

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

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**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

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**FORM 10-Q/A**

(Mark One)

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the quarterly period ended March 31, 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

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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

The number of shares of Common Stock outstanding as of the close of business on July 6, 2005 was 20,677,210.

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

	<b>March 31, 2005 (unaudited)</b>	<b>September 30, 2004</b>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 1,438,550	\$ 258,120
Restricted cash	59,080	—
Trade accounts receivable, net of allowance of \$32,614 and \$6,230, respectively	5,808,258	1,313,918
Notes and other receivables, net of	21,831	1,016,167
Inventories	2,038,720	1,350,630
Prepaid expenses and other	285,284	135,240
Assets held for sale, net of accumulated depreciation of \$4,127,513 and \$3,977,412	6,134,294	5,910,752
Total current assets	15,786,017	9,984,827
Property, plant and equipment, at cost	1,185,375	1,151,898
Accumulated depreciation	(1,044,336)	(1,027,417)
Net property, plant and equipment	141,039	124,481
Other assets	904,142	668,936
Total assets	\$ 16,831,198	\$ 10,778,244
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current Liabilities:		
Current maturities, net of debt discount of \$0 and \$725,259, respectively	\$ 3,104,833	\$ 183,692
Accounts payable	1,732,438	1,711,630
Accrued interest payable	2,061,301	793,577
Reserve for settlement of class action litigation	—	1,564,490
Other accrued expenses	3,690,998	1,384,675
Liabilities held for sale	1,885,262	2,523,022
Total current liabilities	12,474,832	8,161,086
Long-term debt, net of current maturities and debt discount of \$5,599,141 and \$5,767,988, respectively	947,555	28,709
Total liabilities	13,422,387	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	30,993,862	28,100,674
Accumulated deficit	(27,907,084)	(25,619,888)
Receivable from officer	(31,675)	(31,675)
Accumulated other comprehensive income (loss)	146,936	(34,924)
Total shareholders' equity	3,408,811	2,588,449

Total liabilities and shareholders' equity	\$	16,831,198	\$	10,778,244
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See accompanying Notes to Condensed Consolidated Financial Statements.

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

	<b>Three Months Ended March 31,</b>		<b>Six Months Ended March 31,</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
Revenues	\$ 4,745,769	\$ 1,643,157	\$ 11,258,311	\$ 4,679,084
Cost of sales	2,523,256	1,139,304	5,991,029	3,031,101
Gross profit	2,222,513	503,853	5,267,282	1,647,983
Selling, general and administrative	1,318,088	1,201,196	2,567,689	2,406,817
Depreciation and amortization	8,673	10,122	16,919	21,026
Operating income (loss)	895,752	(707,465)	2,682,674	(779,860)
Other income (expense):				
Gain on extinguishment of debt	—	—	—	18,823,000
Gain on sale of securities	—	1,798,492	—	1,798,492
Interest expense, net	(1,165,173)	(1,034,809)	(4,240,173)	(1,840,324)
Total other income (expense)	(1,165,173)	763,683	(4,240,173)	18,781,168
Income (loss) before discontinued operations	(269,421)	56,218	(1,557,499)	18,001,308
Discontinued operations	(862,211)	(217,431)	(729,697)	(192,016)
Net income(loss)	\$ (1,131,632)	\$ (161,213)	\$ (2,287,196)	\$ 17,809,292
Basic income (loss) per share:				
Income (loss) before discontinued operations	\$ (0.01)	\$ —	\$ (0.08)	\$ 1.03
Income (loss) from discontinued operations	(0.04)	(0.01)	(0.03)	(0.01)
Net income (loss)	\$ (0.05)	\$ (0.01)	\$ (0.11)	\$ 1.02
Weighted average common shares outstanding	20,677,210	17,426,210	19,906,270	17,426,210
Diluted income (loss) per share:				
Income (loss) before discontinued operations	\$ (0.01)	\$ —	\$ (0.08)	\$ 0.42
Income (loss) from discontinued operations	(0.04)	(0.01)	(0.03)	—
Net income (loss)	\$ (0.05)	\$ (0.01)	\$ (0.11)	\$ 0.42
Weighted average common and dilutive shares outstanding	20,677,210	17,426,210	19,906,270	42,955,637

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	<b>Three Months Ended March 31,</b>		<b>Six Months Ended March 31,</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
Net income (loss)	\$ (1,131,632)	\$ (161,213)	\$ (2,287,196)	\$ 17,809,292
Other comprehensive income (loss):				
Unrealized gain (loss) on investment in 3CI	(377,400)	27,939	181,860	27,939
Comprehensive income (loss)	\$ (1,509,032)	\$ (133,274)	\$ (2,105,336)	\$ 17,837,231

