

SECURE ALLIANCE HOLDINGS CORP
Form 10-Q
February 14, 2008

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2007

or

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

Delaware
(State or other jurisdiction of incorporation or
organization)

75-2193593

(I.R.S. Employer Identification No.)

5700 Northwest Central Dr, Ste 350, Houston, Texas
(Address of principal executive offices)

77092
(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 No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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

The number of shares of common stock outstanding as of the close of business on February 14, 2008 was 19,441,524.

SECURE ALLIANCE HOLDINGS CORPORATION

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

| | December 31, 2007 (unaudited) | September 30, 2007 |
|--|-------------------------------------|-----------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 2,232,093 | \$ 882,116 |
| Certificates of deposit | 8,900,000 | 11,177,567 |
| Marketable securities available-for-sale | 363,960 | 505,500 |
| Note receivable | 1,000,000 | — |
| Interest and other receivables | 22,029 | 204,113 |
| Prepaid expenses and other assets | 115,076 | — |
| Total current assets | 12,633,158 | 12,769,296 |
| Other assets | 4,000 | 4,000 |
| Total assets | \$ 12,637,158 | \$ 12,773,296 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Accounts payable | \$ 51,722 | \$ — |
| Accrued liabilities | 195,901 | 141,401 |
| Total liabilities | 247,623 | 141,401 |
| Commitments and contingencies | | |
| Shareholders' Equity: | | |
| Common stock, \$.01 par value, authorized 100,000,000 shares; issued and outstanding 19,441,524 shares | 194,415 | 194,415 |
| Additional paid-in capital | 30,067,790 | 30,008,008 |
| Accumulated deficit | (17,936,630) | (17,776,028) |
| Accumulated other comprehensive income | 63,960 | 205,500 |
| Total shareholders' equity | 12,389,535 | 12,631,895 |
| Total liabilities and shareholders' equity | \$ 12,637,158 | \$ 12,773,296 |

See accompanying Notes to Condensed Financial Statements.

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

| | Three Months Ended December 31, | |
|---|------------------------------------|--------------|
| | 2007 | 2006 |
| Revenues | \$ | —\$ |
| Selling, general and administrative | 335,285 | 376,071 |
| Operating loss | (335,285) | (376,071) |
| Other income (expense): | | |
| Interest income | 174,683 | 168,579 |
| Reorganization fee paid to Laurus | — | (6,508,963) |
| Total other income (expense) | 174,683 | (6,340,384) |
| Loss from continuing operations | (160,602) | (6,716,455) |
| Income from discontinued operations | | |
| Gain on sale of Cash Security business, net of tax | — | 13,281,116 |
| Net income (loss) | \$ (160,602) | \$ 6,564,661 |
| Basic earnings (loss) per share: | | |
| Loss from continuing operations | \$ (0.01) | \$ (0.34) |
| Income from discontinued operations | — | 0.67 |
| Net income (loss) | \$ (0.01) | \$ 0.33 |
| Weighted average common shares outstanding | 19,441,524 | 19,847,452 |
| Diluted earnings (loss) per share: | | |
| Loss from continuing operations | \$ (0.01) | \$ (0.34) |
| Income from discontinued operations | — | 0.67 |
| Net income (loss) | \$ (0.01) | \$ 0.33 |
| Weighted average common and dilutive shares outstanding | 19,441,524 | 20,017,456 |

See accompanying Notes to Condensed Financial Statements.

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

| | Three Months Ended December 31, | |
|--|------------------------------------|--------------|
| | 2007 | 2006 |
| Net income (loss) | \$ (160,602) | \$ 6,564,661 |
| Other comprehensive income: | | |
| Unrealized gain (loss) on marketable securities available-for-sale | (141,540) | 207,709 |
| Comprehensive income (loss) | \$ (302,142) | \$ 6,772,370 |

See accompanying Notes to Condensed Financial Statements.

