

Edgar Filing: TIGER TELEMATICS INC - Form 10-K

TIGER TELEMATICS INC  
Form 10-K  
April 01, 2005

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

FORM 10-K

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

For the fiscal year ended December 31, 2003

Commission file number 001-15977

Tiger Telematics, Inc.  
(Exact name of registrant as specified in its charter)

|   |   |
|---|---|
| DELAWARE  | 13-4051167                              |
| (State of other jurisdiction of<br>incorporation or organization) | (I.R.S. Employee<br>Identification No.) |

10201 Centurion Parkway N. Ste. 600 Jacksonville, FL 32256  
(Address or principal executive offices) (Zip code)

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

Securities registered pursuant to Section 12(b) of the Act:  
None

Securities registered pursuant to Section 12(g) of the Act:  
Common Stock, \$0.001 par value

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Aggregate market value of common stock held by non-affiliates of the registrant as of March 1, 2005 was \$1,158,780,000.

Number of shares of common stock outstanding as of March 1, 2005 was 46.5 million.

DOCUMENTS INCORPORATED BY REFERENCE

None

Edgar Filing: TIGER TELEMATICS INC - Form 10-K

TIGER TELEMATICS, INC.

ANNUAL REPORT ON FORM 10-K  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

Table of Contents

|   | Page |
|---|------|
|   | ---- |
| PART I.....   | 1    |
| Item 1. BUSINESS.....   | 1    |
| General.....  | 1    |
| Industry Overview.....  | 2    |
| Growth Strategy.....  | 3    |
| Products and Services.....  | 4    |
| Gizmondo.....   | 4    |
| Telematics.....   | 5    |
| Relationship with Major Customers.....  | 5    |
| Suppliers.....  | 5    |
| Sales & Marketing.....  | 6    |
| Competition.....  | 6    |
| Intellectual Property.....  | 6    |
| Employees.....  | 6    |
| Item 2. PROPERTIES.....   | 8    |
| Item 3. LEGAL PROCEEDINGS.....  | 8    |
| Item 4. SUBMISSION OF MATTERS TO VOTE OF SECURITY<br>HOLDERS.....                                     | 9    |
| PART II.....  | 9    |
| Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND<br>RELATED SHAREHOLDER MATTERS.....                 | 9    |
| Market Price and Dividend Information.....  | 9    |
| Item 6. SELECTED FINANCIAL DATA.....  | 10   |
| I   |      |
| Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF<br>FINANCIAL CONDITION AND RESULTS OF OPERATIONS..... | 11   |
| General Overview.....   | 11   |
| Results of Operations.....  | 12   |
| Liquidity and Capital Resources.....  | 16   |
| Critical Accounting Policies.....   | 17   |
| Recently Issued Accounting Standards.....   | 19   |

## Edgar Filing: TIGER TELEMATICS INC - Form 10-K

|               |  |    |
|---------------|--|----|
| Item 7A.      | QUANTITATIVE AND QUALITATIVE DISCLOSURES<br>ABOUT MARKET RISK.....                           | 20 |
| Item 8.       | FINANCIAL STATEMENTS AND SUPPLEMENTARY<br>FINANCIAL DATA.....                                | 21 |
| Item 9.       | CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS<br>ON ACCOUNTING AND FINANCIAL DISCLOSURE..... | 21 |
| Item 9A.      | CONTROLS AND PROCEDURES.....   | 21 |
| PART III..... |  | 21 |
| Item 10.      | DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.....                                      | 21 |
|               | Section 16(a) of the Beneficial Ownership Reporting Compliance.....                          | 23 |
|               | Code of Ethics.....  | 23 |
|               | Audit Committee Financial Expert.....  | 24 |
| Item 11.      | EXECUTIVE COMPENSATION.....  | 24 |
|               | Summary Compensation.....  | 24 |
|               | Option Grants.....   | 25 |
|               | Equity Compensation Plan Information.....  | 25 |
|               | Compensation of Directors.....   | 25 |
|               | Stock Option Plan.....   | 25 |
|               | Employment Contracts and Termination and Change-In-Control<br>Arrangements.....              | 28 |
|               | Compensation Committee Interlocks and Insider Participation.....                             | 28 |
|               | Shareholder Return Performance.....  | 28 |
| Item 12.      | SECURITY OWNERSHIP OF CERTAIN BENEFICIAL<br>OWNERS AND MANAGEMENT.....                       | 30 |
| Item 13.      | CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.....  | 31 |
| II            |  |    |
| Item 14.      | PRINCIPAL ACCOUNTANT FEES AND SERVICES.....  | 32 |
|               | Audit Fees.....  | 33 |
|               | Audit Related Services.....  | 33 |
|               | Tax Fees.....  | 33 |
|               | All Other Fees.....  | 33 |
| PART IV.....  |  | 33 |
| Item 15.      | EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.....  | 33 |
|               | SIGNATURES.....  | 33 |

III

PART I

ITEM 1. BUSINESS

General

Tiger Telematics, Inc. ("Tiger Telematics" or the "Company"), a Delaware corporation, is the parent company of several subsidiaries the most noteworthy of which is Gizmondo Europe Ltd, the developer of the multi-entertainment wireless handheld gaming device now called the Gizmondo. The Company historically has been in the retail flooring business and a designer, developer and marketer of mobile telematics systems and services that combine global positioning and voice recognition technology to locate and track vehicles and people down to the street level in countries throughout the world. Telematics is an emerging industry that uses a combination of computer, wireless and satellite technology largely to provide communications between a central source and fleets of vehicles. The systems were designed to operate on GSM networks, which is the standard operating system for wireless carriers in the UK and in Continental Europe. These projects have been dropped in favor of development of the Gizmondo.

In 2003, the Company began developing a new multi-entertainment wireless handheld gaming device that is now referred to as Gizmondo. While the Company previously developed a variety of commercial telematics products, the Company's primary business strategy has been since early 2005 to develop the Gizmondo. The Company initially launched a limited production version of the Gizmondo in the UK on October 29, 2004 and expects to launch the full scale production of Gizmondo in 2005. The Gizmondo is powered by a Microsoft Windows CE.net platform, has a 2.8-inch TFT color screen with 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. The Gizmondo represents the Company's primary business segment.

In May 2001, the Company (formerly known as Floor Decor, Inc.) completed a reverse shell merger with Media Communications Group, Inc. ("MCGI"). Prior to the merger with the Company, MCGI was a "public shell" company, with no significant operations or assets. The merger of the Company and MCGI was accounted for as a reverse acquisition. Under a reverse acquisition, the Company was treated for accounting purposes as having acquired MCGI and the historical financial statements of the Company became the historical financial statements of MCGI. Therefore, all references herein are to the activities of the Company. On June 6, 2002, the Company changed its name from Floor Decor, Inc. to Tiger Telematics, Inc. after deciding to exit the historical flooring business and focus exclusively on mobile telematics systems and services, with the major focus on Gizmondo.

## Edgar Filing: TIGER TELEMATICS INC - Form 10-K

The Company is the parent company of three wholly owned subsidiaries, Media Flooring, Inc., Gizmondo Europe Ltd. and Tiger Telematics USA, Inc. The Company's first subsidiary, Media Flooring, Inc. (now dormant), operated a

1

flooring products sales and service business through a wholly owned subsidiary Floor Decor LLC. This business represented all of the business operations of the Company during 2001 and early 2002. Floor Decor LLC operated a big box super store located in Fort Lauderdale, Florida, with a wide selection of floor coverings, including carpet, area rugs, wood, and laminates, at discount prices to both commercial accounts and consumers. In June 2002, the Company discontinued the flooring segment operation and in August 2002 sold the assets of the Floor Decor LLC, and the use of the name Floor Decor LLC to an unrelated third party. The operating results for this discontinued segment are classified as operating results of discontinued operations in the current year and in all prior years covered in this Report.

On February 4, 2002, the Company acquired Eagle Eye Scandinavia Distribution, Ltd, an early stage UK company that distributed telematics products and services. The Company subsequently changed the name from Eagle Eye Scandinavia Distribution, Ltd to Tiger Telematics Ltd. Tiger Telematics Ltd. was the exclusive distributor in Scandinavia and Yugoslavia of the Eagle Eye VCG2, a vehicle communications gateway that combined telecommunications and Global Positioning Systems (GPS) technologies to provide security and communications solutions for fleet vehicle management. This telematics product was manufactured by an unrelated UK based company Eagle Eye Telematics plc.

On December 17, 2002, the Company sold the shares of capital stock of Tiger Telematics, Ltd. to a Swedish company, primarily to reduce debt and improve the Company's working capital position.

In 2002, the Company organized a new subsidiary, Tiger Telematics Europe, Ltd. to provide a variety of telematics products and services to customers in England and Western Europe. Tiger Telematics Europe, Ltd. focused on developing new telematics products, on developing child-tracking devices and on marketing telematics products primarily to large fleet suppliers such as rental car companies. In 2003, Tiger Telematics Europe, Ltd. began focusing primarily on developing the Gizmondo. In early 2005, the Company changed the name of Tiger Telematics Ltd. to Gizmondo Europe Ltd. to match the name of the Company's primary product, the Gizmondo.

In June 2002, the Company formed a wholly owned subsidiary Tiger Telematics USA, Inc. that was created to acquire the assets of a US telematics developer of consumer automotive devices. This subsidiary was ultimately unable to successfully launch the Port- IT products associated with this acquisition and this subsidiary is now dormant.

The Company had difficult years in 2003 and 2002 due to extremely challenging industry conditions and high development costs associated with developing Gizmondo. The Company has earned limited revenues to date and has incurred net losses of \$ 7,812,449, \$11,087,747 and \$1,299,080 for the years ended December 31, 2003, 2002 and 2001, respectively. Additionally the Company reported an operating loss in the first three quarters of 2004 of \$16,838,170, principally due to development costs for the Gizmondo.

2

## Edgar Filing: TIGER TELEMATICS INC - Form 10-K

### Industry Overview

#### Gaming industry information

#### UK Games compared with other industries

|                          |               |
|--------------------------|---------------|
| Games market size        | (pound)1,081m |
| Cinema market size       | (pound) 755m  |
| Video Rental market size | (pound) 466m  |
| Music                    | (pound)2,016m |

#### UK hardware data 2002

|                                    |      |
|------------------------------------|------|
| UK installed base of Playstation 2 | 3.7m |
| UK installed base of Playstation   | 6.8m |

#### Market size comparison 2002

|                |             |
|----------------|-------------|
| UK             | Euro 1,719m |
| Germany        | Euro 1,196m |
| France         | Euro 990m   |
| Italy          | Euro 438m   |
| Spain/Portugal | Euro 415m   |

Source: ELSPA

Estimated world market value for the games and entertainment/reference software is valued in excess of \$28 billion annually.

#### Growth Strategy

While the Company previously developed a variety of commercial telematics products designed for fleet management, anti-theft and security applications, the Company's primary business strategy is to develop Gizmondo. During 2005, the Company expects to launch Gizmondo first in England, then the European market and then in the United States. The initial Gizmondo units were produced and manufactured by a group consisting of Plectek, an independent electrical design and consulting firm based in the UK, Intrinsic Software International, a Microsoft Gold Level Windows Embedded Partner and Xilinx, a software programmer specializing in programmable logic. The initial Gizmondo units were displayed in January 2004 at the 2004 Consumer Electronics Show in Las Vegas. Going forward, the Company will utilize Flextronics as the new volume manufacturer of Gizmondo units. By utilizing Flextronics' high-volume manufacturing capabilities and global reach, the Company should be able to bring more units to market and assure its ability to fill the growing number of sales orders. The Company anticipates revenue from the sale of Gizmondo units as well as related sales of hardware, software, music and video downloads, games, MNVO and Smart Ads.

To accomplish the difficult challenge of converting the Gizmondo idea into an actual product, the Company, since the third quarter of 2003, has entered into a number of agreements, joint ventures and strategic partnerships with recognized design, engineering, software, manufacturing, marketing, public relations, and distribution companies, including Plectek, an independent UK electrical design and consulting firm; Microsoft, the maker of the Windows Net CE software operating system used by Gizmondo; Synergenix Interactive AB, a game developer; Intrinsic Software International, a Microsoft Gold Level Windows Embedded Partner; Xilinx, a software programmer specializing in programmable logic; Fathammer Alliance, a supplier of advanced 3D graphics and game technologies for mobile platforms; MINICK a premium messaging network in Europe; Samsung, supplier of Gizmondo's Mobile Applications Processor; Micronas, supplier of Gizmondo's single chip MIDI synthesizer; Flextronics, an electronics

manufacturer; CATIC, a State-Run Chinese conglomerate that provides sales, distribution, technical support, and numerous other joint ventures for all Chinese regions; Toys R Us, an authorized UK retailer of Gizmondo; Ogilvy Public Relations Worldwide, the Company's Agency of Record; Renaissance Corp, an electronics marketer and distributor; OD2, a European music distributor; Redline Marketing and Tartan Sales, distributors of Gizmondo units throughout the US, Canada, and Mexico; M-Systems, supplier of the mDiskOnChip G3 memory chip; Daniels & Associates, the Company's Investment Banker; Playcom Software Vertriebs GmbH, a German games wholesaler and distributor; John Lewis Department Stores, an authorized UK retailer of Gizmondo; NVIDIA Corporation, supplier of Gizmondo's GoForce 3D 4500 3D Wireless media processor; Indigo Pearl Ltd, a gaming public relations agency; SCi Entertainment Group, a games publisher; Ditan Corporation, a retail distribution provider; Mother, an advertising agency; United Electronics SL, an electronics distributor; Microsoft Game Studios, a gaming company; and Zi Corporation, supplier of the advanced test input technology featured on Gizmondo.

In addition, to facilitate the launch of Gizmondo, the Company acquired game developers Indie Studios and Warthog plc, and entered into an agreement to acquire the software company Integra SP.

#### Products and Services

The Company features two types of products, along with related goods and services for such products. The primary product is Gizmondo, a new multi-entertainment wireless handheld gaming device targeted at the gaming industry. The Company's secondary product is a telematics product designed for vehicle fleet management.

#### Gizmondo

Gizmondo is a new multi-entertainment wireless handheld gaming device that will compete with similar handheld gaming products offered by Nintendo, Nokia, Tapwave and Sony. Gizmondo is powered by a Microsoft Windows CE.net platform, has a 2.8-inch TFT color screen with 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, Mpeg 4 movie playing capability, a digital camera and a GPRS network link to allow wide-area network gaming. Technical Specifications: 400 MHz Processor, GSM Tri-Band, GPRS Class 10, SiRF GPS, TFT Screen - 320 x 240 Pixels, WAP 2.0, MMS Send and Receive, MP3 Playback, Polyphonic MIDI, SMS / EMS, MPEG 4 Playback, JPEG Camera, SD Flash Card Reader, Mini-USB Client, Bluetooth 2 (Multiplayer Gaming), 3D Games Capability, GPS Tracking Application, GPS Mapping Application, Removable SIM Card, Removable Battery, Polyphonic Ringtones, Stereo Headset Socket for MP3 and Games, Stop game play when battery near empty, Windows Media Player 9, Flight Mode, Speaker, Vibrate Mode. Gizmondo is approximately 5.5 inches wide, 3.5 inches high, over an inch thick, and weighs 5.5 ounces (155 grams). The outer shell is made of a durable and stain-resistant slate-colored composite material with a rubbery feel. The rectangular screen, measuring 2.25 by 1.75 inches (a 2.8" TFT LCD display), sits right in the center of the console.

Aside from being a gaming device, the Gizmondo also performs the following functions: movie player, allowing users to view full-feature videos in MPEG 4 format using the unit's built-in Windows Media Player 9 and SD Card slot; MP3 player permitting users to download and listen to audio files stored in either MP3, MIDI & SP-MIDI, WMA, or WAV formats; SMS & MMS messaging facility that lets users easily send text, image, and music files; and high-resolution digital camera.

Gizmondo also is equipped with a unique global positioning system; it's wired for GSM tri-band networks so it can be used on five continents; it supports Bluetooth wireless technology; it has USB connection capabilities; and with its removable memory cards, it provides users with unlimited storage. In addition to having more features and functions than any competing units, Gizmondo is the only device among this new generation of completely mobile gaming consoles that uses a version of Microsoft Windows (CE.NET) as its operating system.

