TIDEL TECHNOLOGIES INC
Form 10-K
January 18, 2006

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

FORM 10-K

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

For the fiscal year ended September 30, 2005

* **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 if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes * No T

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes * No T

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 *

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. *

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

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 March 31, 2005 of $0.17 was $3,406,733. The number of shares of common stock outstanding as of the close of business on January 6, 2006 was 20,677,210.

DOCUMENTS INCORPORATED BY REFERENCE
None.

TIDEL TECHNOLOGIES, INC.

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PART I

ITEM 1. *BUSINESS*

(a) General Development of Business

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.

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.

On January 3, 2006, we completed the sale of our ATM business to NCR EasyPoint, LLC, as described below. On January 12, 2006, we entered into an asset purchase agreement with an entity controlled by certain members of our management pursuant to which we agreed to sell substantially all of the assets of our Cash Security business as described below

(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. We completed the sale of our ATM division on January 3, 2006 and executed an agreement to sell our Cash Security Business on January 12, 2006. See “Recent Developments - Sale of ATM Business and Sale of Cash Security Business and Related Agreements with Laurus”.

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.

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.

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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.

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

After several months of unsuccessful efforts to remedy its financial difficulties, our former largest customer, JRA 222, Inc., d/b/a 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 $27.1 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 recovered inventory from CCC in the approximate amount of $3.0 million; however, in view of the uncertainty of the ultimate outcome of the CCC bankruptcy proceedings, we increased our reserves to $24.1 million, which represented the total remaining balances of the trade accounts and 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. At September 30, 2003, our remaining receivable from the escrow deposits was reduced to $250,000. In October 2005, an order for summary judgment was entered by the court, which confirmed that Fleet had a first lien on all of the assets of CCC followed by the liens of Tidel and NCR, respectively. In December 2006, we entered into a settlement agreement in the matter of Fleet v. Tidel Engineering L.P., et al, whereby we received a cash payment of $430,000 in exchange for an assignment of our claims to NCR and a waiver of our rights to any future payments from such claims.

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. In March 2004, the $400,000 note was repaid in full.

In connection with the closing of the Financing, all outstanding litigation including, without limitation, the Montrose Litigation, was dismissed, and a revolving credit facility with a bank (the “Revolving Credit Facility”) was repaid through the release of the restricted cash used as collateral for the Revolving Credit Facility. See Part II, Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of the Form 10-K for the fiscal years ended September 30, 2003 and 2004.

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 for unpaid accrued interest as of August 1, 2004 which included $226,312 of interest at the default rate of 18%. 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.

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

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

We filed the Form 10-K for the fiscal year ended September 30, 2002 on February 1, 2005, and we filed the Form 10-K for the fiscal years ended September 30, 2003 and 2004, the Form 10-Q for the quarter ending December 31, 2004 and the Form 10-Q for the quarter ended March 31, 2005 on Monday, August 1, 2005, which was in accordance with the requirements of the Additional Financing. We also filed the Form 10-Q for the quarter ended June 30, 2005 on a timely basis on August 19, 2005.

Laurus Reorganization Fee

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

Upon closing of the Cash Security Business Sale (as defined below), we estimate the Reorganization Fee payable to Laurus will be in the range of $9 million to $11 million.

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As of September 30, 2005, we had approximately $8.2 million face value of outstanding debt, or $4.4 million after debt discount of approximately $3.7 million. Of the $8.2 million total outstanding debt at September 30, 2005, $6.0 million represented the outstanding balance of the Financing, and $0.6 million and $1.5 million represented the outstanding respective balances of two term notes in connection with the Additional Financing together with accrued but unpaid interest.

At September 30, 2005, we had $1,250,000 available for borrowing under the Purchase Order Note through November 26, 2005, as part of the Additional Financing in November 2004. The Maturity date was extended to the earlier of the ATM Asset Sale or February 28, 2006.

Recent Developments

Sale of ATM Business

On February 19, 2005, the Company and its wholly-owned subsidiary, Tidel Engineering, L.P., entered into an asset purchase agreement (the "NCR Asset Purchase Agreement") with NCR EasyPoint LLC f/k/a/ NCR Texas LLC ("NCR EasyPoint"), a wholly owned subsidiary of NCR Corporation, for the sale of our ATM Business (the "ATM Business Sale").

On December 28, 2005, the holders of 62.2% of our shares of outstanding common stock approved the NCR Asset Purchase Agreement.

