

TIDEL TECHNOLOGIES INC
Form 10-Q/A
November 30, 2005

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q/A

(Mark One)

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

For the quarterly period ended June 30, 2005

or

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

For the transition period from ___ to ___

Commission file Number 000-17288

TIDEL TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or
organization)

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

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

77042
(Zip Code)

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

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

The number of shares of Common Stock outstanding as of the close of business on Aug 9, 2005 was 20,677,210.

TIDEL TECHNOLOGIES, INC. AND SUBSIDIARIES

TABLE OF CONTENTS

	Description	Page
PART I. FINANCIAL INFORMATION		
Item 1.	<u>Condensed Financial Statements</u>	
	<u>Condensed Consolidated Balance Sheets as of June 30, 2005 (unaudited) and September 30, 2004</u>	
	<u>Condensed Unaudited Consolidated Statements of Operations for the Three and Nine Months Ended June 30, 2005 and 2004</u>	
	<u>Condensed Unaudited Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended June 30, 2005 and 2004</u>	
	<u>Condensed Unaudited Consolidated Statements of Cash Flows for the Nine Months Ended June 30, 2005 and 2004</u>	
	<u>Notes to Unaudited Consolidated Financial Statements</u>	
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	
Item 4.	<u>Controls and Procedures</u>	
PART II. OTHER INFORMATION		
Item 1.	<u>Legal Proceedings</u>	
Item 6.	<u>Exhibits</u>	
	<u>Signatures</u>	
	<u>Certification Pursuant to Section 302</u>	
	<u>Certification Pursuant to Section 906</u>	

PART I. FINANCIAL INFORMATION**ITEM 1.****FINANCIAL STATEMENTS****TIDEL TECHNOLOGIES, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

	June 30, 2005	September 30, 2004
	(unaudited)	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 3,332,201	\$ 258,120
Trade accounts receivable	250,000	250,000
Other receivables	14,171	1,003,723
Prepaid expenses and other	18,112	42,153
Assets held for sale, (See Notes 2 and 3)	10,292,585	8,574,739
Total current assets	13,907,069	10,128,735
Property, plant and equipment, at cost	55,641	44,075
Accumulated depreciation	(41,463)	(37,871)
Net property, plant and equipment	14,178	6,204
Other assets	685,211	643,305
Total assets	\$ 14,606,458	\$ 10,778,244
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Current maturities, net of debt discount of \$0 and \$725,259, respectively	\$ 2,550,000	\$ 174,741
Accounts payable	287,081	331,576
Accrued interest payable	2,106,311	793,577
Reserve for settlement of class action litigation	—	1,564,490
Other accrued liabilities	386,715	326,675
Liabilities held for sale (See Notes 2 and 3)	5,950,314	4,998,736
Total current liabilities	11,280,421	8,189,795
Long-term debt, net of current maturities and debt discount of \$4,672,836 and \$5,767,988, respectively	1,170,152	—
Total liabilities	12,450,573	8,189,795
Commitments and contingencies		
Shareholders' Equity:		
Common stock, \$.01 par value, authorized 100,000,000 shares; issued and outstanding 20,677,210 shares and 17,426,210 shares, respectively	206,772	174,262
Additional paid-in capital	30,962,187	28,100,674
Accumulated deficit	(29,020,232)	(25,619,888)
Receivable from officer	—	(31,675)
Accumulated other comprehensive income (loss)	7,158	(34,924)
Total shareholders' equity	2,155,885	2,588,449
Total liabilities and shareholders' equity	\$ 14,606,458	\$ 10,778,244

See accompanying notes to condensed consolidated financial statements.

TIDEL TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2005	2004	2005	2004
Revenues	\$ —	\$ —	\$ —	\$ —
Selling, general and administrative	652,007	325,269	1,334,541	966,263
Depreciation and amortization	1,421	1,274	3,592	5,012
Operating loss	(653,428)	(326,543)	(1,338,133)	(971,275)
Other income (expense):				
Gain on extinguishment of debt	—	—	—	18,823,000
Gain on sale of securities	—	119,520	—	1,918,012
Interest expense, net	(1,160,459)	(642,450)	(5,399,974)	(2,444,856)
Total other income (expense)	(1,160,459)	(522,930)	(5,399,974)	18,296,156
Income (loss) before taxes	(1,813,887)	(849,473)	(6,738,107)	17,324,881
Income tax (benefit)	—	(81,229)	—	(81,229)
Income (loss) from continuing operations	\$ (1,813,887)	\$ (768,244)	\$ (6,738,107)	\$ 17,406,110
Discontinued operations (See Notes 2 and 3)	700,739	(959,075)	3,337,763	(1,324,137)
Net income (loss)	\$ (1,113,148)	\$ (1,727,319)	\$ (3,400,344)	\$ 16,081,973
Basic income (loss) per share:				
Income (loss) from continuing operations	\$ (0.09)	\$ (0.04)	\$ (0.33)	\$ 1.00
Income (loss) from discontinued operations	0.03	(0.06)	0.17	(0.08)
Net income (loss)	\$ (0.06)	\$ (0.10)	\$ (0.16)	\$ 0.92
Weighted average common shares outstanding	20,677,210	17,426,210	20,163,250	17,426,210
Diluted income (loss) per share:				
Income (loss) from continuing operations	\$ (0.09)	\$ (0.04)	\$ (0.33)	\$ 0.42
Income (loss) from discontinued operations	0.03	(0.06)	0.17	(0.03)
Net income (loss)	\$ (0.06)	\$ (0.10)	\$ (0.16)	\$ 0.39
Weighted average common and dilutive shares outstanding	20,677,210	17,426,210	20,163,250	40,939,919

See accompanying notes to condensed consolidated financial statements.

TIDEL TECHNOLOGIES, INC. AND SUBSIDIARIES**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(UNAUDITED)**

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2005	2004	2005	2004
Net income (loss)	\$ (1,113,148)	\$ (1,727,319)	\$ (3,400,344)	\$ 16,081,973
Other comprehensive income (loss):				
Unrealized gain (loss) on investment in 3CI	(139,778)	34,923	42,082	62,862
Comprehensive income (loss)	\$ (1,252,926)	\$ (1,692,396)	\$ (3,358,262)	\$ 16,144,835

See accompanying notes to consolidated financial statements.

TIDEL TECHNOLOGIES, INC. AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)**

	Nine Months Ended June 30,	
	2005	2004
Cash flows from operating activities:		
Net income (loss)	\$ (3,400,344)	\$ 16,081,973
Results of discontinued operations	(3,337,763)	1,324,137
Income (loss) from continuing operations	(6,738,107)	17,406,110
Adjustments to reconcile net income (loss) to net cash used in continuing operating activities:		
Depreciation and amortization	3,592	5,012
Amortization of debt discount and financing costs	2,830,352	1,875,868
Gain on extinguishment of convertible debentures	—	(18,823,000)
Gain on sale of securities	—	(1,918,012)
Changes in assets and liabilities:		
Notes and other receivables	989,552	(120,237)
Prepaid expenses and other assets	18,041	2,163
Accounts payable and accrued liabilities	1,966,289	398,560
Net cash used in continuing operating activities	(930,281)	(1,173,536)
Cash flows from continuing investing activities:		
Purchases of property, plant and equipment, net	(11,566)	—
Gain from sale of securities	—	2,451,444
Net cash provided by (used in) continuing investing activities	(11,566)	2,451,444
Cash flows from continuing financing activities:		
Proceeds from borrowings	2,100,000	7,370,000
Repayments of notes payable	(375,000)	(3,295,000)
Borrowing on revolver	2,251,203	—
Repayments of revolver	(2,251,203)	—
Repayments of convertible debentures	—	(6,000,000)
Decrease in restricted cash	—	2,200,000
Increase in deferred financing costs	(280,567)	(595,765)
Net cash provided by (used in) continuing financing activities	1,444,433	(320,765)
Net increase in cash and cash equivalents from continuing operations	502,586	957,143
Net increase (decrease) in cash and cash equivalents from discontinued operations	2,571,495	(1,406,817)
Net increase (decrease) in cash and cash equivalents	3,074,081	(449,674)
Cash and cash equivalents at beginning of period	258,120	915,097
Cash and cash equivalents at end of period	\$ 3,332,201	\$ 465,423
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 622,082	\$ 169,083
Cash paid for taxes, net of refunds	\$ —	\$ (81,229)
Supplemental disclosure of non-cash financing activities:		
Discount on issuance of debt with beneficial conversion premium and detachable warrants	\$ 723,198	\$ 6,899,181
Warrants issued for deferred financing costs	\$ —	\$ 229,180
Issuance of shares to lender in payment of fees	\$ 638,010	\$ —
	\$ 1,564,490	\$ —

Issuance of shares in connection with settlement of class-action
litigation

See accompanying notes to condensed consolidated financial statements.

6

TIDEL TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Organization and Summary of Significant Accounting Policies

Organization and Basis of Presentation

Tidel Technologies, Inc. (the “Company,” “we,” “us,” or “our”) is a Delaware corporation which, through its wholly owned subsidiaries, develops, manufactures, sells and supports automated teller machines (“ATMs”) and electronic cash security systems, consisting of the Timed Access Cash Controller (“TACC”) products and the Sentinel products (together, the “Cash Security” products), which are designed for the management of cash within various specialty retail markets, primarily in the United States. Sales of ATM and Cash Security products are generally made on a wholesale basis to more than 200 distributors and manufacturers’ representatives. TACC and Sentinel products are often sold directly to end-users as well as distributors.

The ATM products are low-cost, cash-dispensing automated teller machines that are primarily designed for the off-premise, or non-bank, markets. We offer a wide variety of options and enhancements to the ATM products, including custom configurations that dispense cash-value products, such as coupons, tickets and stored-value cards; accept currency; and perform other functions, such as check-cashing.

The TACC products are essentially stand-alone safes that dispense cash to an operator in preset amounts. As a deterrent to robbers, \$50 or less in cash is kept in a register at any given time. When a customer requires change in denominations of \$5, \$10 and \$20 bills, the clerk presses a button on the TACC for the appropriate denomination and the cash is dispensed in a plastic tube. The time and frequency it takes to dispense the cash is pre-determined and adjustable so that in high-risk times of operations, transaction times can be slowed to act as a deterrent against robberies. When excess cash is collected, the clerk simply places individual bills back into the plastic tubes and loads them into the TACC for safe storage. Other available features include envelope drop boxes for excess cash, dollar scanners, state lottery interfaces, touch pads requiring user PINs for increased transaction accuracy and an audit trail and reporting capabilities.

The Sentinel products were introduced in 2002. The Sentinel product has all the functionality of the TACC, but has been designed to also reduce the risk of internal theft and increase in-store management efficiencies through its state-of-the-art integration with a store’s point-of-sale (“POS”) and accounting systems

The accompanying condensed consolidated interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, assuming we continue as a going concern, which contemplates the realization of the assets and the satisfaction of liabilities in the normal course of business, and are unaudited. In the opinion of management, the unaudited consolidated interim financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the financial position as of June 30, 2005, the statements of operations and comprehensive income (loss) for the three and nine months ended June 30, 2005 and 2004, and the statements of cash flows for the nine months ended June 30, 2005 and 2004. Although management believes the unaudited interim disclosures in these consolidated interim financial statements are adequate to make the information presented not misleading, certain information and footnote disclosures normally included in annual audited financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the rules of the Securities and Exchange Commission (the “SEC”). The unaudited results of operations for the three and nine months ended June 30, 2005 are not necessarily indicative of the results to be expected for the entire year ending September 30, 2005. The unaudited consolidated interim financial statements included herein should be read in conjunction with the audited consolidated financial statements and notes thereto included in Comprehensive Annual Report on Form 10-K for the fiscal years ended September 30, 2003 and

September 30, 2004 (the “03/04 10-K”)

Status of Tidel Technologies, Inc.

