various financial services institutions supporting a wide range of formats and protocols. For the fiscal year ended June 30, 2004, Integra had unaudited revenues of \$4.1 million.

The transaction has not closed. When approved, the Company will issue 625,250 shares at closing and escrow 2,794,785 shares for payouts over two years, based on an earn out formula. The maximum number of shares to be issued under the two year payout is 1,984,469 and under the earn out is 3,420,035.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 23E of the Securities Act of 1934, as amended. These statements relate to future events or future financial performance. Any statements contained in this report that are not statements of historical fact may be deemed to be forward-looking statements and are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. In some cases, forward-looking statements can be identified by terminology such as "may," "will," "should," "expect," "plan," "anticipate," "intend," "believe," "estimate," "predict," "potential" or "continue," or the negative of such terms or other comparable terminology. These statements are only predictions. Actual events or results may differ materially.

Investors are cautioned that these forward-looking statements reflect numerous assumptions and involve risks and uncertainties that may affect the Company's business and prospects and cause actual results to differ materially from these forward-looking statements. Among the factors that could cause actual results to differ are the Company's operating history; competition; low barriers to entry; reliance on strategic relationships; rapid technological changes; inability to

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complete transactions on favorable terms; consumer demand for video game hardware and software; the timing of the introduction of new generation competitive hardware systems; pricing changes by key vendors for hardware and software and the timing of any such changes, and the adequacy of supplies of new software products.

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Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, the Company cannot guarantee future results, levels of activity, performance or achievements. Moreover, neither the Company, nor any other person or entity, assumes responsibility for the accuracy and completeness of the forward-looking statements. The Company is under no obligation to update any of the forward-looking statements after the filing of this Form 10-Q to conform such statements to actual results or to changes in the Company's expectations.

The following discussion should be read in conjunction with the Company's financial statements, related notes and the other financial information appearing elsewhere in this Form 10-Q.

General Overview

During 2001 and the first half of 2002, the Company's principal business was the retail sale of flooring products, including carpet, area rugs, wood and laminates, at discount prices, to commercial and retail customers. The Company announced the discontinuation of the flooring business on June 6, 2002, and sold the related assets on August 9, 2002.

In February 2002, the Company acquired Eagle Eye Scandinavian Distributions, Ltd., a developer and distributor of telematics products and services to the business-to-business segment in Europe and changed its name to Tiger Telematics, Ltd. During 2002, the Company's principal business, selling telematics products and services, was conducted through Tiger Telematics, Ltd., which was sold on December 17, 2002.

The Company started Tiger Telematics Europe, Ltd. (now known as Gizmondo Europe, Ltd.) in late 2002 to focus on developing new telematics products including next generation fleet telematics products and to focus on marketing principally in the UK.

Since early 2003, the Company has been developing a new multi-entertainment wireless handheld gaming device that is now referred to as Gizmondo. The Company initially launched a limited production version of the Gizmondo in the UK on October 29, 2004, and launched the full scale production in the UK in March 2005. The Company expects to launch the full scale production of Gizmondo in Europe and North America in the third quarter of 2005. The Gizmondo is powered by a Microsoft Windows CE.net platform, has a 2.8-inch TFT color screen and a Samsung ARM9 400Mhz processor and incorporates the GoForce 3D 4500 NVIDIA graphics accelerator. Gizmondo provides cutting-edge gaming, multimedia messaging, an MP3 music player, Mpeg4 movie playing capability, a digital camera and a GPRS network link to allow wide-area network gaming. Additionally, Gizmondo contains a GPS chip for location based services, is equipped with Bluetooth for use in multi-player gaming and accepts MMC card accessories.

Three months-ended September 30, 2004 compared to the three months ended September 30, 2003

Below is a summary of the results of the Company for the three months ended September 30, 2004.

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Net Sales: The Company's net sales were \$268,000 for the three months ended September 30, 2004 and were virtually \$0 for the three months ended September 30, 2003. In both comparable quarters the Company has focused its full attention to the development of the Gizmondo device and was not actively selling its GPS Telematics products in either period. The Company continues to focus on the development of Gizmondo and realized only incidental sales.

Gross Profits: The Company's gross loss was (\$28,000) and (\$9,000) for the periods ended September 30, 2004 and 2003, respectively. The Company expended funds in each period on the Gizmondo development. The gross loss in 2004 was from ISIS Models, Ltd.