On January 3, 2006, we completed the ATM Business Sale. The total purchase price was approximately $10.4 million of which $8.2 million was paid to Laurus into a collateral account to be held by Laurus as collateral for the satisfaction of all monetary obligations payable to Laurus, $0.5 million was paid into an escrow account pending a post closing net asset value adjustment, and the remaining $1.7 million was paid to the Company to be used for necessary working capital. This termination resulted in a book gain of approximately $3.8 million.

We have classified our ATM business as Assets Held for Sale as of September 30, 2005.

Sale of Our Cash Security Business and Related Agreements with Laurus

We entered into an asset purchase agreement, dated as of January 12, 2006 (the "Cash Security Asset Purchase Agreement"), with Sentinel Operating, L.P., a purchaser controlled by a management buyout team led by Mark K. Levenick, our Interim Chief Executive Officer and a member of our Board, and Raymond Landry, a member of our Board, for the sale of substantially all of the assets of our Cash Security Business (the "Cash Security Business Sale"). The two members of our Board who are unaffiliated with the management buyout of the Cash Security business negotiated the terms of the Cash Security Asset Purchase Agreement with the management buyout group.

The independent members of our board received an opinion from an investment advisory firm, Capitalink, L.C., as to the fairness of the Cash Security Business Sale from a financial point of view to the unaffiliated shareholders. On December 31, 2005, our Board, with Messrs. Levenick and Landry abstaining, voted to approve the Cash Security Asset Purchase Agreement and the Cash Security Business Sale.

The Cash Security Asset Purchase Agreement provides for the sale of the Company's Cash Security business to the purchaser thereunder for a cash purchase price of $17.5 million, less $100,000 as consideration for the purchaser's potential liability in connection with certain litigation and subject to a closing balance sheet purchase price adjustment. In addition, the Cash Security Asset Purchase Agreement is subject to customary representations and warranties and covenants and the satisfaction of several customary closing conditions, including our obtaining shareholder approval. The closing under the Cash Security Asset Purchase Agreement is expected to occur in the first quarter of 2006. The purchase price payable under the Cash Security Business Sale is subject to the Reorganization Fee and the other amounts payable to Laurus under the terms of the Asset Sales Agreement

Upon closing of the Cash Security Business Sale, we estimate the Reorganization Fee payable to Laurus will be in the range of $9 million to $11 million. See Part I, Item 1(c), “Laurus Reorganization Fee” for more information.

In connection with the Cash Security Asset Purchase Agreement and pursuant to the terms of the Exercise and Conversion Agreement we entered into with Laurus on January 12, 2006, Laurus converted $5,400,000 in aggregate principal amount of convertible Company debt it holds into 18,000,000 shares of our common stock. Following Laurus’ conversion of such debt, Laurus holds shares representing approximately 49.8% of our common stock.

On January 12, 2006, we repaid all of our remaining outstanding debt to Laurus in the principal amount of $2,617,988 plus accrued but unpaid interest in the amount of $113,333. In connection therewith, the Company paid a prepayment penalty to Laurus in the amount of $59,180.

In addition, in connection with the Cash Security Asset Purchase Agreement, and pursuant to the terms of a stock redemption agreement we entered into with Laurus at such time, we have agreed to repurchase from Laurus, upon the closing of the Cash Security Business Sale, all shares of Company common stock held by Laurus at a per share price not less than $.20 per share nor greater than $.34 per share following the determination of the Company’s assets in accordance with the formula set forth below.