Our liquidity was negatively impacted by our inability to collect the outstanding receivables and claims from CCC; therefore, we were required to seek additional financing, resulting in a substantial increase in our debt, as discussed below.

7

On November 25, 2003, we completed a \$6,850,000 financing transaction (the "Financing") with Laurus Master Fund, Ltd. ("Laurus") pursuant to that certain Securities Purchase Agreement by and between the Company and Laurus dated as of November 25, 2003 (the "2003 SPA"). The Financing was comprised of a three-year convertible note in the amount of \$6,450,000 and a one-year convertible note in the amount of \$400,000, both of which bear interest at a rate of prime plus 2% and were convertible into our common stock at a conversion price of \$0.40 per share. In addition, Laurus received warrants to purchase 4,250,000 shares of our common stock at an exercise price of \$0.40 per share. The proceeds of the Financing were allocated to the notes and the related warrants based on the relative fair value of the notes and the warrants, with the value of the warrants resulting in a discount against the notes. In addition, the conversion terms of the notes result in a beneficial conversion feature, further discounting the carrying value of the notes.

As a result, we will record additional interest charges totaling \$6,850,000 over the terms of the notes related to these discounts. Laurus was also granted registration rights in connection with the shares of common stock issuable in connection with the Financing. Proceeds from the Financing in the amount of \$6,000,000 were used to fully retire the \$18,000,000 in Convertible Debentures issued to two investors (the "Holders") in September 2000, together with all accrued interest, penalties and fees associated therewith. All of the warrants and Convertible Debentures held by the Holders were terminated and we recorded a gain from extinguishment of debt of \$18,823,000 (including accrued interest through the date of extinguishment) in fiscal year 2004 related to this Financing. In March 2004, the \$400,000 note was repaid in full.

In connection with the closing of the Financing, all outstanding litigation including, without limitation, the Montrose Litigation, was dismissed, and a revolving credit facility with a bank (the "Revolving Credit Facility") was repaid through the release of the restricted cash used as collateral for the Revolving Credit Facility. See Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" of the '03/'04 10-K

In August 2004, Laurus notified us that an Event of Default had occurred and had continued beyond any applicable grace period as a result of our non-payment of interest and principal on the \$6,450,000 convertible note as required under the terms of the Financing, as well as noncompliance with certain other covenants of the Financing documents. In exchange for Laurus's waiver of the Event of Default until September 17, 2004, we agreed, among other things, to lower the conversion price on the \$6,450,000 convertible note and the exercise price of the warrants from \$0.40 per share to \$0.30 per share. The reduction in conversion price resulted in an additional discount against the carrying value of the notes. As a result, we will record additional interest charges totaling approximately \$1,900,000 over the remaining terms of the notes related to the discounts.

On November 26, 2004, we completed a \$3,350,000 financing transaction (the "Additional Financing") with Laurus pursuant to that certain Securities Purchase Agreement by and between the Company and Laurus, dated as of November 26, 2004 (the "2004 SPA"). The Additional Financing was comprised of (i) a three-year convertible note issued to Laurus in the amount of \$1,500,000, which bears interest at a rate of 14% and is convertible into our common stock at a conversion price of \$3.00 per share (the "\$1,500,000 Note"), (ii) a one-year convertible note in the amount of \$600,000 which bears interest at a rate of 10% and is convertible into our common stock at a conversion price of \$0.30 per share (the "\$600,000 Note"), (iii) a one-year convertible note of our subsidiary, Tidel Engineering, L.P., in the amount of \$1,250,000, which is a revolving working capital facility for the purpose of financing purchase orders of our subsidiary, Tidel Engineering, L.P., (the "Purchase Order Note"), which bears interest at a rate of 14% and is convertible into our common stock at a price of \$3.00 per share and (iv) our issuance to Laurus of 1,251,000 shares of common stock, or approximately 7% of the total shares outstanding, (the "2003 Fee Shares") in satisfaction of fees totaling \$375,300 incurred in connection with the convertible term notes issued in the Financing discussed above. As a result of the issuance of the 2003 Fee Shares, we recorded an additional charge in fiscal 2004 of \$638,010 based on the market value on November 26, 2004. We also increased the principal balance of the original note by \$292,987, of which \$226,312 bears interest at the default rate of 18%. This amount represents interest accrued but not paid to Laurus as of August 1, 2004. In addition, Laurus received warrants to purchase 500,000 shares of our common stock

at an exercise price of \$0.30 per share. The proceeds of the Additional Financing were allocated to the notes based on the relative fair value of the notes and the warrants, with the value of the warrants resulting in a discount against the notes. In addition, the conversion terms of the \$600,000 Note resulted in a beneficial conversion feature, further discounting the carrying value of the notes. As a result, we will record additional interest charges related to these discounts totaling \$840,000 over the terms of the notes. Laurus was also granted registration rights in connection with the 2003 Fee Shares and other shares issuable pursuant to the Additional Financing. The obligations pursuant to the Additional Financing are secured by all of our assets and are guaranteed by our subsidiaries. Net proceeds from the Additional Financing in the amount of \$3,232,750 were primarily used for (i) general working capital payments made directly to vendors, (ii) past due interest on Laurus's \$6,450,000 convertible note due pursuant to the Financing and (iii) the establishment of an escrow for future principal and interest payments due pursuant to the Additional Financing.

THE NOTES AND WARRANTS ISSUED IN THE FINANCING AND THE ADDITIONAL FINANCING ARE CONVERTIBLE INTO AN AGGREGATE OF 28,226,625 SHARES OF OUR COMMON STOCK AND, WHEN COUPLED WITH THE 2003 FEE SHARES, REPRESENT APPROXIMATELY 60% OF OUR OUTSTANDING COMMON STOCK SUBJECT TO ADJUSTMENT AS PROVIDED IN THE TRANSACTION DOCUMENTS. IF THESE NOTES AND WARRANTS WERE COMPLETELY CONVERTED TO COMMON STOCK BY LAURUS, THEN THE OTHER EXISTING SHAREHOLDERS' OWNERSHIP IN THE COMPANY WOULD BE SIGNIFICANTLY DILUTED TO APPROXIMATELY 40% OF THEIR PRESENT OWNERSHIP POSITION.

In connection with the Financing, Laurus required that we covenant to become current in our filings with the Securities and Exchange Commission according to a predetermined schedule. Effective November 26, 2004, the Additional Financing documents require, among other things, that we provide evidence of filing to Laurus of our fiscal 2003, fiscal 2004 and year-to-date interim 2005 filings with the Securities and Exchange Commission on or before July 31, 2005.

On February 4, 2005, we received a letter from the Securities and Exchange Commission stating that the Division of Corporate Finance of the SEC would not object to the Company filing a comprehensive annual report on Form 10-K which covers all of the periods during which it has been a delinquent filer, together with its filing all Forms 10-Q which are due for quarters subsequent to the latest fiscal year included in that comprehensive annual report. However, the SEC Letter also stated that, upon filing such a comprehensive Form 10-K, the Company would not be considered "current" for purposes of Regulation S, Rule 144 or filing on Forms S-8, and that the Company would not be eligible to use Forms S-2 or S-3 until a sufficient history of making timely filings is established. Laurus consented to the filing of such a comprehensive annual report in satisfaction of the Filing Requirements mandated on or before July 31, 2005. Laurus also consented to a modification of the requirement that a Registration Statement be filed within 20 days of satisfaction of the Filing Requirements to instead require that the Registration Statement be required to be filed by September 20, 2006.

We filed the fiscal 2002 Form 10-K on February 1, 2005, and we filed the '03/'04 10-K, the Form 10-Q for the quarter ending December 31, 2004 and the Form 10-Q for the quarter ended March 31, 2005 on Monday, August 1, 2005, which was in accordance with the requirements of the Additional Financing.

Pursuant to the Additional Financing, fourteen (14) days following such time as we became current in our filings with the SEC, we were required to deliver to Laurus evidence of the listing of our common stock on the Nasdaq Over The Counter Bulletin Board (the "Listing Requirement"); however, Laurus has subsequently extended the delivery date to provide evidence of the satisfaction of the Listing Requirement to September 15, 2005.

On November 26, 2004, in connection with the Additional Financing, we entered into an agreement with Laurus (the "Asset Sales Agreement") whereby we agreed to pay a fee in the amount of at least \$2,000,000 (the "Reorganization Fee") to Laurus upon the occurrence of certain events as specified below and therein, which Reorganization Fee is secured by all of our assets, and is guaranteed by our subsidiaries. The Asset Sales Agreement provides that (i) once our obligations to Laurus have been paid in full (other than the Reorganization Fee), we shall be able to seek additional financing in the form of a non-convertible bank loan in an aggregate principal amount not to exceed \$4,000,000, subject to Laurus's right of first refusal; (ii) the net proceeds of an asset sale to the party named therein shall be applied to our obligations to Laurus under the Financing and the Additional Financing, as described above (collectively, the "Obligations"), but not to the Reorganization Fee; and (iii) the proceeds of any of our subsequent sales of equity interests or assets or of our subsidiaries consummated on or before the fifth anniversary of the Asset Sales Agreement (each, a "Company Sale") shall be applied first to any remaining obligations, then paid to Laurus pursuant to an increasing percentage of at least 55.5% set forth therein, which amount shall be applied to the Reorganization Fee. Under this formula, the existing shareholders could receive less than 45% of the proceeds of any sale of our assets or equity interests, after payment of the Additional Financing and Reorganization Fee as defined. The Reorganization Fee shall be \$2,000,000 at a minimum, but could equal a higher amount based upon a percentage of the proceeds of

any company sale, as such term is defined in the Asset Sales Agreement. In the event that Laurus has not received the full amount of the Reorganization Fee on or before the fifth anniversary of the date of the Asset Sales Agreement, then we shall pay any remaining balance due on the Reorganization Fee to Laurus. We recorded a \$2,000,000 charge in the first quarter of fiscal 2005 to interest expense.

As of June 30, 2005, we had approximately \$8,932,988 face value of outstanding debt: \$3,720,152 after debt discount of \$4,672,836. Of the \$8,392,988 total outstanding debt at June 30, 2005, \$6,292,988 represents the outstanding balance of the Financing, and \$600,000 and \$1,500,000 represent outstanding balances of two term notes in connection with the Additional Financing.

Management's Current Plans with Regard to Our Liquidity Include the Following:

Proposed Sale of ATM Business

We committed to a plan to sell the ATM business during the first quarter ended December 31, 2004.

On February 19, 2005, the Company and its wholly-owned subsidiary Tidel Engineering, L.P. (together with the Company, the "Sellers") entered into an asset purchase agreement with NCR Texas LLC, a single member Delaware limited liability company ("NCR Texas") that is a wholly-owned subsidiary of NCR Corporation, a Maryland corporation, for the sale of our ATM business (the "Asset Purchase Agreement"). The purchase price for the ATM business of the Sellers is \$10,175,000, plus the assumption of certain liabilities related to the ATM business and, subject to certain adjustments as provided in the Asset Purchase Agreement (the "Purchase Price"). The Purchase Price is also subject to adjustment based upon the actual value of the assets delivered, to the extent the value of the assets delivered is 5% greater than or less than a predetermined value as stated in the Asset Purchase Agreement. The Asset Purchase Agreement contains customary representations, warranties, covenants and indemnities.

