TIDEL TECHNOLOGIES INC
Form 10-Q
May 20, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2002

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	75-2193593
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

5847 San Felipe, Suite 900
Houston, Texas 77057
(Address of principal executive offices) (Zip Code)

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

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

The number of shares of Common Stock outstanding as of the close of business on May 15, 2002 was 17,426,210.

TIDEL TECHNOLOGIES, INC.

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TIDEL TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	MARCH 31, 2002 (UNAUDITED)	SEPTEMBER 30, 2002
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 1,886,111	$ 3,266,236
Trade accounts receivable, net of allowance of $21,410,629 and $21,427,042, respectively	5,099,759	7,036,433
Notes and other receivables, net of allowance of $4,000,000	1,653,619	1,357,394
Federal income tax receivable	4,833,308	5,596,383

Inventories	9,606,069	11,015,221
Prepaid expenses and other	471,510	525,224
Total current assets	23,550,376	28,796,891
Property, plant and equipment, at cost	4,719,873	6,006,426
Accumulated depreciation	(3,209,373)	(4,006,432)
Net property, plant and equipment	1,510,500	1,999,994
Intangible assets, net of accumulated amortization of $1,218,531 and $1,199,579, respectively	482,542	501,494
Notes receivable	2,743,554	2,277,675
Other assets	358,141	260,762
Total assets	$ 28,645,113	$ 33,836,816
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Current maturities -		
Long-term debt	$ 4,840,000	$ 5,328,000
Convertible debentures	18,000,000	18,000,000
Accounts payable	993,064	2,795,063
Accrued liabilities	3,613,183	2,423,897
Total current liabilities	27,446,247	28,546,960
Long-term debt, net of current maturities	--	96,000
Total liabilities	27,446,247	28,642,960
Commitments and contingencies		
Shareholders' Equity:		
Common stock, $.01 par value, authorized 100,000,000 shares; issued and outstanding 17,426,210 shares	174,262	174,262
Additional paid-in capital	19,245,958	19,245,958
Accumulated deficit	(17,736,793)	(13,623,065)
Stock subscriptions receivable	(217,188)	(217,188)
Accumulated other comprehensive loss	(267,373)	(386,111)
Total shareholders' equity	1,198,866	5,193,856
Total liabilities and shareholders' equity	$ 28,645,113	$ 33,836,816

See accompanying notes to consolidated financial statements.

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

	THREE MONTHS ENDED MARCH 31,		SIX MONTHS END
	2002	2001	2002
Revenues	$ 4,738,791	$ 8,155,917	$ 9,375,442
Cost of sales	3,567,163	5,145,773	7,002,439
Gross profit	1,171,628	3,010,144	2,373,003
Selling, general and administrative	2,329,854	2,220,400	4,946,561
Depreciation and amortization	330,976	341,618	587,511
Operating income (loss)	(1,489,202)	448,126	(3,161,069)
Interest expense, net	547,267	347,720	1,276,116
Income (loss) before taxes	(2,036,469)	100,406	(4,437,185)
Income tax expense (benefit)	(323,457)	35,000	(323,457)
Net income (loss)	$ (1,713,012)	$ 65,406	$ (4,113,728)
Basic earnings (loss) per share:			
Net income (loss)	$ (0.10)	$ 0.00	$ (0.24)
Weighted average common shares outstanding	17,426,210	17,418,988	17,426,210
Diluted earnings (loss) per share:			
Net income (loss)	$ (0.10)	$ 0.00	$ (0.24)
Weighted average common and dilutive shares outstanding	17,426,210	18,360,759	17,426,210

See accompanying notes to consolidated financial statements.

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

(UNAUDITED)

	THREE MONTHS ENDED MARCH 31,		SIX MONTHS ENDED
	2002	2001	2002
Net income (loss)	$ (1,713,012)	$ 65,406	$ (4,113,728)
Other comprehensive income:			
Unrealized gain on investment in 3CI	160,647	109,170	118,738
Comprehensive income (loss)	$ (1,552,365)	$ 174,576	$ (3,994,990)

See accompanying notes to consolidated financial statements.

