



August 2005

THE TEXAS HEDGE REPORT

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www.texashedge.com

TIGER TELEMATICS – A BILLION BUCKS OF VAPOR?

(ticker: TGTL)

Stock price: \$17.40

Market Cap = \$955 million

We came across Tiger Telematics (ticker: TGTL) in our search for cheap stocks. It turns out that Tiger Telematics is the very opposite of cheap. Tiger Telematics is one of the most utterly expensive, light on fundamentals, speculative moon-shots we have ever come across. It trades about 44,000 shares a day on the U.S. pink sheets and the latest going price was \$17.40 a share, down from about 20 bucks when we first found it.

There is certainly a thing or two about Tiger Telematics that might get a day-trader's heart a racing. It seems that Tiger Telematics makes a much hyped competitor to Nintendo's Gameboy and Sony's Playstation Portable. Tiger Telematics' portable game player is called the "Gizmondo". A sleek looking picture of the "Giz" (as we hear it is called) is shown below:



Despite a barrage of press releases by Tiger Telematics about the industry buzz and huge launches coming for the Gizmondo over the last couple of years, it appears that the Gizmondo is extremely hard to find on anyone's shelves. Software titles for the portable media player are rarer still. Tiger Tel mainly sells in the UK and they don't sell very much over there either. In the last reported quarter, Tiger Tel only had \$268,000 in sales. Note we say last reported quarter because Tiger Telematics hasn't filed financials since 9/30/04! This brings us to Tiger Telematics' sorry finances. If you will permit us a moment or two to dwell on Tiger Telematics' sad state of financial affairs, we will wrap up this incredible tale by revisiting the product side and the fate of the Gizmondo.

Though Tiger Telematics hasn't filed full financials in almost a year, they did file a late 10Q covering the 9/30/04 quarter in which they stated they had 54.890859 million shares outstanding as of 5/31/05. We will assume for the moment that Tiger Tel hasn't issued any more shares to survive since 5/31/05.



The market cap calculation is shown below, as it is so staggering given the underlying fundamentals of the business:

$$54.890859 \text{ shares outstanding} \times \$17.40 \text{ recent stock price} = \$ 955 \text{ million market cap}$$

While you might think a near one billion dollar market cap for \$268,000 in quarterly sales is absurd on the face of it, the story only gets better. As of 9/30/04, TGTL had a whopping \$1.1 million in cash on the balance sheet and a total of \$3.1 million in current assets. This tiny amount of financial liquidity was more than offset by 9/30/04 current liabilities of \$28.3 million including \$10.7 million in accounts payable. The stockholder's equity section also helps paint a story of a company blow-torching cash to build the slow selling Gizmondo. Retained earnings as of 9/30/04 were a negative \$64.2 million and book value stood at a negative \$20.8 million.

The latest quarter's sales of 268,000 bucks shows a negative gross profit of \$29,800 and an operating loss of \$17.9 million thanks to some heavy SG&A! Given that TGTL has more than doubled its share count since 9/30/04 we hope that a good deal of cash has accumulated on the company's balance to cover its burn - or its very survival may come into question

Below is a recent stock chart of this gem:



Origins of Tiger Telematics

According to government filings, Tiger Telematics Inc. was incorporated in Delaware and founded in 2001 “for the purpose of the development and marketing of global positioning products and telematics systems based on GSM/GPS technology.” In 2002, Tiger Telematics Inc. acquired Comworxx Inc. and later that year set up the fully owned subsidiary, Gizmondo Europe Ltd., to develop products for the fast growing market of handheld entertainment and gaming. In July 2004, Tiger Telematics Inc. announced that they completed a reverse split approved at the July 9, 2004 shareholders meeting and ever since it has been



trading under the symbol TGTL. As you can see from above, the stock has just about doubled since the reverse split, a feat that is all the more remarkable considering the more than doubling of shares outstanding over that time period and the total lack of revenues and profitability.

Tiger Telematics Inc. is headquartered in Jacksonville, Florida, USA. CEO & CFO for Tiger Telematics Inc. is Michael W. Carrender. Gizmondo Europe Ltd. is based in Farnborough, United Kingdom. Managing Director of Gizmondo Europe Ltd. is Carl Freer.