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The stock redemption agreement with Laurus provides that the purchase price (the “Purchase Price”) for the shares of our common stock to be repurchased from Laurus (the “Laurus Shares”) shall consist of the Per Share Price (as defined below) multiplied by the number of Laurus Shares. The “Per Share Price” shall equal the quotient obtained by dividing (1) the value on the closing date under the Cash Security Asset Purchase Agreement of (A) the sum of the value of all assets of the Company that would be valued by the Company in connection with a liquidation of the Company following the closing of the Cash Security Business Sale (after giving effect to such closing), including, but not limited to: (i) all cash and cash equivalents held by the Company, (ii) all marketable securities held by the Company, and (iii) all other remaining tangible and intangible assets held directly or indirectly by the Company valued at fair market value minus (B) the sum of (i) all fees and expenses of the Company and its subsidiaries in connection with the ATM Business Sale and the Cash Security Business Sale incurred through the closing date of the Cash Security Business Sale, (ii) all payments and obligations due to, or on behalf of, present and former employees of the Company and its subsidiaries incurred through the closing date of the Cash Security Business Sale, (iii) all amounts paid or payable to Laurus pursuant to the Agreement Regarding NCR Transaction and Other Assets Sales dated as of November 26, 2004 by and between the Company and Laurus, (iv) all other liabilities of the Company and its subsidiaries, (v) payments due to independent directors of the Company in an aggregate amount not to exceed $400,000, and (vi) a good faith estimate of the costs and expenses which would be incurred in connection with the liquidation of the Company including, without limitation, legal fees, directors and officers insurance, all fees and expenses relating to SEC and governmental filings and related expenses, by (2) the total number of shares of Common Stock outstanding on the closing date of the Cash Security Business Sale. Notwithstanding the foregoing, the Per Share Price shall not be less than $.20 per share nor greater than $.34 per share.

Following such share repurchase, Laurus will cease to hold any equity interest in the Company. If the Cash Security Business Sale does not occur by March 31, 2006, then pursuant to the terms of the Exercise and Conversion Agreement we entered into with Laurus at the same time as the Cash Security Asset Purchase Agreement, we have agreed to immediately redeem from Laurus the 18,000,000 shares of our common stock issued to Laurus in connection with the Cash Security Asset Purchase Agreement and Laurus’ conversion of our debt at a redemption price of $5,400,000.

Customers

Only one customer accounted for more than 10% of net sales for the fiscal years ended 2005, 2004 and, 2003. No one customer accounted for more than 10% of net sales for the fiscal year ended 2004.

Our compliance with federal, state and local environmental protection laws during 2005, 2004, and 2003 had no material effect upon our capital expenditures, earnings or competitive position. As of September 30, 2005, 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, 2005 and 2004, we employed approximately 107 people. On January 1, 2006, 56 employees associated with our ATM Business personnel became employees of NCR EasyPoint following the closing of the ATM Business Sale.

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’s website 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 2005 were to customers within the United States. Sales to customers outside the United States, as a percentage of total revenues, were approximately 14%, 16% and 25%, in the fiscal years ended September 30, 2005, 2004 and 2003, respectively.

Substantially all of our assets were located within the United States during fiscal year 2005 and 2004, 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 1A. RISK FACTORS

There are several risks inherent in our business including, but not limited to, the following:

Existing shareholders' ownership in the Company will be significantly diluted.

Following Laurus's conversion as of January 12, 2006 of $5,400,000 of Company debt into 18,000,000 new shares, Laurus holds an aggregate 19,251,000, or 49.8%, of our outstanding shares.

For more information, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" for additional information about these transactions.

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Upon closing of the Cash Security Business Sale, we will owe a substantial Reorganization Fee to Laurus

As a condition of the Additional Financing, we entered into an agreement with Laurus whereby we agreed to pay a Reorganization Fee of at least $2,000,000. The agreement provides that the net proceeds of an asset sale to the party named therein shall be applied to our obligations under the Financing and the Additional Financing, but not to the Reorganization Fee, and that the net proceeds of any subsequent sales of assets or equity consummated on or prior to the fifth anniversary of the date of the agreement shall be applied first to such obligations, then paid to Laurus pursuant to an increasing percentage of at least 55.5%, as set forth in the agreement. Accordingly, the Reorganization Fee could be a substantially higher amount based upon a percentage of the proceeds of any company sale, as specified in the asset sales agreement. Even in the event that we repay all of the notes payable outstanding to Laurus in full, the proceeds from any Company sale would first be reduced by the Reorganization Fee, which would have the same effect as diluting the existing shareholders' ownership. The purchase price of the Cash Security Business Sale will be subject to the Reorganization Fee.

Upon closing of the Cash Security Business Sale, we estimate the Reorganization Fee payable to Laurus will be in the range of $9 million to $11 million.

For more information, see Part I, Item 1(c), "Laurus Reorganization Fee" and item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" for additional information about the Reorganization Fee and other transactions with Laurus.

Upon closing of the Cash Security Business Sale, we will cease to have operations.

Following the consummation of the ATM Business Sale on January 3, 2006 and the expected closing of the Cash Security Business Sale in the first quarter of 2006, we will have no remaining operations and no employees.