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

	SIX MONTHS ENDED MARCH 31,	
	2002	2001
Cash flows from operating activities:		
Net income (loss)	$ (4,113,728)	$ 1,953,425
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	587,511	682,472
Amortization of debt discount and financing costs	--	196,460
Changes in assets and liabilities:		
Trade accounts receivable, net	1,936,674	(1,729,655)
Notes and other receivables	(762,104)	(7,323,058)
Federal income tax receivable	763,075	--
Inventories	1,409,152	(3,100,985)
Prepaids and other assets	75,071	(323,692)
Accounts payable and accrued liabilities	(612,713)	(3,418,014)
Net cash used in operating activities	(717,062)	(13,063,047)
Cash flows from investing activities -		
Purchases of property, plant and equipment	(79,063)	(656,266)
Cash flows from financing activities:		
Repayments of revolving credit note	(520,000)	--
Repayments of term loan	(64,000)	(64,000)
Proceeds from exercise of warrants and options	--	75,625
Net cash used in financing activities	(584,000)	11,625

Net decrease in cash and cash equivalents	(1,380,125)	(13,707,688)
Cash and cash equivalents at beginning of period	3,266,236	16,223,192
Cash and cash equivalents at end of period	$ 1,886,111	$ 2,515,504
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 207,049	$ 859,614
Cash paid for taxes	$ --	$ 1,640,000

See accompanying notes to consolidated financial statements.

TIDEL TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(1) CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated balance sheets and related interim consolidated statements of operations and cash flows of Tidel Technologies, Inc. (the "Company"), a Delaware corporation, are unaudited. In the opinion of management, these financial statements include all adjustments (consisting only of normal recurring items) necessary for their fair presentation in accordance with generally accepted accounting principles. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates. Interim results are not necessarily indicative of results for a full year. The information included in this Form 10-Q should be read in conjunction with the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2001.

(2) INVENTORIES

Inventories consisted of the following at March 31, 2002 and September 30, 2001:

	March 31, 2002	September 30, 2001
Raw materials	$ 7,388,201	$ 7,356,316
Work in process	--	--
Finished goods	1,564,978	1,926,505
Inventory repurchased from Credit Card Center	767,149	1,822,450
Other	35,791	--
	9,756,119	11,105,271
Inventory reserve	(150,050)	(90,050)

	$ 9,606,069	$ 11,015,221

See the Company's Annual Report on Form 10-K for the year ended September 30, 2001 for additional information regarding the repurchase of inventory from the bankruptcy estate of JRA 222, Inc. d/b/a Credit Card Center ("CCC").

(3) LONG-TERM DEBT AND CONVERTIBLE DEBENTURES

The Company is party to a credit agreement with a bank (the "Lender") (as amended, the "Revolving Credit Facility"), which provides for a $7,000,000 revolving line of credit with interest equal to the prime rate and a $544,000 term loan at 8.4% interest per annum. At March 31, 2002, $4,680,000 was outstanding under the Revolving Credit Facility and $160,000 was outstanding under the term loan, compared to $5,200,000 and $224,000, respectively, at September 30, 2001. Subsequent to March 31, 2002, the Company has paid off the term loan in its entirety and reduced the outstanding balance of the Revolving Credit Facility from $4,680,000 to $2,000,000. The Revolving Credit Facility was amended effective April 30, 2002 to provide for, among other things, an extension of the maturity date until August 30, 2002; the reduction of the revolving commitment to $2,000,000; modification of the collateral requirements to include a pledge of a money market account in an amount equal to 110% of

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the outstanding principal balance, which pledge is currently $2,200,000; and the waiver by the bank of certain covenants from April 30, 2002 to August 30, 2002.

In January 2002, the Company obtained a commitment from another bank for a line of credit of up to $5,000,000 through December 31, 2002, to replace the Revolving Credit Facility. The commitment contains certain conditions and covenants which require, among other things, a collateral pledge of cash in an amount equal to 100% of the loan amount. The Company has not utilized the commitment to obtain a loan from this bank, and is presently in discussions with another lender regarding the replacement of the Revolving Credit Facility prior to August 30, 2002. There can be no assurance that such discussions will be successful or that a replacement for the Revolving Credit Facility will be obtained at all, or on terms favorable to the Company. A failure to obtain a replacement facility on or prior to August 30, 2002 could have a material adverse affect upon the Company.