The proceeds of the sale of the Sellers' ATM business will be applied towards the repayment of our outstanding loans from Laurus Master Fund, Ltd. ("Laurus"). However, even after the application of net proceeds towards the repayment of the loans, Laurus may continue to hold warrants to purchase up to 4,750,000 shares of our common stock, and will have a contractual right to receive a significant percentage, or approximately 60%, of the proceeds of any subsequent sale of all, or substantially all, of the remaining equity interests and/or other assets of the Company in one or more transactions, pursuant to the Agreement Regarding NCR Transaction and Other Asset Sales. The Company has retained Stifel, Nicolaus & Company, Inc. to sell the remainder of the Company's business, as required pursuant to the terms of the Additional Financing, as discussed below.

The closing of the sale of the ATM business pursuant to the Asset Purchase Agreement is subject to several conditions, including shareholder approval. The Sellers do not contemplate seeking shareholder approval until the Company is current in its reporting requirements under the Securities Exchange Act of 1934, as amended. Pursuant to contractual arrangements with its lenders, the Company is required to be current no later than July 31, 2005, after which time the Company will commence seeking shareholder approval for this transaction. The Company believes that the transaction will likely close during the fourth quarter of calendar 2005.

Following the closing of the transactions under the Asset Purchase Agreement, it is contemplated that approximately 50% of our employees would become employees of NCR Texas, including up to two executives, subject to their reaching mutually satisfactory agreements with NCR Texas.

Pursuant to the Asset Purchase Agreement, until the earlier of the closing of the transactions contemplated thereby or termination of the Asset Purchase Agreement (the "Exclusivity Period"), the Sellers have agreed not to communicate with potential buyers, other than to say that they are contractually obligated not to respond. The Sellers are obligated to forward any communications to NCR Texas. In the event that the Sellers breach these provisions, then as provided in the Asset Purchase Agreement, the Sellers are obligated to pay a \$2,000,000 fee to NCR Texas (the "Fee"). Also as provided in the Asset Purchase Agreement, under certain limited circumstances the Sellers may consider an unsolicited offer that our Board of Directors (the "Board") deems to be financially superior. However, immediately following the execution of a definitive agreement for the transaction contemplated by such superior offer, NCR Texas is to be paid the Fee.

The Asset Purchase Agreement also contains provisions restricting the Sellers from owning or managing any business similar to the ATM business for a period of five years after the closing of the transactions contemplated by the Asset Purchase Agreement. In addition, the agreement contains provisions restricting the Sellers from soliciting or hiring any employees of NCR Texas for a period of two years after the closing and restricting NCR Texas from hiring

Sellers' employees.

We have classified the ATM business as Assets Held for Sale as of June 30, 2005.

Engagement of Investment Banker to Evaluate Strategic Alternatives for the Sale of the Cash Security Business

During the third quarter of 2005, we committed to a plan to sell the Cash Security Business. We engaged Stifel, Nicolaus & Company, Inc. ("Stifel") to assist our Board of Directors in connection with the proposed sale of our Cash Security business, deliver a fairness opinion, and render such additional assistance as we may reasonably request in connection with the proposed sale of our Cash Security business. We are currently working with Stifel in connection with such a proposed sale. We have classified the Cash Security Business as Assets Held for Sale as of June 30, 2005.

10

Major Customers and Credit Risk

We generally retain a security interest in the underlying equipment that is sold to customers until we receive payment in full. We would incur an accounting loss equal to the carrying value of the accounts receivable, less any amounts recovered from liquidation of collateral, if a customer failed to perform according to the terms of our credit arrangements with them.

The concentration of customers in our market may impact our overall credit exposure, either positively or negatively, since these customers may be similarly affected by changes in economic or other conditions. Sales of Sentinel cash security systems are currently to a small number of customers. The loss of a single customer could have an adverse effect on our net income. During the three months ended June 30, 2005 and the nine months ended June 30, 2005, we shipped 471 and 1,468, units respectively, of the Sentinel product to a national convenience store operator. This generated sales revenue of \$3,869,614, or 73%, and \$11,780,581, or 71%, of revenues for the three and nine months ended June 30, 2005 for the Cash Security business.

The majority of our sales during the three and nine months ended June 30, 2005 were to customers within the United States. Foreign sales accounted for 8% and 10% of our sales during the three and nine months ended June 30, 2005, respectively. The majority of our sales during the three months ended June 30, 2004 and nine months ended June 30, 2004 were to customers within the United States. Foreign sales accounted for 17% and 21% of our sales during the three months ended June 30, 2004 and nine months ended June 30, 2004, respectively.

In September 2004, our subsidiary entered into separate supply and credit facility agreements (the "Supply Agreement," the "Facility Agreement" and the "Share Warrant Agreement" respectively) with a foreign distributor related to our ATM business. The Supply Agreement required the distributor, during the initial term of the agreement, to purchase ATMs only from us, effectively making us its sole supplier of ATMs. During each of the subsequent terms, the distributor is required to purchase from Tidel not less than 85% of all ATMs purchased by the distributor. The initial term of the agreement was set as of the earlier of: (i) the expiration or termination of the debenture, (ii) a termination for default, (iii) the mutual agreement of the parties, and (iv) August 15, 2009.

The Facility Agreement provides a credit facility in an aggregate amount not to exceed \$2,280,000 to the distributor with respect to outstanding invoices already issued to the distributor and with respect to invoices which may be issued in the future related to the purchase of our ATM products. Repayment of the credit facility is set by schedule for the last day of each month beginning November 2004 and continuing through August 2005. The distributor fell into default due to non-payment during February 2005. During the first nine months of 2005, we increased the reserve to approximately \$830,000 due to the delinquency of payment for the majority of the invoices issued in the fiscal year 2005. In July of 2005, we collected a partial payment of approximately \$350,000 related to the 2004 billings. This collection reduced the outstanding balance on this facility to approximately \$1,700,000, of which we have reserved a total of \$830,000 as of June 30, 2005. We have also received a commitment from the distributor to submit at least approximately \$40,000 per week commencing August 5, 2005 until the balance is paid in full. We have received the first two installment payments on time as per the agreement.

The Share Warrant Agreement provides for the issuance to our subsidiary of a warrant to purchase up to 5% of the issued and outstanding share capital of the distributor. The warrant restricts the distributor from (i) creating or issuing a new class of stock or allotting additional shares, (ii) consolidating or altering the shares, (iii) issuing a dividend, (iv) issuing additional warrants and (v) amending its articles of incorporation. Upon our exercise of the warrant, the distributor's balance outstanding under the Facility Agreement would be reduced by \$300,000.

Stock Based Compensation

Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"), requires companies to recognize stock-based expense based on the estimated fair value of employee stock options. Alternatively, SFAS No. 123 allows companies to retain the current approach set forth in APB Opinion No. 25, "Accounting for Stock Issued to Employees," provided that expanded footnote disclosure is presented. We apply APB Opinion No. 25 in accounting for our Plans and, accordingly, no compensation cost has been recognized for our stock options in the consolidated financial statements. Had we determined compensation cost based on the fair value at the grant date for our stock options and warrants under SFAS No. 123, our net income (loss) would have been reduced to the pro-forma amounts indicated as follows:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2005	2004	2005	2004
Net income (loss) as reported	\$ (1,113,148)	\$ (1,727,319)	\$ (3,400,344)	\$ 16,081,973
Deduct: Total stock-based employee compensation expense determined under FAS 123, net of taxes	(6,431)	(348)	(13,001)	(1,044)
Net income (loss), pro forma	\$ (1,119,579)	\$ (1,727,667)	\$ (3,413,345)	\$ 16,080,929
Basic earnings (loss) per share:				
As reported	(0.06)	(0.10)	(0.16)	0.92
Pro forma	(0.06)	(0.10)	(0.16)	0.92
Diluted earnings (loss) per share:				
As reported	(0.06)	(0.10)	(0.16)	0.43
Pro forma	(0.06)	(0.10)	(0.16)	0.43

During the nine months ended June 30, 2005, we granted options to purchase 363,810 shares of common stock to certain employees. The options vest over four years and have an exercise price of \$.25 per share, which was the fair market value on the date of grant. We used the Black-Scholes method, assuming no dividends, as well as the weighted average assumptions included in the following table:

	Three and Nine Months Ended June 30, 2005
Expected option life (in years)	4.0
Expected volatility	80.0%
Risk-free interest rate	3.42%

2. Discontinued Operations (ATM Business)

We committed to a plan to sell the ATM business during the first quarter ended December 31, 2004. On February 19, 2005, we entered into an Asset Purchase Agreement with NCR Texas, a wholly-owned subsidiary of NCR Corporation, a Maryland corporation, for the sale of our ATM business. We have classified the ATM business as a discontinued operation since that time, including for the comparative periods in the prior year. This division manufactures and sells automated teller machines primarily in the United States. The results of this operation are reflected as Assets and Liabilities Held for Sale on the accompanying balance sheets and segregated on the accompanying statements of operations as income or loss from discontinued operations on pages 3 and 4, respectively. The proceeds of the sale of the Sellers' ATM business will be applied towards the repayment of our outstanding loans from Laurus. Even after the application of net proceeds towards the repayment of the loans, our lender may continue to hold warrants to purchase up to 4,750,000 shares of our common stock, and will have a contractual right to receive

a significant percentage of the proceeds of any subsequent sale of all, or substantially all, of our equity interests and/or other assets in one or more transactions, pursuant to the Asset Sales Agreement.

The ATM products are low-cost, cash-dispensing automated teller machines that are primarily designed for the off-premise, or non-bank, markets. We offer a wide variety of options and enhancements to the ATM products, including custom configurations that dispense cash-value products, such as coupons, tickets and stored-value cards; accept currency; and perform other functions, such as check-cashing.

The sale of the ATM Business is expected to be consummated after fiscal year ended September 30, 2005.

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

**DISCONTINUED OPERATIONS — ATM BUSINESS
SELECTED BALANCE SHEET DATA
(UNAUDITED)**

ASSETS	June 30, 2005	September 30, 2004
Current Assets:		
Cash and cash equivalents	\$	—\$
Trade accounts receivable, net of allowance of \$1,832,877 and \$1,069,825, respectively	1,932,363	1,983,931
Inventories - Net of Allowance for obsolete inventories	4,876,652	3,432,828
Prepaid expenses and other	243,387	157,490
Total current assets	7,052,402	5,574,249
Property, plant and equipment, at cost	4,287,221	4,286,617
Accumulated depreciation	(4,175,868)	(3,977,412)
Net property, plant and equipment	111,353	309,205
Other assets	27,297	27,297
Total assets	\$ 7,191,052	\$ 5,910,751
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 1,056,774	\$ 1,686,732
Other accrued expenses	1,106,997	836,289
Total liabilities	\$ 2,163,771	\$ 2,523,021

**DISCONTINUED OPERATIONS — ATM BUSINESS
SELECTED OPERATING DATA
(UNAUDITED)**

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2005	2004	2005	2004
Net sales	\$ 4,734,044	\$ 3,123,145	\$ 11,833,366	\$ 11,401,478
Cost of sales	3,650,721	2,310,712	8,550,479	8,370,251
Gross profit	1,083,323	812,433	3,282,887	3,031,227
Selling, general and administrative	1,367,879	1,135,244	4,151,213	3,191,014
Depreciation and amortization	48,355	90,195	194,281	361,803
Operating loss	(332,911)	(413,006)	(1,062,607)	(521,590)
Non-operating (income) expense	—	2,298	—	40,216
Net loss	\$ (332,911)	\$ (415,304)	\$ (1,062,607)	\$ (561,806)

3. Discontinued Operations (Cash Security Business)

We committed to a plan to sell the Cash Security Business during the third quarter ended June 30, 2005. We have classified the Cash Security Business as a discontinued operation as of June 30, 2005, including for the comparative periods in the prior year.