#### Telematics

The Company's secondary business strategy is to supply high value telematics units to business users for fleet management, anti-theft and security applications. Telematics products allow the wireless exchange or delivery of communication, information, and other content between a vehicle and its occupant, and external sources or recipients. The telematics industry aggregates the functionality and content of various industries including consumer electronics, cellular and security devices, among others, into a seamless service offering. The Company's telematics products provide vehicle communications gateways, combining telecommunications and Global Positioning System (GPS) technologies to provide security and communications solutions for fleet management. The Company primarily markets its fleet management products and services to companies with multiple movable assets and or vehicles. The Company believes that its telematics products should afford customers significant operating and insurance cost savings.

#### Relationship with Major Customers

The Gizmondo is a developmental stage product that has only recently been marketed and sold to the general public in a limited fashion. Consequently, the Company has no current large customers but has entered into various distribution and representation agreements as detailed in the Growth Strategy section above.

#### Suppliers

The Company developed the Gizmondo internally but the manufacture is completed by outside parties. As discussed in the Growth Strategy section above, Flextronics is the Company's volume manufacturer for Gizmondo units. Although the Company believes that multiple sources of supply exist for nearly all of the products and components purchased from outside suppliers, the Company generally maintains only one supplier for each core product purchased for the manufacture of Gizmondo units. Additionally, the Company relies on Flextronics as the sole manufacturer of Gizmondo units. Therefore interruptions in supply or manufacture or price changes in the items purchased by the Company could have a material adverse effect on the Company's operations.

#### Sales & Marketing

The Company's sales and marketing approach leverages management's extensive experience in both of its major market segments of commercial and retail buyers and the use of other distributors.

The Company uses a combination of the following to drive commercial sales in the Gizmondo segment:



## Edgar Filing: TIGER TELEMATICS INC - Form 10-K

- o Direct sales via internal commissioned sales force
- o Large representative agencies that specialize in retail sales and customer base

During 2005, the Company expects to launch the Gizmondo in different geographic markets starting in the UK initially, then in Continental Europe and then in the US.

### Competition

Competition in gaming mobile handheld products includes perennial leader Nintendo with its gameboy advance, Nokia with its N-Gage and new product offerings from Tapwave and Sony.

The handheld gaming market in the last ten years has been led by one dominant player - 'Nintendo Gameboy'. Since the introduction of Nokia N-Gage, the handheld gaming market is beginning to evolve with the introduction of various multi-functional devices.

Within the handheld gaming market category there are two principal competitors who together control substantially all of the handheld gaming market:

- o Sony Playstation Portable - A handheld gaming console with a 4.5" screen that also has the ability to play video from Sony UMD discs. Functionality is limited, and 'add-on' components will be required in order to extend functionality. In the management's view, Sony PSP will secure market share during their launch period (Summer 2005 - Europe).
- o Nintendo DS - Nintendo DS is the next generation gaming console within the Gameboy family. Targeted at the under 16 age category, the functionality is limited to gaming functions only. The unique selling point of the Nintendo DS is its dual screen.

### Intellectual Property

The Company markets its products under the name Tiger Telematics and Gizmondo. The Company has devoted substantial time, effort and expense to the development of brand name recognition and goodwill and has not received any notice that its use of such marks infringes upon the rights of others, and is not aware of any activities which would appear to constitute infringement of any of its marks. The Company has filed to trademark its name and logo and has patents pending for the Gizmondo.

### Employees

As of March 1, 2005, the Company had approximately 158 employees and contract agents, including 50 administrative, 15 sales and marketing, 90 game developers and 3 persons responsible for warehouse and shipping activities. In many

instances, the Company utilizes agencies who actually employ the persons or retain employees as consultants on an as needed basis. The Company has not experienced any work stoppages and the Company's employees are not represented by a union. The Company considers its relations with its employees to be good.

## ITEM 2. PROPERTIES

## Edgar Filing: TIGER TELEMATICS INC - Form 10-K

The Company currently leases one facility in North Florida and three facilities in the United Kingdom. The following table sets forth certain information concerning the facilities of the Company.

| LOCATION<br>-----             | USE<br>---              | SQUARE<br>FEET<br>---- | AVERAGE<br>ANNUALIZED<br>LEASE COST<br>----- | RENEWAL<br>EXPIRATION<br>OPTION<br>----- |
|-------------------------------|-------------------------|------------------------|--|--|
| Jacksonville, Florida         | Executive Office        | 400                    | \$24,000                                     | June 2005                                |
| Farnborough,<br>Hampshire, UK | Executive Office        | 5,000                  | \$404,080                                    | October 2005                             |
|                               | Operations Office       | 15,000                 | \$265,477                                    | March 2007                               |
| Manchester, UK                | Gizmondo Studios Office | 5,000                  | \$265,477                                    | March 3, 2005 (1)                        |
| London, UK                    | Retail Store            | 2,000                  | \$334,250                                    | March 2011                               |

(1) In negotiation for a 15 year extension.

The Company believes that its existing facilities are adequate to meet its current needs and those additional facilities can be leased to meet future needs.

### ITEM 3. 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 \$30 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. Trial is set for May 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.

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. As payment for investment advisory services to be rendered under the five year agreement, the Company originally issued 40,000 (1,000,000 pre reverse split) shares of common stock in 2002. The

advisor subsequently alleged in December 2004 that as a result of the Company's stock split in July 2004, the Company owed him an additional 960,000 shares of common stock to maintain his ownership in the Company at 1,000,000 shares. The Company is seeking a declaratory judgment from the Court that it is not required to issue any additional shares to the advisor, as well as damages, fees and costs as a result of the advisor's breach, including the return of the previously issued shares. The advisor has filed counterclaims for the additional

## Edgar Filing: TIGER TELEMATICS INC - Form 10-K

shares, damages, fees and costs.

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.

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

No matters were submitted to a vote of security holders of the Company during the fourth quarter of the period covered by this report.

### PART II

#### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

##### Market Price and Dividend Information

The Company's Common Stock trades on the other over the counter market under the symbol "TGTL". The other over the counter market sometimes referred to as pink sheets, is a quotation system for equity securities not listed on the national stock exchanges or the NASDAQ Stock Market, whose quotations reflect inter-dealer prices, without retail mark-up, mark-down, or commission, and may not necessarily represent actual transactions. The Company's Common Stock began trading on the OTC Bulletin Board on May 22, 2001 as the result of a reverse merger with a public shell company. It was delisted from the Bulletin Board in May 2003.

As of March 1, 2005, the Company had issued and outstanding 46.5 million shares of Common Stock, which were held by approximately 2,450 shareholders of record.

8

Following are the high and low closing stock prices in 2002, 2003 and 2004:

|          | Fiscal Year Ended December 31, |          |         |         |          |          |          |          |
|----------|--------------------------------|----------|---------|---------|----------|----------|----------|----------|
|          | 2004                           |          | 2003    |         | 2002     |          | 2001     |          |
|          | High                           | Low      | High    | Low     | High     | Low      | High     | Low      |
| 1st Qtr. | \$ 14.75                       | \$ 4.00  | \$ 2.13 | \$ .75  | \$ 36.00 | \$ 12.75 | \$ --    | \$ --    |
| 2nd Qtr. | \$ 14.75                       | \$ 9.00  | \$ 1.00 | \$ .70  | \$ 13.50 | \$ 6.00  | \$250.00 | \$100.00 |
| 3rd Qtr. | \$ 14.70                       | \$ 6.63  | \$ 2.00 | \$ .53  | \$ 7.00  | \$ 1.13  | \$187.50 | \$ 22.50 |
| 4th Qtr. | \$ 26.30                       | \$ 11.10 | \$ 2.50 | \$ 1.35 | \$ 3.63  | \$ 1.25  | \$ 46.75 | \$ 5.75  |

## Edgar Filing: TIGER TELEMATICS INC - Form 10-K

All share prices have been restated to affect a 1 to 25 reverse stock split.

The Company has not paid cash dividends and does not intend for the foreseeable future to declare or pay any cash dividends on its Common Stock and intends to retain earnings, if any, for the future operation and planned expansion of the Company's business. Any determination to declare or pay dividends will be at the discretion of the Company's board of directors and will depend upon the Company's future earnings, results of operations, financial condition, capital requirements, considerations imposed by applicable law, and other factors deemed relevant by the board of directors.

### ITEM 6. SELECTED FINANCIAL DATA

The selected consolidated financial data as of and for the year ended December 31, 2003, 2002 and 2001, have been derived from the audited consolidated financial statements of the Company. The selected consolidated financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" (Item 7 of this report) and the audited consolidated financial statements and related notes thereto included elsewhere herein.

Year ended December 31, 2003, 2002 and 2001

|   | 2003<br>----- | 2002<br>----- | 2001<br>----- |
|---|---------------|---------------|---------------|
| OPERATING DATA:                             |               |               |               |
| (IN THOUSANDS, EXCEPT SHARE                 |               |               |               |
| AND PER SHARE AMOUNTS)                      |               |               |               |
| Net Sales                                   | \$ 8          | \$ 284        | \$ --         |
| Cost of goods sold                          | 14            | 385           | --            |
|   | -----         | -----         | -----         |
| Gross loss                                  | (6)           | (101)         | --            |
| General and administrative                  | 5,582         | 5,172         | 283           |
| Selling and marketing                       | 683           | 597           | --            |
|   | -----         | -----         | -----         |
| Operating income                            | (6,271)       | (5,870)       | (283)         |
| Other income (expenses)                     | (1,496)       | (4,827)       | --            |
| Interest expense, net                       | (45)          | (38)          | (145)         |
|   | -----         | -----         | -----         |
| Net loss from continuing operations         | (7,812)       | (10,735)      | (428)         |
|   | -----         | -----         | -----         |
| Net loss from discontinued operations       | (--)          | (353)         | (871)         |
|   | -----         | -----         | -----         |
| Net Loss                                    | (7,812)       | (11,088)      | (1,299)       |
|   | =====         | =====         | =====         |
| Basic and diluted net loss per common share | \$ (1.6586)   | \$ (3.9278)   | \$ (0.5978)   |
|   | =====         | =====         | =====         |
| Weighted average shares of outstanding      | 4,710,208     | 2,822,876     | 2,173,099     |
|   | =====         | =====         | =====         |

Edgar Filing: TIGER TELEMATICS INC - Form 10-K

9

|                       | December 31, |            |
|-----------------------|--------------|------------|
|                       | 2003         | 2002       |
|                       | -----        | -----      |
| BALANCE SHEET DATA:   |              |            |
| (IN THOUSANDS)        |              |            |
| Working capital       | \$ (8,755)   | \$ (5,398) |
| Total assets          | 436          | 647        |
| Total liabilities     | 9,004        | 5,952      |
| Stockholders' deficit | (8,567)      | (5,305)    |

ITEM 7. 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 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.

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-K 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-K.

General Overview

In May 2001 the Company completed a reverse shell merger with Media Communications Group, Inc. ("MCGI"). Prior to the merger, MCGI was a "public shell" company, with no significant operations or assets. The merger was accounted for as a reverse acquisition. Under a reverse acquisition, the Company is treated for accounting purposes as having acquired MCGI and the historical financial statements of the Company become the historical financial statements

## Edgar Filing: TIGER TELEMATICS INC - Form 10-K

of MCGI. Therefore, all references to the historical activities refer to the historical activities of the Company. The Company changed its name to Tiger Telematics, Inc. on June 6, 2002.

10

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. The flooring segment is treated as a discontinued operation in the financial statements.

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, the Gizmondo, an electronic game product, and to focus on marketing principally in the UK.

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

### Results of Operations

Twelve months-ended December 31, 2002 compared to the Twelve months ended December 31, 2001.

Below is a summary of the results of the Company for the twelve months ended December 31, 2002.

**Net Sales:** The Company's net sales were \$283,730 in 2002, of which \$102,047 was shipped in fourth quarter. There are no comparables for the prior year since the telematics unit was not acquired until February 2, 2002. This includes shipments of its telematics products that are not a part of the company's strategic business model. The Company defers income from connection fees from telecom suppliers until the cancellation period expires on such contracts. This represents deferred income that will be recorded prorated in future quarters. The Company's business model at that time was based on deriving its sales and subsequent income from annual and monthly fees from the telecom providers unlike most of its competitors who derived most of their income from the sale of hardware. The Company did experience some returns of product in the 2nd quarter that were subsequently shipped to other customers in July 2002. Many of these customers were in Scandinavian countries and did not continue in 2003 as the Tiger Telematics, Ltd. business, focused mostly in Scandinavian countries, was

## Edgar Filing: TIGER TELEMATICS INC - Form 10-K

sold in December 2002.

11

**Gross Loss:** Gross loss was \$(101,238) for the twelve months of 2002. The telematics products reported a lower than anticipated gross profits as part of the initial strategy used to introduce its new product in the marketplace earlier in 2002. A critical mass of shipments is a key to improving the gross profit margin. This was evident by results for fourth quarter where the gross profit was \$44,629 or about 40%. Although basic telematics devices are can be built, the accompanying software is much more challenging. The Company has a substantial expertise in this development, which could improve gross profit in future quarters. The Company expended funds in hiring and retaining several new executives and supporting staff with expertise in technology, telematics, wireless and developing products in the telematics space. The Company has expended funds in the development of an improved fleet product scheduled to ship first units now in 2003, as opposed to 2002 as originally expected due to a shortfall in funding during the current quarter. The Company has a substantial expertise in software development, which might improve gross profit in future quarters. The Company has expended funds in the 2002 in the development of an improved fleet product with enhanced features scheduled to ship units in 2003. The delay in finishing the product was caused primarily by serious funding shortfalls during the current quarter. The Company has made an initial investment in a new generation of child tracker products. Funding shortfalls have delayed their completion.

**Selling Expenses:** Selling and marketing expenses for the 2002 were \$597,188. Most of this cost relates to the establishment of potential customers. The sale of telematics products is a difficult and often lengthy process. The Company has concentrated its marketing effort recently in the UK to large fleet holders based throughout Europe. The Company enjoys a healthy interest in its products but still lacks funding for working capital and has experienced some problems at the manufacturer of the base units on delivery. The Company's Scandinavian order book was a part of the sale of the Tiger Telematics Ltd. business in December 2002. The Company has expended funds in arranging strategic partnerships with wireless telecom providers in order to implement its recurring revenue business model.

**General and Administrative Expenses:** General and administrative expenses for the twelve months ended December 31, 2002 were \$5,171,731. \$2,181,747 of this related to write downs of intangible assets related to Tiger Telematics Ltd. and its sale in December 2002. A significant reason for this increase is the costs associated with being a public company, primarily fees for accounting, legal, professional and consulting services. These fees were approximately \$1,063,820 in the twelve months of 2002 including \$180,000 of expenses incurred in the costs of a financing effort with Jefferies and Co, Inc. that was not successful. The Company also incurred costs during 2002 related to the evaluation of several strategic opportunities. The purchase of Tiger Telematics, Ltd. and the Comworxx, Inc.'s assets are two of the results of this evaluation.

In addition, the development of Tiger Telematics Ltd. (now sold) and Tiger Telematics Europe Ltd. also contributed to the increase in the general and administrative expenses of the Company. Expenditures were made to obtain to obtain the coveted Thatcham Q class rating for the TT7000 product. This rating may allow insurance companies to provide a discount in costs to users of Tiger's telematics devices. Some costs related to the development of the infrastructure for the telematics business including product development, engineering, training of installers, and other administrative efforts to facilitate anticipated sales. In addition, several companies conducted trials of the product in Europe that costs the company currently but may result in the shipment of devices for entire

## Edgar Filing: TIGER TELEMATICS INC - Form 10-K

12

fleets of the customers currently in the trial stage. Expenditures have been made in developing several new products including Child Tracker devices. Tiger Telematics, Inc. anticipates a decrease in its general and administrative expenses in future periods with the sale Tiger Telematics Ltd. In order to reduce expenditures the Company has downsized and relocated its corporate office in the U.S. and in England to smaller less expensive facilities. The Company also incurred costs during the 3rd quarter of 2002 related to the evaluation and the attempted but failed integration of the purchase of Comworxx, Inc.'s assets. As discussed in note H to the Consolidated Financial Statements, the Company wrote down the remaining assets acquired from Comworxx, Inc.