In September 2000, the Company issued to two investors (the "Holders") an aggregate of $18,000,000 of the Company's 6% Convertible Debentures, due September 8, 2004 (the "Convertible Debentures"), convertible into the Company's Common Stock at a price of $9.50 per share. In addition, the Company issued warrants to the Holders to purchase 378,947 shares of the Company's Common Stock exercisable at any time through September 8, 2005 at an exercise price of $9.80 per share. The Convertible Debentures provide for three methods to convert the debentures into shares of the Company's Common Stock: (1) conversion at the option of the Holder; (2) conversion at the option of the Company; and (3) a put option.

In June 2001, the Holders exercised their option to put the Convertible Debentures back to the Company. The Company had previously notified the Holders pursuant to the terms of the Convertible Debentures that in the event such put option was exercised, the Company would pay all amounts due

in cash. Accordingly, the principal amount of $18 million, plus accrued and unpaid interest, was due on August 27, 2001. The Company did not make such payment on that date, and currently does not have the funds available to make such payments. The Company is party to Subordination Agreements (the "Subordination Agreements") with each Holder and the Lender which provide, among other things, for prohibitions: (i) on the Company making this payment to the Holders, and (ii) against the Holders taking legal action against the Company to collect this amount, other than to increase the principal balance of the Convertible Debentures for unpaid accounts or to convert the Convertible Debentures into the Company's Common Stock. The Holders may, in addition to their other rights and remedies, under certain circumstances, convert into the Company's Common Stock all or a portion of the unpaid amount due at a conversion price equal to the current market price. Any such conversion would result in very substantial dilution to the Company's existing stockholders. In addition, any issuance of stock required by a conversion in excess of 19.99% of the Company's issued and outstanding shares will require stockholder approval under the Nasdaq Rules, accordingly, it is unlikely that such an issuance would be permitted, which could subject the Company to additional penalties under the agreements. In the event that the Company fails to prepay the Convertible Debentures as required under the terms of the Convertible Debentures and related agreements, the Holders would also have the right to declare an event of default under the Convertible Debentures. A declaration of an event of default would also be a default under the Revolving Credit Facility. The Company continues to negotiate with the Holders regarding such non-payment and other terms of the Convertible Debentures. There can be no assurance, however, that such negotiations will be successful or that modifications to the Convertible Debentures will be able to be negotiated on terms acceptable to the Company. It is unknown what, if any, actions may be taken by the Holders to enforce their rights under the Convertible Debentures. Depending on the actions taken, any such action could have a material adverse effect upon the financial condition or operations of the Company.

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Even in the event that the ongoing negotiations are successful in waiving provisions, delaying payments or restructuring the provisions of the Convertible Debentures, such terms may not be favorable to the Company, and could limit the Company's operations in the future. A failure to reach agreements on acceptable terms to the Company with respect to the matters described above relating to the Convertible Debentures will have a material adverse effect on the Company.

(4) EARNINGS PER SHARE

Basic earnings per share is computed by dividing the income (loss) available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing the income available to common shareholders by the weighted average number of common shares and dilutive potential common shares. The following is a reconciliation of the numerators and denominators of the basic and diluted per-share computations for net income (loss) for the three months and six months ended March 31, 2002 and 2001. Note that diluted loss per share for the three months and six months ended March 31, 2002 is the same as basic loss per share due to the loss reported for the period:

Weighted

	Income (loss)	Average Shares Outstanding	P
Three Months Ended March 31, 2002:			
Basic loss per share	$ (1,713,012)	17,426,210	$
Effect of dilutive warrants, options and convertible debt	--	--	
Diluted loss per share	$ (1,713,012)	17,426,210	$
Three Months Ended March 31, 2001:			
Basic earnings per share	$ 65,406	17,418,988	$
Effect of warrants, options and convertible debt	--	941,771	
Diluted earnings per share	$ 65,406	18,360,759	$
Six Months Ended March 31, 2002:			
Basic loss per share	$ (4,113,728)	17,426,210	$
Effect of dilutive warrants, options and convertible debt	--	--	
Diluted loss per share	$ (4,113,728)	17,426,210	$
Six Months Ended March 31, 2001:			
Basic earnings per share	$ 1,953,425	17,397,364	$
Effect of warrants, options and convertible debt	--	1,072,569	
Diluted earnings per share	$ 1,953,425	18,469,933	$