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	<b>Six Months Ended March 31,</b>	
	<b>2005</b>	<b>2004</b>
Cash flows from continuing operating activities:		
Net income (loss)	\$ (2,287,196)	\$ 17,809,292
Results of discontinued operations	729,697	192,016
Income (loss) from continuing operations	(1,557,499)	18,001,308
Adjustments to reconcile income (loss) from continuing operations to net cash used in continuing operating activities:		
Depreciation and amortization	16,919	21,026
Amortization of debt discount and financing costs	1,844,525	1,292,456
Gain on extinguishment of convertible debentures	—	(18,823,000)
Gain on sale of securities	—	(1,798,492)
Changes in assets and liabilities:		
Trade accounts receivable, net	(4,494,340)	(374,412)
Notes and other receivables	994,336	(5,822)
Inventories	(688,090)	(290,735)
Prepaid expenses and other assets	(150,044)	(77,741)
Accounts payable and accrued expenses	4,232,865	28,356
Net cash used in continuing operating activities	198,672	(2,027,056)
Cash flows from continuing investing activities:		
Purchases of property, plant and equipment, net	(33,477)	6,849
Gain from sale of securities	—	2,331,924
Net cash provided by (used in) investing activities	(33,477)	2,338,773
Cash flows from continuing financing activities:		
Proceeds from borrowings	2,100,000	7,370,000
Repayments of notes payable	(153,491)	(3,220,000)
Borrowing on revolver	2,250,000	—
Repayments of revolver	(1,250,628)	—
Repayments of convertible debentures	—	(6,000,000)
(Increase) decrease in restricted cash	(59,080)	2,200,000
Increase in deferred financing costs	(280,567)	(595,765)
Net cash provided (used) in continuing financing activities	2,606,234	(245,765)
Net change in cash and cash equivalents from continuing operations	2,771,429	65,952
Net change in cash and cash equivalents from discontinued operations	(1,590,999)	(195,806)
Net change in cash and cash equivalents	1,180,430	(129,854)
Cash and cash equivalents at beginning of period	258,120	915,097
Cash and cash equivalents at end of period	\$ 1,438,550	\$ 785,243
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 258,920	\$ 173,676
Cash paid for taxes	\$ —	\$ —
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

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Issuance of shares to lender in payment of fees	\$	638,010	\$	—
Issuance of shares and warrants in connection with settlement of class-action litigation	\$	1,564,490	\$	—

See accompanying Notes to Condensed Consolidated Financial Statements.

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**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 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 March 31, 2005, the statements of operations and comprehensive income (loss) for the three and six months ended March 31, 2005 and 2004, and the statements of cash flows for the six months ended March 31, 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 six months ended March 31, 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 our 2004 Comprehensive Annual Report on Form 10-K.

**Status of Tidel Technologies, Inc.**

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. During the past four years and for the first six months of 2005, we have experienced operating and net losses. Also, our inability to collect outstanding receivables continues to impact our liquidity. On November 25, 2003, we completed a \$6,850,000 financing transaction (the “Financing”) with Laurus Master Fund, Ltd. (“Laurus”), and we also completed a \$3,350,000 financing transaction (the “Additional Financing”) on November 26, 2004 with Laurus in order to meet our current liquidity needs. We have substantial debt obligations of approximately \$9,651,529 as of March 31, 2005.

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

***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”) 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 Master Fund, Ltd.

***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 Cash Security business. We are currently working with Stifel in connection with such a proposed sale.

***Major Customers and Credit Risk***

We generally retain a security interest in the underlying equipment that is sold to customers until it receives 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 as well. The loss of a single customer could have an adverse effect on our net income. During the second quarter of fiscal year 2005, we shipped 421 Sentinel units to a national convenience store operator. This generated sales revenue of \$3,203,639, or 67.5% of total revenue for the quarter which had a significant positive impact on our working capital.

The majority of our sales during the second quarter 2005 were to customers within the United States. Foreign sales accounted for 10% and 25% of the Company’s total sales during the three months ended March 31, 2005 and 2004, respectively. Those sales represent one foreign distributor. All sales are transacted in U.S. dollars.

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 products. 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 six 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 March 31, 2005. We have also received a commitment from the distributor to submit at least approximately \$35,000 per week commencing August 5, 2005 until the balance is paid in full.