**Other Expenses:** Other expenses for the twelve months of 2002 were \$5,171,731 as compared to \$145,607 in 2001. \$4,884,733 of the amount relates to the non-cash write-down of the impaired goodwill and other intangibles from acquisitions, principally the assets of Comworxx, Inc. The company took a write-down in third quarter of the intangible order book asset of \$1,000,000 to reflect the potential loss of orders from the delay in shipping product since the original acquisition of the product and the impact of the new recurring revenue model on the accounting for intangible assets. A subsequent write-down in fourth quarter of \$2,103,830 relates to the loss on sale of Tiger Telematics Ltd. where the intangible assets carried on the Company's balance sheet of the order book and Scandinavian distribution agreement were written off with the sale of the unit. Other expenses consisted of interest expense on loans of \$37,712 and a currency transaction loss of \$189,724. The currency transaction adjustment accounted for virtually all of the change in this category and is due to the drop in the dollar currency relative to the sterling since the acquisition of Tiger Telematics Ltd. in February 2002 and the impact of the sale of Tiger Telematics Ltd. in December 2002. Interest in 2002 of \$37,712 is \$107,888 or 74% less than in 2001. This reflects the lower interest charged on shareholder debt as it was mostly converted into equity in 2002.

**Net Loss from continuing operations:** The Company reported an operating loss of \$10,734,317. \$4,884,733 of the loss is the non-cash write down of the impaired goodwill, principally from of the assets of the Comworxx, Inc. acquisition. \$669,000 is the provision for the non-cash write-down of the remaining assets from the assets of the Comworxx, Inc. acquisition. A \$1,000,000 loss was taken in third quarter to write-down the order book related to Tiger Telematics Ltd. to realized value in light of the shipping problems created by the lack of working capital. Additionally, \$2,103,830 relates to the write-down of intangible assets of remaining value of order book and distribution agreement with the sale of Tiger Telematics Ltd. \$1,152,713 reflected a provision for potential liabilities related to the April 2003 bankruptcy and subsequent liquidation of the buyer of Floor Decor LLC and its assets. The Company's management staff has been right sized and has expertise and infrastructure to grow the Company rapidly. Management considers these costs as an investment in setting the Company in a position to grow rapidly in the near future.

**Net Loss from discontinued operations:** The Company reported a loss from discontinued operations of \$353,430. On August 9, 2002, the company sold the assets of the flooring segment effectively eliminating that segment going forward from that date.

**Net Loss:** The Company incurred a total loss of \$11,087,747 for the twelve months of 2002. \$4,884,733 was the non-cash loss from the write down of impaired goodwill, principally related to the acquisition of the assets of Comworxx, Inc. and a related \$407,000 write-down of the remaining assets from the Comworxx, Inc. purchase. \$2,103,830 was the write down of the order book and distribution agreement as a part of the loss on the sale of Tiger Telematics Ltd. in December. \$1,152,713 reflected a non-cash provision for the potential



## Edgar Filing: TIGER TELEMATICS INC - Form 10-K

contingent liabilities related to the bankruptcy and subsequent liquidation of the buyer of Floor Decor LLC and its assets, which occurred in April 2003.

13

Twelve months-ended December 31, 2002 compared to the twelve months ended December 31, 2003

**Net Sales:** Sales for 2002 were \$283,730 and were from the entity that was sold on December 17, 2002 as compared to sales of \$8,317 for 2003. The sales drop was due to returns from client trials. This reduction in sales from the twelve months ended December 31, 2003 as compared to the twelve months ended December 31, 2002 is principally due to not having unit sales from the sold entity of Tiger Telematics Ltd. (sold in December 2002) that reported sales in the comparable period of 2002. With Gizmondo Europe Ltd., the Company was focused in 2003 on building its next generation of product with enhanced features and in developing accounts and doing trials in the rental car business areas. In first quarter 2003 trials were under way at a rental car concern. Those trials were concluded successfully in second quarter 2003 but a contract was not received from the enterprise. The company was focused from the third quarter 2003 onward on primarily developing its handheld wireless multi-entertainment device now named Gizmondo.

**Gross Loss:** Similarly, gross losses were (\$101,238) for 2002 and (\$5,279) for 2003. The 2003 results reflect the change to a development company. The impact of recording returns from trials created the negative gross margin in 2003. The lower loss recorded was the result of not having the Tiger Telematics Ltd. numbers in the 2003 results. The Company made an initial investment in a new child tracker product that was abandoned later in 2003 when the focus switched to a gaming handheld entertainment device now named Gizmondo.

**Selling Expenses:** Selling expenses for 2002 were \$597,188. For 2003, expenses were \$683,708 due to marketing of the new Gizmondo product to be released later. Much of the increase can be attributed to the transformation of the Company into a development concern with a focus in early 2003 on selling to rental car concerns and developing new products such as the Gizmondo. Most of this actual cost related to the establishment of potential orders for rental car telematics products and a UK based motor bike company that produced motor bikes in China. Both of the projects have since been dropped from the Company's plans for the future. The Company also made an initial investment in a new child tracker product that was abandoned later in 2003 when the focus switched to gaming handheld entertainment device.

**General and Administrative Expenses:** General and administrative expenses for 2003 were \$5,581,750 as compared to \$5,171,731 in 2002 or down over \$400,000. This decrease came from the lower costs with the divestiture of Tiger Telematics Ltd. in December 2002 and the associated staff reductions from the sale. In order to further reduce expenditures the Company downsized and relocated its corporate office in late 2002 and continued to operate at a reduced cost rate in 2003 as compared to the same time period in 2002. These staff reductions reduced costs and allowed the Company to sustain operations but it delayed certain filings with regulatory bodies and made the Company's control system extremely reliant on fewer persons than would normally be the case. Expenditures were made to configure the Telematics products to obtain the coveted Thatcham Q class rating for the product. This rating may allow insurance companies to provide a discount in costs to users of the Company's telematics devices. Expenditures have been made in developing several new products including Child Tracker devices (since terminated) and the Gizmondo gaming handheld devices. All of these specifically designated development expenses in 2003 were expensed as incurred and were not capitalized for financial reporting purposes. The Company anticipates an increase in its general and administrative expenses in future

## Edgar Filing: TIGER TELEMATICS INC - Form 10-K

periods as part of its product development strategy.

14

Other Expenses: Other expenses for 2003 were \$1,541,712 as compared to \$4,864,160 when the write-off of goodwill was completed. Other expenses consisted of interest expense on loans of \$45,424 and currency transaction gains of \$47,442. The currency transaction gain is due to the drop in the dollar currency relative to the sterling since the beginning of the year and carrying foreign based assets on the balance sheet. Interest in 2003 of \$45,424 is \$7,712 higher than in 2002 as the Company had interest costs on UK notes payable.

Net Loss from continuing operations: The Company reported a net loss of \$(7,812,449) from continuing operations in 2003 as compared to a net loss of \$(10,734,317) in 2002. The primary improvement was not having the good will write off in 2003. The loss was also lower due to the costs associated with the divested Tiger Telematics Ltd. no longer included in operations since it was sold, not having the write down of impaired goodwill and other intangible assets that occurred in 2002 in the numbers for 2003 and the cost reductions undertaken in late 2002. Management does anticipate that its losses in future quarters will grow materially as it expenses development costs, content costs, and marketing costs for the gaming device Gizmondo.

Net Loss from discontinued operations: Discontinued operations recorded a net loss of \$0 in 2003 as compared to a loss of \$353,430 in 2002. The operation of flooring segment was discontinued in June 2002. On August 9, 2002, the Company sold the assets of the flooring segment effectively eliminating that segment going forward from that date.

Net Loss: Although the Company reported an operating loss for 2003 of \$7,812,449, a substantial portion of the loss consists of expenses incurred in developing the Gizmondo product line. The loss was 28% less in the prior year when the goodwill and other intangibles write-offs were taken. The difference is attributed the divestiture of Tiger Telematics Ltd. and not having its losses in the 2003 results, the elimination of the write down of impaired goodwill and other intangibles that occurred in 2002 and the cost reductions taken in late 2002 that helped results for the twelve months ended December 31, 2003. There will be no discontinued operation impacting 2003 going forward. The UK subsidiary will incur significant costs in the development of its new products and in marketing them. Management anticipates that future net losses per quarter will be considerable higher then recent quarters as the Company increases the expenditures in product development and marketing for Gizmondo.

### 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 and during 2003 the Company funded its operating losses and start-up costs principally with loans from stockholders or other parties and through the issuance of shares of commons stock. Without such equity funding the Company would not have been able to sustain operations. In the twelve months ended December 31, 2003, the Company's working capital improved slightly. This was the result of a decrease in current assets, consisting of decreases in accounts receivable of \$114,544, inventory of \$127,919, prepaid expenses and other current assets of \$83,821 and liabilities of discontinued operations of \$15,530, offset by increases in current liabilities, consisting of increases in accounts payable of \$2,216,648, and decreased by reduction of accrued expenses of \$211,639 and decreased by a reduction of liabilities to stockholders of

## Edgar Filing: TIGER TELEMATICS INC - Form 10-K

\$1,201,594. Approximately \$1,000,000 of the payables relates to Tiger USA, and reflects contingent liabilities allegedly assumed in the purchase agreement.

15

These liabilities are of the subsidiary Tiger USA and may not be the obligations of Tiger Telematics, Inc. although they are carried as Accounts Payable on the Consolidated Balance Sheet. As discussed in Note I. Acquisitions, the Company believes that the seller may have misrepresented the nature of the assets and the viability of the associated business at the time of the transaction. As a result the Company retained legal counsel to advise it of its rights against the shareholders of the seller to recover certain sums or to rescind the entire transaction. In June 2004, the Company issued 160,000 (and \$80,000 held in escrow) of the contingent shares in full settlement of this matter.

Also, in the twelve months ended December 31, 2003 the amounts due stockholders reduced \$1,201,594 as a result of the debt conversions of certain stock holders to equity not fully offset by continued loans from stockholders. There is also certain pending litigation and other issues facing the Company as disclosed in Note K Contingencies.

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 D Equity. On August 9, 2002 the Company sold the assets of the flooring division including this inventory, which improved liquidity requirements during the balance of 2002 and in first quarter of 2003 as the purchaser retired certain obligations which were removed from the Company's balance sheet. The Company continued to issue shares of Common Stock in the twelve months ended December 31, 2003 and in 2004 and in early 2005 to retire certain obligations due for payment.

The Company incurred operating losses in 2002 and in 2003 of \$(11,087,747) and \$(7,812,449) respectively. The losses were at a much lower rate in 2003 due to cost reductions and divestitures of unprofitable concerns. 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. Equity Transactions.

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. AS of December 31, 2004, the Company has stockholder's deficiency of \$8,567,467.

At December 31, 2003, 9,498,105 shares of common stock were issued and outstanding. Since that date, the Company has issued an additional approximately 37 million shares in numerous private transactions (a) for cash, (b) upon conversion of debt, accounts payable or other liabilities, (c) for goods or services provided by vendors, strategic partners, professionals, consultants and employees and (d) in connection with the acquisition of assets. In each case the Company recorded capital surplus based upon the price of the Company's common stock at the time of issuance or agreement to issue, discounted in some cases due to restrictions on sale by recipients. The aggregate amount recorded was approximately \$172 million, including the above described shares. During such periods the Company also issued warrants to purchase and aggregate of 495,525 shares of common stock at exercise prices ranging from \$5.00 to \$11.25 per share.

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.

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, "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),

## Edgar Filing: TIGER TELEMATICS INC - Form 10-K

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

17

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. For products that include installation, if the installation meets the criteria to be considered a separate element, product revenue is recognized upon delivery, and recognition of installation revenue occurs when the installation is complete. Otherwise, neither the product nor the installation revenue is recognized until the installation is complete. 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 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.

### Recently Issued Accounting Standards

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations". SFAS No. 141 requires that the purchase method of accounting be used for all business combinations transacted after June 30, 2001. SFAS No. 141 also specifies criteria that intangible assets acquired in a business combination must meet to be recognized and reported separately from goodwill. The Company utilized SFAS No. 141 to account for business acquisitions completed in 2002.

In June 2001, the FASB also issued SFAS No. 142, "Goodwill and Other Intangible Assets," which eliminates amortization of goodwill and intangible assets that have indefinite useful lives and requires annual tests of impairment of those assets. The provisions of SFAS No. 142 are required to be applied starting in 2002, and will also be utilized for future business acquisitions.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations". SFAS No 143 requires the Company to record the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from acquisition, construction, development and/or normal use of assets. The Company also records a corresponding asset, which is depreciated over the life of the asset. Subsequent to the initial measurement of the asset retirement obligation, the obligation will be adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The Company is required to adopt SFAS No. 143 on January 1, 2003, and is currently evaluating the effect that implementation of the new standard may have on its results of operations and financial position.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This Statement

## Edgar Filing: TIGER TELEMATICS INC - Form 10-K

requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. SFAS

18

No. 144 requires companies to separately report discontinued operations and extends that reporting to a component of an entity that either has been disposed of (by sale, abandonment, or in a distribution to owners) or is classified as held for sale. Assets to be disposed of are reported at the lower of carrying amount or fair value less costs of sale. The Company adopted SFAS No. 144 on January 1, 2002.

SFAS 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 was effective for disposal activities initiated after December 31, 2002.

SFAS 148 amends FASB Statement No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. SFAS No. 148 became effective after December 31, 2002.

SFAS 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities. The Company believes it has no derivative instruments. SFAS No. 149 became effective for hedging arrangements entered into after June 30, 2003.

SFAS150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. Some of the provisions of this Statement are consistent with the current definition of liabilities in FASB Concepts Statement No. 6, Elements of Financial Statements. The remaining provisions of this Statement are consistent with the Board's proposal to revise that definition to encompass certain obligations that a reporting entity can or must settle by issuing its own equity shares, depending on the nature of the relationship established between the holder and the issuer. For public companies, SFAS No. 150 became effective after June 15, 2003. The Company believes that, at the present time, it has no instruments that fall within the scope of this pronouncement.

### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

No market risk sensitive instruments

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY FINANCIAL DATA

The response to this item is submitted on pages F1 - F18 of this Report.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES.

(a) Evaluation of disclosure controls and procedures. As required by Rule 13a-15 under the Exchange Act, as of December 31, 2003, the Company carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures. This evaluation was carried out under the supervision and with the participation of the Company's management, including the Company's President and Chief Executive Officer, and the Company's Chief Financial Officer. Based upon that evaluation, the Company's President and Chief Executive Officer, and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company required to be included in the Company's periodic SEC filings. Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in Company reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rule and forms. Disclosure controls and procedures include, without limitation, controls procedures designed to ensure that information required to be disclosed in Company reports filed under the Exchange Act is accumulated and communicated to management, include the Company's Chief Executive Officer, and Chief Financial Officer as appropriate, to allow timely decisions regarding required disclosures.

(b) Changes in internal controls. There have been no changes in internal controls or in other factors during our most recent fiscal quarter that has significantly affected or is reasonably likely to significantly affect our internal controls over financial reporting, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information on the directors of the Company as of March 1, 2005 is provided below. All executive officers of the Company are also directors of the Company whose term expires May 30, 2006.

Michael Carrender  
Director since 2002

Mr. Carrender, age 51, has been the Chief Executive Officer and Chief Financial Officer of the Company since August 2003 and was previously Executive Vice President and Chief Financial Officer of the Company since February 2002. Mr. Carrender served as President and Chief Executive Officer of Crowe Rope, a unit of JPBE, Inc., a manufacturer of cordage products, from January 1999 until he joined the Company in February 2002. He was an independent consultant for various companies prior to joining Crowe. He was Vice President and General Manager of Mail Well Inc., a New York Stock Exchange printing Company, from 1997

to 1998. Before he became a consultant, he was with Consolidated Packaging, a publicly traded multi-plant paper converting company, for seventeen years during which he held positions of Treasurer (1979-1983), Chief Financial Officer (1984-1989), Chief Operating Officer (1988-1989), and President and Chief Executive Officer (1989-1996). Mr. Carrender holds a BA and an MBA in Finance.

Carl Freer  
Director since August 2004

Mr. Freer, age 34, has served as Chairman since August 2004 and has been Managing director of the Company's Gizmondo Europe Ltd. subsidiary based in the UK since summer of 2003. He was the founder in 1999 of Eagle Eye Scandinavian Ltd. that was acquired by the Company in February 2002. He founded and served as Sales Director of ARE Media AB, a private media sales company in Stockholm, a Director of Performance Films SA, a film production company in Malaga, Spain and a Director of Rivera Auto Forum, a specialty auto dealership in Cannes, France. He was a co-founder of software company Vxtreme that pioneered the highly successful video compression lab technique. Mr. Freer is a director of WEG Entertainment and a trustee of several charities, including Kings Medical Research Trust.