Common stock equivalents consisting of warrants, options and convertible debt that provide for the purchase of or conversion into 4,250,857 shares of common stock were excluded from the computation of diluted earnings per share due to their anti-dilutive effect for both the three and six months ended March 31, 2002.

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

RESULTS OF OPERATIONS

OVERVIEW

The Company's revenues were $4,739,000 for the three months ended March 31, 2002, representing a decrease of $3,417,000, or 42%, from revenues of $8,156,000 in the same quarter of the prior year. On a year-to-date basis, the Company's revenues were $9,375,000 for the six months ended March 31, 2002, representing a decrease of $15,477,000, or 62%, from

revenues of $24,852,000 in the six months ended March 31, 2001. A decline in the shipment of ATM units accounted for the majority of the decrease, as described more fully in "Product Revenues" elsewhere herein.

The Company incurred a net loss of $(1,713,000) for the three months ended March 31, 2002, compared to net income of $65,000 in the same quarter of the prior year. On a year-to-date basis, the Company incurred a net loss of $(4,114,000) for the six months ended March 31, 2002, compared to net income of $1,953,000 for the same period a year ago. The losses were due primarily to i) lower sales volumes, ii) legal and accounting fees related to the collection of receivables from JRA 222 Inc. d/b/a Credit Card Center ("CCC") and certain other matters, and iii) higher interest expenses related to the "put" of the Company's 6% subordinated convertible debentures in June 2001.

PRODUCT REVENUES

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

(Dollars in 000's)

	Three Months Ended March 31,		Six Months
	2002	2001	2002
ATM..............................	$ 2,286	$ 5,459	$ 4,464
TACC.............................	1,735	1,911	3,410
Parts, service and other..........	718	786	1,501
	$ 4,739	$ 8,156	$ 9,375

ATM sales were $2,286,000 for the quarter ended March 31, 2002, a decrease of 58%, compared to sales of $5,459,000 for the same quarter of the prior year. On a year to date basis, ATM sales decreased 34%, compared to ATM sales to customers other than CCC of $6,770,000 in the same period of the prior year. During the six months ended March 31, 2001, the Company had ATM sales to CCC of $11,787,000.

The Company shipped 657 ATM shipments in the quarter ended March 31, 2002, a decrease of 52% from the 1,360 units shipped in the same quarter of the prior year. On a year to date basis, the Company shipped 1,334 ATM units for the six months ended March 31, 2002, a decrease of 43% from the 2,331 units shipped to customers other than CCC. During the six months ended March 31, 2001, the Company shipped 2,339 ATM units to CCC. Approximately 50% of the total decline in shipments to customers other than CCC was attributable to one of the Company's major customers who reduced purchases during the most recent quarter. Based on recent conversations with that customer's senior

management, the Company believes that the customer will resume purchasing

at an increased level later this year, although there can be no assurance that this will occur.

The Company's sales of Timed Access Cash Controller ("TACC") products vary with the timing of large orders and variances from quarter to quarter are not meaningful. The Company believes that sales of this product for the year will exceed prior year sales.

Parts and other revenues vary directly with sales of finished goods, and have decreased accordingly.

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
	2002	2001	2002
Gross profit	$ 1,172	$ 3,010	$ 2,373
Selling, general and administrative	2,330	2,220	4,947
Depreciation and amortization	331	342	587
Operating income (loss)	(1,489)	448	(3,161)
Interest expense, net	547	348	1,276
Income (loss) before taxes	(2,036)	100	(4,437)
Income tax expense (benefit)	(323)	35	(323)
Net income (loss)	(1,713)	65	(4,114)

Gross profit on product sales for the quarter ended March 31, 2002 decreased $1,838,000 from the same quarter a year ago, primarily as a result of the sharp decline in sales for the period. Gross margin as a percentage of sales, was 25% in the quarter ended March 31, 2002, compared to 37% in the same quarter of the previous year. The decrease in gross margin arose from certain fixed costs associated with a lower number of units shipped, as well as continued decreases in average sales prices for ATM products.