Our future success is uncertain due to our lack of liquidity and financial situation at present.

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 four years, we have incurred a substantial amount of debt. See "Liquidity and Capital Resources" under Item 7 for detailed discussion of these financing transactions. See Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Annual Report for information on the purchase order financing facility. There can be no assurance that this facility will be sufficient to meet our current working capital needs or that we will have sufficient working capital in the future. 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.

Our future results of operations involve a number of significant risks and uncertainties. Factors that could affect our future operating results and cause actual results to vary materially from expectations include, but are not limited to, lack of a credit facility, dependence on key personnel, product obsolescence, ability to increase our client base, ability to increase sales to our current clients, ability to generate consistent sales, technological innovations and acceptance, competition, reliance on certain vendors and credit risks. If we do not experience sales increases in future periods, we will have to reduce our expenses and capital expenditures to maintain cash levels necessary to sustain our operations. Our future success will depend on increasing our revenues and reducing our expenses to enable us to regain profitability.

We may be unable to sell debt or equity securities in the event we need additional funds for operations.

We may need to sell equity or debt securities in the future to provide working capital for our operations or to provide funds in the event of future operating losses. We cannot predict whether we will be successful in raising additional funds. We have no commitments, agreements or understandings regarding additional financings at this time, and we may be unable to obtain additional financing on satisfactory terms or at all. The terms of the Financing and of the Additional Financing restrict our ability to raise additional funds, and there can be no assurance that we will be able to obtain a waiver of such restrictions. If we were to raise additional funds through the issuance of equity or convertible debt securities, the current shareholders could be substantially diluted and those additional securities could have preferences and privileges that current security holders do not have.

We could lose the services of one or more of our executive officers or key employees and we are currently operating without a permanent Chairman or Chief Executive Officer or permanent Chief Financial Officer.

Our executive officers and key employees are critical to our business because of their experience and acumen. In particular, the loss of the services of Mark K. Levenick, our Interim Chief Executive Officer and President of our operating subsidiaries, could have a material adverse effect on our operations. In December 2004, James T. Rash, the former Chairman of the Board, Chief Executive and Financial Officer, died. We have named Mark K. Levenick as Interim Chief Executive Officer but no permanent Chairman or Chief Executive Officer has been hired or appointed as of the date hereof. We engaged Robert D. Peltier as Interim Chief Financial Officer on a consulting basis in February 2005. Our future success and growth also depends on our ability to continue to attract, motivate and retain highly qualified employees, including those with the expertise necessary to operate our business. These officers and key personnel may not remain with us, and their loss may harm our development of technology, our revenues and cash flows. Concurrently, the addition of these personnel by our competitors would enable our competitors to compete more effectively by diverting customers from us and facilitating more rapid development of their technology.

Our operating results may fluctuate for a variety of reasons, many of which are beyond our control.

We have sold our ATM Business and signed an agreement to sell our Cash Security Business. Until the closing of that transaction, or if that transaction should fail to close, our business strategies may fail and our quarterly and annual operating results may vary significantly from period to period depending on:

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- the collection of outstanding receivables,
- the volume and timing of orders received during the period,
- the timing of new product introductions by us and our competitors,
- the impact of price competition on our selling prices,
- the availability and pricing of components for our products,
- seasonal fluctuations in operations and sales,
- changes in product or distribution channel mix,
- changes in operating expenses,
- changes in our strategy,
- personnel changes and general economic factors,
- the dependence of our strong working relationships with our significant customers, and
- the possibility of a terrorist attack or armed conflict could harm our business.

Many of these factors are beyond our control. We are unable to forecast the volume and timing of orders received during a particular period. Customers generally order our products on an as-needed basis, and accordingly we have historically operated with a relatively small backlog. We experience seasonal variances in our operations. Accordingly, operating results for any particular quarter may not be indicative of the results for the future quarter or for the year.

Even though it is difficult to forecast future sales and we maintain a relatively small level of backlog at any given time, we generally must plan production, order components and undertake our development, sales and marketing activities and other commitments months in advance. Accordingly, any shortfall in sales in a given period may adversely impact our results of operations if we are unable to adjust expenses or inventory during the period to match the level of sales for the period.

We have limited management and other resources to address the issues confronting us.