Selling Expenses: Selling and marketing expenses for the three months ended September 30, 2004 were \$3,971,000 compared with \$69,000 for the same time period in 2003. Most of the increase can be attributed to moving towards preliminary marketing and market research related to the Gizmondo product. Testing of the market size and potential market and development of buyer profiles for the Gizmondo was a focus of expenditures during the 2004 time period. Additional expenses were incurred in recruiting various distributors and representatives in various market regions prior to the Gizmondo launch.

General and Administrative Expenses: General and administrative expenses for the three months ended September 30, 2004 were \$13,894,000 compared to \$1,034,000 for 2003, or up approximately over \$12.8 million. This increase came primarily from expenses the research and development costs associated with the Gizmondo. The Company incurred over \$8.0 million in development costs directly attributable to the Gizmondo in 2004. All of these costs are expensed as incurred and are not capitalized for financial reporting purposes. In addition salaries rose to over \$1.5 million as the Company increased staff during the product development phase. The Company also incurred over \$3.5 million of legal, accounting and consulting costs in the third quarter of 2004 as consultants were engaged to assist the Company in activities related to the development and launch of the Gizmondo. The Company anticipates a significant increase in its general and administrative expenses in future quarterly periods as part of its product development strategy.

Net Loss: The Company reported an operating loss of \$17,894,000 in the quarter ended September 30, 2004 compared to \$1,124,000 for the same time period in 2003. The aforementioned costs associated with the development of Gizmondo account for this material increase in operating loss. Management anticipates that its losses in future quarters will grow materially as development costs for its new gaming device, Gizmondo, continue to accelerate.

Nine months-ended September 30, 2004 compared to the nine months ended September 30, 2003

Below is a summary of the results of the Company for the nine months ended September 30, 2004.

Net Sales: The Company's net sales were \$452,000 for the nine months ended September 30, 2004 compared to virtually zero in 2003. The Company is closer to the release of its Gizmondo device now than it was in 2003. In both comparable periods, the Company has focused its full attention to the development of the Gizmondo device and was not actively selling its GPS Telematics products in either period.

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Gross Profits: Gross profits (loss) were negligible for the nine months ended September 30, 2004 and for the nine months ended September 30, 2003. The Company continues to focus on the development of Gizmondo and realized only incidental sales.

Selling Expenses: Selling and marketing expenses for the nine months ended September 30, 2004 were \$5,993,000 compared with \$166,000 for the same nine-month period in 2003. Most of the increase can be attributed to increases in staff and salaries as the Company moves towards preliminary marketing and market research related to the Gizmondo product. Market testing and research of the market size and potential market and buyer profile for the Gizmondo was a focus of expenditures during the 2004 time period.

General and Administrative Expenses: General and administrative expenses for the nine months ended September 30, 2004 were \$37,332,000 compared to \$1,830,000 for the same nine month period in 2003, or up approximately over \$35.5 million. This increase came primarily from expenses the research and development costs associated with the Gizmondo. The Company incurred over \$24.5 million in development costs directly attributable to the Gizmondo. All of these costs are expensed as incurred and are not capitalized for financial reporting purposes. In addition, salaries rose to \$4.9 million as the Company increased staff during the product development phase. The Company also incurred \$11.8 million of legal, accounting and consulting costs in 2004 as consultants were engaged to assist the Company in activities related to the development and launch of the Gizmondo. The Company anticipates a significant increase in its general and administrative expenses in future quarterly periods as part of its product development strategy.

Other Expenses: Other expenses were nil for both 2004 and 2003. Interest expense was \$61,400 on auto and office equipment leases in 2004 as compared to \$35,900 in 2003. Interest in 2004 was higher than the same period in 2003 as the European Gizmondo operations had higher average loan balances.

Net Loss: The Company reported a net loss of \$43,359,000 in 2004 compared to \$2,037,000 for the same time period in 2003. The aforementioned costs associated with the development of Gizmondo account for this material increase in operating loss. Management anticipates that its losses in future quarters will grow materially as it expenses development cost for its new Gizmondo gaming device.

Liquidity and Capital Resources

The Company does not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on its financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

In 2002 through and into the second quarter of 2005, the Company funded its operating losses and start-up costs principally with loans from stockholders or other parties and, in increasing amounts, through the issuance of shares of common stock. Without such equity funding the Company would not have been able to sustain operations. In the nine months ended September 30, 2004, the Company's working capital position deteriorated. This was primarily the result of increases in current liabilities of over \$19.5 million, including an increase in accounts payable of over \$7.0 million, an increase in accrued expense of over \$4.3 million, and an increase in deposits on common stock of approximately \$8

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million. At the same time current assets increased approximately \$3 million, consisting principally of an increase in other receivables of approximately \$1.3 million, an increase in accounts receivable of \$297,000 and an increase in cash

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of over \$1.1 million. The Company raised over \$26.5 million in the nine months ended September 30, 2004 from the sale of common stock and additional deposits on common stock.