Selling, general and administrative expenses for the quarter ended March 31, 2002 increased 5% from the same quarter of the previous year despite the significant decline in sales for the period. While the Company has reduced its staff by more than 10% and reduced certain of its costs and expenses, these reductions have been more than offset by increases in legal and accounting fees. Legal and accounting fees increased approximately $200,000 and $500,000, for the three months and six months periods ended March 31, 2002, respectively, primarily due to the CCC bankruptcy matter and related litigation.

Depreciation and amortization for the quarter ended March 31, 2002 was $331,000, a decrease of $11,000 from the same quarter of the previous year. This difference is attributable to assets that became fully depreciated at the beginning of the year, which were related to additions of property, plant and equipment used in production of new ATM models. Similarly, depreciation for the six months ended March 31, 2002 was $95,000 lower than the 2001 provision because of the effect of fully depreciated assets.

Interest expense increased $199,000 in the quarter ended March 31, 2002, net of interest income of $223,000 arising primarily from interest applicable to Federal income tax refunds, when compared to the same quarter of the previous year. The net increase is due to the accrual of penalty interest of $405,000 per quarter on the Company's Convertible Debentures, which the Company has incurred since the Debentures were "put" back to the Company in June 2001. This amount is in addition to the regular accrual of $270,000 per quarter on the Debentures at the stated interest rate. Although this interest has been and continues to be accrued, the Company has made no cash payments of interest to the debenture holders since June 2001.

Income tax expense (benefit) in the three months and six months ended March 31, 2002 included a tax benefit of $323,457 relating to refunds of alternative minimum tax for which the Company had previously established a valuation allowance. In 2002, the Company has established a valuation allowance equal to the amount of all other remaining income tax benefits due to the uncertainty of the Company's ability to utilize such benefits. The Company has recorded an income tax provision in the three months and six months ended March 31, 2001 representing an effective tax rate of 34.5%.

LIQUIDITY AND CAPITAL RESOURCES

The financial position of the Company has deteriorated during the second fiscal quarter of 2002 as a result of CCC's bankruptcy and the Company's termination of sales to CCC, unprofitable operations and reduced sales of the Company's products resulting from general difficulties in the ATM market. This deterioration is reflected in the following key indicators as of March 31, 2002 and September 30, 2001:

	(dollars in 000's)	
	March 31, 2002	September 30, 2001
Cash	$ 1,886	$ 3,266
Working capital (deficit)	(3,896)	250
Total assets	28,645	33,837
Shareholders' equity	1,199	5,194

The Company is party to a credit agreement with a bank (the "Lender") (as amended, the "Revolving Credit Facility"), which provides for a $7,000,000 revolving line of credit with interest equal to the prime rate and a $544,000 term loan at 8.4% interest per annum. At March 31, 2002, $4,680,000 was outstanding under the Revolving Credit Facility and $160,000 was outstanding under the term loan, compared to $5,200,000 and $224,000, respectively, at September 30, 2001. Subsequent to March 31, 2002, the Company has paid off the term loan in its entirety and reduced the outstanding balance of the Revolving Credit Facility from $4,680,000 to $2,000,000. The Revolving Credit Facility was amended effective April 30, 2002 to provide for, among other things, an extension of the maturity date until August 30, 2002; the reduction of the revolving commitment to $2,000,000; modification of the collateral requirements to include a pledge of a money market account in an amount equal to 110% of the

outstanding principal balance, which pledge is currently $2,200,000; and the waiver by the bank of certain covenants from April 30, 2002 to August 30, 2002.

In April 2002, Tidel received $4,833,000 of the Federal income tax refunds, which represents all expected tax refunds. These funds were used to reduce the outstanding principal on the Revolving Credit Facility and to provide the additional collateral in connection with the extension with J P Morgan Chase.

