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

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

FORM 10-K/A

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

For the fiscal years ended September 30, 2003 and 2004

***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	**75-2193593**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
2900 Wilcrest Drive, Suite 205 **Houston, Texas**	**77042**
(Address of principal executive offices)	*(Zip Code)*

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

Securities Registered Pursuant to Section 12(b) of the Act: None

Securities Registered Pursuant to Section 12(g) of the Act:

common stock, par value $.01 per share

(Title of Class)

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this Chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. R

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

The aggregate market value of the 20,039,605 shares of common stock held by non-affiliates of the registrant based on the closing sale price on July 6, 2005 of $0.36 was $7,214,258. The number of shares of common stock outstanding as of the close of business on July 6, 2005 was 20,677,210.

TIDEL TECHNOLOGIES, INC.

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* This Table of Contents is inserted for convenience of reference only and shall not be considered "filed" as a part of this Annual Report on Form 10-K for the fiscal years ended September 30, 2003 and 2004.

PART I

ITEM 1. *BUSINESS*

(a) General Development of Business

Tidel Technologies, Inc. (and including its wholly-owned subsidiaries, collectively, the “Company,” “we,” “us,” or “our”) was incorporated under the laws of the State of Delaware in November 1987 under the name of American Medical Technologies, Inc., succeeding a corporation established in British Columbia, Canada in May 1984.

In September 1992, we acquired Tidel Engineering, Inc., a manufacturer of cash handling devices and other products. We changed our name to Tidel Technologies, Inc. in July 1997. The Company is primarily engaged in the development, manufacturing, sale and support of automated teller machines (“ATMs”) and electronic cash security systems, consisting of the Timed Access Cash Controller (“TACC”) products and the Sentinel products (together, the “Cash Security” products), which are designed for the management of cash within various specialty retail markets.

Our Prior Inability to Timely File Forms 10-K and 10-Q

We filed our Form 10-K for the fiscal year ended September 30, 2002 on February 1, 2005; however, we were unable to prepare and file the Forms 10-Q for the quarters ended December 31, 2002, March 31, 2003, and June 30, 2003, the Form 10-K for the fiscal year ended September 30, 2003; the Forms 10-Q for the quarters ended December 31, 2003, March 31, 2004, and June 30, 2004, the Form 10-K for the fiscal year ended September 30, 2004; and the Forms 10-Q for the quarters ended December 31, 2004 and March 31, 2005. Our common stock was delisted from the Nasdaq SmallCap Market on March 26, 2003; however, our common stock has continued to trade on the Pink Sheets over-the-counter securities market.

We were unable to timely file the aforementioned forms due to limited financial resources at the times such forms were due and the time and expense to compile our financial statements to be audited by an independent registered public accounting firm, and reviewed by an independent registered public accounting firm, as applicable.

(b) Financial Information about Operating Segments

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

(c) Description of Business

We develop, manufacture, sell and support ATM products and Cash Security products. Sales of ATM and Cash Security products are generally made on a wholesale basis to more than 200 distributors and manufacturers’ representatives. 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. Our engineering, sales and service departments work closely with distributors and their customers to continually analyze and fulfill their needs, enhance existing products and develop new products. Sales of our ATM and cash security products accounted for approximately 86%, 83% and 82% of revenue in the fiscal years ended September 30, 2004, 2003 and 2002, respectively.

The principal materials and components used by us are pre-fabricated steel cabinets, custom molded plastic and various electronic parts and components, all of which are readily available in quantity at this time. We assemble our products by configuring parts and components received from a number of major suppliers with our proprietary hardware and software.

We maintain patents and trademarks on processes and brands associated with our product lines; however, we do not believe that patents and trademarks, in general, serve as barriers to entry into the ATM or the cash security system industry. Our overall success depends upon proprietary technology and other intellectual property rights. We must be able to obtain patents and register new trademarks in order to develop and introduce new product lines.

Our operating results and the amount and timing of revenue are affected by numerous factors including production schedules, customer priorities, sales volume and sales mix. We ordinarily fill and ship customer orders within 45 days of receipt; therefore, we historically have had no significant backlog.