As of September 30, 2004, the Company received deposits on common stock of \$10,232,000, which represents cash received in third quarter 2004 that will be transferred to equity in fourth quarter 2004.

The Company does not have any bank loans or lending facilities. The Company has obtained loans from stockholders and raised additional financing through private placements of shares of common stock principally from accredited foreign investors. See also Note C to the financial statements - Equity Transactions. The Company continued to issue shares of its common stock in 2004 and in early 2005 to retire certain obligations due for payment.

The Company incurred losses in 2002 and 2003 fiscal year end of \$(11,087,747) and \$(7,812,449) respectively. The Company recorded a loss for the first nine months of 2004 of approximately (\$43.4 million). In 2004 the losses were generated primarily from the costs of developing the Gizmondo. Since the Company was not able to generate positive net cash flows from operations, additional capital was needed. This capital has been provided by certain principal stockholders, who have funded the Company through loans as needed, and primarily from the sale of common stock and warrants through private placement and other share subscription agreement transactions as detailed in Note C to the financial statements - Equity Transactions.

The Company successfully raised funds to maintain operations, fund acquisitions and to retire obligations and obtain services. During the remainder of 2004 and the first quarter of 2005, the Company raised over \$34 million. In the second quarter of 2005, the Company raised over \$21 million, through May 31, 2005, through the sale of the Company's restricted common stock. This funding has allowed the Company to maintain its business and to continue the development and launch of its Gizmondo product line.

The Company will seek to raise additional equity capital and obtain trade or bank financing as needed to fund the development and the launch of the Gizmondo product in different regions as needed. However, there can be no assurance this additional capital or other financing will be available, or if available on terms reasonably acceptable to the Company.

Critical Accounting Policies

The preparation of financial statements in accordance with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the amounts reported in our consolidated financial statements and accompanying notes. Management bases its estimates on historical experience and various other assumptions believed to be reasonable. Although these estimates are based on management's best knowledge of current events and actions that may impact the company in the future, actual results may be different from the estimates. Our critical accounting policies are those that affect our financial statements materially and involve difficult, subjective or complex judgments by management. Those policies are stock-based compensation, income taxes, goodwill impairment and revenue recognition.

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Stock-Based Compensation

We have chosen to account for stock options granted to employees and directors under the recognition and measurement principles of Accounting Principles Board Opinion No. 25 instead of the fair value recognition provisions of SFAS No. 123,

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"Accounting for Stock-based Compensation," as amended by SFAS No. 148, "Accounting for Stock-based Compensation Transition and Disclosure."

In addition, the Company has routinely exchanged shares of its common stock for services and in satisfaction of debt owed by the Company to shareholders. Common stock exchanged for services from unrelated parties and suppliers is valued at the negotiated values for such common stock. Common stock exchanged for shareholder debt is valued at recent market values for common stock sold to unrelated investors. The difference between this "market value" and the amount of the debt satisfied is charged to operations.

Income Taxes

The calculation of the Company's income tax provision and related valuation allowance is complex and requires the use of estimates and judgments in its determination. As part of the Company's evaluation and implementation of business strategies, consideration is given to the regulations and tax laws that apply to the specific facts and circumstances for any transaction under evaluation. This analysis includes the amount and timing of the realization of income tax liabilities or benefits. Management closely monitors tax developments in order to evaluate the effect they may have on the Company's overall tax position.

Impairment of Goodwill and Other Intangible Assets

Goodwill represents the excess of the cost of an acquisition over the fair value of the net assets acquired. The Company tests goodwill and other intangible assets on an annual basis, or more frequently if events or circumstances indicate that there may have been impairment. The goodwill impairment test estimates the fair value of each reporting unit, through the use of a discounted cash flows model, and compares this fair value to the reporting unit's carrying value. The goodwill impairment test requires management to make judgments in determining the assumptions used in the calculations. Management believes goodwill is not impaired and is properly recorded in the financial statements.