Steve Carroll  
Director since August 2004

Mr. Carroll, age 47, has served as Chief Technology Officer and as a Director since August 2004. He has also been the Chief Technology Director of the Company's Gizmondo Europe Ltd. Since its inception in December 2002. He has been with the Company, at the sold Tiger Telematics, Ltd. unit since September 2002. He was formerly Director of Maxon, a Korean-high volume telecommunications equipment manufacturer from 1996 to 2002. He was previously employed at Marconi/MOD/GEC, telecommunication equipment manufacturers, in various positions from 1981 to 1996. He has a Masters Degree MSc from Cambridge in the UK.

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

Section 16(a) of the Securities Exchange Act of 1934 (the "Exchange Act") requires the Company's directors and executive officers, and persons who own more than 10% of the outstanding shares of the Company's common stock, to file initial reports of beneficial ownership and reports of changes in beneficial ownership of shares of common stock with the Securities and Exchange Commission (the "Commission"). Such persons are required by regulations promulgated under the Exchange Act to furnish the Company with copies of all Section 16(a) forms filed with the Commission.

Based solely upon a review of Forms 3 and 4 and amendments thereto furnished to the Company during the year ended December 31, 2003, and upon a review of Forms 5 and amendments thereto furnished to the Company with respect to the year ended December 31, 2003, or upon written representations received by the Company from certain reporting persons that such persons were not required to file Forms 5, the Company believes that no director, executive officer or holder of more than 10% of the outstanding shares of common stock failed to file on a timely basis the reports required by Section 16(a) of the Exchange Act during, or with respect to, the year ended December 31, 2003.



## Edgar Filing: TIGER TELEMATICS INC - Form 10-K

### Code of Ethics

As of the date of this filing, the Company has adopted a code of ethics that applies to the Company's executive officers.

### Audit Committee Financial Expert

The Company's board of directors has determined that the Company did not have an audit committee financial expert serving on its audit committee during the time period covered by this filing. The Company did not have an audit financial expert serving on its audit committee because it was not a requirement for the time period covered by this filing.

## ITEM 11. EXECUTIVE COMPENSATION

### Summary Compensation

The following table provides information on the total compensation paid or accrued during the fiscal years indicated below to the Company's chief executive officer. The table also lists the former chief executive officers of the Company who would have been included had he remained an executive officer of the Company at December 31, 2001 and the former Chief Executive Officer who resigned as CEO on June 28, 2002 and resigned as a Director in August 2002.

Summary Compensation Table  
Annual Compensation (1)

| Name and Principal Position                                 | Year | Salary           | Bonus | Other Annual Compensation | Restricted Stock Awards | Securities Underlying Options/Share |
|---|------|------------------|-------|---------------------------|-------------------------|-------------------------------------|
| -----   | ---- | -----            | ----- | -----                     | -----                   | -----                               |
| Michael W. Carrender  | 2003 | \$200,000.00 (2) | \$ -  | -                         | -                       | -                                   |
| Chief Executive Officer                                     | 2002 | \$ 78,564.83     | \$ -  | -                         | -                       | 144,000 (3)                         |
| A. J. Nassar  | 2003 | \$ -             | \$ -  | -                         | -                       | -                                   |
| Former Chief Executive Officer                              | 2002 | \$ -             | \$ -  | -                         | -                       | -                                   |
| Executive Officer and Chairman of the Board until July 2003 | 2001 | \$ 50,000.00     | \$ -  | -                         | -                       | -                                   |
|   |      | \$ 37,266.00 (4) | \$ -  | -                         | -                       | -                                   |
| Jonathan Landers (5)  | 2003 | \$ -             | \$ -  | -                         | -                       | -                                   |
| Former President and Chief Executive Officer                | 2002 | \$ -             | \$ -  | -                         | -                       | -                                   |
|   | 2001 | \$ -             | \$ -  | -                         | -                       | -                                   |

- (1) No officer received perquisites in an amount greater than the lesser of (a) \$50,000 or (b) 10% of such officer's total salary plus bonus.
- (2) Mr. Carrender joined the Company in February 2002. Represents salary earned by Mr. Carrender, \$38,008.12, which was accrued and unpaid as of December 31, 2002.
- (3) 144,000 shares granted in August 2002 at market price on date of issuance and vest per schedule below.
- (4) Represents salary earned by Mr. Nassar from May 22, 2001 through December 31, 2001, \$35,343 of which was accrued and unpaid as of December 31, 2001. The salary level at the time of resignation was at \$100,000 per annum. Mr.

## Edgar Filing: TIGER TELEMATICS INC - Form 10-K

Nassar resigned as CEO on June 28, 2002.

- (5) Mr. Landers resigned as President and Chief Executive Officer on May 22, 2001.

22

### Option Grants

As of December 31, 2003, there were no stock options granted pursuant to the Company's stock option plan.

The following table sets forth certain information concerning the exercise of options and the value of unexercised options held under the 2001 Plan and outside of the 2001 Plan at December 31, 2003 by the individuals listed in the Summary Compensation Table.

### Aggregated Option Exercises In Last Fiscal Year and Fiscal Year-End Option Values

| Name                    | Shares<br>Acquired on<br>Exercise | Value<br>Realized(\$) | Number of Securities<br>Underlying Unexercised<br>Options/Shares Fiscal<br>Year-End(%)<br>Exercisable/Unexercisable | Value of unexercised<br>In-the-Money Options<br>Shares at Fiscal<br>Year-End(\$)<br>Acquired on<br>Exercisable/Unexercisable |
|-------------------------|-----------------------------------|-----------------------|---|--|
| ----                    | -----                             | -----                 | -----   | -----  |
| Michael W.<br>Carrender | --                                | --                    | 72,000/72,000   | \$72,000/\$72,000  |

(1) In negotiation for a 15 year extension.

(2) Represents the difference between the last reported sale price of the common stock on December 31, 2003 (\$2.50) and the exercise price of the shares of the options at \$1.50 multiplied by the number of options exercised.

### Compensation of Directors

The directors of the Company are not compensated for serving as members of the Company's Board of Directors.

### Stock Option Plan

The Company adopted its stock option plan (the "2001 Plan") on July 31, 2001.

The stock incentive plan provides for the granting of incentive stock related awards to officers, employees and other individuals so that the Company will be able to attract and retain the services of highly qualified individuals. The essential features of the 2001 Plan are set forth below.

Shares Authorized for Grant. Subject to the anti-dilution provisions discussed below, there are 8,000,000 shares of common stock reserved for issuance upon the exercise of options (now 320,000 following the 25 for 1 reverse split of July 30, 2004). Such shares may be authorized, but unissued shares of common stock, or reacquired shares. Shares subject to options granted under the 2001 Plan, which have lapsed or terminated may again be subject to options under the 2001 Plan. No options to purchase shares of common stock have been granted under the

## Edgar Filing: TIGER TELEMATICS INC - Form 10-K

2001 Plan as of December 31, 2001 but 144,000 were granted in 2002 and none were granted in 2003.

Administration of the 2001 Plan. The 2001 Plan is administered by the Board of Directors or by a committee consisting of two (2) or more outside directors who are appointed by the Board (the "Committee"). Subject to the express provisions of the 2001 Plan, the Board or such Committee has the authority to interpret the 2001 Plan, to prescribe, amend and rescind rules and regulations relating to the 2001 Plan, to determine the terms and provisions of option agreements and to make all other determinations necessary or advisable for the administration of the 2001 Plan. Any controversy or claim arising out of or related to the 2001 Plan, or the options granted thereunder, is determined unilaterally by, and at the sole discretion of, the Committee.

23

Option Grants to Eligible Individuals. All employees and other individuals who provide services to the Company are eligible to receive options under the 2001 Plan. Employees are eligible to receive either "incentive" stock options, subject to the limitations of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code") or "non-statutory" stock options. The 2001 Plan confers discretion on the Committee to select employees or other individuals that the Committee determines to receive options, to determine the number of shares subject to each option, the term of each option and the exercise price of the options granted, except that the exercise price may not be less than 100% of the fair market value of the underlying common stock for an incentive stock option as of the date of grant. In addition, the exercise price may not be less than 110% of the fair market value of the common stock for an incentive stock option granted to a person who owns more than 10% of the total combined voting power or value of all classes of stock of the Company. No option may have a term in excess of ten (10) years from the date of grant.

The Committee has the authority to determine the vesting requirements and the permissible methods of payment of the exercise price. The Committee may also make such other provisions in the options, consistent with the terms of the 2001 Plan, as it may deem desirable. Options granted under the 2001 Plan are not exercisable until six (6) months after grant.

To the extent that such an option is an incentive stock option, upon termination of an optionee's employment with the Company for any reason, such optionee's options shall immediately terminate, except that upon termination, the Committee in its discretion may allow the optionee to exercise any vested options owned by the optionee within ninety (90) days after termination. In no event are options exercisable beyond their stated term.

Change in Control. All options granted under the 2001 Plan become fully vested and immediately exercisable upon the occurrence of a "Change of Control."

The 2001 Plan defines Change of Control to mean the occurrence of any of the following: (i) the acquisition (other than from the Company directly) by any "person" group or entity within the meaning of Sections 13(d) and 14(d) of the Securities Exchange Act of 1934) of beneficial ownership of thirty-five (35%) percent or more of the outstanding common stock of the Company; (ii) if the individuals who serve on the Board as of the date of stockholder approval of the 2001 Plan, no longer constitute a majority of the members of the Board of Directors; provided, however, any person who becomes a director subsequent to such date, who was elected to fill a vacancy by a majority of the directors then serving on the Board of directors shall be considered a member prior to such date; (iii) the stockholders of the Company approve a merger reorganization or consolidation of the Company whereby the stockholders of the Company immediately prior to such approval do not, immediately after consummation of such

## Edgar Filing: TIGER TELEMATICS INC - Form 10-K

reorganization, merger or consolidation, own more than 50% of the voting stock of the surviving entity; or (iv) a liquidation or dissolution of the Company, or the sale of all or substantially all of the Company's assets.

Nontransferability of Options. Options granted under the 2001 Plan are not transferable other than by will or the laws of descent and distribution, and may be exercised during the optionee's lifetime only by the optionee. Upon such optionee's death, the beneficiary of the optionee's estate shall have the lesser of (a) the remaining term of such option or (b) one year for the optionee's death within which to exercise such options.

24

Anti-dilution Provisions. In the event of a change, such as a stock split or stock dividend, in the Company's capitalization, which results in a change in the number of outstanding shares of common stock, without receipt of consideration, an appropriate adjustment will be made in the exercise price of, and the number of shares subject to, all outstanding options. An appropriate adjustment will also be made in the total number of shares authorized for issuance under the 2001 Plan.

Dissolution or Liquidation. Upon the dissolution or liquidation of the Company, or upon a reorganization, merger or consolidation of the Company with one (1) or more corporations as a result of which the Company is not the surviving corporation, or upon a sale of substantially all the property or more than fifty (50%) percent of the then outstanding shares of common stock of the Company to another corporation, the Company shall either: (a) provide for the assumption by the successor corporation of the options theretofore granted or the substitution by such corporation for such options of new options covering the stock of the successor corporation, or a parent or subsidiary thereof, with appropriate adjustments as to the number and kind of shares and prices; or (b) give to each optionee at the time of adoption of the plan of liquidation, dissolution, merger or sale, notice of the adoption of the plan of liquidation, merger or sale (i) a reasonable time thereafter within which to exercise all such options owned by such individuals prior to the effective date of such liquidation, dissolution, merger or sale; or (ii) the right to exercise the option as to an equivalent number of shares of common stock of the successor corporation by reason of such liquidation, dissolution, merger, consolidation or reorganization.

Tax Consequences to Grantees. Under present tax law, the Federal income tax treatment of options granted under the 2001 Plan is as generally described below.

Incentive Stock Options. With respect to options, which qualify as incentive stock options, an optionee will not recognize income for federal income tax purposes at the time options are granted or exercised. If the optionee disposes of shares of common stock acquired upon exercise of the options before the expiration of two years from the date the options are granted, or within one year after the issuance of shares upon exercise of the options, the optionee will recognize, in the year of disposition (a) ordinary income, to the extent that the lesser of either (i) the fair market value of the shares on the date of option exercise or (ii) the amount realized on disposition, exceeds the option price; and (b) capital gain (or loss), to the extent that the amount realized on disposition differs from the fair market value of the shares on the date of option exercise. If the shares are sold after expiration of these holding periods, the optionee will realize capital gain or loss (assuming the shares are held as capital assets) equal to the difference between the amount realized on disposition and the option price.

Non-Qualified Stock Options. Non-qualified stock options are all options, which do not qualify for incentive stock option treatment under Section 422 of the

## Edgar Filing: TIGER TELEMATICS INC - Form 10-K

Code. If a non-qualified stock option has a readily ascertainable fair market value at the time of grant, the optionee realizes ordinary income either (a) when his rights in the option becomes transferable; or (b) when the right to an option is not subject to a substantial risk of forfeiture. Ordinary income will be equal to the fair market value of the option less any amount paid by the optionee. If the option does not have an ascertainable fair market value at the time of grant, income is realized at the time the option is exercised. Such income would be the positive difference between the fair market value of the common stock received at the time of exercise and the exercise price paid. Upon the sale of the common stock received upon exercise, the difference between the sale price and the fair market value on the date of exercise will be treated as capital gain or loss.

25

**Tax Consequences to the Company.** The Company will be entitled to a deduction for federal income tax purposes at the same time and in the same amount as an optionee is required to recognize ordinary income as described above. To the extent an optionee realizes capital gains as described above, the Company will not be entitled to any deduction for Federal income tax purposes.

**Accounting Considerations.** Currently, there is no charge to the Company's operations in connection with the grant or exercise of an option under the 2001 Plan, unless the fair market value of the shares at the date of grant exceeds the exercise price of the option, in which case there will be a charge to operations in the amount of such excess. Earnings per share may be affected by the 2001 Plan by the effect on the calculation, as prescribed under generally accepted accounting principles, of the number of outstanding shares of common stock of the Company. This calculation reflects the potential dilutive effect, using the treasury stock method, of outstanding stock options anticipated to be exercised even though shares have not yet been issued upon exercise of these options. When shares are actually issued as a result of the exercise of stock options, additional dilution of earnings per share may result.

**Reload Options.** The 2001 Plan provides for the automatic grant of reload options to an optionee who would pay all, or part of, an option exercise price by the delivery of shares of common stock already owned by such optionee. Reload options would be granted for each share so tendered. The exercise price of such reload option is the fair market value of the common stock on the date the original option is exercised. All other terms of the reload options are identical to the terms of the original option.

### Employment Contracts and Termination and Change-In-Control Arrangements

As of December 31, 2003, the Company has not entered into any employment, termination or change-in-control agreement with any of its executive officers.

### Compensation Committee Interlocks and Insider Participation

No executive officer of the Company serves as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving as a member of the Company's Board of Directors or Compensation Committee. The individuals who served as members of the Compensation, Stock Option and Benefits Committee (the "Compensation Committee") during the year ended December 31, 2002 were Paul Renn and Frank Habib.

### Shareholder Return Performance

This graph compares the Company total stockholder returns and the Standard and Poor's 500 Composite Stock Index, The graph assumes \$100 invested at the per share closing price of the common stock of the Company on the other over the

Edgar Filing: TIGER TELEMATICS INC - Form 10-K

counter market from December 31, 2001 forward. Prior to the reverse shell merger in May 2001, there was no established public trading market for the Company's stock.

26

|         | 12/31/2001 | 12/31/2002 | 12/31/2003 |
|---------|------------|------------|------------|
|         | -----      | -----      | -----      |
| TGTL    | 100.00     | 63.13      | 43.48      |
| S&P 500 | 173.12     | 130.53     | 163.51     |

Comparison of initial \$100 investment the Standard and Poor's Composite Stock Index versus the common stock of the Company.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The following table sets forth certain information with respect to the beneficial ownership of the Company's common stock as of March 1, 2005 for (a) the chief executive officer, (b) each of the Company's directors, (c) all of the Company's current directors and executive officers as a group and (d) each stockholder known by us to own beneficially more than 5% of the Company's common stock.

Beneficial ownership is determined in accordance with the rules of the Commission and includes voting or investment power with respect to the securities.