The problems and issues facing our future business ventures could significantly strain our limited personnel, management, financial controls and other resources. Our ability to manage any future complications effectively will require us to hire new employees, to integrate new management and employees into our overall operations and to continue to improve our operational, financial and management systems, controls and facilities. Our failure to handle the issues we face effectively, including any failure to integrate new management controls, systems and procedures, could materially adversely affect our business, results of operations and financial condition.

The markets for our products are every competitive and, if we fail to adapt our products and services, we will lose customers and fail to compete effectively.

Our direct competitors for our TACC products include FireKing Industries, Armor Safe Company and AT Systems. Sales of Sentinel cash security systems are currently confined to a small number of customers. The loss of a single customer could have an adverse affect on TACC sales.

Competition is likely to result in price reductions, reduced margins and loss of market share, any one of which may harm our business. Competitors vary in size, scope and breadth of the products and services offered. We may encounter competition from competitors who offer more functionality and features. In addition, we expect competition from other established and emerging companies, as the market continues to develop, resulting in increased price sensitivity for our products.

To compete successfully, we must adapt to a rapidly changing market by continually improving the performance, features and reliability of our products and services, or else our products and services may become obsolete. We may also incur substantial costs in modifying our products, services or infrastructure in order to adapt to these changes.

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Many of our competitors have greater financial, technical, marketing and other resources and greater name recognition than we do. In addition, many of our competitors have established relationships with our current and potential customers and have extensive knowledge of our industry. In the past, we have lost potential customers to competitors. In addition, current and potential competitors have established or may establish cooperative relationships among themselves or with third parties to increase the ability of their products to address customer needs. Accordingly, it is possible that new competitors or alliances among competitors may develop and rapidly acquire significant market share.

If we release products containing defects, we may need to halt further sales and/or services until we fix the defects, and our reputation would be harmed.

We provide a limited warranty on each of our products covering manufacturing defects and premature failure. While we believe that our reserves for warranty claims are adequate, we may experience increased warranty claims. Our products may contain undetected defects which could result in the improper dispensing of cash or other items. Although we have experienced only a limited number of claims of this nature to date, these types of defects may occur in the future. In addition, we may be held liable for losses incurred by end users as a result of criminal activity which our products were intended to prevent, or for any damages suffered by end users as a result of malfunctioning or damaged components.

We remain liable for any problems or contamination related to our fuel monitoring units.

Although we discontinued the production and distribution of our fuel monitoring units more than five years ago, those units which are still in use are subject to a variety of federal, state and local laws, rules and regulations governing storage, manufacture, use, discharge, release and disposal of product and contaminants into the environment or otherwise relating to the protecting of the environment. These regulations include, among others (i) the Comprehensive Environmental Response, (ii) Compensation and Liability Act of 1980, (iii) the Resource Conservation and Recovery Act of 1976, (iv) the Oil Pollution Act of 1990, (v) the Clean Air Act of 1970, (vi) the Clean Water Act of 1972, (vii) the Toxic Substances Control Act of 1976, (viii) the Emergency Planning and Community Right-to-Know Act and (ix) the Occupational Safety and Health Administration Act.

Our fuel monitoring products, by their very nature, give rise to the potential for substantial environmental risks. If our monitoring systems fail to operate properly, releases or discharges of petroleum and related products and associated wastes could contaminate the environment. If there are releases or discharges we may be found liable under the environmental laws, rules and regulations of the United States, state and local jurisdictions relating to contamination or threat of contamination of air, soil, groundwater and surface waters. This indirect liability could expose us to a monetary liability related to the failure of the monitoring systems to detect potential leaks in underground storage tanks. Although we have tried to protect our business from environmental claims by limiting the types of services we provide, operating pursuant to contracts designed to protect us, instituting quality control operating procedures and, where appropriate, insuring against environmental claims, we are unable to predict whether these measures will eliminate the risk of potential environmental liability entirely.

ITEM 2. PROPERTIES

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 was assumed by NCR EasyPoint pursuant to the NCR Asset Purchase Agreement, discussed further in Part I, Item 1 of this Annual Report.

At September 30, 2005 and 2004, we owned tangible property and equipment with a cost basis of approximately $5.5 million and $5.4 million, respectively which included assets held for sale from discontinued operations.

ITEM 3. LEGAL PROCEEDINGS

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

After several months of unsuccessful efforts to remedy its financial difficulties, our former largest customer, 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 $27.1 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.