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

| | Three Months Ended December 31, | |
|--|------------------------------------|--------------|
| | 2007 | 2006 |
| Cash flows from operating activities: | | |
| Net income (loss) | \$ (160,602) | \$ 6,564,661 |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | |
| Amortization of stock options issued to officers | 59,782 | — |
| Changes in assets and liabilities: | | |
| Interest and other receivables | 182,084 | 147,332 |
| Prepaid expenses and other assets | (115,076) | (14,875) |
| Accounts payable and accrued liabilities | 106,222 | (1,987,587) |
| Net cash flows used in discontinued operations | — | (13,552,456) |
| Net cash provided by (used in) operating activities | 72,410 | (8,842,925) |
| Cash flows from continuing investing activities: | | |
| (Increase) decrease in time deposits | 2,277,567 | (7,000,000) |
| Increase in notes receivable | (1,000,000) | — |
| 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 | 1,277,567 | 10,403,424 |
| Cash flows from continuing financing activities: | | |
| Redemption of shares held by Laurus | — | (6,545,340) |
| Proceeds from exercise of warrants and options | — | 29,313 |
| Decrease in restricted cash | — | 5,400,000 |
| Net cash used in financing activities | — | (1,116,027) |
| Net increase in cash and cash equivalents | 1,349,977 | 444,472 |
| Cash and cash equivalents at beginning of period | 882,116 | 1,264,463 |
| Cash and cash equivalents at end of period | \$ 2,232,093 | \$ 1,708,935 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid for taxes | \$ — | \$ 90,000 |
| Supplemental disclosure of non-cash financing activities: | | |
| Unrealized gain (loss) on marketable securities available-for-sale | \$ (141,540) | \$ 207,709 |

See accompanying Notes to Condensed Financial Statements.

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

NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

(1) Organization and Summary of Significant Accounting Policies

Organization and Nature of Business

Secure Alliance Holdings Corporation (the “Company,” “we,” “us,” or “our”) is a Delaware corporation formerly engaged in the development, manufacture, sale and support of 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`

Basis of Financial Presentation

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, and the disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. In management’s opinion, all adjustments necessary for a fair presentation of the results of the interim periods have been reflected in the interim financials. All adjustments to the financial statements are of a normal recurring nature.

Significant Accounting Policies

There has been no change in our significant accounting policies from those contained in our Annual Report on Form 10-K for the year ended September 30, 2007, except as discussed in the following paragraph.

In July 2006, the FASB issued Final Interpretation No. (“FIN”) 48, Accounting for Uncertainty in Income Taxes, an Interpretation of SFAS 109, which clarifies the accounting for income taxes by prescribing the minimum recognition threshold an uncertain tax position is required to meet before tax benefits associated with such uncertain tax position are recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. In addition, FIN 48 excludes income taxes from the scope of SFAS 5, Accounting for Contingencies. FIN 48 is effective for fiscal years beginning after December 15, 2006. Differences between the amounts recognized in the consolidated balance sheets prior to the adoption of FIN 48 and the amounts reported after adoption are accounted for as a cumulative-effect adjustment to the beginning balance of retained earnings upon adoption of FIN 48. FIN 48 also requires that amounts recognized in the balance sheet related to uncertain tax positions be classified as a current or non-current liability, based upon the timing of the ultimate payment to a taxing authority. We adopted FIN 48 as of October 1, 2007 and management had determined that no tax reserve needs to be recorded during the quarter ended December 31, 2007.

Earnings (Loss) Per Share

Basic income (loss) per share is computed by dividing the net income (loss) attributable to the common stockholders (the numerator) by the weighted average number of shares of common stock outstanding (the denominator) during the reporting periods. Diluted income (loss) per share is computed by increasing the denominator by the weighted average number of additional shares that could have been outstanding from securities convertible into common stock,

such as stock options and warrants.

(2) Merger Agreement with Sequoia

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

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

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

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

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

(3) Marketable Securities Available- for- Sale

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

As of December 31, 2007 and September 30, 2007, our common stock in Cashbox plc was recorded at a fair value of \$363,960 and \$505,500, respectively. Unrealized gains on these shares of common stock, which were added to stockholders' equity as of December 31, 2007 and September 30, 2007, were \$63,960 and \$205,500, respectively.

Until March 28, 2008, we are restricted from selling any shares 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.

(4) Note Receivable

Pursuant to the Loan Agreement, we loaned \$1,000,000 to Sequoia on December 6, 2007. The note bears interest at 10% per annum and is due December 31, 2008. Further, we agreed to loan Sequoia an additional \$1,000,000 on January 15, 2008 and \$500,000 on February 15, 2008 on the same terms and conditions. The loan and any future advances under the Loan Agreement are secured by a pledge of all of the assets of Sequoia.

(5) Discontinued Operations

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 buyer led by a management buyout team that included our former director and Interim Chief Executive Officer, Mark K. Levenick, and our former director, Raymond P. Landry. The Cash Security Asset Purchase Agreement provided for a cash purchase price of \$15,500,000, less \$100,000 as consideration for the buyer assuming certain potential liability in connection with ongoing litigation, and less a working capital deficit adjustment of \$1,629,968, resulting in a net purchase price of \$13,770,032. In addition, Sentinel Operating L.P. paid a cash adjustment of \$2,458,718 to the Company at closing. The Cash Security Business Sale was completed on October 2, 2006. During the year ended September 30, 2007, we recorded a gain on the sale of the Cash Security business of \$13,605,066.