Shares of common stock that may be acquired by an individual or group within 60 days of March 1, 2005, pursuant to the exercise of options or warrants are deemed to be outstanding for the purpose of computing the percentage ownership of such individual or group, but are not deemed to be outstanding for the purpose of computing the percentage ownership of any other person shown in the table. Except as indicated in footnotes to this table, the Company believe that the stockholders named in this table have sole voting and investment power with respect to all shares of common stock shown to be beneficially owned by them based on information provided to us by such stockholders. Percentage of ownership is based on 46.5 million shares of common stock outstanding on March 1, 2005.

|   | Name of Beneficial Owner | Amount and Nature<br>of Beneficial Owner | Percent<br>of Class |
|---|--------------------------|--|---------------------|
|   | -----                    | -----                                    | -----               |
| Directors and Executive<br>Officers:                              | Michael W. Carrender (1) | 1,924,036                                | 4.0%                |
|   | Carl Freer (2)           | 2,729,500                                | 6.0%                |
|   | Steve Carroll (3)        | 565,000                                  | *                   |
| All directors and<br>executive officers as a<br>group (3 persons) |                          | 5,218,536                                | 11.0%               |

Edgar Filing: TIGER TELEMATICS INC - Form 10-K

- 1 Includes 144,000 shares issuable upon exercise of incentive stock options, shares held in joint account with spouse and individually. The address of Mr. Carrender is 10201 Centurian Parkway N., Suite 600, Jacksonville, FL 32256.
- 2 Includes shares held by spouse and in the names of three dependent children. The address of Mr. Freer is One Meadow Gate Park, Farnborough Business Park, Farnborough, Hampshire, UK GU14 6FG.
- 3 Mr. Carroll's address is One Meadow Park, Farnborough Business Park, Farnborough, Hampshire, UK GU14 6FG.

27

Equity Compensation Plan Information

The following table reflects the number of shares of the Company's common stock that, as of March 1, 2005, were outstanding and available for issuance under compensation plans that have previously been approved by our stockholders. The Company has no equity compensation plans that have not approved by stockholders.

| Plan Category  | Number of Securities to<br>be Issued Upon Exercise<br>of Outstanding Options,<br>Warrants and Rights | Weighted-Average Exercise<br>Price of Outstanding Options,<br>Warrants and Rights | Number of Securities<br>Remaining Available<br>for Issuance Under<br>Compensation Plans<br>as of March 1, 2005 |
|--|--|---|--|
| Equity Compensation Plans Approved by Security Holders     | 216,000 (4)  | 144,000   | --   |
| Equity Compensation Plans not Approved by Security Holders | --   | --  | --   |
| Total  | 216,000  | 144,000   | --   |

4 Consists of options issuable under the 2001 Plan to purchase a total of 144,000 shares issued to Mr. Carrender in August 2002.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Company had a 10% demand note payable to Alvin J. Nassar, its former Chairman and Chief Executive Officer, in the amount of \$852,789 and \$841,064 as of December 31, 2001 and 2000, respectively. Interest expense related to this note amounted to \$86,337 and \$19,499 for the periods ended December 31, 2001 and 2000, respectively. Also, as of December 31, 2001 and 2000, the Company owed a total of \$180,382 to Mr. Nassar on a non-interest bearing demand note. The amount of \$554,500 of this debt was converted to equity subsequent to December 31, 2001 for a total of 1,386,250 (pre reverse split) shares of common stock and warrants exercisable for 1,250,000 (pre reverse split) shares of common stock at a price of \$.75. The warrants expired in December 2003 and were not exercised.

In the fourth quarter of 2002, the Company issued 182,070 shares to two shareholders, Mr. Nassar and Mr. Ed Kinney, the Company's President until May 2002 to convert \$455,761 of debt to equity at \$2.50 per share. No warrants were issue in this transaction.

## Edgar Filing: TIGER TELEMATICS INC - Form 10-K

Prior to the merger in 2001, Mr. Nassar the Company's former Chief Executive Officer and a Director purchased shares of common stock of Floor Decor for \$448.88 (including \$270.00 from the Alvin Nassar Family Limited Partnership). Upon merger of such company into the Company he received 15,415,000 pre reverse split shares of common stock, 5,915,000 pre-reverse split shares that are held by the Alvin Nassar Family Limited Partnership.

In 2002, the obligations under the employment contract of then President and COO Robert Francis was settled in November 2002 in an agreement whereby the Company issued 40,000 post reverse split shares of its common stock in full satisfaction of all obligations.

28

As of December 31, 2002 the Company owed Michael W. Carrender \$38,008 in salary and \$12,000 in reimbursable expenses. As of December 31, 2003 the Company owed Mr. Carrender \$136,570 in accrued salary.

During the fourth quarter of 2003, the Company converted \$1,400,000 of debt to Carl Freer, a stockholder of the Company and an officer of a subsidiary of the Company, to 2,800,000 shares of common stock at the rate of \$.50 per share, the market price of the common stock as of the date that the agreements were entered into. Mr. Freer later became a director and Chairman of Board of the Company. In addition, during the fourth quarter the Company converted \$226,730 of debt owed to a shareholder into 453,460 shares of common stock valued at \$.50 per share and issued 800,000 shares to such shareholder in 2004 for services rendered to the Company. That person became affiliated with the Company in April 2004 as a Head of Investor Relations in an agreement unrelated to the above transactions.

In January 2004, prior to becoming a director, the Company issued 200,000 shares of common stock to Steve Carroll as a performance bonus. In October 2004, the Company issued an additional 200,000 shares of common stock to Mr. Carroll as a performance bonus for completing the Gizmondo.

For additional information regarding related party transactions, see Note J to the Company's financial statements.

### ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

#### Audit Fees

For the fiscal years ended December 31, 2002 and 2001, the fees were \$75,000 and \$75,000 respectively, for professional services rendered for the audit of the Company's financial statements. There was a change of the Company's auditors in November 2002.

#### Audit Related Services

The Company have was billed \$40,000 and \$60,000 for the years ended December 31, 2003 and 2002, respectively, for the review of financial statements included in our periodic and other reports filed with the Securities and Exchange Commission. In addition, the UK audit firm billed \$47,000 in 2003 for reviews of Gizmondo Europe Ltd. subsidiary for inclusion in the Company's quarterly filings.

#### Tax Fees

The Company was also billed \$0 and \$0 for the years ended December 31, 2003 and 2002, respectively, for various income tax returns although amounts may be required to file the 2002/2003 tax return.



Additional Fees

The Company was not billed any fee for the years ended 2003 and 2002 for any products and fees related to accounting services, including financial information systems design and implementation.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

The following documents are filed as part of the report:

1. and 2. The financial statements filed as part of this report are listed separately in the index to Financial Statements beginning on page F-1 of this report.

3. List of Exhibits

| Exhibit No. | Description  |
|-------------|--|
| 2.1         | Agreement and Articles of Merger, Plan of Merger, Share sale and Merger Agreement Floor Decor Inc and Media Communications Group Corporation*  |
| 2.2         | Stock Purchase Agreement among Floor Decor, Inc., Eagle Eye Scandinavian Distribution Ltd. and the stockholders of Eagle Eye dated December 2001 as amended by an Amendment to Stock Purchase Agreement attached hereto***** |
| 2.3         | The Asset Purchase Agreement among Tiger Telematics, Inc., Comworxx, Inc. and the stockholders of Comworxx dated June 13, 2002.(1)   |
| 2.4         | Asset Purchase Agreement dated August 9, 2002 between the Company and MINIME Inc. and related Assignment and Assumption, Security Agreement and 2 Lease Assignment and Assumption Agreements.(2)                             |
| 2.5         | Stock Purchase Agreement dated December 20, 2002 between Norrtulls Mobileextra Akliebolag and Tiger Telematics, Inc. and Tiger Telematics, Ltd. and related Royalty Agreement.(3)  |
| 2.6         | Asset Purchase Agreement to buy assets and subsidiaries of Warthog Plc. Dated November 3,2004.(4)  |
| 2.7         | Stock Purchase Agreement to buy shares of Integra Sp dated October 29, 2004 subject to their shareholder approval.(5)  |
| 3.1.1       | Certificate of Incorporation of the Company****  |
| 3.1.2       | Bylaws of the Company****  |
| 3.2.3       | The Certificate of Amendment amending the Certificate of Incorporation of the Company. Name change to Tiger Telematics, Inc.(6)  |

# Edgar Filing: TIGER TELEMATICS INC - Form 10-K

30

- 4.1 Form of specimen certificate for Common Stock of the Company\*\*\*\*\*
- 4.1 Form of Subscription Agreement\*\*\*\*\*
- 4.2 Form of Registration Rights Agreement\*\*\*\*\*
- 4.3 Form of Warrant Agreement (7)
- 4.4 Risk Factors\*\*\*\*\*
- 5.1 Stock Option Plan\*\*\*
- 10.1 Building Lease Agreement for the Company's "big box superstore" located at 6001 Powerline Road, Ft. Lauderdale, FL.\*\*
- 10.2 Building Lease Agreement for 700 S. Military trail, Lake Worth, FL 33163\*\*
- 14 Certificate of Ethics+
- 21 Subsidiaries of the Company+
- 21.1 Eagle Eye exclusive distributor Agreement - Scandinavia and Yugoslavia.\*\*\*\*\*
- 21.2 Automotive Software Agreement - Tiger Telematics Subsidiary\*\*\*\*\*
- 21.3 Purchase of Games from SCi License Agreement (7)
- 21.4 Signing of 3 year Games Agreement for Gizmondo and Disney's Buena Vista Games. (8)
- 31 Rule 13a-14(a) Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002+
- 32 Section 1350 Certifications

---

\* Incorporated by reference to Exhibit of the same number filed with the Company's Form 8K dated June 25, 2000.

\*\*\*\*\* Incorporated by reference to Form 8K dated February 19, 2002.

1 Incorporated by reference to Form 8K dated June 27, 2002.

2 Incorporated by reference to Form 8K dated August 9, 2002.

3 Incorporated by reference to Form 8K dated January 20, 2003.

4 Incorporated by reference to Form 8K dated November 5, 2004.

5 Incorporated by reference to form 8K dated November 3, 2004.

\*\*\*\* Incorporated by reference to Form 10SB12 B/A filed on October 19, 2000.

\*\*\*\* Incorporated by reference to Form 10SB12 B/A filed on October 19, 2000.

6 Incorporated by reference to Form 8K dated June 6, 2002.

\*\*\*\*\* Incorporated by reference to Company's Annual Report on Form 10-KSB for the year ended December 31, 2001.

\*\*\* Incorporated by reference to Proxy Statement - July 11, 2001.

\*\* Incorporated by reference to Form 10Q second quarter June 30, 2001 filed on August 14, 2001.

+ Filed herewith.

7 Incorporated by reference to form 8K dated October 6, 2004.

8 Incorporated by reference to Form 8K dated December 29, 2004.

Edgar Filing: TIGER TELEMATICS INC - Form 10-K

31

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, in the City of Jacksonville, State of Florida, on March 30, 2005.

Tiger Telematics, Inc.

By: /S/ Michael W. Carrender

-----  
Michael W. Carrender  
Chief Executive Officer

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Michael Carrender his true and lawful attorney-in-fact and agents, with full power of substitution and resubstitution for him in his name, place and stead, in any and all capacities, to sign all amendments to this report, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that each of said attorneys-in-fact or his substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities indicated on March 30, 2005.

| Signature   | Title   |
|---|---|
| -----   | -----   |
| /s/ Michael W. Carrender<br>-----<br>Michael W. Carrender | Chief Executive Officer, Chief Financial Officer and Director (Principal Executive Officer, Principal Financial Officer and Principal Accounting Officer) |
| /s/ Carl Freer<br>-----<br>Carl Freer                     | Chairman and Director   |
| /s/ Steve Carroll<br>-----<br>Steve Carroll               | Director  |

32

INDEX TO FINANCIAL STATEMENTS

Page

Edgar Filing: TIGER TELEMATICS INC - Form 10-K

-----

Financial Statements

|   |     |
|---|-----|
| Report of Independent Registered Public Accounting Firm | F-2 |
| Consolidated Balance Sheets                             | F-4 |
| Consolidated Statements of Operations                   | F-5 |
| Consolidated Statements of Stockholders' Deficiency     | F-6 |
| Consolidated Statements of Cash Flows                   | F-7 |
| Notes to Consolidated Financial Statements              | F-9 |

F-1

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors  
Tiger Telematics, Inc. and Subsidiaries, Inc.

We have audited the accompanying consolidated balance sheets of Tiger Telematics, Inc. and Subsidiaries, Inc. as of December 31, 2003 and 2002 and the related consolidated statements of operations, stockholder's deficiency, and cash flows for the each of the two years in the period ended December 31, 2003. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standard require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Tiger Telematics, Inc. and Subsidiaries, Inc. as of December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America.

Edgar Filing: TIGER TELEMATICS INC - Form 10-K

GOLDSTEIN GOLUB KESSLER LLP

New York, New York

January 26, 2005, except for the last paragraph of Note K,  
as to which the date is March 22, 2005.

F-2

Report of Independent Registered Public Accounting Firm

To the Board of Directors  
Tiger Telematics, Inc.  
Jacksonville, Florida

We have audited the related statements of operations, stockholders' deficit and cash flow of Tiger Telematics, Inc. (formerly Floor Decor, Inc. and Subsidiaries) for the year ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of operations and cash flow of Tiger Telematics, Inc. as of December 31, 2001 in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company has suffered losses from operations since inception, and will need to raise additional equity or debt in order to accomplish its business plan. This raises substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

McGladrey & Pullen, LLP  
Fort Lauderdale, Florida  
February 25, 2002

F-3

TIGER TELEMATICS, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
December 31, 2003 and 2002

2003

2002

Edgar Filing: TIGER TELEMATICS INC - Form 10-K

|   |              |              |
|---|--------------|--------------|
|   | -----        | -----        |
| ASSETS  |              |              |
| Current Assets  |              |              |
| Cash  | \$ 8,959     | \$ --        |
| Accounts receivable                                       | 2,104        | 116,648      |
| Inventories   | 35,570       | 163,488      |
| Prepaid expenses  | 45,383       | 129,204      |
|   | -----        | -----        |
|   | 92,016       | 409,340      |
|   | -----        | -----        |
| Total current assets                                      | 344,376      | 237,196      |
|   | -----        | -----        |
| Property and Equipment, net                               | \$ 436,392   | \$ 646,537   |
|   | -----        | -----        |
| LIABILITIES AND STOCKHOLDERS' DEFICIENCY                  |              |              |
| Current Liabilities                                       |              |              |
| Accounts payable  | 3,667,646    | 1,450,998    |
| Amount due stockholders                                   | 9,191        | 1,210,785    |
| Notes payable - Current portion                           | 37,140       | 30,602       |
| Accrued expenses  | 1,750,005    | 1,961,644    |
| Deposits on common stock                                  | 2,247,891    | --           |
| Liabilities of discontinued Operations                    | 1,168,244    | 1,152,713    |
|   | -----        | -----        |
| Total current liabilities                                 | 8,880,116    | 5,806,742    |
|   | -----        | -----        |
| Notes payable after one year                              | 123,741      | 145,134      |
|   | -----        | -----        |
| Total Liabilities   | \$ 9,003,859 | \$ 5,951,876 |
|   | -----        | -----        |
| Stockholders' Deficiency                                  |              |              |
| Common stock - 0.001 par value                            |              |              |
| authorized 250,000,000 and 100,000,000 shares in 2003 and |              |              |
| 2002 respectively. Issued and outstanding 9,498,105 and   |              |              |
| 3,227,457 in 2003 and 2004 respectively                   | 9,498        | 3,227        |
| Additional paid-in-capital                                | 13,051,547   | 7,743,765    |
| Accumulated other comprehensive loss                      | (763,732)    | --           |
| Deficit   | (20,864,780) | (13,052,331) |
|   | -----        | -----        |
| Stockholders' deficiency                                  | (8,567,467)  | (5,305,339)  |
|   | -----        | -----        |
|   | \$ 436,392   | \$ 646,537   |
|   | =====        | =====        |