In January 2002, the Company obtained a commitment from another bank for a line of credit loan of up to $5,000,000 through December 31, 2002, to replace the Revolving Credit Facility. The commitment

contains certain conditions and covenants which require, among other things, a collateral pledge of cash in an amount equal to 100% of the loan amount. The Company has not utilized the commitment to obtain a loan from this bank, and is presently in discussions with another lender regarding the replacement of the Revolving Credit Facility prior to August 30, 2002. There can be no assurance that such discussions will be successful or that a replacement for the Revolving Credit Facility will be obtained at all, or on terms favorable to the Company. A failure to obtain a replacement facility on or prior to August 30, 2002 could have a material adverse effect upon the Company.

In September 2000, the Company issued to two investors (the "Holders") an aggregate of $18,000,000 of the Company's 6% Convertible Debentures, due September 8, 2004 (the "Convertible Debentures"), convertible into the Company's Common Stock at a price of $9.50 per share. In addition, the Company issued warrants to the Holders to purchase 378,947 shares of the Company's Common Stock exercisable at any time through September 8, 2005 at an exercise price of $9.80 per share. The Convertible Debentures provide for three methods to convert the debentures into shares of the Company's Common Stock: (1) conversion at the option of the Holder; (2) conversion at the option of the Company; and (3) a put option.

In June 2001, the Holders exercised their option to put the Convertible Debentures back to the Company. The Company had previously notified the Holders pursuant to the terms of the Convertible Debentures that in the event such put option was exercised, the Company would pay all amounts due in cash. Accordingly, the principal amount of $18 million, plus accrued and unpaid interest, was due on August 27, 2001. The Company did not make such payment on that date, and currently does not have the funds available to make such payments. The Company is party to Subordination Agreements (the "Subordination Agreements") with each Holder and the Lender which provide, among other things, for prohibitions: (i) on the Company making this payment to the Holders, and (ii) against the Holders taking legal action against the Company to collect this amount, other than to increase the principal balance of the Convertible Debentures for unpaid accounts or to convert the Convertible Debentures into the Company's Common Stock. The Holders may, in addition to their other rights and remedies, under certain circumstances, convert into the Company's Common Stock all or a portion of the unpaid amount due at a conversion price equal to the current market price. Any such conversion would result in very substantial dilution to the Company's existing stockholders. In addition, any issuance of stock required by a conversion in excess of 19.99% of the Company's issued and outstanding shares will require stockholder approval under the Nasdaq Rules, accordingly, it is unlikely that such an issuance would be

permitted, which could subject the Company to additional penalties under the agreements. In the event that the Company fails to prepay the Convertible Debentures as required under the terms of the Convertible Debentures and related agreements, the Holders would also have the right to declare an event of default under the Convertible Debentures. A declaration of an event of default would also be a default under the Revolving Credit Facility. The Company continues to negotiate with the Holders regarding such non-payment and other terms of the Convertible Debentures. There can be no assurance, however, that such negotiations will be successful or that modifications to the Convertible Debentures will be able to be negotiated on terms acceptable to the Company. It is unknown what, if any, actions may be taken by the Holders to enforce their rights under the Convertible Debentures. Depending on the actions taken, any such action could have a material adverse effect upon the financial condition or operations of the Company.

Even in the event that the ongoing negotiations are successful in waiving provisions, delaying payments or restructuring the provisions of the Convertible Debentures, such terms may not be favorable to the Company, and could limit the Company's operations in the future. A failure to reach agreements on acceptable terms to the Company with respect to the matters described above relating to the Convertible Debentures will have a material adverse effect on the Company.

The Company formerly owned 100% of 3CI Complete Compliance Corporation ("3CI"), a company engaged in the transportation and incineration of medical waste, until its divestiture of a majority interest in February 1994. The Company continues to own 698,464 shares of the common stock of 3CI. The Company has no immediate plan for the disposal of these shares, and accordingly, all the shares are presently pledged to secure borrowings under the Revolving Credit Facility.

The Company's research and development budget for fiscal 2002 has been estimated at $2,900,000. The majority of these expenditures are applicable to enhancements of the existing product lines, development of new automated teller machine and cash controller products, and the development of new technology to facilitate advanced services such as check cashing. Total research and development expenditures were approximately $685,000 and $1,362,000 for the three months and six months ended March 31, 2002.