The TACC products are essentially stand-alone safes that dispense cash to an operator in preset amounts. As a deterrent to robbers, \$50 or less in cash is kept in a register at any given time. When a customer requires change in

denominations of \$5, \$10 and \$20 bills, the clerk presses a button on the TACC for the appropriate denomination and the cash is dispensed in a plastic tube. The time and frequency it takes to dispense the cash is pre-determined and adjustable so that in high-risk times of operations, transaction times can be slowed to act as a deterrent against robberies. When excess cash is collected, the clerk simply places individual bills back into the plastic tubes and loads them into the TACC for safe storage. Other available features include envelope drop boxes for excess cash, dollar scanners, state lottery interfaces, touch pads requiring user PINs for increased transaction accuracy and an audit trail and reporting capabilities.

The Sentinel products were introduced in 2002. The Sentinel product has all the functionality of the TACC, but has been designed to also reduce the risk of internal theft and increase in-store management efficiencies through its state-of-the-art integration with a store's point-of-sale ("POS") and accounting systems.

The sale of the Cash Security Business is expected to be consummated after the fiscal year ended September 30, 2005.

An analysis of the discontinued operations of the Cash Security Business is as follows:

DISCONTINUED OPERATIONS — CASH SECURITY BUSINESS
SELECTED BALANCE SHEET DATA
(UNAUDITED)

ASSETS	June 30, 2005	September 30, 2004
Current Assets:		
Cash and cash equivalents	\$	—\$
Trade accounts receivable, net of allowance of \$32,614 and \$6,230, respectively	600,377	1,076,362
Inventories	2,073,121	1,350,631
Prepaid expenses and other	279,513	93,087
Total current assets	2,953,011	2,520,080
Property, plant and equipment, at cost	1,134,745	1,091,197
Accumulated depreciation	(1,011,854)	(972,920)
Net property, plant and equipment	122,891	118,277
Other assets	25,631	25,631
Total assets	\$ 3,101,533	\$ 2,663,988
LIABILITIES		
Current Liabilities:		
Current maturities	\$ 3,672	\$ 8,951
Accounts payable	1,056,775	1,380,054
Other accrued expenses	2,697,387	1,058,001
Total current liabilities	3,757,834	2,447,006
Long-term debt, net of current maturities	28,709	28,709
Total liabilities	\$ 3,786,543	\$ 2,475,715

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2005	2004	2005	2004
Net sales	\$ 5,310,146	\$ 1,495,737	\$ 16,568,457	\$ 6,174,821
Cost of sales	2,993,849	1,147,326	8,984,878	4,178,427
Gross profit	2,316,297	348,411	7,583,579	1,996,394
Selling, general and administrative	1,274,518	858,822	3,159,673	2,743,977
Depreciation and amortization	7,560	33,360	22,308	14,748
Operating income (loss)	1,034,219	(543,771)	4,401,598	(762,331)
Non-operating expense	570	—	1,227	—
Net income (loss)	\$ 1,033,649	\$ (543,771)	\$ 4,400,371	\$ (762,331)

4. Long-term debt

On November 25, 2003, we completed the Financing with Laurus, and we completed the Additional Financing on November 26, 2004 with Laurus in order to meet our current liquidity needs.

As of June 30, 2005, we had approximately \$8,932,988 face value of outstanding debt: \$3,720,152 after debt discount of \$4,672,836. Of the \$8,392,988 total outstanding debt at June 30, 2005, \$6,292,988 represents the outstanding balance of the Financing, and \$600,000 and \$1,500,000 represent outstanding balances of two term notes in connection with the Additional Financing.

As of August 19, 2005, we also have \$1,250,000 available for borrowing under the Purchase Order Note through November 26, 2005. There can be no assurance that our current financing facilities will be sufficient to meet our current working capital needs or that we will have sufficient working capital in the future.

THE NOTES AND WARRANTS ISSUED IN THE FINANCING AND THE ADDITIONAL FINANCING ARE CONVERTIBLE INTO AN AGGREGATE OF 28,226,625 SHARES OF OUR COMMON STOCK AND, WHEN COUPLED WITH THE 1,251,000 SHARES ISSUED TO LAURUS IN CONNECTION WITH THE ADDITIONAL FINANCING, REPRESENT APPROXIMATELY 60% OF OUR OUTSTANDING COMMON STOCK SUBJECT TO ADJUSTMENT AS PROVIDED IN THE TRANSACTION DOCUMENTS. IF THESE NOTES AND WARRANTS WERE COMPLETELY CONVERTED TO COMMON STOCK BY LAURUS, THEN THE OTHER EXISTING SHAREHOLDERS' OWNERSHIP IN THE COMPANY WOULD BE SIGNIFICANTLY DILUTED TO APPROXIMATELY 40% OF THEIR PRESENT OWNERSHIP POSITION.

In connection with the Financing, Laurus required that we covenant to become current in our filings with the SEC according to a predetermined schedule. Effective November 26, 2004, the Additional Financing documents require, among other things, that we provide evidence of filing to Laurus of our fiscal 2003, fiscal 2004 and year-to-date interim 2005 filings with the SEC on or before July 31, 2005.

On February 4, 2005, we received a letter from the SEC stating that the Division of Corporate Finance of the SEC would not object to our filing a comprehensive annual report on Form 10-K which covers all of the periods during which it has been a delinquent filer, together with its filing all Forms 10-Q which are due for quarters subsequent to the latest fiscal year included in that comprehensive annual report. However, the SEC Letter also stated that, upon filing such a comprehensive Form 10-K, we would not be considered "current" for purposes of Regulation S, Rule 144 or filing on Forms S-8, and that we would not be eligible to use Forms S-2 or S-3 until a sufficient history of making timely filings is established. Laurus consented to the filing of such a comprehensive annual report in satisfaction of the

Edgar Filing: TIDEL TECHNOLOGIES INC - Form 10-Q/A

Filing Requirements mandated on or before July 31, 2005. Laurus also consented to a modification of the requirement that a registration statement be filed within 20 days of satisfaction of the Filing Requirements to instead require that the registration statement be filed by September 20, 2006.

We filed the fiscal 2002 Form 10-K on February 1, 2005, and we filed the '03/'04 10-K, the Form 10-Q for the quarter ending December 31, 2004 and the Form 10-Q for the quarter ended March 31, 2005 on Monday, August 1, 2005, which was in accordance with the requirements of the Additional Financing.

Pursuant to the Additional Financing, fourteen (14) days following such time as we became current in our filings with the SEC, we were required to deliver to Laurus evidence of the listing of our common stock on the Nasdaq Over The Counter Bulletin Board (the "Listing Requirement"); however, Laurus has subsequently extended the delivery date to provide evidence of the satisfaction of the Listing Requirement to September 15, 2005.

5. Earnings Per Share

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

	Three months ended June 30,		Nine Months ended June 30,	
	2005	2004	2005	2004
Net income (loss) (numerator for basic earnings per share)	\$ (1,113,148)	\$ (1,727,319)	\$ (3,400,344)	\$ 16,081,973
Interest expense attributable to convertible note	—	—	—	2,122,797
Adjusted net income (loss) (numerator for diluted earnings per share)	\$ (1,113,148)	\$ (1,727,319)	\$ (3,400,344)	\$ 18,204,770
Weighted average common shares outstanding (denominator for basic earnings per share)	20,667,210	17,426,210	20,163,250	17,426,210
Dilutive shares outstanding	—	—	—	23,512,809
Weighted average common and dilutive shares outstanding	20,667,210	17,426,210	20,163,250	40,939,919
Basic earnings per share	\$ (.06)	\$ (0.10)	\$ (0.16)	\$ 0.92
Diluted earnings per share	\$ (.06)	\$ (0.10)	\$ (0.16)	\$ 0.44

Earnings per share data for all periods presented have been computed pursuant to SFAS No. 128, "Earnings Per Share" that requires a presentation of basic earnings per share (basic EPS) and diluted earnings per share (diluted EPS). Basic EPS excludes dilution and is determined by dividing income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted EPS reflects the potential dilution that could occur if securities and other contracts to issue common stock were exercised or converted into common. As of June 30, 2005, we had outstanding options covering an aggregate of 1,100,560 shares of common stock, of which 683,500 shares were exercisable. We also had outstanding warrants covering an aggregate of 6,079,473 shares of common stock. Excluded from the computation of diluted EPS for the three and nine months ended June 30, 2005 are options to purchase 1,100,560 shares to purchase common stock at a weighted average of \$1.22 per share and 6,079,473 warrants, with a remaining exercise price ranging from \$0.30 to \$0.40, as they would be anti-dilutive. Excluded from the computation of diluted EPS for the three and nine months ended June 30, 2004 are options to purchase 736,000 shares to purchase common stock at a weighted average of \$1.70 per share. Excluded from computation of diluted EPS for the three months ended June 30, 2004 are 4,890,000 warrants, with a remaining exercise price ranging from \$0.30 to \$0.45, as they would also be anti-dilutive. Diluted EPS for the nine months ended June 30, 2004 include 23,512,809 common stock equivalents which include 21,500,000 shares related to convertible debt and 2,012,809 shares related to outstanding warrants.

6. Shareholders' Equity

Existing shareholders' ownership in the Company will be significantly diluted due to outstanding warrants. The notes and warrants issued in the Financing and the Additional Financing are convertible into an aggregate of 28,226,625 shares of our common stock and, when coupled with the 2003 Fee Shares represent approximately 60% of our

outstanding common stock, subject to adjustment as provided in the transaction documents. If these notes and warrants were completely converted to common stock by Laurus, then the other existing shareholders' ownership in the Company would be significantly diluted to approximately 40% of their present ownership position.

During the nine months ended June 30, 2005, we issued 2,000,000 shares of our common stock related to a settlement of a class action litigation. In addition, we issued 1,251,000 shares of our common stock to Laurus related to settlement of late filing penalties (the "2003 Fee Shares"). As of September 30, 2004, we accrued \$1,564,490 for the settlement of the class action litigation and \$638,010 for the settlement of the late filing penalties.

***I T E M* MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF 2. OPERATION**

You should read the following discussion and analysis together with our consolidated financial statements and notes thereto and the discussion "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Cautionary Statements" included in our 2004 Annual Report on Form 10-K for the Fiscal Years Ended September 30, 2003 and September 30, 2004 (the "'03/'04 Annual Report"). The following information contains forward-looking statements, which are subject to risks and uncertainties. Should one or more of these risks or uncertainties materialize, actual results may differ from those expressed or implied by the forward-looking statements.

General

Our ability to continue as a going concern is dependent on generating sufficient cash flows from operations for meeting our liquidity needs, servicing our debt requirements and meeting financial covenants. Also, our inability to collect outstanding receivables continues to impact our liquidity. On November 25, 2003, we completed a \$6,850,000 financing transaction with Laurus Master Fund, Ltd. ("Laurus"), and we completed an additional \$3,350,000 financing transaction.