Some of the share issuance details emerged in Tiger Telematics latest government filing:

2004	Shares	Dollars
Private placement	13,284,731	\$ 55, 119,987
Conversion of debt to equity	80,000	\$ 107,650
Satisfaction of contingencies	160,000	~
Acquisition of subsidiaries	1,537,866	\$ 4,450,864
Payment for services	11,745,905	\$ 34,313,896
	-----	-----
Total	26,808,502	\$93,992,397
	=====	=====
Shares issued during Q1 of 2005	16,928,664	
	=====	
Shares outstanding at March 31, 2005	53,235,271	
	=====	
Shares issued from April 1 - May 31, 2005	1,655,588	
	=====	

Shaky Liquidity Relies on Stock Sales

This disclosure gives us some color as to how the company doubled its share count and the near \$94 million in cash they received in 2004 alone. How much cash does the company have today? As of 9/30/04 we know the company had a little over a million in cash. Other disclosures state that “the Company raised over \$26.5 million in the nine months ended September 30, 2004 from the sale of common stock and additional deposits on common stock... During the remainder of 2004 and the first quarter of 2005, the Company raised over \$34 million. In the second quarter of 2005, the Company raised over \$21 million, through May 31, 2005, through the sale of the Company's restricted common stock. This funding has allowed the Company to maintain its business and to continue the development and launch of its Gizmondo product line.”

Though there is some overlap and conflicting numbers, we estimate that from 9/30/04 through 5/31/05 the company might have raised as much as \$123 million in cash from issuing shares. TGTL's alarmingly high cost structure at some \$17.9 million in quarterly SG&A with no gross profits to cover the fixed costs make us wonder whether any cash hoard built up from share issuance isn't already largely burned up? Assuming the company continues to burn cash at a rate of \$18 mil a quarter they will likely be down to \$50 million in cash by September 30, 2005 or perhaps even less. This likely means that the company will have to issue even more shares in the not too distant future to stay afloat. Of course, this



is all conjecture because TGTL is more than 10 months behind in filing financials statements, which again make us question whether all the reported numbers might not be even worse once an auditor looks over them.

Nuggets from TGTL's filings:

The following footnotes also give us concern about the internal controls at the company (our comments are below each excerpt):

"Since early 2003, the Registrant's principal business has been the development of a multi-entertainment wireless handheld gaming device known as Gizmondo. As a result, during 2003, 2004 and early 2005, the Company had very limited revenues and incurred significant development costs funded principally by equity issuances for services and from proceeds of equity contributions.

Until late 2004, the Registrant did not have sufficient cash to retain and pay independent certified public accountants to audit its financial statements and as a result did not until March 31, 2005 file audited financial statements for the years ended December 31, 2002 and 2003. Immediately prior to the filing of this Form 12b-25, the Registrant filed its Form 10-K/A for the year ended December 31, 2002 and its Form 10-K for the year ended December 31, 2003. Following completion of these audits the Registrant is concentrating its efforts on completing its financial statements for 2004 and expects to file its Form 10-Q Quarterly Reports for the quarters ended March 31, 2004, June 30, 2004 and September 30, 2004 within 10 days and its Form 10-K annual report for the year ended December 31, 2004 within 15 days."

Whoa! Red flags are going off all over the place. They did not have sufficient cash to retain and pay an auditor for quite some time. Recent equity issuances are all that has kept them alive. Stay Away!

"The advances are due from employees and stockholders of subsidiaries of the Company of \$208,527 and 0 in 2004 and 2003, respectively, are due on demand, without interest....Amounts due to employees and stockholders of \$75,100 and \$9,191 in 2004 and 2003, respectively, are due on demand, without interest."

Not huge figures here, but we hate to see a company become a bank for its employees and likewise we never like to see a company forced to borrow funds from its employees to stay afloat.

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

To be on the hook for \$475,000 that an employee borrowed is a lot of money when you are in Tiger's financial shape.



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

Bankrupting subsidiaries is never good.

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

Let's hope for TGTL's sake it has been retired.

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

Let's see if we can follow this. Issue shares for a property lease. Then bankrupt the sub that entered the lease agreement. Then after you are sued, issue more shares to settle back payments. Interesting way to run one's business - better hope the stock price stays inflated.

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

Should you sponsor race cars you can't afford? We seem to detect a pattern of defaults or alleged defaults from TGTL dealings. Apparently on July 8th, subsequent to this government filing, TGTL settled the Jordan dispute by paying \$1.5 million in cash and issuing 30,000 shares of stock.

“In January 2005, the Company filed a lawsuit against a former investment advisor of the Company, based on a breach of the agreement between the advisor and the Company. As payment for investment advisory services, the Company originally issued 40,000 (1,000,000 pre reverse split) shares of common stock in 2002 and 2003. The



advisor subsequently alleged in December 2004 that the Company owed him an additional 960,000 shares of common stock to maintain his ownership in the Company at 1,000,000 shares. In April 2005, the Company and the advisor agreed to settle all claims, with the Company issuing an additional 60,000 shares of common stock to the advisor.

It is like a bad soap opera.

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."

Sounds like some other Texans aren't very big fans of TGTL either.

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

TGTL's general counsel must work around the clock.