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 distributors 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 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:

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	Three Months Ended March 31,		Six Months Ended March 31,	
	2005	2004	2005	2004
Net income (loss) as reported	\$ (1,131,632)	\$ (161,213)	\$ (2,287,196)	\$ 17,809,292
Deduct: Total stock-based employee compensation expense determined under FAS 123, net of taxes	(6,431)	(348)	(6,570)	(696)
Net income (loss), pro forma	\$ (1,138,063)	\$ (161,561)	\$ (2,293,766)	\$ 17,808,596
Basic earnings (loss) per share:				
As reported	(0.05)	(0.01)	(0.11)	1.02
Pro forma	(0.05)	(0.01)	(0.11)	1.02
Diluted earnings (loss) per share:				
As reported	(0.05)	(0.01)	(0.11)	0.42
Pro forma	(0.05)	(0.01)	(0.11)	0.42

During the quarter ended March 31, 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 Six Months Ended March 31, 2005
Expected option life (in years)	4.0
Expected volatility	80.0%
Risk-free interest rate	3.42%

### *Discontinued Operations*

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 period in the prior year. This division manufactures and sells automated teller machines primarily in the United States. The results of this operation 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.

Tidel recorded a net loss of \$(1,131,632) and \$(161,213) for the second quarters ended March 31, 2005 and 2004, respectively. The ATM business recorded a loss of \$(862,211) and \$(217,431) for the quarters ended March 31, 2005 and March 31, 2004, respectively.

For the six months ended March 31, 2005 and 2004, the company recorded a net loss of \$(2,287,196) and net income of \$17,809,292, respectively. The ATM business recorded a loss of \$(729,697) and \$(192,016) for the six months ended March 31, 2005 and 2004, respectively.

The sale of this division is expected to be consummated sometime after the fourth quarter of 2005.

An analysis of the discontinued operations is as follows:

**Assets held for sale:**

Trade accounts receivable, Net of Allowance	\$	699,555
Inventories		5,089,521
Prepaid expenses and other assets		165,037
Property, plant and equipment, at cost net of depreciation		152,884
Other assets		27,297

**Assets held for sale** \$ 6,134,294

**Liabilities held for sale:**

Accounts payable	\$	1,226,207
Other accrued expenses		659,055

**Liabilities held for sale** \$ 1,885,262

Revenues for the three and six month periods ended March 31, 2005 and 2004 were \$3,424,078 and \$8,278,333 (for 2005); and \$3,660,425 and \$7,099,321 (for 2004), respectively.

## **2. Long-term debt**

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 sale of the 2003 Fee Shares, we recorded an additional charge in fiscal 2004 of \$638,010 based on the market value of the stock 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 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 Assets 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 have recorded a \$2,000,000 charge in the first quarter of fiscal 2005 to interest expense.

### **3. Earnings Per Share**

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 March 31, 2005, we had outstanding options covering an aggregate of 1,100,500 shares of common stock, of which 638,500 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 six months ended March 31, 2005 are options to purchase 1,100,500 shares to purchase common stock at a weighted average of \$1.21 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 six months ended March 31, 2004 are options to purchase 786,000 shares to purchase common stock at a weighted average of \$1.66 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.

**4. 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 six months ended March 31, 2005, we issued issued 2,000,000 shares of our common stock related to the settlement of the class action litigation. In addition, we issued 1,251,000 shares of our common stock to Laurus (see note 2) related to settlement of late filing penalties. 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.

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

During the past three years, we have experienced operating losses. Our liquidity has been negatively impacted by our inability to collect outstanding receivables and claims as a result of the bankruptcy of our former largest customer, JRA 222, Inc. d/b/a Credit Card Center ("CCC") 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. This decline in financial condition is significant, and if the operating conditions do not improve there can be no assurance we will continue operations.

### **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:**

#### ***Quarter Ended March 31, 2005 Compared to the Quarter Ended March 31, 2004***

We recorded revenues from continuing operations of \$4,745,769 and \$1,643,157. This represents an increase of 3,102,612 or 189%. The increase is primarily a result of the increased sales of TACC units and the sales of 616 Sentinel units during the quarter ended March 31, 2005 compared with only 113 units sold during the same period last year.

We had a net loss of \$(1,131,632) for the three months ended March 31, 2005, compared to a net loss of \$(161,213) in the same quarter of the prior year.