See Notes to Consolidated Financial Statements

## Edgar Filing: TIGER TELEMATICS INC - Form 10-K

TIGER TELEMATICS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
For the years ended December 31, 2003, 2002 and 2001

|   | 2003           | 2002            | 2001           |
|---|----------------|-----------------|----------------|
| Net Sales   | \$ 8,317       | \$ 283,730      | \$ -           |
| Cost of goods sold                                      | 13,596         | 384,968         | -              |
|   | (5,279)        | (101,238)       | -              |
| Gross Loss  |                |                 |                |
| Operating expenses                                      |                |                 |                |
| Selling Expense   | 683,708        | 597,188         | -              |
| General and administrative                              | 5,581,750      | 5,171,731       | 282,000        |
|   | 6,265,458      | 5,768,919       | 282,000        |
| Total Operating Expenses                                |                |                 |                |
| Operating Loss  | (6,270,737)    | (5,870,157)     | (282,000)      |
| Other income (expense)                                  |                |                 |                |
| Impairment of Goodwill                                  | --             | (4,884,733)     | -              |
| Loss on conversion of debt instruments                  | (1,543,730)    | --              | -              |
| Gain on sale of Subsidiaries                            | --             | 248,009         | -              |
| Currency translation gain (loss)                        | 47,442         | (189,724)       | -              |
| Interest expense  | (45,424)       | (37,712)        | (145,000)      |
|   | (1,541,712)    | (5,350,159)     | (145,000)      |
| Net Loss  |                |                 |                |
| Loss from continuing Operations                         | (7,812,449)    | (11,220,316)    | (428,000)      |
| Loss from discontinued Operations                       | --             | (353,430)       | (870,000)      |
|   | \$ (7,812,449) | \$ (11,573,746) | \$ (1,298,000) |
| Net Loss  |                |                 |                |
| Basic and diluted net loss per common share:            |                |                 |                |
| Loss from continuing operations                         | \$ (1.6586)    | \$ (3.8026)     | \$ (0.1252)    |
| Loss from discontinued operations                       | \$ --          | \$ (0.1252)     | \$ (0.4280)    |
| Net Loss  | \$ (1.6586)    | \$ (3.9278)     | \$ (0.6000)    |
| Weighted average shares outstanding (basic and diluted) | 4,710,208      | 2,822,876       | 2,173,000      |

Edgar Filing: TIGER TELEMATICS INC - Form 10-K

See Notes to Consolidated Financial Statements

F-5

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIENCY  
For the years ended December 31, 2003, 2002 and 2001

|   | Common Share | Stock Amount | Additional Paid-in Capital | Accumulated other Comprehensive loss |
|---|--------------|--------------|----------------------------|--------------------------------------|
|   | -----        | -----        | -----                      | -----                                |
| Balance (deficiency) at January 1, 2001                                   | 15           | --           | \$ 100                     |                                      |
| Issuance of common stock, January 1, 2001                                 | 25           | --           | 586                        |                                      |
| Recapitalization of common stock upon reverse acquisition on May 22, 2001 | 2,169,427    | 2,169        | (7,100)                    |                                      |
| Issuance of common stock and warrants                                     | 66,000       | 66           | 574,134                    |                                      |
| Net Loss  | --           | --           | --                         |                                      |
|   | -----        | -----        | -----                      | -----                                |
| Balance (deficiency) December 31, 2001                                    | 2,235,467    | 2,235        | 567,720                    |                                      |
| Issuance of common stock and warrants:                                    |              |              |                            |                                      |
| Private placement   | 100,498      | 100          | 876,573                    |                                      |
| Conversion of notes payable and amounts due Stockholders                  | 335,361      | 350          | 1,987,754                  |                                      |
| Acquisition of Tiger Telematics Limited                                   | 280,000      | 280          | 2,799,720                  |                                      |
| Acquisition of Comworxx Inc. Services                                     | 170,531      | 171          | 1,065,646                  |                                      |
|   | 105,600      | 106          | 446,352                    |                                      |
| Net Loss  | --           | --           | --                         |                                      |
|   | -----        | -----        | -----                      | -----                                |
| Balance (deficiency) December 31, 2002                                    | 3,227,457    | 3,227        | 7,743,765                  |                                      |
| Issuance of common stock:   |              |              |                            |                                      |
| Private placement   | 2,372,034    | 2,372        | 1,742,718                  |                                      |
| Conversion of notes payable and amounts due stockholders                  | 3,471,514    | 3,472        | 1,727,286                  |                                      |
| Services  | 427,100      | 427          | 294,084                    |                                      |
| Other comprehensive loss:   |              |              |                            |                                      |
| Foreign currency translation adjustment                                   | --           | --           | --                         | (763)                                |
| Total comprehensive loss  | --           | --           | --                         | (8,576)                              |
| Net Loss  | --           | --           | --                         |                                      |
|   | -----        | -----        | -----                      | -----                                |
| Balance (deficiency) December 31, 2003                                    | 9,498,105    | \$ 9,498     | \$ 13,051,547              | \$ (763)                             |
|   | =====        | =====        | =====                      | =====                                |



# Edgar Filing: TIGER TELEMATICS INC - Form 10-K

See Notes to Consolidated Financial Statements

F-6

TIGER TELEMATICS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
For the years ended December 31, 2003, 2002 and 2001

|   | 2003           | 2002            |
|---|----------------|-----------------|
| <b>Cash Flows for Operating Activities:</b>   |                |                 |
| Loss from continuing operations   | \$ (7,812,449) | \$ (10,734,317) |
| Loss from discontinued operations   | \$ --          | \$ (353,430)    |
|   | (7,812,449)    | (11,087,747)    |
| Net Loss  | (7,812,449)    | (11,087,747)    |
| Other comprehensive loss  | (763,732)      | --              |
| <b>Adjustments to reconcile net loss from continuing operations to net cash used:</b> |                |                 |
| Depreciation  | 74,173         | 63,924          |
| Amortization of intangible assets   | --             | 115,762         |
| Loss (gain) on currency transactions  | --             | 189,724         |
| Non-cash expenses   | 294,475        | 446,458         |
| Gain of sale of subsidiary  | --             | (248,009)       |
| Write down of assets of acquired company  | --             | 407,000         |
| Impairment of intangible asset  | --             | 4,884,733       |
| Loss on conversion of debt  | 1,543,730      | --              |
| <b>Changes in assets and liabilities:</b>   |                |                 |
| Decrease in assets of discontinued operations   | --             | 1,278,443       |
| Increase (Decrease) in liabilities of discontinued operations                         | 15,530         | (735,409)       |
| <b>(Increase) decrease in assets:</b>   |                |                 |
| Accounts receivable   | 114,544        | (116,648)       |
| Inventories   | 127,919        | (163,488)       |
| Prepaid expenses  | 83,821         | (129,204)       |
| <b>Increase (decrease) in liabilities:</b>  |                |                 |
| Accounts payable  | 2,216,648      | 1,450,998       |
| Accrued expenses  | (211,639)      | 1,961,644       |
| Net liabilities related to sold operations  | --             | 1,152,713       |
| Net cash used in operating activities   | (4,316,980)    | (529,106)       |
| <b>Cash Flows From Investing Activities:</b>  |                |                 |
| Purchase of property and equipment  | (181,353)      | (237,196)       |
| Net cash used in investing activities   | (181,353)      | (237,196)       |
| <b>Cash Flows From Financing Activities:</b>  |                |                 |
| Issuance of common stock and warrants   | 1,745,090      | 876,673         |

Edgar Filing: TIGER TELEMATICS INC - Form 10-K

|   |           |           |
|---|-----------|-----------|
| Deposits on common stock  | 2,247,891 | --        |
| Loans and advances from stockholders  | 1,334,075 | 204,014   |
| Repayment to stockholders   | (804,911) | (534,281) |
| Interest on notes payable and stockholder loans<br>capitalized to principal balance | --        | 23,829    |
| Proceeds from notes payable   | --        | 184,400   |
| Payments on debt  | (14,853)  | (8,664)   |
| Cash provided by financing activity   | 4,507,292 | 745,971   |
| Net change in cash  | (8,959)   | (20,331)  |

See Notes to Consolidated Financial Statements

F-7

TIGER TELEMATICS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
Continued

|  | 2003         | 2002         | 2001      |
|--|--------------|--------------|-----------|
|  | -----        | -----        | -----     |
| Cash:  |              |              |           |
| Beginning of year  | --           | 20,331       | --        |
| End of year  | \$ 8,959)    | \$ --        | \$ 20,331 |
|  | =====        | =====        | =====     |
| Supplemental disclosure of Cash Flow Information:                          |              |              |           |
| Cash paid for interest   | \$ 45,424    | \$ 19,489    | \$ 96,541 |
|  | =====        | =====        | =====     |
| Supplemental Disclosure of Non-cash investing and<br>Operating Activities: |              |              |           |
| Stock issued for operating expenses  | \$ 294,475   | \$ 474,999   | \$ --     |
|  | =====        | =====        | =====     |
| Investing Activities:  |              |              |           |
| Acquisition of businesses, net   | \$ --        | \$ 5,845,190 | \$ --     |
|  | =====        | =====        | =====     |
| Financing Activities:  |              |              |           |
| Conversion of stockholder debt to common stock                             | \$ 3,274,488 | \$ 1,988,089 | \$ --     |
|  | =====        | =====        | =====     |
| Acquisition of Tiger Telematics:   |              |              |           |
| Distribution Agreement   | \$ --        | \$ 2,800,000 | \$ --     |
| Order Book   | --           | 463,050      | --        |
| Property and equipment   | --           | 1,436        | --        |
| Amounts due stockholders   | --           | (944,962)    | --        |
| Accounts Receivable  | --           | 479,688      | --        |
| Common stock issued  | --           | (2,800,000)  | --        |

Edgar Filing: TIGER TELEMATICS INC - Form 10-K

|                               |       |             |       |
|-------------------------------|-------|-------------|-------|
| Cash received                 | \$ -- | \$ 788      | --    |
|                               | ===== | =====       | ===== |
| Acquisition of Comworxx, Inc. |       |             |       |
| Property and equipment        | \$ -- | \$ 280,629  | \$ -- |
| Accounts receivable           | --    | 27,619      | --    |
| Goodwill                      | --    | 3,714,818   | --    |
| Inventory                     | --    | 105,472     | --    |
| Prepaid expenses              | --    | 9,368       | --    |
| Other assets                  | --    | 15,470      | --    |
| Notes payable                 | --    | (8,664)     | --    |
| Accounts payable              | --    | (882,968)   | --    |
| Accrued expenses              | --    | (216,554)   | --    |
| Liability for unissued shares | --    | (1,979,373) | --    |
| Common stock issued           | --    | (1,065,817) | --    |
|                               | ----- | -----       | ----- |
| Cash received                 | \$ -- | \$ --       | \$ -- |
|                               | ===== | =====       | ===== |

See Notes to Consolidated Financial Statements

F-8

NOTE A - DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Description of Business:

Tiger Telematics, Inc. (the Company or Tiger) and its wholly owned subsidiaries, Tiger Telematics USA, Inc. (Tiger USA) and Gizmondo Europe, Ltd. (Gizmondo) are principally engaged in the business of developing and marketing the Gizmondo wireless handheld multi-entertainment gaming device. During 2002 the Company's principal business was developing and marketing telematics products principally in Western Europe.

Prior to its sale in August of 2002 and its classification as a discontinued operation the Company's primary business was retail floor covering. The Company (which was previously known as Floor Decor, Inc.) and its then wholly owned subsidiaries, Media Flooring, Inc. and Floor Decor LLC owned and operated retail stores in Florida. The Company offered a wide selection of floor coverings including carpet, area rugs, wood, and laminates at discount prices to both commercial accounts and retail customers. The Company also provided installation of flooring. In June 2002, the Company discontinued these operations (see Note L) and changed its name from Floor Decor, Inc. to Tiger Telematics, Inc.

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 most of 2002, the Company's principal business was developing and selling telematics products and services, conducted through Tiger Telematics, Ltd. This subsidiary 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, the Gizmondo electronic game product, and to market these products principally in the UK.

In early 2003 the Company began developing a new multi-entertainment wireless

## Edgar Filing: TIGER TELEMATICS INC - Form 10-K

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 Company initially launched a limited production version of the Gizmondo in the UK on October 29, 2004, and expects to launch the full-scale production of Gizmondo in 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, Mpeg 4 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.

F-9

### Significant Accounting Policies:

#### Liquidity:

The Company has sustained net losses over the past three years and at December 31, 2003 had a net working capital deficit of \$8,788,100.

Management has sold off its unprofitable flooring business and is pursuing its telematics business, of which it entered via an acquisition in February 2002. The Company anticipates issuing equity securities to meet working capital requirements and to fund development costs incurred in connection with developing Telematics related products that the Company believes will enhance its operations.

#### Principles of Consolidation:

The consolidated financial statements include the accounts of Tiger Telematics, Inc. (Company), and its subsidiaries, Tiger Telematics USA, Inc. (USA) and Tiger Telematics Europe LTD (Tiger Europe). Tiger Telematics Ltd. (Tiger Ltd) is included through December 17, 2002 (date of divestiture) and the discontinued operations of Floor Decor Inc. and its subsidiaries through the date of their divestiture. All intercompany transactions are eliminated in consolidation. Except as otherwise noted, all amounts and disclosures only include continuing operations.

Prior to June 2002, the Company was named Floor Decor, Inc. The name was changed when the Company exited the flooring business. See Note L DISCONTINUED OPERATIONS.

#### Use of Estimates:

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of the contingent assets and liabilities at 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.

#### Foreign Currency Translation:

Results of operations and cash flows are translated at average exchange rates and assets and liabilities are translated at end-of-period exchange rates for operations outside the United States that prepare financial statements in other than the US dollar (generally in the UK). Translation adjustments are included

## Edgar Filing: TIGER TELEMATICS INC - Form 10-K

in other comprehensive income until such time as the entity that generated the adjustments is sold. Gains and losses from foreign currency transactions are reflected in other income (loss), net.

### Inventories:

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

F-10

### Property and Equipment:

Property and equipment is stated at cost. Depreciation is provided by straight-line methods over their estimated service lives. Leasehold improvements are amortized over the shorter of the term of the lease or their expected useful life. Vehicles and furniture, fixtures and equipment are depreciated over periods of from 3 to 7 years.

### Income Taxes:

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carry forwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and dates on the date of enactment.

For periods prior to January 1, 2001, the Company, with the consent of its stockholders, had elected to be taxed under sections of federal income tax law which provide that, in lieu of corporation income taxes, the stockholders separately account for their pro-rata share of the Company's items of income, losses, and credits. This election was terminated effective January 1, 2001.

### Accounts Receivable:

Accounts receivable consists of amounts due from customers, none of whom are considered to be major customers.

### Stock-Based Compensation:

On July 1, 2001, the stockholders approved the adoption of the Company's 2001 Employee Stock Option Plan (the Plan). Stock options are granted at a price equal to the market value of the Common Stock at the date of grant, generally expire 10 years from the date of the grant and vest equally over a three-year service period.

|   | 2003    | 2002    | 2001    |
|---|---------|---------|---------|
|   | -----   | -----   | -----   |
| Total common shares available for grant                       | 320,000 | 320,000 | 320,000 |
| Options to purchase common shares granted at \$1.50 per share |         |         |         |
| \$1.50 per share  | --      | 144,000 | --      |
| Options exercised   | --      | --      | --      |
| Options forfeited/expired                                     | --      | --      | --      |
| Options available for grant                                   | 176,000 | 176,000 | 320,000 |

## Edgar Filing: TIGER TELEMATICS INC - Form 10-K

|                               |        |         |    |
|-------------------------------|--------|---------|----|
| Shares vested during the year | 36,000 | 36,000  | -- |
| Shares granted but unvested   | 72,000 | 108,000 | -- |

The 144,000 stock options awarded in 2002 were all to one person at an exercise price of \$1.50 per share.

The Company uses the intrinsic-value method of accounting for the Plan. 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.

F-11

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

|  | 2002    |
|--|---------|
|  | -----   |
| 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 |

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:

|  | 2003           | 2002            |
|--|----------------|-----------------|
|  | -----          | -----           |
| Net loss as reported   | \$ (7,812,449) | \$ (11,087,747) |
| Stock based compensation expense under the fair value based method, net of tax (\$0) | \$ (54,000)    | \$ (54,000)     |
| Pro forma net loss   | \$ (7,866,449) | \$ (11,141,747) |
| Net loss per share, as reported  | \$ (1.6586)    | \$ (3.9278)     |
| Pro forma net loss per share   | \$ (1.6701)    | \$ (3.9469)     |

### Goodwill and Other Intangible Assets:

Goodwill is recorded as the difference, if any, between the aggregate consideration paid for an acquisition and the fair value of the net tangible and intangible assets acquired. The Company adopted the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets" as of January 1, 2002.

SFAS 142 also requires that intangible assets with definite useful lives be amortized over their respective useful lives to their residual values, and all intangible assets be reviewed for impairment.