The Company used $717,000 for operating activities for the six months ended March 31, 2002, primarily due to the continuing losses sustained in the downturn in business. Management believes that operations will improve, and that the Company will begin to generate cash flow in the first fiscal quarter of 2003, although there can be no assurance of any such improvement, or that the Company will generate cash flow in the first fiscal quarter of 2003 or at any other time. In the interim, management believes that the Company has adequate resources to cover its requirements for working capital. Such resources include cash on hand, anticipated collection of certain notes receivable, and proceeds from a new debt facility that management is negotiating regarding the replacement of the Revolving Credit Facility.

There can be no assurance that such discussions will be successful or that a replacement for the Revolving Credit Facility will be obtained at all, or on terms favorable to the Company. A failure to obtain a replacement facility on or prior to August 30, 2002 could have a material adverse

effect upon the Company.

The Company has never paid dividends on shares of its Common Stock, and does not anticipate paying dividends in the foreseeable future. In addition, the Company's wholly owned subsidiary is restricted from paying dividends to the Company pursuant to the subsidiary's revolving credit agreement with a bank.

MAJOR CUSTOMERS AND CREDIT RISK

The Company generally retains a security interest in the underlying equipment that is sold to customers until it receives payment in full. The Company 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 the credit arrangements.

Foreign sales accounted for 9% and 13% of the Company's total sales during the three months ended March 31, 2002 and 2001, respectively. On a year to date basis, foreign sales accounted for 9% and 6% of sales during the six months ended March 31, 2002 and 2001, respectively. All sales are transacted in U.S. dollars.

IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In July 2001, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations," and SFAS No.142, "Goodwill and Other Intangible Assets." SFAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS 141 also specifies criteria that intangible assets must meet in order to be recognized and reported separately from goodwill. SFAS 142 requires that goodwill and intangible assets with indefinite useful lives will no longer be amortized to expense, but instead will be tested for impairment at least annually. Intangible assets with definite useful lives will be amortized to expense.

The Company is required to adopt the provisions of SFAS 141 immediately and SFAS 142 effective October 1, 2002. Goodwill and intangible assets acquired in business combinations completed before July 1, 2001 will continue to be amortized through September 30, 2002.

As of October 1, 2002, the Company will be required to reassess the useful lives of all acquired intangible assets and make any necessary amortization period adjustments by December 31, 2002. The Company will also be required to perform an assessment of whether there is an impairment of goodwill as of October 1, 2002, and at least annually thereafter. Any impairment charge recognized at October 1, 2002 will be shown as the cumulative effect of a change in accounting principle in the Company's statement of operations.

As of October 1, 2002, the Company expects to have unamortized goodwill of approximately $427,400, which will be subject to the transition provisions of SFAS 142. Amortization expense related to goodwill was $15,444 for each of the years ended September 30, 2001 and 2000. This amortization of goodwill will no longer occur under the new standards. The Company is evaluating the impact of adopting SFAS 142, but because of the extensive effort required, it is not practicable to reasonably determine, at the

date of this report, whether a goodwill impairment charge will be recorded upon adoption of the new standards.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which supersedes both SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations--Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions", for the disposal of a segment of a business. SFAS 144 provides a single accounting model for long-lived assets to be disposed of. Although retaining many of the fundamental recognition and measurement provisions of SFAS 121, the new rules change the criteria to be met to classify an asset as held-for-sale. The new rules also broaden the criteria regarding classification of a discontinued operation.

RISK FACTORS

Please see the risk factors contained in the Company's Annual Report on Form 10-K for the year ended September 30, 2001.