"In 2002 through and into the second quarter of 2005, the Company funded its operating losses and start-up costs principally with loans from stockholders or other parties and, in increasing amounts, through the issuance of shares of common stock. Without such equity funding the Company would not have been able to sustain operations. In the nine months ended September 30, 2004, the Company's working capital position deteriorated."

Too bad issuing stock isn't a business. These guys are good at that.

"The Company does not have any bank loans or lending facilities."

Shocker! Maybe they should call DiTech?

"The Company incurred losses in 2002 and 2003 fiscal year end of \$(11,087,747) and \$(7,812,449) respectively. The Company recorded a loss for the first nine months of 2004 of approximately (\$43.4 million). In 2004, the losses were generated primarily from the costs of developing the Gizmondo. Since the Company was not able to generate positive net cash flows from operations, additional capital was needed."

The size of the losses is going the wrong way!

"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.

One cannot say they weren't warned...Massive dilution is in the solution....

Hopefully from this collection of scary footnote nuggets that anyone could garner from a reading of the last 10-K and 10-Q, no one would be foolish enough to own TGTL no matter their product's hype. Given that the company's main product has been around for awhile and still generates virtually no revenues the operations seem to be pretty weak as well.

According to recent government filings *"The Company focuses primarily all of its business in one segment, the development, production, and sale of the handheld multi-entertainment gaming device, Gizmondo...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 launched the full-scale production of Gizmondo in 2005."* The company is a one trick pony and that pony doesn't seem to be that strong.

Reading gaming sites, it appears that the Gizmondo was supposed to be released in 2003 and has suffered numerous delays through 2005. The product is now about to be launched in the U.S. in October, which itself is a rescheduling from an August 11th launch date which is a rescheduling from the Spring - you get the idea. What happens if there is another delay? Can this company really afford to miss another Christmas? Reports are that its "flagship store" is usually empty and its availability in the UK is limited to their own store and website.

Actual reviews on the Gizmondo are very scarce given that there are few devices in circulation. From the company's website, it appears that the Gizmondo allows one to play games, has GPS capabilities and allows music and movie playing. With the exception of the GPS, we thought this was a functionality that the entire industry was already heading rapidly towards. A relatively recent CNET video review states that the product comes with Windows Media Player and therefore plays music and video very seamlessly. Likewise, video games can be played via an SG card and the GPS can be used to locate other Gizmondo players. However, details were very sketchy. The suggested retail price on the video review was \$399 and it was expected out in the spring of 2005. Looks like they missed that deadline as well.

Perhaps the best review was found on www.pocket-lint.co.uk, a UK gaming site by Charlie Brewer. The price he listed is 230 English Pounds or again about 400 bucks. Since the reviewer's summary is not too long we have pasted it below. Again it is just one person's opinion, but he seems pretty informed.

VERDICT - Overall the Gizmondo is 'work in progress', and was pushed onto the high street before it was ready, which reminds us a little of Nokia's N-Gage learning curve - and Gizmondo should have learned from Nokia's mistakes for free. The body of the device looks good but nothing works properly besides the games, and even those were partly to blame for the device 'crashing' more a dozen times during the test. The software is buggy and recent excitements include a problem with the conversion of the clocks to BST, which took 14 days before a software upgrade could be offered to users. But all is not lost, the first version of any new system is filled with problems, you only have to look at the issues that dogged the PS2 and are dogging the PSP. Don't write the Gizmondo off just yet,



but give it six months to fix all its niggles, other wise you'll buy something designed to be handled and played and end up dashing it against the wall in fury, as I nearly did! We just hope that coming into the market with a v1 product in the year of Sony and Nintendo getting a handheld fix to help with the next next-gen full consoles, won't sink Gizmondo's dream.

Overall, he gave the Gizmondo a 4 out of 10 rating, and while he had nice things to say, he also pointed out that it still had a ton of bugs. Bugs that TGTL likely won't have the money or the time to fix before the next generation Sony and Nintendo consoles and their vast software titles hit the market.

Summary

Tiger Telematics appears to be a time bomb waiting to gap down back to the miniscule market cap it deserves. We have checked with our broker contacts and as one might guess the borrow (required to short the stock) is very tough. A couple thousand shares are what we are told. There are no put options on this stock. As always, we never recommend that individual investors short. Period. And we think it is particularly foolish to short something with this tight of a borrow unless you are a professional or a glutton for punishment. Institutional investors with good stock borrow relationships should be able to get some shorts on and watch TGTL eventually crater under its own weight. We have no position in TGTL and will likely remain on the sidelines as a spectator waiting for a crash to occur. Once again, the fact that such an extreme speculation like TGTL has a shade under a \$1 billion market cap is a clear sign of a frothy market - and all are advised not to forget that fact.

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