The Company tests goodwill for impairment on an annual basis or more frequently if the Company believes indicators of impairment exist. The performance of the test involves a two-step process. The first step involves comparing the fair values of the applicable reporting units with their aggregate carrying value, including goodwill. The Company generally determines the fair value of its

## Edgar Filing: TIGER TELEMATICS INC - Form 10-K

reporting units using the income approach methodology of valuation that includes the discounted cash flow method. If the carrying amount of a reporting unit exceeds the reporting unit's fair value, the Company performs the second step. The second test involves comparing the implied fair value of the affected reporting unit's goodwill with the carrying value of that goodwill. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recorded.

Circumstances that could trigger an impairment test include but are not limited to: a significant adverse change in the business climate or legal factors; an adverse action or assessment by a regulator; unanticipated competition; loss of key personnel; the likelihood that a reporting unit or significant portion of a reporting unit will be sold or otherwise disposed of; results of testing for

F-12

recoverability of a significant asset group within a reporting unit and recognition of a goodwill impairment loss in the financial statements of a subsidiary that is a component of a reporting unit.

### Impairment:

SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets," provides a single accounting model for long-lived assets to be disposed of, changes the criteria for classifying an asset as held for sale, broadens the scope of businesses to be disposed of that qualify for reporting as discontinued operations and changes the timing of recognizing losses on such operations. The Company adopted SFAS 144 on January 1, 2002.

In accordance with SFAS No. 144, the Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds their fair value. Assets to be disposed of are separately presented on the balance sheet and reported at the lower of their carrying amount or fair value less costs to sell, and are no longer depreciated.

### Earnings (Loss) per Share:

Basic earnings (loss) per share is computed using the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is computed using the weighted average number of common shares and potential common shares outstanding during the period. Potential common shares, including stock options and warrants, are excluded from the computation since their effect, for all years presented, are anti-dilutive.

### Revenue Recognition:

Sales are recognized when merchandise is delivered and accepted by the customer, net of estimated sales returns, discounts and allowances.

### Advertising Cost:

Advertising costs are included in selling expense and are expensed in the period incurred. Such costs were \$0 and \$18,489 for 2003 and 2002. For 2001 \$506,921 was included in discontinued operations.

### Fair Value of Financial Instruments:

## Edgar Filing: TIGER TELEMATICS INC - Form 10-K

Statement of Financial Accounting Standards (SFAS) No.107, "Disclosures about Fair Value of Financial Statements" requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate that value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates

F-13

cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument. SFAS No 107 excludes certain financial instruments and all non-financial assets and liabilities from its disclosure requirements. The fair value of financial instruments recorded on the balance sheet approximate the carrying amounts. The Company has no off balance sheet financial instruments.

### Recently Issued Accounting Standards:

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations". SFAS No. 141 requires that the purchase method of accounting be used for all business combinations transacted after June 30, 2001. SFAS No. 141 also specifies criteria that intangible assets acquired in a business combination must meet to be recognized and reported separately from goodwill. The Company utilized SFAS No. 141 to account for business acquisitions completed in 2002.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations". SFAS No 143 requires the Company to record the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from acquisition, construction, development and/or normal use of assets. The Company also records a corresponding asset that is depreciated over the life of the asset. Subsequent to the initial measurement of the asset retirement obligation, the obligation will be adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The Company is required to adopt SFAS No. 143 on January 1, 2003, and is currently evaluating the effect that implementation of the new standard may have on its results of operations and financial position.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This Statement requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. SFAS No. 144 requires companies to separately report discontinued operations and extends that reporting to a component of an entity that either has been disposed of (by sale, abandonment, or in a distribution to owners) or is classified as held for sale. Assets to be disposed of are reported at the lower of carrying amount or fair value less costs of sale. The Company adopted SFAS No. 144 on January 1, 2002.

SFAS 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF)



## Edgar Filing: TIGER TELEMATICS INC - Form 10-K

Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 was effective for disposal activities initiated after December 31, 2002.

SFAS 148 amends FASB Statement No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. SFAS No. 148 became effective after December 31, 2002.

F-14

SFAS 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities. The Company believes it has no derivative instruments. SFAS No. 149 became effective for hedging arrangements entered into after June 30, 2003.

SFAS 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. Some of the provisions of this Statement are consistent with the current definition of liabilities in FASB Concepts Statement No. 6, Elements of Financial Statements. The remaining provisions of this Statement are consistent with the Board's proposal to revise that definition to encompass certain obligations that a reporting entity can or must settle by issuing its own equity shares, depending on the nature of the relationship established between the holder and the issuer. For public companies, SFAS No. 150 became effective after June 15, 2003. The Company believes that, at the present time, it has no instruments that fall within the scope of this pronouncement.

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123R (Revised 2004), Share-Based Payment ("SFAS No. 123R"), which requires that the compensation cost relating to share-based payment transactions be recognized in financial statements based on alternative fair value models. The share-based compensation cost will be measured based on the fair value of the equity or liability instruments issued. The Company currently disclosed pro forma compensation expense quarterly and annually by calculating the stock option grants' fair value using Black-Scholes model and disclosing the impact on net income and net income per share in a Note to the Consolidated Financial statements. Upon adoption, pro forma disclosure will no longer be an alternative. The table above reflects the estimated impact that such a change in accounting treatment would have had on the Company's net loss and net loss per share if it had been in effect during the year ended December 31, 2003. SFAS No. 123R also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as financing cash flows and increase net financing cash flows in periods after adoption. The Company will begin to apply SFAS No. 123R using the most appropriate fair value model as of the interim reporting period ending September 30, 2005.

### NOTE B - REVERSE STOCK SPLIT AND INCREASE IN AUTHORIZED SHARES

In July 2004, the Company's shareholders approved a 1 for 25 reverse stock split. The number of authorized shares and par value were unchanged. All common

## Edgar Filing: TIGER TELEMATICS INC - Form 10-K

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.

F-15

### NOTE C - REVERSE ACQUISITION

On May 22, 2001, a purchasing group acquired 2,169,467 shares of Media Flooring Inc. (MCGI) in exchange for all of the outstanding common shares of the Company to become the owner of approximately 40% of the issued and outstanding common stock of MCGI. The agreement included the merger of the Company into a newly formed wholly owned subsidiary. Prior to the acquisition, MCGI was a "Public Shell" Company with no significant operations or assets.

The acquisition of the Company was accounted for as a reverse acquisition and the Company was treated for accounting purposes as the acquiring entity. The historical financial statements of the Company became the historical financial statements of MCGI. Additional paid in capital was adjusted on May 22, 2001 as follows:

|   |    |         |
|---|----|---------|
| Common Stock - 2,169,467 shares at par value of \$0.001 | \$ | (2,169) |
| Common Stock prior to reverse acquisition - 40 shares   |    | --      |
| Vendor obligation assumed                               |    | (4,931) |
|   |    | -----   |
| Recapitalization to additional paid-in capital          | \$ | (7,100) |
|   |    | =====   |

### NOTE D - EQUITY TRANSACTIONS

During 2003, the Company entered into various private placement transactions with individual investors and sold 2,372,034 shares of its common stock at per share prices ranging from \$.25 to \$1.25. No warrants were issued in 2003.

The Company entered into private placement transactions with individual investors and sold 100,498 and 66,000 shares of its common stock during the first quarter of 2002 and December 2001, respectively, for \$10.00 per share. For each share of common stock purchased, each investor received a warrant representing the right to purchase one additional share of common stock for \$18.75 per share. The warrants expired unexercised on December 31, 2003. Net proceeds from these sales were \$876,673 and \$574,200 in 2002 and 2001, respectively.

| Shares issued for services (none in 2001)   | Shares     | Amount     |
|---|------------|------------|
|   | -----      | -----      |
| During the first quarter of 2002 the Company purchased consulting services                    | \$ 12,000  | \$ 120,000 |
| During the second quarter of 2002 the Company paid rental expenses in the UK for a subsidiary | \$ 20,000  | \$ 182,635 |
| During the fourth quarter of 2002 the Company purchased services from six vendors             | \$ 73,600  | \$ 143,823 |
|   | -----      | -----      |
| Total for 2002  | \$ 105,600 | \$ 446,458 |

Edgar Filing: TIGER TELEMATICS INC - Form 10-K

|   |         |         |
|---|---------|---------|
|   | =====   | =====   |
| During 2003 the Company purchased various Services, primarily consulting services, from unrelated parties | 427,100 | 294,475 |
|   | =====   | =====   |

During May of 2002, the Company entered into an agreement with an advisor for consulting services under which the Company agreed to issue 96,000 shares of Common Stock for services rendered. The Company originally recorded consulting expense of \$736,000, representing the market value of the stock at the date of the agreement. Because the shares were not issued until May of 2003, the Company

F-16

revalued the liability at the end of each quarter, based on the market value of the stock at those dates, as follows:

|                | Per Share Value<br>----- | Liability<br>----- | Decrease<br>----- |
|----------------|--------------------------|--------------------|-------------------|
| September 2002 | \$ 2.88                  | \$ 276,000         | \$ 460,000        |
| December 2002  | 2.03                     | 194,400            | 81,600            |
| March 2003     | .95                      | 91,200             | 103,200           |

In October 2002, certain stockholders converted \$455,176 of debt to 182,070 shares of common stock. The conversion of these stockholders was done at the prevailing market price as of the date of the conversion.

In October 2002, several former Tiger Telematics Ltd. shareholders agreed to convert \$610,190 of their shareholder debt into common stock and warrants to purchase common stock at a price of \$18.75 per share. The conversion rate was one share of common stock and one warrant for every \$10.00 of debt. The debt of was converted in October 2002 into 61,019 shares of common stock and 61,019 warrants. The warrants expired unissued on December 31, 2003.

At December 31, 2003, 9,498,105 shares of common stock were issued and outstanding. Since that date, the Company has issued an additional approximately 37 million shares in numerous private transactions (a) for cash, (b) upon conversion of debt, accounts payable or other liabilities, (c) for goods or services provided by vendors, strategic partners, professionals, consultants and employees and (d) in connection with the acquisition of assets. In each case the Company recorded capital surplus based upon the price of the Company's common stock at the time of issuance or agreement to issue, discounted in some cases due to restrictions on sale by recipients. The aggregate amount recorded was approximately \$172 million, including the above described shares. During such periods the Company also issued warrants to purchase and aggregate of 495,525 shares of common stock at exercise prices ranging from \$5.00 to \$11.25 per share.

On May 19, 2003, the Company issued 96,000 shares of common stock in payment of the liability. The stock was valued at \$.25 per share. The excess of the accrual over the value of the shares issues (\$67,200) was credited to operations in 2003.

During the fourth quarter of 2003, certain shareholders and others converted \$ 1,727,286 of notes payable into 3,471,514 shares of common stock. The Company recorded a loss of such conversion totaling \$1,543,730. No warrants were issued in 2003.

F-17

## Edgar Filing: TIGER TELEMATICS INC - Form 10-K

During the first quarter of 2002, certain shareholders and others converted \$922,723 of notes payable and amounts due shareholders into 92,272 shares of common Stock. For each share of common stock received, they also received a warrant representing the right to purchase one additional share of common stock at \$18.75 per share. The warrants expired unexercised on December 31, 2003.

See NOTE - J RELATED PARTY TRANSACTIONS for a description of debt converted to common shares in 2003, 2002 and 2001.

See NOTE I - ACQUISITIONS for descriptions of equity transactions for the acquisition of COMMORXX and Tiger Telematics (UK) Ltd.

### NOTE E - PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2002, was as follows:

|                                   | 2003<br>----- | 2002<br>----- |
|-----------------------------------|---------------|---------------|
| Vehicles                          | \$ 226,826    | \$ 188,837    |
| Furniture, fixtures and equipment | 191,723       | 48,359        |
|                                   | -----         | -----         |
|                                   | 418,549       | 237,196       |
| Less accumulated depreciation     | 74,173        | --            |
|                                   | -----         | -----         |
|                                   | \$ 344,376    | \$ 237,196    |
|                                   | =====         | =====         |

Depreciation expense for the year ended December 31, 2003 amounted to \$74,173.

Property and equipment reclassified to discontinued operations are described in NOTE L - DISCONTINUED OPERATIONS

### NOTE F - INCOME TAX MATTERS

The Company has net operating loss carry forwards for United States Tax purposes as of December 31, 2003 for federal income tax purposes of approximately \$23,000,000, expiring through 2023. Any future benefit to be realized from these net operating loss and contribution carry forwards is dependent upon the Company earning sufficient future income taxable in the United States during the periods that the carry forwards are available. The loss carry forwards also contain restrictions on the type of taxable income that they can be used to offset. Due to these uncertainties, the Company has fully offset any deferred tax benefits otherwise relating to the net operating loss carry forward with a valuation allowance of approximately \$7,640,000. The Company also has undetermined losses that may be off set against future income in the UK, expiring in 2021, due to the sale of Tiger Ltd. Any future benefits to be realized from the losses is dependent upon the company earnings sufficient future taxable income in the UK during the periods that the losses off settable are available. Due to these uncertainties the Company has fully offset any deferred tax benefits relating to the losses.

F-18

|                                  | 2003<br>----- | 2002<br>----- |
|----------------------------------|---------------|---------------|
| Income Tax Benefit               |               |               |
| Tax provision at statutory rates | \$ 2,600,000  | \$ 4,600,000  |

## Edgar Filing: TIGER TELEMATICS INC - Form 10-K

|                              |              |              |
|------------------------------|--------------|--------------|
| State income taxes - net     | 240,000      | 420,000      |
| Effect of lower tax brackets | (13,000)     | (13,000)     |
| Other                        | (227,000)    | (407,000)    |
|                              | -----        | -----        |
|                              | 2,600,000    | 4,600,000    |
| Balance at beginning of year | 5,040,000    | 440,000      |
|                              | -----        | -----        |
| Balance at end of year       | \$ 7,640,000 | \$ 5,040,000 |
|                              | =====        | =====        |
| Valuation allowance          | \$ 7,640,000 | \$ 5,040,000 |
|                              | =====        | =====        |

### NOTE G - OPERATING LEASES

The Company leases office space in Jacksonville, Florida and in London, England on a month-to-month basis. Rent expense for 2003 and 2002 was \$173,213 and \$295,779, respectively. This was after reclassification of \$241,280 of flooring rental expenses to discontinued operations in 2002. Rent expenses for 2001 was \$526,196, is included as discontinued operations.

### NOTE H - NOTES PAYABLE

|   | 2003       | 2002       |
|---|------------|------------|
|   | ----       | ----       |
| The notes are payable to a bank in 36 equal monthly installments, with interest ranging from 10.4% to 11% and are collateralized by two automobiles | \$ 160,883 | \$ 175,736 |
| Less amount due within one year   | 37,140     | 30,602     |
|   | -----      | -----      |
| Long term portion of notes payable  | \$ 123,743 | \$ 145,134 |
|   | =====      | =====      |

Principal payments for the next three years are as follows 2004 \$37,140, 2005 \$49,504 and 2006 \$74,239.

Other notes payable in 2002 have been reclassified to discontinued operations. See NOTE L - DISCONTINUED OPERATIONS

### NOTE I - ACQUISITIONS

Tiger Telematics (UK) Ltd. (Tiger Ltd)

On February 4, 2002, the Company purchased Eagle Eye Scandinavian Distribution Limited, an English private limited Company, and its name was changed to Tiger Telematics (UK) Ltd. The Company purchased all of the outstanding stock of Eagle Eye in exchange for 280,000 shares of the Company's common stock valued at \$2,800,000. Tiger Telematics Ltd. was an early stage company engaged in the distribution of telematics products.

F-19

The 280,000 shares of stock issued were valued at \$10.00 per share. This price is the same price as the private placement transactions with investors that were entered into from December 2001 through March 2002. The negative equity of Tiger Telematics Ltd. of \$463,050 as of the acquisition date resulted in an excess of acquisition cost over tangible asset value of \$3,263,050.

## Edgar Filing: TIGER TELEMATICS INC - Form 10-K

The excess of the acquisition price over the tangible asset valuation was allocated to intangible assets consisting of \$2,800,000 to an order backlog of pending orders for product to be shipped over future periods and \$463,050 to distribution rights to be amortized quarterly over the remaining life of the distribution agreement.

During the quarter ended September 30, 2002, the Company after determining that the value of the order book was impaired, wrote-off \$1,000,000. The impairment was based on the failure to ship orders as originally projected and the change in Tiger Telematics Ltd.'s business model to derive its income from monthly revenue generated by its wireless telecom provider's partnership arrangements as opposed to generating revenue primarily from the sale of hardware. In the fourth quarter of 2002, the Company wrote off the remainder of the intangible asset of \$2,147,288 (net of \$115,762 of accumulated amortization).