On November 25, 2003, we completed a \$6,850,000 financing transaction (the "Financing") with Laurus Master Fund, Ltd. ("Laurus") pursuant to that certain Securities Purchase Agreement by and between the Company and Laurus dated as of November 25, 2003 (the "2003 SPA"). The Financing was comprised of a three-year convertible note in the amount of \$6,450,000 and a one-year convertible note in the amount of \$400,000, both of which bear interest at a rate of prime plus 2% and were convertible into our common stock at a conversion price of \$0.40 per share. In addition, Laurus received warrants to purchase 4,250,000 shares of our common stock at an exercise price of \$0.40 per share. The proceeds of the Financing were allocated to the notes and the related warrants based on the relative fair value of the notes and the warrants, with the value of the warrants resulting in a discount against the notes. In addition, the conversion terms of the notes result in a beneficial conversion feature, further discounting the carrying value of the notes. As a result, we will record additional interest charges totaling \$6,850,000 over the terms of the notes related to these discounts. Laurus was also granted registration rights in connection with the shares of common stock issuable in connection with the Financing. Proceeds from the Financing in the amount of \$6,000,000 were used to fully retire the \$18,000,000 in Convertible Debentures issued to two investors (the "Holders") in September 2000, together with all accrued interest, penalties and fees associated therewith. All of the warrants and Convertible Debentures held by the Holders were terminated and we recorded a gain from extinguishment of debt of \$18,823,000 (including accrued interest through the date of extinguishment) in fiscal year 2004 related to this Financing. In March 2004, the \$400,000 note was repaid in full.

In connection with the closing of the Financing, all outstanding litigation including, without limitation, the Montrose Litigation, was dismissed, and a revolving credit facility with a bank (the "Revolving Credit Facility") was repaid through the release of the restricted cash used as collateral for the Revolving Credit Facility. See Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" of the '03/'04 10-K

In August 2004, Laurus notified us that an Event of Default had occurred and had continued beyond any applicable grace period as a result of our non-payment of interest and principal on the \$6,450,000 convertible note as required under the terms of the Financing, as well as noncompliance with certain other covenants of the Financing documents. In exchange for Laurus's waiver of the Event of Default until September 17, 2004, we agreed, among other things, to lower the conversion price on the \$6,450,000 convertible note and the exercise price of the warrants from \$0.40 per share to \$0.30 per share. The reduction in conversion price resulted in an additional discount against the carrying value of the notes. As a result, we will record additional interest charges totaling approximately \$1,900,000 over the remaining terms of the notes related to the discounts.

On November 26, 2004, we completed a \$3,350,000 financing transaction (the "Additional Financing") with Laurus pursuant to that certain Securities Purchase Agreement by and between the Company and Laurus, dated as of November 26, 2004 (the "2004 SPA"). The Additional Financing was comprised of (i) a three-year convertible note issued to Laurus in the amount of \$1,500,000, which bears interest at a rate of 14% and is convertible into our common stock at a conversion price of \$3.00 per share (the "\$1,500,000 Note"), (ii) a one-year convertible note in the amount of \$600,000 which bears interest at a rate of 10% and is convertible into our common stock at a conversion price of \$0.30 per share (the "\$600,000 Note"), (iii) a one-year convertible note of our subsidiary, Tidel Engineering, L.P., in the amount of \$1,250,000, which is a revolving working capital facility for the purpose of financing purchase orders of our subsidiary, Tidel Engineering, L.P., (the "Purchase Order Note"), which bears interest at a rate of 14% and is convertible into our common stock at a price of \$3.00 per share and (iv) our issuance to Laurus of 1,251,000 shares of common stock, or approximately 7% of the total shares outstanding, (the "2003 Fee Shares") in satisfaction of fees totaling \$375,300 incurred in connection with the convertible term notes issued in the Financing discussed above. As a result of the issuance of the 2003 Fee Shares, we recorded an additional charge in fiscal 2004 of \$638,010 based on the market value on November 26, 2004. We also increased the principal balance of the original note by \$292,987, of which \$226,312 bears interest at the default rate of 18%. This amount represents interest accrued but not paid to Laurus as of August 1, 2004. In addition, Laurus received warrants to purchase 500,000 shares of our common stock at an exercise price of \$0.30 per share. The proceeds of the Additional Financing were allocated to the notes based on the relative fair value of the notes and the warrants, with the value of the warrants resulting in a discount against the notes. In addition, the conversion terms of the \$600,000 Note resulted in a beneficial conversion feature, further discounting the carrying value of the notes. As a result, we will record additional interest charges related to these discounts totaling \$840,000 over the terms of the notes. Laurus was also granted registration rights in connection with the 2003 Fee Shares and other shares issuable pursuant to the Additional Financing. The obligations pursuant to the Additional Financing are secured by all of our assets and are guaranteed by our subsidiaries. Net proceeds from the Additional Financing in the amount of \$3,232,750 were primarily used for (i) general working capital payments made directly to vendors, (ii) past due interest on Laurus's \$6,450,000 convertible note due pursuant to the Financing and (iii) the establishment of an escrow for future principal and interest payments due pursuant to the Additional Financing.

THE NOTES AND WARRANTS ISSUED IN THE FINANCING AND THE ADDITIONAL FINANCING ARE CONVERTIBLE INTO AN AGGREGATE OF 28,226,625 SHARES OF OUR COMMON STOCK AND, WHEN COUPLED WITH THE 2003 FEE SHARES, REPRESENT APPROXIMATELY 60% OF OUR OUTSTANDING COMMON STOCK SUBJECT TO ADJUSTMENT AS PROVIDED IN THE TRANSACTION DOCUMENTS. IF THESE NOTES AND WARRANTS WERE COMPLETELY CONVERTED TO COMMON STOCK BY LAURUS, THEN THE OTHER EXISTING SHAREHOLDERS' OWNERSHIP IN THE COMPANY WOULD BE SIGNIFICANTLY DILUTED TO APPROXIMATELY 40% OF THEIR PRESENT OWNERSHIP POSITION.

In connection with the Financing, Laurus required that we covenant to become current in our filings with the Securities and Exchange Commission according to a predetermined schedule. Effective November 26, 2004, the Additional Financing documents require, among other things, that we provide evidence of filing to Laurus of our fiscal 2003, fiscal 2004 and year-to-date interim 2005 filings with the Securities and Exchange Commission on or before July 31, 2005.

We filed the fiscal 2002 Form 10-K on February 1, 2005, and we filed the '03/'04 10-K, the Form 10-Q for the quarter ending December 31, 2004 and the Form 10-Q for the quarter ended March 31, 2005 on Monday, August 1, 2005, which was in accordance with the requirements of the Additional Financing.

Pursuant to the Additional Financing, fourteen (14) days following such time as we became current in our filings with the SEC, we were required to deliver to Laurus evidence of the listing of our common stock on the Nasdaq Over The Counter Bulletin Board (the "Listing Requirement"); however, Laurus has subsequently extended the delivery date to provide evidence of the satisfaction of the Listing Requirement to September 15, 2005.

On November 26, 2004, in connection with the Additional Financing, we entered into an agreement with Laurus (the "Asset Sales Agreement") whereby we agreed to pay a fee in the amount of at least \$2,000,000 (the "Reorganization Fee") to Laurus upon the occurrence of certain events as specified below and therein, which Reorganization Fee is secured by all of our assets, and is guaranteed by our subsidiaries. The Asset Sales Agreement provides that (i) once our obligations to Laurus have been paid in full (other than the Reorganization Fee), we shall be able to seek additional financing in the form of a non-convertible bank loan in an aggregate principal amount not to exceed \$4,000,000, subject to Laurus's right of first refusal; (ii) the net proceeds of an asset sale to the party named therein shall be applied to our obligations to Laurus under the Financing and the Additional Financing, as described above (collectively, the "Obligations"), but not to the Reorganization Fee; and (iii) the proceeds of any of our subsequent sales of equity interests or assets or of our subsidiaries consummated on or before the fifth anniversary of the Asset Sales Agreement (each, a "Company Sale") shall be applied first to any remaining obligations, then paid to Laurus pursuant to an increasing percentage of at least 55.5% set forth therein, which amount shall be applied to the Reorganization Fee. Under this formula, the existing shareholders could receive less than 45% of the proceeds of any sale of our assets or equity interests, after payment of the Additional Financing and Reorganization Fee as defined. The Reorganization Fee shall be \$2,000,000 at a minimum, but could equal a higher amount based upon a percentage of the proceeds of any company sale, as such term is defined in the Asset Sales Agreement. In the event that Laurus has not received the full amount of the Reorganization Fee on or before the fifth anniversary of the date of the Asset Sales Agreement, then we shall pay any remaining balance due on the Reorganization Fee to Laurus. We recorded a \$2,000,000 charge in the first quarter of fiscal 2005 to interest expense.

As of June 30, 2005, we had approximately \$8,932,988 face value of outstanding debt: \$3,720,152 after debt discount of \$4,672,836. Of the \$8,392,988 total outstanding debt at June 30, 2005, \$6,292,988 represents the outstanding balance of the Financing, and \$600,000 and \$1,500,000 represent outstanding balances of two term notes in connection with the Additional Financing.

Management's Current Plans with Regard to Our Liquidity Include the Following:

Proposed Sale of ATM Business

We committed to a plan to sell the ATM business during the first quarter ended December 31, 2004. On February 19, 2005, the Company and its wholly-owned subsidiary Tidel Engineering, L.P. (together with the Company, the "Sellers") entered into an asset purchase agreement with NCR Texas LLC, a single member Delaware limited liability company ("NCR") that is a wholly-owned subsidiary of NCR Corporation, a Maryland corporation, for the sale of the registrant's ATM business (the "Asset Purchase Agreement"). The purchase price for our ATM business is \$10,175,000 plus the assumption of certain liabilities related to the ATM business and subject to certain adjustments as provided in the Asset Purchase Agreement (the "Purchase Price"). The Purchase Price is also subject to adjustment based upon the actual value of the assets delivered, to the extent the value of the assets delivered is 5% greater than or less than a predetermined value as stated in the Asset Purchase Agreement.

The Asset Purchase Agreement contains customary representations, warranties, covenants and indemnities. The proceeds of the sale of the Sellers' ATM business will be applied towards the repayment of our outstanding loans from Laurus. We have classified the ATM business as Assets Held for Sale as of June 30, 2005.

The ATM products are low-cost, cash-dispensing automated teller machines that are primarily designed for the off-premise, or non-bank, markets. We offer a wide variety of options and enhancements to the ATM products, including custom configurations that dispense cash-value products, such as coupons, tickets and stored-value cards; accept currency; and perform other functions, such as check-cashing

Engagement of Investment Banker to Evaluate Strategic Alternatives for the Sale of the Cash Security Business

During the third quarter of 2005, we committed to a plan to sell the Cash Security Business. We engaged Stifel, Nicolaus & Company, Inc. ("Stifel") to assist our Board of Directors in connection with the proposed sale of our Cash Security business, deliver a fairness opinion, and render such additional assistance as we may reasonably request in connection with the proposed sale of our Cash Security business. We are currently working with Stifel in connection with such a proposed sale. We have classified the Cash Security Business as Assets Held for Sale as of June 30, 2005.

The TACC products are essentially stand-alone safes that dispense cash to an operator in preset amounts. As a deterrent to robbers, \$50 or less in cash is kept in a register at any given time. When a customer requires change in denominations of \$5, \$10 and \$20 bills, the clerk presses a button on the TACC for the appropriate denomination and the cash is dispensed in a plastic tube. The time and frequency it takes to dispense the cash is pre-determined and adjustable so that in high-risk times of operations, transaction times can be slowed to act as a deterrent against robberies. When excess cash is collected, the clerk simply places individual bills back into the plastic tubes and loads them into the TACC for safe storage. Other available features include envelope drop boxes for excess cash, dollar scanners, state lottery interfaces, touch pads requiring user PINs for increased transaction accuracy and an audit trail and reporting capabilities.