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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 Cash Security Asset Purchase Agreement is terminated.

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

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

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

The financial and business analysis below provides information which we believe is relevant to an assessment and understanding of financial position and results of operations. This financial and business analysis should be read in conjunction with the condensed consolidated financial statements and related notes.

The following discussion and certain other sections of this Report on Form 10-Q contain statements reflecting the Company's views about its future performance and constitutes "forward-looking statements" under the Private Securities Litigation Reform Act of 1995. These views may involve risks and uncertainties that are difficult to predict and may cause the Company's actual results to differ materially from the results discussed in such forward-looking statements. Readers should consider how various factors may affect the Company's performance. The Company undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or other.

Critical Accounting Policies

The discussion and analysis of financial condition and results of operations is based upon the condensed consolidated financial statements contained in Item 1 in this Quarterly Report. The condensed financial statements include the accounts of the Company and its wholly owned subsidiaries. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses for the reporting period. Actual results could differ from those estimates.

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The discussion included in Item 7 of our Annual Report on Form 10-K for the year ended September 30, 2007 under the subheading "Critical Accounting Policies and Estimates" is current and applicable, and is hereby incorporated into this Quarterly Report on Form 10-Q.

Results of Operations

Following the sale of our Cash Security business on October 2, 2006, we have had substantially no operations and the results of continuing operations have consisted of corporate overhead and investment-related income.

Quarter Ended December 31, 2007 Compared with the Quarter Ended December 31, 2006

Selling, general and administrative expenses for the quarter ended December 31, 2007 decreased by approximately \$66,000 due to lower accounting fees as a result of lower levels of activity after completion of the Cash Security business sale on October 2, 2006.

We recorded a reorganization fee paid to Laurus of \$6.5 million during the quarter ended December 31, 2006 in connection with closing of the sale of the Cash Security business on October 2, 2006. There was no such fee in 2007.

Interest income was virtually unchanged from 2006.

Income tax expense (benefit) was \$271,340 for the quarter ended December 31, 2006, and was reversed in the fourth quarter of 2006 after management assessed that its net operating loss carryforwards were sufficient to offset the tax liability from gain on sale of the cash security business. We have 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.

We recorded a loss from continuing operations of \$(160,602) and \$(6,716,455) for the quarters ended December 31, 2007 and December 31, 2006, respectively. The difference was principally due to the reorganization fee paid to Laurus of \$6.5 million during the quarter ended December 31, 2006 in connection with closing of the sale of the Cash Security business on October 2, 2006. There was no such fee in 2007.

Liquidity and Capital Resources

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

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

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

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.

Working Capital

As of December 31, 2007, we had working capital of \$12.4 million compared with working capital of \$12.6 million at September 30, 2007.

Off-Balance Sheet Transactions

We had no off-balance sheet arrangements at December 31, 2007.

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Indebtedness

We had no indebtedness or obligations under operating leases at December 31, 2007.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

At December 31, 2007, our exposure to market risk for changes in interest rates relates to our investment portfolio, which consists of taxable, short-term money market instruments and certificates of deposit and debt securities with maturities between 90 days and one year. We do not use derivative financial instruments in our investment portfolio. We place our investments with high-credit quality issuers and we mitigate default risk by investing in only safe and high-credit quality securities and by monitoring the credit rating of investment issuers.

ITEM 4T. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

An evaluation was carried out by the Company's Chief Executive Officer and Principal Financial Officer of the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of December 31, 2007, the end of the period covered by this Form 10-Q. Based upon that evaluation, the Chief Executive Officer and Principal Financial Officer concluded that these disclosure controls and procedures were effective at a reasonable level.

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

Changes in Internal Control Over Financial Reporting

There have been no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) or 15d-15(f) under the Securities Exchange Act of 1934, as amended) during the quarter ended December 31, 2007 that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company had no legal proceedings during the quarter ended December 31, 2007.

ITEM 1A. RISK FACTORS

The discussion included in Item 1A of our Annual Report on Form 10-K for the year ended September 30, 2007 under the heading "Risk Factors" is current and applicable, and is hereby incorporated into this Quarterly Report on Form 10-Q.

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

- | | |
|-----|-----------------|
| (a) | Not Applicable. |
| (b) | Not Applicable. |
| (c) | Not Applicable. |

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ITEM 3. DEFAULTS UPON SENIOR SECURITIES

(a) Not Applicable.

(b) Not Applicable.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

(a) Not Applicable.

(b) Not Applicable.

(c) Not Applicable.

(d) Not Applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

(a) Exhibits:

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

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

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

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

* - Filed herewith.

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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, 2008

/s/ JERRELL G. CLAY
Jerrell G. Clay
Chief Executive Officer

February 14, 2008

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