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In September 2001, we recovered inventory from CCC in the approximate amount of $3.0 million; however, in view of the uncertainty of the ultimate outcome of the CCC bankruptcy proceedings, we increased our reserves to $24.1 million, which represented the total remaining balances of the trade accounts and 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. At September 30, 2003, our remaining receivable from the escrow deposits was reduced to $250,000. In October 2005, an order for summary judgment was entered by the court, which confirmed that Fleet had a first lien on all of the assets of CCC followed by the liens of Tidel and NCR, respectively. In December 2006, we entered into a settlement agreement in the matter of Fleet v. Tidel Engineering L.P., et al, whereby we received a cash payment of $430,000 in exchange for an assignment of our claims to NCR and a waiver of our rights to any future payments from such claims.

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.

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 on 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.

Subsequently we filed a motion to dismiss the case CSS filed in Illinois, and Tidel Engineering, L.P. filed a motion to transfer the Illinois case to the Eastern District of Texas. On August 15, 2005, The Court ordered the transfer of this case to the Northern District of Texas. We 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.

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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, 2005. Such quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

	2005		2004		2003	
Fiscal Quarter Ended	High	Low	High	Low	High	Low
December 31,	$ .72	$ .45	$ .78	$ .33	$ .61	$ .35
March 31,	.47	.14	.75	.47	.43	.17
June 30,	.36	.12	.96	.65	.21	.16
September 30,	.50	.27	.80	.59	.42	.17
Fiscal Year	.72	.12	.96	.33	.61	.16

On January 21, 2003, we received notice from The Nasdaq Stock Market, Inc. that, as a result of our 10-K filing deficiency, we had failed to comply with the requirements for continued listing on the Nasdaq SmallCap Market under Marketplace Rule 4310(c)(14), and that our securities were subject to delisting. We had previously received notice that we failed to comply with the minimum bid price requirement as set forth in Marketplace Rule 4310(c)(4). On February 14, 2003, we received a third notice from The Nasdaq Stock Market, Inc., which stated we had failed to comply with the minimum shareholders' equity requirement for continued listing set forth in Marketplace Rule 4310(c)(2)(B). On February 20, 2003, we had an oral hearing before the Nasdaq Listing Qualifications Panel to review these three compliance deficiencies. On March 25, 2003, we were notified by the Nasdaq Listing Qualifications Panel that our common stock would be delisted from the Nasdaq SmallCap Market effective March 26, 2003. Effective at the opening of business on March 26, 2003, our common stock began trading over-the-counter on the Pink Sheets under the ticker symbol "ATMS.PK".

(b) Holders

As of November 30 2005, there were approximately 1,077 holders on record of our common stock.

(c) Dividends

We have not paid any dividends in the past, and do not anticipate paying dividends in the foreseeable future. From September 30, 2002 until November 25, 2003, our wholly-owned subsidiary, Tidel Engineering, L.P., was restricted from paying dividends to us pursuant to the subsidiary's revolving credit agreement with a bank in effect at that time. Since November 25, 2003, we have been restricted from paying dividends pursuant to our financing arrangements with Laurus. For additional information about our arrangements with Laurus, see Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Annual Report.

(d) Securities Authorized for Issuance under Equity Compensation Plans

We adopted the Tidel Technologies, Inc. 1997 Long-Term Incentive Plan (the “1997 Plan”) effective July 15, 1997. The 1997 Plan permits the grant of non-qualified stock options, incentive stock options, stock appreciation rights, restricted stock and other stock-based awards to our employees or directors or our subsidiaries. Under the 1997 Plan, up to 2,000,000 shares of common stock may be awarded. The number of shares issued or reserved pursuant to the 1997 Plan (or pursuant to outstanding awards) are subject to adjustment on account of mergers, consolidations, reorganization, stock splits, stock dividends and other dilutive changes in the common stock. Shares of common stock covered by awards that expire, terminate, or lapse, will again be available for grant under the 1997 Plan. Our predecessor employee stock option plan, the 1989 Incentive Stock Option Plan (the “1989 Plan”), was terminated in June 1999. At the date of termination of the 1989 Plan, there were outstanding options to purchase 438,250 shares of common stock, of which none were outstanding at September 30, 2005 and 50,000 were outstanding at September 30, 2004.

The following table provides information regarding common stock authorized for issuance under our compensation plans as of September 30 of 2005.