The Sentinel products were introduced in 2002. The Sentinel product has all the functionality of the TACC, but has been designed to also reduce the risk of internal theft and increase in-store management efficiencies through its state-of-the-art integration with a store's point-of-sale ("POS") and accounting systems

Critical Accounting Policies

This discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts. On an ongoing basis, we evaluate our estimates, including those related to bad debts,

inventories, intangible assets, assets held for sale, long-lived assets, income taxes, and contingencies and litigation. We base our estimates on historical experience and on various other assumptions and factors that we believe to be reasonable under the circumstances. Based on our ongoing review, we make adjustments we consider appropriate under the facts and circumstances. The accompanying condensed consolidated financial statements are prepared using the same critical accounting policies discussed in our '03/'04 Annual Report.

Results of Operations**Operating Segments**

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

Product Net Sales for ATM Business and Cash Security Business

A breakdown of net sales by individual product line is provided in the following table:

	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2005	2004	2005	2004
ATM BUSINESS	\$ 4,734,044	\$ 3,123,145	\$ 11,833,366	\$ 11,401,478
CASH SECURITY BUSINESS	5,310,146	1,495,737	16,568,457	6,174,821
TOTAL	\$ 10,044,190	\$ 4,618,882	\$ 28,401,823	\$ 17,576,299

Gross Profit, Operating Expenses and Non-Operating Items**Continued Operations**

Due to the requirement to classify our only two product lines as discontinued operations, the results of continuing operations consist primarily of the corporate overhead and debt-related costs.

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

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

	June 30, 2005	September 30, 2004
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 3,332,201	\$ 258,120
Trade account receivable	250,000	250,000
Other receivables	14,171	1,003,723
Prepaid expenses and other	18,112	42,153
Total current assets	3,614,484	1,553,996
Property, plant and equipment, at cost	55,641	44,075
Accumulated depreciation	(41,463)	(37,871)
Net property, plant and equipment	14,178	6,204
Other assets	685,211	643,305
Total assets	\$ 4,313,873	\$ 2,203,505
LIABILITIES		
Current Liabilities:		
Current maturities of long-term debt, net of discount of \$0 and \$725,259, respectively	\$ 2,550,000	\$ 174,741
Accounts payable	287,081	331,576
Accrued expenses	2,493,026	2,684,742

Edgar Filing: TIDEL TECHNOLOGIES INC - Form 10-Q/A

Total current liabilities	5,330,107	3,191,059
Long-term debt, net of current maturities and debt discount of \$4,672,836 and \$5,767,988, respectively	1,170,152	—
Total liabilities	\$ 6,500,259	\$ 3,191,059

20

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2005	2004	2005	2004
Revenues	\$ —	\$ —	\$ —	\$ —
Selling, general and administrative	652,007	325,269	1,334,541	966,263
Depreciation and amortization	1,421	1,274	3,592	5,012
Operating loss	(653,428)	(326,543)	(1,338,133)	(971,275)
Gain on extinguishment of debt	—	—	—	18,823,000
Gain on sale of securities	—	119,520	—	1,918,012
Interest expense	(1,160,459)	(642,450)	(5,399,974)	(2,444,856)
Continuing income (loss) before taxes	(1,813,887)	(849,473)	(6,738,107)	17,324,881
Income tax benefit	—	(81,229)	—	(81,229)
Loss from continuing operations	\$ (1,813,887)	\$ (768,244)	\$ (6,738,107)	\$ 17,406,110

Quarter Ended June 30, 2005 Compared to the Quarter Ended June 30, 2004

Selling, general and administrative expenses for the quarter ended June 30, 2005 was \$652,007. This is an increase approximately 100% from the same quarter of the previous year. This is primarily related to costs associated with becoming current with our SEC filings, accounting, legal, and audit-related costs, and costs associated with our marketing efforts.

Depreciation and amortization for the quarter ended June 30, 2005 and 2004 was \$1,421 and \$1,274, respectively.

Interest expense, was \$1,160,459 for the quarter ended June 30, 2005, compared to \$642,450 for the same quarter of the previous year. This is as a result of increased level of debt related to the Financing and Additional Financing.

Income tax expense (benefit). In assessing the realizability of deferred tax asset, management considers whether it is more likely than not some portion or all of the deferred tax assets will be realized. We have established a valuation allowance for such deferred tax assets to the extent such amounts are not utilized to offset existing deferred tax liabilities reversing in the same periods.

We recorded a net loss from continuing operations of \$(1,813,887) and \$(768,244) for the quarters ended June 30, 2005 and 2004, respectively.

Nine Months Ended June 30, 2005 Compared to the Nine Months Ended June 30, 2004

Selling, general and administrative expenses for the nine months ended June 30, 2005 was \$1,334,541. This is an increase of approximately 38% from the same period last year. This is primarily related to costs associated with becoming current with our SEC filings, accounting, legal fees, and audit-related costs.

Depreciation and amortization for the nine months ended June 30, 2005 and 2004 were \$3,592 and \$5,012, respectively.

Interest expense net of interest income, was \$5,399,974 for the nine months ended June 30, 2005 compared with \$2,444,856 for the same period of the previous year. This is as a result of increased level of debt and amortization of the debt discount related to the Financing and Additional Financing.

Income tax expense (benefit). In assessing the realizability of deferred tax asset, management considers whether it is more likely than not some portion or all of the deferred tax assets will be realized. We have established a valuation allowance for such deferred tax assets to the extent such amounts are not utilized to offset existing deferred tax liabilities reversing in the same periods.

We recorded a net loss from continuing operations of \$(6,738,107) and a net income of \$17,406,110 for the nine months ended June 30, 2005 and 2004, respectively. The significant decrease in operating income is primarily due to a gain on extinguishment of debt of \$18,823,000 and a gain on the sale of securities of \$1,918,012 during the nine months ended June 30, 2004.

Discontinued Operations (ATM Business)

We committed to a plan to sell the ATM business during the first quarter ended December 31, 2004. On February 19, 2005, the Company and its wholly-owned subsidiary Tidel Engineering, L.P. (together with the Company, the "Sellers") entered into an asset purchase agreement with NCR Texas LLC, a single member Delaware limited liability company ("NCR") that is a wholly-owned subsidiary of NCR Corporation, a Maryland corporation, for the sale of the registrant's ATM business (the "Asset Purchase Agreement"). The purchase price for our ATM business is \$10,175,000 plus the assumption of certain liabilities related to the ATM business and subject to certain adjustments as provided in the Asset Purchase Agreement (the "Purchase Price"). The Purchase Price is also subject to adjustment based upon the actual value of the assets delivered, to the extent the value of the assets delivered is 5% greater than or less than a predetermined value as stated in the Asset Purchase Agreement. The Asset Purchase Agreement contains customary representations, warranties, covenants and indemnities. The proceeds of the sale of the Sellers' ATM business will be applied towards the repayment of our outstanding loans from Laurus. We have classified the ATM business as Assets Held for Sale as of June 30, 2005.

The ATM products are low-cost, cash-dispensing automated teller machines that are primarily designed for the off-premise, or non-bank, markets. We offer a wide variety of options and enhancements to the ATM products, including custom configurations that dispense cash-value products, such as coupons, tickets and stored-value cards; accept currency; and perform other functions, such as check-cashing

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

**DISCONTINUED OPERATIONS — ATM BUSINESS
SELECTED BALANCE SHEET DATA
(UNAUDITED)**

	June 30, 2005	September 30, 2004
ASSETS		
Current Assets:		
Cash and cash equivalents	\$	—\$
Trade accounts receivable, net of allowance of \$1,832,877 and \$1,069,825, respectively	1,932,363	1,983,931
Inventories	4,876,652	3,432,828
Prepaid expenses and other	243,387	157,490
Total current assets	7,052,402	5,574,249
Property, plant and equipment, at cost	4,287,221	4,286,617
Accumulated depreciation	(4,175,868)	(3,977,412)
Net property, plant and equipment	111,353	309,205
Other assets	27,297	27,297
Total assets	\$ 7,191,052	\$ 5,910,751
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 1,056,774	\$ 1,686,732
Other accrued expenses	1,106,997	836,289
Total liabilities	\$ 2,163,771	\$ 2,523,021

**DISCONTINUED OPERATIONS — ATM BUSINESS
SELECTED OPERATING DATA
(UNAUDITED)**

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2005	2004	2005	2004
Net sales	\$ 4,734,044	\$ 3,123,145	\$ 11,833,366	\$ 11,401,478
Cost of sales	3,650,721	2,310,712	8,550,479	8,370,251
Gross profit	1,083,323	812,433	3,282,887	3,031,227
Selling, general and administrative	1,367,879	1,135,244	4,151,213	3,191,014
Depreciation and amortization	48,355	90,195	194,281	361,803
Operating loss	(332,911)	(413,006)	(1,062,607)	(521,590)
Non-operating (income) expense	—	2,298	—	40,216
Net loss	\$ (332,911)	\$ (415,304)	\$ (1,062,607)	\$ (561,806)

Quarter Ended June 30, 2005 Compared to the Quarter Ended June 30, 2004

Net Sales from the ATM business were \$4,734,044 for the three months ended June 30, 2005, representing an increase of 52% from net sales of \$3,123,145 in the same period last year. The increase was a result of increased sales of ATM machines. We sold 1,303 ATM units and 724 ATM units for the three months ended June 30, 2005 and June 30, 2004 respectively, an increase of 579 units. The improvement is primarily related to an increase in confidence from our long time customers, and customers having increased capital to install and replace ATMs.

Gross profit on product sales for the quarter ended June 30, 2005 increased \$270,890 from the same quarter a year ago. However, Gross profit as a percentage of sales was 22% in the quarter ended June 30, 2005, compared with 26 % in the same quarter last year. The decrease in gross margin as a percentage of sales is primarily related to the current competitive market conditions.

Selling, general and administrative expenses for the quarter ended June 30, 2005 increased 20% compared with the same quarter of the previous year. The increase is primarily related to costs associated with our marketing efforts.

Depreciation and amortization for the quarter ended June 30, 2005 and 2004 was \$48,355 and \$90,195, respectively.

The ATM business recorded a loss of \$(332,911) and \$(415,304) for the three months ended June 30, 2005 and 2004, respectively.

Nine Months Ended June 30, 2005 Compared to the Nine Months Ended June 30, 2004

Our net sales generated from the ATM business were \$11,833,366 for the nine months ended June 30, 2005 compared with \$11,401,478 net sales in the same period of the prior year.

Gross profit on product sales for the nine months ended June 30, 2005 was \$3,282,887, representing an 8% increase compared with the same period of the prior year. Gross profit as a percentage of sales was 27% for the nine months ended June 30, 2005.

Selling, general and administrative expenses for the nine months ended June 30, 2005 increased 30% from the same period of the previous year. The increase is primarily a result of bad debt reserves related to two significant customers.

Depreciation and amortization for the nine months ended June 30, 2005 and 2004 were \$194,281 and \$361,803, respectively. The decrease is a result of assets becoming fully depreciated during 2005.

The results of operations of the ATM business are segregated on the accompanying statements of operations as income or loss from discontinued operations, and reflected as Assets and Liabilities Held for Sale on the accompanying balance sheets.

The sale of the ATM business is expected to be consummated after the fiscal year ended September 30, 2005.