(d) Recent Developments

Proposed Sale of ATM Business

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.

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

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 TACC business. We are currently working with Stifel in connection with such a proposed sale.

Bankruptcy of Credit Card Center ("CCC"), Impact on Liquidity and Additional Financing

Sales to one customer, JRA 222, Inc. d/b/a Credit Card Center ("CCC"), were $44,825,049 or 61% of net sales for the fiscal year ended September 30, 2000. In the three months ended December 31, 2000, sales to CCC were $11,748,018, or 70% of our net sales for the quarter. During January 2001, we became aware that CCC was experiencing financial difficulties and sales to this customer were discontinued. Prior to CCC's financial difficulties it was one of the largest distributors of off-premise ATMs in the U.S. There have been no shipments to CCC since January 1, 2001. As a result, sales to CCC for fiscal year 2001 amounted to 33% of our net sales for the year. The termination of sales to CCC had a material adverse effect on our sales and earnings for the fiscal years ended September 30, 2002 and 2001. In addition, the overall negative reaction to CCC's problems exhibited by the ATM industry reduced the overall demand for the type of ATM machines we manufacture. Due to the difficulty end-user purchasers had in obtaining sufficient levels of lease financing, the market for our ATM products deteriorated even further.

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, which were secured by a security interest in CCC's accounts receivable, inventories and transaction income. However, NCR Corporation ("NCR") and Fleet National Bank ("Fleet") also had competing secured interest claims on the same assets and income of CCC, resulting in our security interest not adequately covering our liability claim. The proceeding was subsequently converted to a Chapter 7 proceeding and a Trustee was appointed in April 2002.

In September 2001, we and NCR jointly acquired CCC's ATM inventory pursuant to, and in accordance with, the ATM Inventory Purchase Agreement approved by the Federal Bankruptcy Court. The total purchase price was $8,000,000, and consisted of our cash deposit of $1,000,000 made into escrow and equal credits against the debt owed by CCC to both NCR and us. An escrow of $700,000 was established to cover any payments to Fleet, which provided banking and related services to CCC, in the event that their claim was ultimately determined to be secured. An escrow of $300,000 was established to cover any claims of warehousemen, carriers and storage facilities secured by valid and perfected security interests in such purchased ATMs. The exact amount of those claims has not yet been determined.

Pursuant to a separate but related Intercreditor Agreement, as amended, between NCR and us, NCR paid us $1,177,550 in September 2001 to purchase approximately 1,700 ATMs manufactured by NCR that were included in the inventory jointly acquired from CCC. NCR subsequently paid us an additional $46,200 in January 2002 upon the resale of the ATMs.

In addition to the amounts received from NCR during 2001, we acquired a significant amount of different ATM units manufactured by us, along with various parts used for these ATM units. We were able to utilize some of these ATM units during fiscal years 2001 and 2002 to fill subsequent sales orders from customers. During fiscal 2003 and 2004,

we were able to utilize most of the remaining recovered parts for production, warranty work and sales to customers.

Notwithstanding our commitment to aggressively pursue our rights to collect substantial additional funds from CCC and in view of the uncertainty of the ultimate outcome of the CCC bankruptcy proceedings, in 2001, we increased our reserve to $20.3 million against the trade accounts receivable due from CCC and increased our notes receivable reserve to $3.8 million, which represents the total outstanding balances of the trade accounts note receivable due from CCC. In addition, we provided additional reserves of $500,000 due to uncertainties regarding the full recovery of our escrow deposits. As of September 30, 2002, our remaining receivable from the escrow deposits was reduced to $500,000. As of September 30, 2003, we had 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 at September 30 of 2003 and 2004. Our management intends to continue monitoring this matter and to take all actions that it determines to be necessary based upon its findings. Accordingly, we may incur additional expenses which would be charged to earnings in future periods.