### **Operating Segments**

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



**Product Revenues**

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

	(Dollars in 000's)			
	For the Three Months Ended March 31,		For the Six Months Ended March 31,	
	2005	2004	2005	2004
CASH SECURITY BUSINESS	\$ 4,294	\$ 1,436	\$ 10,344	\$ 4,233
OTHER	451	207	914	446
	\$ 4,745	\$ 1,643	\$ 11,258	\$ 4,679

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

A comparison of certain operating information is provided in the following table:

	(Dollars in 000's)			
	Three Months Ended March 31,		Six Months Ended March 31,	
	2005	2004	2005	2004
Gross profit	\$ 2,222	\$ 504	\$ 5,267	\$ 1,648
Selling, general and administrative	1,318	1,201	2,567	2,407
Depreciation and amortization	9	10	17	21
Operating income/(loss)	\$ 895	\$ (707)	\$ 2,683	\$ (780)
Gain on extinguishment of debt	—	—	—	18,823
Gain on sale of securities	—	1,798	—	1,798
Interest expense, net	(1,165)	(1,034)	(4,240)	(1,840)
Income/(Loss) from continuing operations	\$ (270)	\$ 57	\$ (1,557)	\$ 18,001
Income/Loss from discontinued operations	(862)	(218)	(730)	(192)
Net Income/(Loss)	\$ (1,132)	\$ (161)	\$ (2,287)	\$ 17,809

*Gross profit* on product sales for the quarter ended March 31, 2005 increased \$1,718,660 from the same quarter a year ago. Gross profit as a percentage of sales was 47% in the quarter ended March 31, 2005, compared to only 31 % in the same quarter of the previous year. The improvement is directly related to the increase in the volume of Sentinel units produced during the quarter ended March 31, 2005.

*Selling, general and administrative* expenses for the quarter ended March 31, 2005 increased 9.7 % from the same quarter of the previous year. This is primarily related to costs associated with becoming current with our SEC filings and cost associated with our marketing efforts.

*Depreciation and amortization* for the quarter ended March 31, 2005 and 2004 was \$8,673 and \$10,122, respectively.

*Interest expense*, was \$1,165,173 for the quarter ended March 31, 2005, compared to \$1,034,809 for the same quarter of the previous year. This is as a result of increased level of debt related to our revolving line of credit.

*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. The Company has 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.

*Discontinued operations (Net of Tax).* During the first quarter of 2005, we committed to a plan to sell our ATM business. For more information about the Additional Financing, see Note 1 to the “Notes to Consolidated Financial Statements” included in Part I, Item 1 of this Quarterly Report.

On February 19, 2005, the Company and its wholly-owned subsidiary entered into the Asset Purchase Agreement with NCR Texas for the sale of the Company’s ATM business. For additional information, see Note 1, “Organization and Summary of Significant Accounting Policies” in the “Notes to Consolidated Financial Statements” included in Part I, Item 1 of this Quarterly Report. The ATM division has been classified as a discontinued operation since the execution of the Asset Purchase Agreement. This division manufactures and sells automated teller machines primarily in the United States. The results of this operation are segregated on the accompanying financial statements as income or loss from discontinued operations.

We recorded a net loss from continuing operations of \$(1,131,632) and \$(161,213) for the quarters ended March 31, 2005 and 2004, respectively. The ATM division recorded a loss of \$(862,211) and \$(217,431) for the three months ended March 31, 2005 and 2004, respectively.

***Six Months Ended June 30, 2004 Compared to the Six Months Ended June 30, 2003***

The Company's revenues were \$11,258,311 for the six months ended March 31, 2005, representing an increase of \$6,579,227, or 141%, from revenues of \$4,679,084 in the same period of the prior year. The improvement is directly related to the increase in the volume of Cash Security products produced during the six months ended March 31, 2005. The improvement is directly related to the increase in the volume of TACC units and Sentinel units during the six months ended March 31, 2005 compared with the six months ended March 31, 2004. We sold 994 Sentinel units during the first six months of 2005 compared with only 114 units sold during the same period last year.

*Gross profit* on product sales for the six months ended March 31, 2005 increased \$3,619,299 compared to the same period of the prior year. Gross profit as a percentage of sales was 46.8% for the six months ended March 31, 2005, compared to 35.2% for the six months ended March 31, 2004. The increase in the overall gross profit is primarily a result of increased sales of the Sentinel units during the six months ended March 31, 2005 compared with the six months ended March 31, 2004.

*Selling, general and administrative* expenses for the six months ended March 31, 2005 increased 6.7% from the same period of the previous year. This is primarily related to costs associated with becoming current with our SEC filings.

*Depreciation and amortization* for the six months ended March 31, 2005 and 2004 were 16,919 and 21,026, respectively.

*Interest expense* net of interest income, was \$4,240,173 for the six months ended March 31, 2005 compared with \$1,840,324 for the same period of the previous year. This is as a result of increased level of debt related to the Laurus 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.