Revenue Recognition

The Company enters into agreements to sell products (hardware or software), services, and other arrangements that include combinations of products and services. Revenue from product sales, net of trade discounts and allowances, is recognized provided that persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed or determinable, and collectibility is reasonably assured. Delivery is considered to have occurred when title and risk of loss have transferred to the customer. Revenue is reduced for estimated product returns and distributor price protection, when appropriate. For sales that include customer-specified acceptance criteria, revenue is recognized after the acceptance criteria have been met. Revenue from services is deferred and recognized over the contractual period or as services are rendered and accepted by the customer. When arrangements include multiple elements, we use objective evidence of fair value to allocate revenue to the elements and recognize revenue when the criteria for revenue recognition have been met for each element. The amount of product revenue recognized is affected by our judgments as to whether an arrangement includes multiple elements and if so, whether vendor-specific

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objective evidence of fair value exists for those elements. Changes to the elements in an arrangement and the ability to establish vendor-specific objective evidence for those elements could affect the timing of the revenue recognition. Most of these conditions are subjective and actual results could vary from the estimated outcome, requiring future adjustments to revenue.

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Research and Development

The Company expenses research and development costs as incurred.

PART II TIGER TELEMATICS, INC. OTHER INFORMATION

Item 1. Legal Proceedings

In March 2004, Jordan Grand Prix Limited, filed suit against the Company in the High Court of Justice, Queen's Bench Division (Central Office), London, UK, alleging violation of a sponsorship agreement and dated letter agreement entered into in July 2003. Jordan sued the Company for \$3 million and alleged that the Company defaulted on a payment of \$500,000, due on January 1, 2004, under the sponsorship agreement, and a payment for \$250,000, due on the same date under the letter agreement. On February 26, 2004, Jordan terminated both agreements. In order to avoid summary judgment in favor of the plaintiff, the Company escrowed 70,000 shares of its common stock with the court. Prior to trial, the Company is required to substitute \$1.5 million for the escrowed shares. In June 2005, the Company placed an additional 60,000 shares of its restricted common stock in escrow. Trial is set for July 2005. While the Company is unable to predict the outcome of this litigation, it believes that it has good and meritorious defenses to the suit and intends to defend vigorously the claims made against it. The Company is currently engaged in court authorized mediation with Jordan to settle the case.

In January 2005, the Company filed a lawsuit in the Circuit Court in and for the County of Duval, Florida against D. Weckstein and Company and Donald E. Weckstein, a former investment advisor to the Company, for breach of the Company's agreement with the advisor. In a mediation process completed in April 2005, the Company issued 60,000 additional shares of restricted common stock in full settlement of the matter and was released from all past and future obligations under the Agreement.

On March 22, 2005, the Board of Regents of the University of Texas System filed an action against the Company and one of its subsidiaries, Gizmondo Europe, Ltd. in the United States District Court for the Western District of Texas, Austin Division, alleging that predictive text software used in the Company's Gizmondo gaming device infringes a patent held by the Board of Regents. The Company believes that its software does not infringe the Board of Regents' patent. The Company licenses this software from another company, which under the license agreement, has indemnified the Company for infringement claims. The Company and its licensor intend to vigorously defend the infringement claims against the Company and Gizmondo Europe, Ltd.

Early in the third quarter of 2004, Hand Held Games, Ltd. filed suit against the Company for \$75,000 plus damages and costs as a result of a dispute between the

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Company and Hand Held Games over a game development contract for the game "Chicane". The suit is in the discovery stages, but the Company believes it has meritorious defenses and does not expect the outcome of the matter to have a material effect on the financial condition of the Company.

Items 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the third quarter of 2004, the Company sold 2,775,806 shares of restricted common stock for an aggregate sum of \$9,476,590. The shares were sold

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primarily for \$1.25 to \$11.25 per share.

The Company also sold \$10,232,000 of its restricted stock that was recorded as deposits on common stock and moved to equity in the fourth quarter 2004 when the Company issued the common share certificates.

The Company negotiated the purchase price for the sale of restricted common stock, based upon the market price of the securities at the time of the negotiation and with an appropriate discount for the restrictions on resale. The restricted common stock was issued to sophisticated, accredited foreign investors or foreign corporations in transactions exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended. Each investor had access to financial information available in public markets and was given the opportunity to review the Company's books, records and other information that they requested. The proceeds were used to fund the Company's operations.

Item 3. Defaults Upon Senior Securities

Not Applicable

Item 4. Submission of Matters to a Vote of Security Holders

Not Applicable

Item 5. Other Information

Not Applicable

Item 6. Exhibits

Exhibit 31 Rule 13a-14(a).

Exhibit 32 Section 1350 Certification.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Quarterly Report on Form 10-Q to be signed on its behalf by the undersigned, thereunto duly authorized.

TIGER TELEMATICS, INC.

July 5, 2005

/S/ Michael W. Carrender

Michael W. Carrender
Chief Executive Officer, Director and
Chief Financial Officer

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