In fourth quarter the Company sold the common stock of Tiger Telematics Ltd. to an unrelated third party. The agreement called for the transfer of certain assets and debt from Tiger Telematics Ltd. to Tiger Europe prior to closing. The transaction was done in exchange for a Royalty Agreement from the buyer and Tiger Telematics Ltd. to pay a percentage of sales over the next 10 years. Due to the uncertainty of the future payments, the Company placed a zero value on the agreement and did not record the future stream of payments on the balance sheet. The Company recorded a \$ 248,009 gain of the sale representing the excess of liabilities over assets transferred to the buyer.

Comworxx, Inc.

On June 25, 2002, pursuant to a Purchase Agreement between the Company's wholly owned subsidiary, Tiger USA and Comworxx, Inc. ("Comworxx"), a private Florida Company, Tiger USA purchased all of the assets of Comworxx in exchange for 170,531 shares of the Company's common stock valued at \$6.25 per share or \$1,065,819.

The purchase agreement provided however, that if the price per share of Tiger common stock sold in the next equity financing raising gross proceeds of at least \$3 million, is less than \$25.00 per share, the assumed purchase price shall be reduced to the price per share in the next equity financing and provided further however, that if the new equity financing is not consummated by September 1, 2002 the assumed price shall be reduced to \$.875. If the purchase price is reduced to less than \$25.00 per share of Tiger common stock, Tiger will have to issue such additional shares as necessary so that the total number of shares of Tiger common stock issued pursuant to this provision, is equal to the quotient, rounded to the nearest whole number, of \$4,263,266 divided by the final assumed purchase price. The maximum number of shares that would be issued under this formula would be 487,230. Accordingly, 316,700 shares were subject to this contingency.

In 2004, the Company entered into a settlement agreement by which 160,000 shares plus 80,000 shares held in escrow would be issued in satisfaction of the full contingent share issuance.

F-20

Based on a post acquisition review of assets, inventory, receivables and property plant and equipment were written down to the current estimated value as of the acquisition date. The write-downs created an additional excess of liabilities over tangible assets of \$669,628.

## Edgar Filing: TIGER TELEMATICS INC - Form 10-K

The acquisition price over the tangible asset valuation was assigned to three intangible assets. Although the acquisition included other intellectual property and license agreements, due to the position in the marketplace and funding issues associated with the acquisition, the Company believed that the goodwill was impaired as of June 30, 2002 and wrote off all of the goodwill of \$1,735,445 in the quarter ended June 30, 2002.

In the third quarter of 2002, based on its evaluation, the Company took a further write-down of the remaining assets purchased of \$407,000, effectively writing off its entire investment in the purchase agreement.

Assets (net of reserves) and liabilities acquired consisted of the following:

|   |    |           |
|---|----|-----------|
| Accounts receivable                                 | \$ | 27,619    |
| Inventory   |    | 105,472   |
| Prepaid items                                       |    | 9,368     |
| Computer equipment                                  |    | 280,629   |
| Security deposits                                   |    | 15,470    |
|   |    | -----     |
|   |    | 438,558   |
| <br>  |    |           |
| Note payable  |    | 8,664     |
| Accounts payable                                    |    | 882,968   |
| Other accruals                                      |    | 216,554   |
|   |    | -----     |
|   |    | 1,108,186 |
| Excess of liabilities over assets                   | \$ | 669,628   |
|   |    | =====     |
| <br>  |    |           |
| Goodwill  |    | 1,065,817 |
|   |    | -----     |
| Total goodwill (all written off on June 30)         | \$ | 1,735,445 |
|   |    | =====     |
| Net assets written off in the third quarter of 2002 | \$ | 407,000   |
|   |    | =====     |

The Company believes that the seller may have misrepresented the nature of the assets and the viability of the associated business at the time of the transaction. As a result the Company has retained legal counsel to advise it of its rights against the shareholders of the seller to recover certain sums or to rescind the entire transaction. As mentioned above, in June 2004 the Company issued 160,000 of the contingent shares in settlement of this matter.

Proforma information: The following proforma information reflects the net sales, net loss, and per share amounts for the year and three months ended December 31, 2002 and 2001 as if the Tiger Telematics, Ltd and Comworxx acquisitions had been completed on January 1, 2001:

|  | Year Ended      |                |
|--|-----------------|----------------|
|  | 2002            | 2001           |
|  | -----           | -----          |
| Proforma net Sales                                     | \$ 319,613      | \$ --          |
| Proforma net loss                                      | \$ (13,453,091) | \$ (3,980,321) |
| Proforma basic and diluted net loss per common share   | \$ (4.6201)     | \$ (1.5096)    |
| Weighted average shares outstanding -basic and diluted | \$ 2,911,298    | \$ 2,636,630   |

See NOTE Q - SUBSEQUENT EVENTS for description of acquisitions and pending acquisitions for 2003.

Edgar Filing: TIGER TELEMATICS INC - Form 10-K

F-21

NOTE J - RELATED PARTY TRANSACTIONS

Notes Payable to Stockholders are as follows:

|                               | 2003     | 2002        |
|-------------------------------|----------|-------------|
|                               | -----    | -----       |
| Stockholders without interest | \$ 9,191 | \$1,210,785 |
|                               | =====    | =====       |

During the third and fourth quarter of 2003, the Company, at the request of certain stockholder of Tiger Europe, Ltd., issued 148,000 shares at a rate of \$.50 per share to reduce \$75,000 of indebtedness owed by the Company to such stockholders and (ii) converted \$1,400,000 of debt to a stockholders of to 2,800,000 shares of common stock at the rate of \$.50 per share, the market price of the common stock as of the date that the agreements were entered into. The debt conversion involved certain officers and directors of the Company and or its Gizmondo subsidiary. In addition, during the fourth quarter the Company converted \$226,730 of debt owed to another shareholder into 453,460 shares of common stock valued at \$.50 per share and issued 800,000 shares in 2004 to such shareholder for services rendered to the Company. That person subsequently became an employee of a subsidiary of the Company in April 2004, as Head of Investor Relations

During 2002, notes payable and other amounts due stockholders amounting to \$1,998,089 were converted to equity for 335,361 shares.

Total interest expense on stockholder debt was \$10,000, \$43,079 and \$37,112 for years ended December 31, 2003, 2002 and 2001 respectively. The weighted average interest rate on amounts due to stockholders was 10% and 10.6% as of December 31, 2003 and 2002 respectively.

The Company owed an executive officer and director approximately \$136,600 and \$50,000 at December 31, 2003 and 2002, respectively, for back salary and reimbursable expenses incurred on behalf of the Company.

NOTE K - CONTINGENCIES

A shareholder of the Company borrowed some of the funds advanced to the Company (with funds going to the Tiger Ltd subsidiary) 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 the subsidiary, Tiger Telematics Ltd., to repay the funds since Tiger Telematics Ltd. was the beneficiary of the funds. The Company maintained that it was not responsible for that obligation and responded to the demand accordingly. Tiger Telematics 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 Telematics 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 Telematics Ltd. repaid approximately \$80,000 prior to the sale of the business on December 17, 2002. Following the sale of Tiger Telematics Ltd.,



## Edgar Filing: TIGER TELEMATICS INC - Form 10-K

F-22

the Company was apprised that Tiger Telematics Ltd. was placed in liquidation insolvency under the laws of the United Kingdom for failure to make the payments required under this arrangement.

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.

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 Ltd. filed suit against the Company in the UK alleging violation of the Sponsorship Agreement entered into between the Company and Jordan Racing in July 17, 2003 and a related Letter Agreement dated in July 2003. The sponsorship agreement was meant to assist in marketing the Company's new hand held gaming device and to correspond with its launch. The launch was delayed from its anticipated time frame. 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 a separate letter agreement. On February 26, 2004, Jordan sent the Company a letter where they formally and officially terminated both agreements for the aforementioned alleged defaults. The Company believes that it has defenses to the suit and has filed a defense in UK courts.

The Company is considering filing a countersuit against both the plaintiff and Jordan Racing. The plaintiff filed a motion for summary judgment against the Company. The Court denied the plaintiff's motion and the Company was permitted to defend the lawsuit on the condition that it makes a substantial payment to be held by the Court. In January 2005, the Court reduced the amount of the payment and allowed the Company to deposit 70,000 shares of its stock in escrow to satisfy this requirement. Prior to commencement of the trial, the Company is to substitute \$1.5 million in exchange for the escrowed shares. While the Company is unable to predict the outcome of this litigation, it intends to vigorously defend the plaintiff's claims.

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. The Company is seeking a declaratory judgment from the court that it is not required to issue additional shares to the advisor, as well as damages, fees and costs as a result of the advisor's breach including the return of the previously issued shares.

In October 2004, Gizmondo Europe Ltd, (Gizmondo), a subsidiary of the Company signed a contract with SCi Entertainment Group Plc (SCi), a leading games

Edgar Filing: TIGER TELEMATICS INC - Form 10-K

publisher, under which Gizmondo has licensed the right to develop and publish twelve SCi products for the Gizmondo platform. The agreement covers both

F-23

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.

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.

NOTE L - DISCONTINUED OPERATIONS

In June 2002 the Company entered into a plan to dispose of its flooring business and, as of June 30, 2002, accounted for the flooring segment as a discontinued segment. The Company has estimated that the net loss on the discontinued operations from June 30, 2002 through the date of sale, August 9, 2002 to be \$35,000, and the estimated gain on sale and included that amount in the liabilities of the discontinued segment.

On August 9, 2002, the Company sold its flooring business to a purchasing group headed up by a former officer of the Company. The Company sold assets aggregating \$1,152,698, in consideration for the assumption by the buyer of liabilities totaling \$1,243,135. The Company will remain contingently liable on the liabilities until such time as the buyers pay them off. In addition, the buyer has assumed operating leases described above. In April 2003, the buyer of the flooring assets filed a Chapter 11 bankruptcy proceeding and was liquidated as of April 30, 2003. As of December 31, 2002, the Company has made a provision for loss of approximately \$1,153,000.

Revenue included in loss from discontinued operations amounted to \$2,163,158 and \$3,777,000 for the years ended December 31, 2002 and 2001.

A summary of the liabilities the Company may be obligated to pay, as of December 31, 2003 and 2002 is as follows:

|  | 2003        | 2002        |
|--|-------------|-------------|
|  | -----       | -----       |
| Liabilities - Leases and various payables and accruals related to failure of Floor Decor, and other dispositions |             |             |
| Total Liabilities  | \$1,168,244 | \$1,152,713 |
|  | =====       | =====       |

# Edgar Filing: TIGER TELEMATICS INC - Form 10-K

F-24

## NOTE M - WARRANTS

The Company issued warrants to purchase 253,789 and 66,000 shares of the Company's common stock at \$18.75 per share in 2002 and 2001 respectively. The warrants were exercisable at any time until December 31, 2003. None of the warrants were exercised or cancelled. All expired, unexercised, at December 31, 2003. At December 31, 2002 and 2001 there were 319,789 and 66,000 warrants issued and outstanding, respectively.

In 2004 the Company also issued warrants to purchase 495,525 shares of the Company's common stock at an exercise prices ranging from \$5.00 to \$11.25 per share.

## NOTE N - PREPAYMENTS

Prepayment consists of the following:

|                                     | December 31, |            |
|-------------------------------------|--------------|------------|
|                                     | 2003         | 2002       |
| Prepaid expenses at are as follows: |              |            |
| Rent                                | \$ 45,383    | \$ 117,080 |
| Insurance                           | --           | 12,124     |
| TOTAL                               | \$ 45,383    | \$ 129,204 |

## NOTE O - ACCRUED EXPENSES

Accrued expenses consists of the following:

|  | December 31, |             |
|--|--------------|-------------|
|  | 2003         | 2002        |
| Payroll and related taxes  | \$ 150,054   | \$ 40,832   |
| Consulting   | 302,100      | 194,000     |
| Amounts accrued related to acquisitions, bankruptcy of acquiring companies and rent and advisor fees related to events described in NOTE K - CONTINGENCIES | 1,297,851    | 1,726,812   |
|  | \$1,750,005  | \$1,916,644 |

## NOTE P - SEGMENT INFORMATION

The Company now focuses all of its business in one segment, the telematics product development and distribution business in Europe.

F-25

## NOTE Q - SUBSEQUENT EVENTS

## Edgar Filing: TIGER TELEMATICS INC - Form 10-K

ISIS Models, Ltd.

In May 2004 Gizmondo Europe, Ltd. acquired 75% interest in ISIS Models Ltd. for \$310,000 settled by the issue of common stock of the Company of 40,000 shares valued at \$7.75 per agreement. The transaction resulted in \$310,000 of goodwill to reflect the intangible order book.

Warthog Plc

The Company executed an Asset Purchase Agreement contract dated November 3, 2004 and closed the transaction on that date, for the acquisition of Warthog Plc's subsidiaries, intellectual properties 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. The shares were valued at \$14.06 per share pursuant to the terms of the agreement (\$7,000,000), which was the average closing price in the 14 days prior to closing. For financial statement purposes, the company recorded approximately \$850,000 in goodwill to reflect the excess purchase price over tangible assets acquired.

Indie Studios

On August 2, 2004, Gizmondo Europe, Ltd. purchased Indie Studios on a transaction agreed to on May 20, 2004 Purchase Agreement, following an April 29, 2004 Letter of Intent, for one million shares of common stock of the Company valued at \$7.50. There are 600,000 contingent shares reserved. For financial statement purposes the Company assumed the shares issued and recorded \$12 million in goodwill to reflect the excess of purchase price over tangible assets.

Integra SP

The Company executed a share Purchase Agreement contract 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.

F-26

NOTE R - QUARTERLY DATA (UNAUDITED)  
(In thousands except for per share amounts)

Year ended December 31, 2003  
-----

|           | Fourth<br>Quarter<br>----- | Third<br>Quarter<br>----- | Second<br>Quarter<br>----- | First<br>Quarter<br>----- |
|-----------|----------------------------|---------------------------|----------------------------|---------------------------|
| Net sales | \$ 17                      | \$ --                     | \$ (9)                     | \$ 1                      |

Edgar Filing: TIGER TELEMATICS INC - Form 10-K

|  |             |             |             |             |
|--|-------------|-------------|-------------|-------------|
| Cost of goods sold                     | 20          | (9)         | 1           | 3           |
|  | -----       | -----       | -----       | -----       |
| Gross profit (loss)                    | (3)         | (9)         | (10)        | (2)         |
| Selling, general and<br>Administrative | 4,873       | 1,142       | 407         | 545         |
| Other income (expense)                 | 242         | (287)       | 52          | (32)        |
|  | -----       | -----       | -----       | -----       |
| Net loss                               | \$ (4,634)  | \$ (1,438)  | \$ (365)    | \$ (579)    |
|  | =====       | =====       | =====       | =====       |
| Net loss per share                     | \$ (1.0571) | \$ (0.4004) | \$ (0.1088) | \$ (0.1773) |
|  | =====       | =====       | =====       | =====       |

Year ended December 31, 2002

|  | Fourth<br>Quarter | Third<br>Quarter | Second<br>Quarter | First<br>Quarter |
|--|-------------------|------------------|-------------------|------------------|
|  | -----             | -----            | -----             | -----            |
| Net sales                              | \$ 130            | \$ 152           | \$ 1              | \$ 1             |
| Cost of goods sold                     | 117               | 223              | 42                | 3                |
|  | -----             | -----            | -----             | -----            |
| Gross profit (loss)                    | 13                | (71)             | (41)              | (2)              |
| Selling, general and<br>Administrative | 1,256             | 1,410            | 2,149             | 954              |
| Other income (expense)                 | (521)             | (1,027)          | (3,288)           | (28)             |
|  | -----             | -----            | -----             | -----            |
| Loss from continuing<br>Operations     | (1,764)           | (2,508)          | (5,478)           | (984)            |
| Loss from discontinued<br>Operations   | --                | --               | (164)             | (189)            |
|  | -----             | -----            | -----             | -----            |
| Net loss                               | (1,764)           | (2,508)          | (5,642)           | (1,173)          |
|  | =====             | =====            | =====             | =====            |
| Net loss per share                     | \$ (0.6249)       | \$ (0.8885)      | \$ (1.9986)       | \$ (0.4155)      |
|  | =====             | =====            | =====             | =====            |