As of July 2005, we are still actively pursuing the collection of monies from CCC, although it is unlikely that we will receive significant additional funds from CCC. See Part I, Item 3 "Legal Proceedings"; Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations"; and Note 3, "Major Customers and Credit Risks" to Notes to Consolidated Financial Statements in Part IV of this Annual Report on Form 10-K for the fiscal years ended September 30, 2004 and September 30, 2003 (the "Annual Report") for additional information about our relationship with CCC as a major customer.

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.

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. See further discussion in Part IV, Note 10, "Long-Term Debt and Convertible Debentures" of this Annual Report. 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 this Annual Report for additional information.

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. The 10-K for the fiscal year ended September 30, 2002 (the "2002 10-K") was filed on February 1, 2005, in accordance with Additional Financing documents' requirements. Fourteen (14) days following such time as we become current in our filings with the Securities and Exchange Commission, we must deliver to Laurus evidence of the listing of our common stock on the Nasdaq Over The Counter Bulletin Board (the "Listing Requirement").

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.

Pursuant to the terms of the Financing and the Additional Financing, an Event of Default occurs if, among other things, we do not complete our filings with the Securities and Exchange Commission on the timetable set forth in the Additional Financing documents, or we do not comply with the Listing Requirement or any other material covenant or other term or condition of the 2003 SPA, the 2004 SPA, the notes we issued to Laurus or any of the other documents related to the Financing or the Additional Financing. If there is an Event of Default, including any of the items specified above or in the transaction documents, Laurus may declare all unpaid sums of principal, interest and other fees due and payable within five (5) days after we receive a written notice from Laurus. If we cure the Event of Default within that five (5) day period, the Event of Default will no longer be considered to be occurring.

If we do not cure such Event of Default, Laurus shall have, among other things, the right to have two (2) of its designees appointed to our Board, and the interest rate of the notes shall be increased to the greater of 18% or the rate in effect at that time.

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 will record a $2,000,000 charge in the first quarter of fiscal 2005 to interest expense.

As of July 31, 2005, we have $1,250,000 available for borrowing under the Purchase Order Note through November 26, 2005, as part of the Additional Financing in November 2004.

Customers

We develop, manufacture, sell and support ATM products, TACC products and the Sentinel products, which are designed for specialty retail marketers. Sales of ATM and TACC products are generally made on a wholesale basis to more than 200 distributors and manufacturers' representatives. Sentinel products are often sold directly to end-users as well as distributors.

The markets for our ATM products are characterized by intense competition. We expect the intensity of competition to increase. A major cause of the intense competition is the saturation of the U.S. market, which may limit the growth opportunities in the future. Additionally, the increased use of debit cards by consumers, as opposed to cash, may lower the number of transactions per ATM which could result in lower sales of new ATMs. Large manufacturers such as Diebold Incorporated, NCR Corporation, Triton Systems (a division of Dover Corporation) and Tranax (a distributor of Hyosung) compete directly with us in the low-cost ATM market. Additionally, demand in fiscal year 2003 compared with 2002 decreased, due to (i) the declaration of bankruptcy by CCC, our former largest customer, (ii) the deterioration of the third-party lease finance market to the ATM industry, and (iii) the general downturn in the economy. Our direct competitors for our TACC products include FireKing Industries, Armor Safe Company and AT Systems. Many smaller manufacturers of ATMs, electronic safes and kiosks are also found in the market. Demand for ATMs in fiscal 2004 increased compared with fiscal 2003 due to an increase in confidence from long time customers, and customers having increased capital to install and replace ATMs.

No one customer accounted for more than 10% of net sales for the fiscal year 2002. Only one customer accounted for more than 10% of net sales for the fiscal year ended September 30, 2003, and no customer accounted for more than 10% of net sales for the fiscal year ended September 30, 2004.

Our compliance with federal, state and local environmental protection laws during 2004 and 2003 had no material effect upon our capital expenditures, earnings or competitive position. As of September 30, 2004, it was not expected that compliance with such laws would have a material effect upon our capital expenditures, earnings or the competitive position in future years.

Employees

At September 30 of the fiscal years ended in 2004 and 2003, we employed approximately 107 and 110 people, respectively. At May 15, 2005, we had approximately 110 employees.