Discontinued Operations (Cash Security Business)

We committed to a plan to sell the Cash Security Business during the third quarter ended June 30, 2005. We have classified the Cash Security Business product as a discontinued operation as of June 30, 2005, including for the comparative period in the prior year.

We engaged Stifel, Nicolaus & Company, Inc. (“Stifel”) in October 2004, to assist the Board of Directors in connection with the proposed sale of our Cash Security business, deliver a fairness opinion, and render such additional assistance as we may reasonably request in connection with the proposed sale of our Cash Security business. We are currently working with Stifel in connection with such a proposed sale. We have classified the Cash Security Business as Assets Held for Sale as of June 30, 2005.

The TACC products are essentially stand-alone safes that dispense cash to an operator in preset amounts. As a deterrent to robbers, \$50 or less in cash is kept in a register at any given time. When a customer requires change in denominations of \$5, \$10 and \$20 bills, the clerk presses a button on the TACC for the appropriate denomination and the cash is dispensed in a plastic tube. The time and frequency it takes to dispense the cash is pre-determined and adjustable so that in high-risk times of operations, transaction times can be slowed to act as a deterrent against robberies. When excess cash is collected, the clerk simply places individual bills back into the plastic tubes and loads them into the TACC for safe storage. Other available features include envelope drop boxes for excess cash, dollar scanners, state lottery interfaces, touch pads requiring user PINs for increased transaction accuracy and an audit trail and reporting capabilities.

The Sentinel products were introduced in 2002. The Sentinel product has all the functionality of the TACC, but has been designed to also reduce the risk of internal theft and increase in-store management efficiencies through its state-of-the-art integration with a store's point-of-sale ("POS") and accounting systems.

An analysis of the discontinued operations of the Cash Security Business is as follows:

DISCONTINUED OPERATIONS — CASH SECURITY BUSINESS
SELECTED BALANCE SHEET DATA
(UNAUDITED)

ASSETS	June 30, 2005	September 30, 2004
Current Assets:		
Cash and cash equivalents	\$	—\$
Trade accounts receivable, net of allowance of \$32,614 and \$6,230, respectively	600,377	1,076,362
Inventories	2,073,121	1,350,631
Prepaid expenses and other	279,513	93,087
Total current assets	2,953,011	2,520,080
Property, plant and equipment, at cost	1,134,745	1,091,197
Accumulated depreciation	(1,011,854)	(972,920)
Net property, plant and equipment	122,891	118,277
Other assets	25,631	25,631
Total assets	\$ 3,101,533	\$ 2,663,988
LIABILITIES		
Current Liabilities:		
Current maturities	\$ 3,672	\$ 8,951
Accounts payable	1,056,775	1,380,054
Other accrued expenses	2,697,387	1,058,001
Total current liabilities	3,757,834	2,447,006
Long-term debt, net of current maturities	28,709	28,709
Total liabilities	\$ 3,786,543	\$ 2,475,715

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2005	2004	2005	2004
Net sales	\$ 5,310,146	\$ 1,495,737	\$ 16,568,457	\$ 6,174,821
Cost of sales	2,993,849	1,147,326	8,984,878	4,178,427
Gross profit	2,316,297	348,411	7,583,579	1,996,394
Selling, general and administrative	1,274,518	858,822	3,159,673	2,743,977
Depreciation and amortization	7,560	33,360	22,308	14,748
Operating income (loss)	1,034,219	(543,771)	4,401,598	(762,331)
Non-operating expense	570	—	1,227	—
Net income (loss)	\$ 1,033,649	\$ (543,771)	\$ 4,400,371	\$ (762,331)

Quarter Ended June 30, 2005 Compared to the Quarter Ended June 30, 2004

Net Sales from the Cash Security business were \$5,310,146 for the quarter ended June 30, 2005, representing an increase of \$3,814,409 from net sales of \$1,495,737 in the same period of the prior year. The improvement is directly related to an increase in sales of the Sentinel units to a national convenience store operator.

Gross profit on product sales for the quarter ended June 30, 2005 increased \$1,967,886 from the same quarter a year ago. Gross profit as a percentage of sales was 43% in the quarter ended June 30, 2005, compared to only 23% in the same quarter last year. The improvement is directly related to an increase in the volume of Sentinel units produced during the quarter ended June 30, 2005.

Selling, general and administrative expenses for the quarter ended June 30, 2005 increased \$415,696 or 48% from the same quarter of the previous year. This is primarily related to costs associated with our marketing efforts related to the Sentinel Product.

Depreciation and amortization for the quarter ended June 30, 2005 and 2004 was \$7,560 and \$33,360, respectively.

Nine Months Ended June 30, 2005 Compared to the Nine Months Ended June 30, 2004

Our net sales generated from the Cash Security business were \$16,568,457 for the nine months ended June 30, 2005, an increase of \$10,393,636 from net sales of \$6,174,821 in the same period of the prior year. The improvement is directly related to the increase in the volume of TACC units and Sentinel units sold during the nine months ended June 30, 2005 compared with the nine months ended June 30, 2004. We sold 1,467 Sentinel units during the first nine months of 2005 compared with only 144 units sold during the same period last year.

Gross profit on product sales for the nine months ended June 30, 2005 increased \$5,587,185 compared with the same period of the prior year. The increase in the overall gross profit is primarily a result of increased sales of the Sentinel units during the nine months ended June 30, 2005 compared with the nine months ended June 30, 2004.

Selling, general and administrative expenses for the nine months ended June 30, 2005 increased \$415,696 from the same period of the previous year. This is primarily related to costs associated with our marketing efforts for the Sentinel Product..

Depreciation and amortization for the nine months ended June 30, 2005 and 2004 were \$22,308 and \$14,748, respectively.

The results of operations of the Cash Security Business are segregated on the accompanying statements of operations as income or loss from discontinued operations, and reflected as Assets and Liabilities Held for Sale on the accompanying balance sheets.

The sale of the Cash Security Business is expected to be consummated after the fiscal year ended September 30, 2005.

Liquidity and Capital Resources

General

Our liquidity has been negatively impacted by our inability to collect outstanding receivables and claims as a result of CCC's bankruptcy, the inability to collect outstanding receivables from certain customers, under-absorbed fixed costs associated with the production facilities, and reduced sales of our products resulting from general difficulties in the ATM market. In order to meet our liquidity needs during the past three years, we have incurred a substantial amount of debt.

Cash used by continuing operations was \$(930,281) for the nine months ended June 30, 2005 compared to cash used in continuing operations of \$(1,173,536) for the nine months ended June 30, 2004. Cash used in continuing operations is primarily attributable to corporate overhead costs.

Cash used by continuing investing activities was \$(11,566) for the nine months ended June 30, 2005 compared to cash provided by continuing investing activities of \$2,451,444 for same period of 2004. The decrease is primarily related to the gain from sale of securities of \$2,451,444 during the nine months ended June 30, 2004.

Cash provided by continuing financing activities was \$1,444,433 for the nine months ended June 30, 2005 compared with cash used of (\$320,765) for the same period last year. The increase primarily related to the Additional Financing.

Cash provided by discontinued operations was \$2,571,495 for the nine months ended June 30, 2005 compared with cash used of (\$1,406,817) for the same period last year. The is primarily related to the increase sales and collection of the receivables in both the ATM business and the Cash Security business.

After several months of unsuccessful efforts to remedy its financial difficulties, CCC filed for protection under Chapter 11 of the United States Bankruptcy Code on June 6, 2001. At that time, we had accounts and a note receivable due from CCC totaling approximately \$27 million. The proceeding was subsequently converted to a Chapter 7 proceeding and a Trustee was appointed in April 2002. We have written off substantially all of the \$24.1 million owed to us by CCC against the remaining balance of the note and trade accounts receivable, resulting in a \$250,000 balance in accounts receivable as of December 31, 2004. Our management intends to continue monitoring this matter and to take all actions that it determines to be necessary based upon its findings. Our liquidity was negatively impacted by our inability to collect the outstanding receivables and claims from CCC.

As of June 30, 2005, we had approximately \$8,932,988 face value of outstanding debt: \$3,720,152 after debt discount of \$4,672,836. Of the \$8,392,988 total outstanding debt at June 30, 2005, \$6,292,988 represents the outstanding balance of the Financing, and \$600,000 and \$1,500,000 represent outstanding balances of two term notes in connection with the Additional Financing.

As of August 19, 2005, we also have \$1,250,000 available for borrowing under the Purchase Order Note through November 26, 2005. There can be no assurance that our current financing facilities will be sufficient to meet our current working capital needs or that we will have sufficient working capital in the future.

This, coupled with increasing debt, has continued to negatively impact our financial condition. If the operating conditions do not improve, there can be no assurance we will continue operations. If we need to seek additional financing, there can be no assurances that we will obtain such additional financing for working capital purposes. The failure to obtain such additional financing could cause a material adverse effect upon our financial condition

Notes and Warrants

THE NOTES AND WARRANTS ISSUED IN THE FINANCING AND THE ADDITIONAL FINANCING ARE CONVERTIBLE INTO AN AGGREGATE OF 28,226,625 SHARES OF OUR COMMON STOCK, AND, WHEN COUPLED WITH THE 1,251,000 SHARES ISSUED TO LAURUS IN CONNECTION WITH ADDITIONAL FINANCING, REPRESENT APPROXIMATELY 60% OF OUR OUTSTANDING COMMON STOCK, SUBJECT TO ADJUSTMENT AS PROVIDED IN THE TRANSACTION DOCUMENTS. IF THESE NOTES AND WARRANTS WERE COMPLETELY CONVERTED TO COMMON STOCK BY LAURUS, THEN THE OTHER EXISTING SHAREHOLDERS' OWNERSHIP IN THE COMPANY WOULD BE SIGNIFICANTLY DILUTED TO APPROXIMATELY 40% OF THEIR PRESENT OWNERSHIP POSITION.

Claims and Litigation

As discussed in our '03/'04 Annual Report, Corporate Safe Specialists, Inc. ("CSS") filed a lawsuit against Tidel Technologies, Inc. and Tidel Engineering, L.P. Subsequently, Tidel Technologies, Inc. was released from this lawsuit, but Tidel Engineering, L.P. remains a defendant. We continue to vigorously defend this litigation as well as vigorously pursue the declaratory judgment action pending in the Eastern District of Texas.

Off-Balance Sheet Arrangements

We do not have any significant off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on our financial condition, net sales or expenses, results of operations, liquidity, capital expenditures or capital resources.

Contractual Obligations and Capital Expenditures

We have fixed debt service and lease payment obligations under notes payable and operating leases for which we have material contractual cash obligations. Interest rates on our debt vary from prime rate plus 2% to 14%.

The following table summarizes our contractual cash obligations as of June 30, 2005:

	PAYMENTS DUE BY FISCAL YEAR					
	2005	2006	2007	2008	2009	Thereafter
Long-term debt, including current portion	\$ 225,000	\$ 3,000,000	\$ 3,667,988	\$ 1,500,000	—	—

Risk Factors

Please see “Risk Factors” contained in Item 7A of our ‘03/’04 Annual Report.