***Discontinued Operations***

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. The ATM division has been classified as a discontinued operation since that time, including the comparative period in prior year. This division manufactures and sells automated teller machines primarily in the United States. The results of this operation 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.

For the six months ended March 31, 2005 and 2004, the company recorded a net loss of \$(2,287,196) and net income of \$17,809,292, respectively. The ATM business recorded a loss of \$(729,697) and \$(192,016) for the six months ended March 31, 2005 and 2004, respectively.

The sale of this division is expected to be consummated sometime during the fourth quarter of 2005.





An analysis of the discontinued operations is as follows:

**Assets held for sale:**

Trade accounts receivable	\$	699,555
Inventories		5,089,521
Prepaid expenses and other assets		165,037
Property, plant and equipment, at cost net of depreciation		152,884
Other assets		27,297
Total assets held for sale	\$	6,134,294

**Liabilities held for sale:**

Accounts payable	\$	1,226,207
Other accrued expenses		659,055
Total liabilities held for sale	\$	1,885,262

Revenues for the three and six month periods ended March 31, 2005 and 2004 were \$3,424,078 and \$8,278,333 (for 2005); and \$3,660,425 and \$7,099,321 (for 2004), respectively.

**Liquidity and Capital Resources**

*General*

During the past three years, we have experienced operating losses. 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.

	(Dollars in 000's)	
	March 31, 2005	September 30, 2004
Cash	\$ 1,439	\$ 258
Working capital (deficit)	3,311	1,824
Total assets	16,831	10,788
Total short-term notes payable and long-term debt, net of debt discount of \$5,599 and \$6,493, respectively	4,052	212
Shareholders' equity	\$ 3,409	\$ 2,588

Cash provided by continuing operations was \$198,672 for the six months ended March 31, 2005 compared to cash used in continuing operations of \$(2,027,086) for the six months ended March 31, 2004. Cash providing by operations is primarily attributable to the increase in production of our Cash Security products as a result of our sale of 922 Sentinel units to a major convenience store chain.

Cash provided by financing activities was \$2,606,234 for the six months ended March 31, 2005 compared to cash used by financing activities of \$(245,765) for same period of 2004. This is primarily related to our increased borrowings under our Laurus facilities.

After several months of unsuccessful efforts to remedy its financial difficulties, Credit Card Center ("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

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. During the past four years and for the first six months of 2005, we have experienced operating and net losses. Also, our inability to collect outstanding receivables continues to impact our liquidity. On November 25, 2003, we completed a \$6,850,000 financing transaction (the "Financing") with Laurus Master Fund, Ltd. ("Laurus"), and we also completed a \$3,350,000 financing transaction (the "Additional Financing") on November 26, 2004 with Laurus in order to meet our current liquidity needs. We have substantial debt obligations of approximately \$9,651,529 as of March 31, 2005.

As of July 31, 2005, we 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, COUPLED WITH THE 2003 FEE SHARES, ARE CONVERTIBLE INTO AN AGGREGATE OF 28,226,625 SHARES OF OUR COMMON STOCK, OR APPROXIMATELY 65% 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. Tidel Technologies, Inc. was released from this lawsuit, but Tidel Engineering, L.P. remains a defendant. The Company continues 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, revenues 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 March 31, 2005:

	PAYMENTS DUE BY FISCAL YEAR					
	2005	2006	2007	2008	2009	Thereafter
Operating leases	\$ 484,135	\$ 168,520	\$ —	\$ —	\$ —	\$ —
Long-term debt, including current portion (1)	1,483,541	3,000,000	3,667,988	1,500,000	—	—
<b>Total</b>	<b>\$ 1,967,676</b>	<b>\$ 3,168,520</b>	<b>\$ 3,667,988</b>	<b>\$ 1,500,000</b>	<b>\$ —</b>	<b>\$ —</b>

(1)

Total debt was \$9,651,529 as of March 31, 2005.

Planned capital expenditures for 2005 and 2006 are estimated to be approximately \$200,000 per year. These expenditures will depend upon available funds, levels of orders received and future operating activity

**Risk Factors**

Please see "Risk Factors" contained in Item 7A of our '03/'04 Annual Report.

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## Forward-Looking Statements

In addition to historical information, Management's Discussion and Analysis of Financial Condition and Results of Operations includes 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; and
- 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.

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 March 31, 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 subsequent to September 30, 2002, 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 three 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 March 31, 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 hiring of a new Chief Financial Officer to oversee the financial reporting process and 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 March 31, 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. We are vigorously defending this litigation.

Also discussed in our '03/'04 Annual Report, we have 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. 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 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.

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\* -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**

<b>Exhibits</b>	<b>Description</b>
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