Company Information and Website

Our principal executive offices are located at 2900 Wilcrest Drive, Suite 205, Houston, Texas 77042. Our telephone number is (713) 783-8200. The Internet address of our principal operating subsidiary is www.tidel.com. Copies of the annual, quarterly and current reports that we file with the SEC, and any amendments to those reports, are available on our subsidiary's web site free of charge. The information posted on our web site is not incorporated into this Annual Report.

(e) Financial Information about Geographic Areas

The vast majority of our sales in fiscal 2004 were to customers within the United States. Sales to customers outside the United States, as a percentage of total revenues, were approximately 16%, 25% and 13%, in the fiscal years ended September 30, 2004, 2003 and 2002, respectively.

Substantially all of our assets were located within the United States during fiscal year 2004 and 2003, and are still located in the United States today. Inventory in transit related to sales to customers outside the United States can be in foreign countries prior to receipt by the customer.

ITEM 2. PROPERTIES

Our corporate offices during fiscal 2003 were located in approximately 4,100 square foot space in Houston, Texas. Our lease expired on December 31, 2002; however, we continued to lease the space on a month-to-month basis until September 30, 2003. We relocated our corporate offices on October 1, 2003 into an approximately 2,100 square foot space. On June 1, 2005, we renewed the lease for these offices for a term of seven months which expires December 31, 2005, with an option to lease on a month-to-month basis thereafter. We believe that our present leased space is suitable for our needs.

The manufacturing, engineering and warehouse operations of Tidel Engineering, L.P. are located in two nearby facilities occupying approximately 110,000 square feet in Carrollton, Texas, under leases expiring in February 2006 with an option to extend for three years. This lease is to be assumed by NCR Texas pursuant to the Asset Purchase Agreement, discussed further in Part I, Item 1 of this Annual Report. This facility is to be assumed by NCR Texas in accordance with the Asset Purchase Agreement.

At September 30, 2004 and 2003, we owned tangible property and equipment with a cost basis of approximately $5.4 million and $5.2 million, respectively.

ITEM 3. LEGAL PROCEEDINGS

CCC, our largest customer in 2000 and 2001, filed for protection under Chapter 11 of the United States Bankruptcy Code on June 6, 2001 in the United States Bankruptcy Court for the Eastern District of Pennsylvania. On or about April 21, 2002, the bankruptcy case was converted to a Chapter 7 proceeding and the court subsequently appointed a trustee. At the time that the original petition was filed, CCC owed us approximately $27 million, excluding amounts for interest, attorney's fees and other charges. As of September 30, 2001, we had recouped inventory from CCC's estate recorded at an approximate value of $3 million. At the time of the bankruptcy filing, CCC's obligation to us was secured by a collateral pledge of accounts receivable, inventories and transaction income, although the value of our collateral was unclear. Based upon our analysis of all available information regarding the CCC bankruptcy proceedings, we had recorded a reserve in the amount of approximately $24.1 million as of September 30, 2002.

In connection with CCC's bankruptcy filing, we filed proofs of claim regarding the obligations of CCC due and owing us and our interest in certain assets of CCC. Others filing similar claims based on alleged security interests in the same property of the bankruptcy estate were Fleet, which provided banking and related services to CCC; NCR, another secured creditor and vendor of CCC; and several leasing companies.

Notwithstanding our commitment to aggressively pursue our rights to collect substantial additional funds from CCC and in view of the uncertainty of the ultimate outcome of the CCC bankruptcy proceedings, in 2001, we increased our reserve to $20.3 million against the trade accounts receivable due from CCC and increased our notes receivable reserve to $3.8 million, which represents the total outstanding balances of the trade accounts note receivable due from CCC. In addition, we provided additional reserves of $500,000 due to uncertainties regarding the full recovery of our

escrow deposits. As of September 30, 2002, our remaining receivable from the escrow deposits was reduced to $500,000. As of September 30, 2003, we had 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 at September 30 of 2003 and 2004. Our management intends to continue monitoring this matter and to take all actions that it determines to be necessary based upon its findings. Accordingly, we may incur additional expenses which would be charged to earnings in future periods.