26

Forward-Looking Statements

In addition to historical information, Management's Discussion and Analysis of Financial Condition and Results of Operations include certain forward-looking statements regarding events and financial trends that may affect our future operating results and financial position. Some important factors that could cause actual results to differ materially from the anticipated results or other expectations expressed in our forward-looking statements include the following:

• our substantial current indebtedness continues to adversely affect our financial condition and the availability of cash to fund our working capital needs;

- our ability to comply with our financial covenants in the future;
- our ability to meet our obligations under the terms of our indebtedness;
- our need for additional financing in the future;

• the potential receipt of an audit opinion with a "going concern" explanatory paragraph from our independent registered public accounting firm would likely adversely affect our operations;

• our history of operating losses and our inability to make assurances that we will generate operating income in the future;

- the outcome of the outstanding receivable from CCC;
- the levels of orders which are received and can be shipped in a quarter;
- customer order patterns and seasonality;
- costs of labor, raw materials, supplies and equipment; technological changes;

• the delisting of our common stock from the NASDAQ Small Cap Market, effective as of the close of business on March 26, 2003, and the possibility of devaluation of our common stock as a result;

- the economic condition of the ATM industry and the possibility that it is a mature industry;

• the risks involved in the expansion of our operations into international offshore oil and gas producing areas, where we have previously not been operating;

- the continued active participation of our executive officers and key operating personnel;

• our compliance with the Sarbanes-Oxley Act of 2002 and the significant expansion of securities law regulation of corporate governance, accounting practices, reporting and disclosure that affects publicly traded companies, particularly related to Section 404 dealing with our system of internal controls;

- our ability to consummate the asset sale of the ATM Business; and
- our ability to consummate a sale of the Cash Security Business.

Many of these factors are beyond our ability to control or predict. We caution investors not to place undue reliance on forward-looking statements. We disclaim any intent or obligation to update the forward-looking statements contained

in this report, whether as a result of receiving new information, the occurrence of future events or otherwise.

These and other uncertainties related to the business are described in detail under the heading "Cautionary Statements" in our '03/'04 Annual Report.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

At June 30, 2005, we were exposed to changes in interest rates as a result of significant financing through our issuance of variable-rate and fixed-rate debt. However, with the retirement of our 6% subordinated convertible debentures in November 2003, and the associated overall reduction in outstanding debt balances, our exposure to interest rate risks has significantly decreased. If market interest rates had increased up to 1% in the first nine months of fiscal 2005, there would have been no material impact on our consolidated results of operations or financial position.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

Mark K. Levenick, our Interim Chief Executive Officer, and Robert D. Peltier, our Interim Chief Financial Officer, have evaluated the effectiveness of the design and operation of our “disclosure controls and procedures”, as such term is defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). James T. Rash was Chief Executive and Chief Financial Officer during the fiscal years ended 2002, 2003 and 2004. Mr. Rash died on December 19, 2004. Mr. Levenick was appointed Interim Chief Executive Officer on December 22, 2004. During fiscal years 2002, 2003 and 2004, Mr. Levenick served as Chief Operating Officer and Director of the Company, and President and Chief Executive Officer of Tidel Engineering, L.P., the Company’s principal operating subsidiary. In February 2005, Mr. Robert D. Peltier joined the Company as Interim Chief Financial Officer, having had no prior affiliation with the Company. Mr. Peltier began his assessment of disclosure controls and internal controls without having ever been in a position of active management or knowledge over transactions during fiscal years 2002, 2003 or 2004.

In conducting our evaluation of disclosure controls and procedures, our Chief Executive Officer and our Chief Financial Officer made inquiries with accounting, administrative and operational personnel and reviewed the historical facts, including the Company’s failure to file its periodic reports on a timely basis. Our Chief Executive Officer and our Chief Financial Officer noted that the Company had failed to file any periodic report required to be filed under the Exchange Act from September 30, 2002 to February 1, 2005, on which date we filed our Form 10-K for the fiscal year ended September 30, 2002, which was more than two years late. Furthermore, it was noted that this Form 10-K for the fiscal years ended September 2003 and 2004, and the Company’s Forms 10-Q for the quarterly periods ended December 31, 2004 and March 31, 2005 were filed on August 1, 2005, were each at least several months delinquent. In their evaluation, our Chief Executive Officer and our Chief Financial Officer noted that the Company’s periodic reporting failure was caused by (1) limited financial and personnel resources at the times such forms were due that restricted our ability to compile our financial statements and cause such statements to be reviewed and/or audited by an independent registered public accounting firm when such forms were due and (2) the prolonged illness and death of our former Chairman, Chief Executive Officer and Chief Financial Officer during the year ended December 31, 2004. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the Company had a significant deficiency in its disclosure controls and procedures related to timely periodic reporting and such controls and procedures were not effective as of the end of the quarter ended June 30, 2005.

In February 2005, in order to remedy this deficiency the Company began implementing new disclosure controls and procedures, which consisted of: (1) the hiring of a new Chief Financial Officer to oversee the Company’s financial reporting process, (2) the establishment of a reporting timetable to file all delinquent reports by August 1, 2005 and return to timely periodic reporting by August 19, 2005, which was submitted and approved by our Board of Directors and (3) the establishment of new guidelines for completion of periodic accounting and reporting tasks. Such implementation was completed by August 19, 2005, at which time we resumed the timely filing of our periodic reports. As of August 19, 2005, our Chief Executive Officer and our Chief Financial Officer believe that this significant deficiency has been remedied.

In addition, in a report to the Audit Committee of the Board of Directors of the Company dated July 28, 2005, the Company's independent registered public accountants noted that the following significant deficiencies in our internal controls and procedures were discovered during the course of their audit of the financial statements for fiscal years ended September 30, 2003 and 2004: (1) established credit policies were overridden on occasion by executive management based on their business judgment at that time, (2) bookkeeping at the corporate level was not administrated on a timely basis during 2003 and 2004 and (3) the Company's accounts payable supervisor had access to the check signature and the ability to prepare check runs without proper review prior to distribution. In examining the significant deficiencies, both the Company and our independent registered public accountants performed expanded reviews of our procedures and mitigating controls to determine whether such deficiencies constituted a material weakness. In the expanded reviews, both the Company and our independent registered public accountants noted the following controls were in place prior to the audit of our financial statements for the fiscal years ended September 30, 2003 and 2004: (1) Management of the Company consistently performed weekly and monthly reviews of actual and budgeted results during the periods, (2) the Audit Committee of the Board of Directors of the Company provided additional oversight with respect to financial reporting beginning immediately after the death of our Chief Executive and Chief Financial Officer in December 2004, and (3) the Company hired a new Chief Financial Officer in February 2005 to oversee the Company's financial reporting process. We collectively concluded that since such additional controls were in place the Company was able to conclude that none of the deficiencies constituted a material weakness that resulted in more than a remote likelihood that a material misstatement of the annual or interim financial statements would not be prevented or detected. Further, the report of the independent registered public accountants indicated no inappropriate or unauthorized activity during the periods reviewed.

In August 2005, the Company began implementing revised internal controls and procedures to correct the significant deficiencies in our internal controls and procedures noted by our independent registered public accountants, which consisted of: (1) the establishment of new credit approval policies, including Board-level approval for certain amounts, (2) the establishment new guidelines for timely administration of bookkeeping tasks at the corporate level, including the implementation of monthly, quarterly and annual closing schedules and (3) removal of check signature access from the Company's accounts payable supervisor. Such implementation was completed by August 30, 2005, and as of that date our Chief Executive Officer and our Chief Financial Officer believe that these significant internal controls and procedures deficiencies no longer exist.

A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affect the entity's ability to authorize, initiate, record, process or report external financial data reliably in accordance with generally accepted accounting principles in the United States such that there is more than a remote likelihood that a misstatement of the entity's annual or interim financial statements that is more than inconsequential will not be prevented or detected.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations on all control systems, no evaluation of controls can provide absolute assurance that all errors, control issues and instances of fraud, if any, with a company have been detected. The design of any system of controls is also based in part on certain assumptions regarding the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Our Chief Executive Officer and our Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective at this reasonable assurance level as of August 19, 2005.

(b) Changes in internal control over financial reporting

Following the evaluations discussed above and the identification of significant deficiencies, the Company took the actions and implemented the procedures described above. Other than the establishment of new guidelines for completion of periodic accounting and reporting tasks discussed above, there were no changes in our internal control over financial reporting that occurred in the quarter ending June 30, 2005 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting

PART II. OTHER INFORMATION

ITEM 1.

LEGAL PROCEEDINGS

As discussed in our '03/'04 Annual Report, on June 9, 2005, Corporate Safe Specialists, Inc. ("CSS") filed a lawsuit against Tidel Technologies, Inc. and Tidel Engineering, L.P. The lawsuit, Civil Action No. 02-C-3421, was filed in the United States District Court of the Northern District of Illinois, Eastern Division. CSS alleges that the Sentinel product sold by Tidel Engineering, L.P. infringes one or more patent claims found in CSS patent U.S. Patent No. 6,885,281 (the '281 patent). CSS seeks injunctive relief against future infringement, unspecified damages for past infringement and attorney's fees and costs.

Subsequently we have filed a motion to dismiss the case CSS filed in Illinois, and Tidel Engineering, L.P. filed a motion to transfer the Illinois case to the Eastern District of Texas. On August 15, 2005, The Court ordered the transfer of this case to The Northern District of Texas. We have also filed a declaratory judgment action pending in the Eastern District of Texas. In that action, we are asking the Eastern District of Texas to find, among other things that we have not infringed on CSS's '281 patent. Both companies have also requested that an injunction be issued by the Eastern District of Texas against CSS for intentional interference with the sale or bid process for our cash security business. We are vigorously pursuing this declaratory judgment action.

ITEM 5.

OTHER INFORMATION

On June 22, 2005, we entered into two agreements with Mr. Hudson. The first was a new employment agreement that terminated his prior employment agreement and provided for his continued employment with the Company until the earlier of December 31, 2005 or the closing of the transactions contemplated by the Asset Purchase Agreement. Under this new employment agreement, Mr. Hudson's duties and compensation will continue as under his prior employment agreement.

Mr. Hudson and the Company also entered into the Settlement Agreement, which provided for the settlement of outstanding amounts owed by Mr. Hudson to the Company. In satisfaction of Mr. Hudson's obligations to the Company, he agreed to (i) the delivery of certain shares of the Company's common stock held by him for cancellation by the Company; (ii) cancellation by the Company of the majority of the options to purchase common stock held by him; (iii) application of certain bonuses (otherwise payable to him) to the payment of his outstanding obligations to the Company; and (iv) release by Mr. Hudson of any and all claims against the Company. Mr. Hudson also resigned from the Board of Directors of the Company. For further discussion, see Part III, item 11 in the '30/04 10K.

ITEM 6.

EXHIBITS

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

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

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

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

* -Filed herewith.

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.

TIDEL TECHNOLOGIES, INC.
(Company)

November 30, 2005

/s/ MARK K. LEVENICK
Mark K. Levenick
Interim Chief Executive Officer

November 30, 2005

/s/ ROBERT D. PELTIER
Robert D. Peltier
Interim Chief Financial Officer

James T. Rash, our former Chairman, Chief Executive Officer and Chief Financial Officer, died on December 19, 2004. We appointed Mark K. Levenick to the position of Interim Chief Executive Officer but no permanent Chairman, Chief Executive Officer or Chief Financial Officer has been hired or appointed as of the date hereof. Robert D. Peltier was appointed Interim Chief Financial Officer in February 2005.

INDEX TO EXHIBITS

Exhibits	Description
<u>31.1</u>	Certification of Interim Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
<u>31.2</u>	Certification of Interim Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
<u>32.1</u>	Certification of Interim Chief Executive Officer pursuant to 18 U.S.C. Section 1350 adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
<u>32.2</u>	Certification of Interim Chief Financial Officer pursuant to 18 U.S.C. Section 1350 adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.