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Equity Compensation Plan Information

As of September 30, 2005

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a) (c)
Equity compensation plans approved by security holders	1,099,810	$ 1.22	855,890
Equity compensation plans not approved by security holders	—	—	—
Total	1,099,810	$ 1.22	855,890

(e) Recent Sales of Unregistered Securities

At September 30, 2005, we had outstanding warrants to purchase 5,890,000 shares of common stock that expire at various dates through November 2010. The warrants have exercise prices ranging from $0.30 to $0.67 per share and, if exercised, would generate proceeds to us of approximately $2,035,500.

The following sales of unregistered securities were sold by the Company during the 2003 and 2004 fiscal years in reliance on the exemptions from registration contained in Section 4(2) and Regulation D promulgated under the Securities Act of 1933.

In September 2003, we issued a shareholder, Alliance Developments, Ltd. ("Alliance"), an unsecured, short-term promissory note dated September 26, 2003 in the principal amount of $300,000 due December 24, 2003; plus accrued interest at 9% per annum, payable at maturity. In consideration for the original loan, Alliance received three-year warrants to purchase 100,000 shares of common stock at $0.45 per share. The note was renewed on December 24, 2003 until March 24, 2004. In consideration for the renewal, Alliance received additional three-year warrants to purchase 50,000 shares of common stock at $0.45 per share. The proceeds of the Alliance note were allocated to the note and the related warrants based on the relative fair value of the note and the warrants, with the value of the warrants resulting in a discount against the note. As a result, we recorded additional interest charges totaling $20,572 in fiscal 2003 related to the discounts. The note was paid in full on March 5, 2004.

In November 2003, we issued warrants in connection with the Laurus Financing discussed further in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operation" of this Annual Report. The financing 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. 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. See further discussion in Note 10, “Laurus Financing” in Part IV, “Notes to Consolidated Financial Statements” of this Annual Report.

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.

In November of 2004, we issued additional securities in connection with the Additional Financing with Laurus, discussed further in Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operation” of this Annual Report, which is 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 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. We recorded additional interest expense totaling $638,010 related to the 2003 Fee Shares based on the fair value of the stock price on the date issued.

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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.

We issued to a shareholder and former director an unsecured, short-term promissory note dated October 2, 2003 in the principal amount of $120,000 due April 2, 2004; plus accrued interest at 9% per annum, payable monthly. In consideration for the loan, the shareholder received three-year warrants to purchase 40,000 shares of common stock at $0.45 per share. The proceeds of the note were allocated to the note and the related warrants based on the relative fair value of the note and the warrants, with the value of the warrants resulting in a discount against the note. As a result, we recorded additional interest charges totaling $7,611 in fiscal 2004 related to the discounts. The note was paid in full on March 8, 2004.

The Company issued to an affiliate of a shareholder an unsecured, short-term promissory note dated November 20, 2003 in the principal amount of $210,000 due May 20, 2004; plus accrued interest at 8% per annum, payable at maturity. In consideration for the loan, the note holder received three-year warrants to purchase 70,000 shares of common stock at $0.45 per share. The proceeds of the note were allocated to the note and the related warrants based on the relative fair value of the note and the warrants, with the value of the warrants resulting in a discount against the note. As a result, the Company will record additional interest charges totaling $30,619 over the term of the note related to the discounts. The note was paid in full on March 5, 2004 from proceeds obtained in the Financing.

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ITEM 6. SELECTED FINANCIAL DATA

The selected financial data presented below is derived from our Consolidated Financial Statements. This data should be read in conjunction with the Consolidated Financial Statements and its notes and with Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Annual Report.

The Consolidated Financial Statements for 2001 through 2002 were audited by KPMG LLP. The Consolidated Financial Statements for 2003 through 2005 were audited by Hein & Associates LLP.

	Years Ended September 30,				
SELECTED STATEMENT OF OPERATIONS DATA:(1)	**2005**	**2004**	**2003**	**2002**	**2001**
Net income (loss)(2)	$ (3,286)	$ 11,318	$ (9,237)	$ (14,078)	$ (25,942)
Net income (loss) per share:					
Basic	(.16)	.65	(0.53)	(0.81)	(1.49)
Diluted	(.16)	.37	(0.53)	(0.81)	(1.49)

	As of September 30,				
SELECTED BALANCE SHEET DATA:(1)	**2005**	**2004**	**2003**	**2002**	**2001**
Curr					