Prior to CCC's bankruptcy filing, we filed an action in the 134th Judicial District Court of the State of Texas in Dallas County, Texas, against Andrew J. Kallok ("Kallok"), the principal shareholder and executive officer of CCC for, among other claims, failure to pay amounts due and owing, breach of contract, and fraud associated with product sales to CCC. On November 7, 2002, the Court made a final judgment, finding for us and ordering Kallok, due to his fraudulent actions, to pay us damages, including prejudgment interest, in the amount of $26.2 million. Due to the current financial condition of Kallok, we have no guarantee that we will be able to collect any or all of the damages that the Court has awarded to us.

We and several of our officers and directors were named as defendants (the “Defendants”) in a purported class action filed on October 31, 2001 in the United States District Court for the Southern District of Texas (the “Southern District”), George Lehockey v. Tidel Technologies, et al., H-01-3741. Prior to the suit’s filing, four identical suits were also filed in the Southern District. On or about March 18, 2002, the Court consolidated all of the pending class actions and appointed a lead plaintiff under the Private Securities Litigation Reform Act of 1995 (“Reform Act”). On April 10, 2002, the lead plaintiff filed a Consolidated Amended Complaint (“CAC”) that alleged that the Defendants made material misrepresentations and omissions concerning our financial condition and prospects between January 14, 2000 and February 8, 2001 (the putative class period). In June 2004, we reached an agreement in principle to settle these class action lawsuits. The settlement, which was subject to a definitive agreement and court approval, provided for a cash payment of $3 million to be funded by our liability insurance carrier and our issuance of two million shares of common stock. In October 2004, the Court approved the settlement and the shares were issued in November 2004. In addition, in August 2004, we reached an agreement with the liability insurance carrier to issue warrants to the carrier to purchase 500,000 shares of our common stock at an exercise price of $0.67 per share in exchange for the carrier’s acceptance of the terms of the class action lawsuit. We provided a reserve of $1,564,490 in fiscal 2002 to cover any losses from this litigation.

On August 9, 2002, one of the holders of our 6% Convertible Debentures, Montrose Investments, Ltd. (“Montrose”), commenced an adversary proceeding against us in the Supreme Court of the State of New York, County of New York, claiming monies due under the Convertible Debentures (the “Montrose Litigation”). This action was dismissed by the Court on March 3, 2003. Montrose filed a Notice of Appeal with the Supreme Court of the State of New York, Appellate Division, First Department on May 20, 2003. This litigation was dismissed in conjunction with the financing completed in November 2003, as discussed more fully in Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and Note 16, “Commitments and Contingencies” in Part IV, “Notes to the Consolidated Financial Statements” of this Annual Report. For a description of our 6% Convertible Debentures see Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources” of this Annual Report. On or about December 2, 2003, we entered into a stipulation of discontinuance, which dismissed the appeal.

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. Tidel Technologies, Inc. was released from this lawsuit, but Tidel Engineering, L.P. remains a defendant. Tidel Engineering, L.P. is vigorously defending this litigation.

The Company has filed a motion to dismiss the case CSS filed in Illinois, and Tidel Engineering, L.P. has filed a motion to transfer the Illinois case to the Eastern District of Texas. The Company and Tidel Engineering, L.P. have also filed a declaratory judgment action pending in the Eastern District of Texas. In that action, both the Tidel entities are asking the Eastern District of Texas to find, among other things, that neither the Company nor Tidel Engineering have 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 big process for Tidel Engineering L.P.’s cash security business. The Company is vigorously pursuing this declaratory judgment action.

PART II

ITEM 5. MARKET FOR OUR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

(a) Market Information

Our common stock is currently traded over-the-counter on the Pink Sheets under the symbol “ATMS.PK.” From March 26, 2002 through March 26, 2003, our common stock traded on the Nasdaq SmallCap Market. From August 16, 2000 through March 25, 2002, our common stock traded on the Nasdaq National Market. The following table sets forth the quarterly high and low bid information for our common stock for the three-year period ended September 30, 2004. Such quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.