FORWARD-LOOKING STATEMENTS

This Form 10-Q contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are intended to be covered by the safe harbors created thereby. Investors are cautioned that all forward-looking statements involve risks and uncertainty (including without limitation, the exercise of the put on the Convertible Debentures, the Company's non-compliance with certain provisions of its Revolving Credit Facility and Convertible Debentures, the Company's financial position and working capital availability, 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; competition and competitive pressures on pricing; the economic

condition of the ATM industry and the possibility that it is a mature industry; and economic conditions in the United States and worldwide), though the Company believes that the assumptions underlying the forward-looking statements contained herein are reasonable, any of the assumptions could be inaccurate, and therefore, there can be no assurance that the forward-looking statements included in this Form 10-Q will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by the Company or any other person that the objectives and plans of the Company will be achieved.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to changes in interest rates as a result of financing through its issuance of variable-rate and fixed-rate debt. If market interest rates were to increase 1% in fiscal 2002, however, there would be no material impact on the Company's consolidated results of operations or financial position.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

CCC filed for protection under Chapter 11 of the United States Bankruptcy Code on June 6, 2001 in the United States Bankruptcy Court for the Eastern District of Pennsylvania. At that time, CCC owed the Company approximately $27 million, excluding any amounts for interest, attorney's fees and other charges. As of September 30, 2001, the Company had recouped inventory from the estate of CCC recorded at an approximate value of $3 million. At the time of the bankruptcy filing, the obligation was secured by a collateral pledge of accounts receivable, inventories and transaction income, although it is unclear as to what is the value of the Company's collateral. Based upon analysis by the Company of all available information regarding the CCC bankruptcy proceedings, the Company established a reserve in the amount of approximately $24 million in the fiscal year ended September 30, 2001 against substantially all of the remaining balance of the note and accounts owed to the Company by CCC. Depending on the resolution of the bankruptcy proceedings, the Company may incur additional charges to earnings in future periods. Management of the Company intends to continue to monitor this matter and to take all actions that it determines to be necessary based upon its monitoring of the situation.

In connection with CCC's bankruptcy filing, the Company filed proofs of claim as to the obligations of CCC due and owing the Company and the Company's interest in certain assets of CCC. Fleet National Bank ("Fleet"), which provided banking and related services to CCC, also filed claims asserting security interests in certain of the property in the bankruptcy estate of CCC. NCR, another secured creditor and vendor of CCC, and other leasing companies, filed claims based on alleged security interests in certain property of the bankruptcy estate as well.

In the bankruptcy case, Fleet commenced an adversary proceeding against the Company and NCR seeking to assert its priority over the claims of the Company and NCR to some or all of the assets of CCC.

The Company responded to Fleet's complaint and asserted claims against Fleet and NCR seeking a declaration from the court as to the Company's priority over the security interests held by Fleet and NCR. The Company is taking other appropriate action in the bankruptcy proceeding to protect its interest and rights.

Prior to CCC's bankruptcy filing, the Company had commenced actions against CCC and Andrew J. Kallok ("Kallok"), the principal shareholder and executive officer of CCC. The actions commended by the Company were stayed upon CCC's bankruptcy filing. The Company is pursuing the action, however, which it filed against Kallok on May 14, 2001. Kallok did not answer the motions filed by the Company in this matter and the Company filed a Motion for Default Judgment against Kallok on June 14, 2001. Kallok filed an Answer and Motion to Set Aside Interlocutory Default Judgment, which was ordered by the court, and a non-jury trial in this matter is currently scheduled for November 2002. Due to the current stage of the proceeding as well as the related bankruptcy proceeding of CCC, it is not possible to estimate the outcome of this action.

On or about April 21, 2002, the bankruptcy case was converted to a Chapter

7 and the appointment of a Trustee by the Court is presently pending.

The Company and several of its 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, George Lehockey v. Tidel Technologies, et al., H-01-3741. Subsequent to the filing of this suit, 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 alleges that defendants made material misrepresentations and omissions concerning the Company's financial condition and prospects between January 14, 2000 and February 8, 2001 (the putative class period). The lead plaintiff seeks unspecified amounts of compensatory damages, interest, and costs, including legal fees. The Company denies the allegations in the CAC, and on May 10, 2002, filed a motion to dismiss the CAC. The Company anticipates that the lead plaintiff will file a response in June 2002, and the Court will issue a ruling on the motion sometime in the fourth quarter of fiscal 2002 or the first quarter of fiscal 2003. The consolidated class action lawsuits are still in the early stages of litigation. Consequently, it is not possible at this time to predict whether the Company will incur any liability or to estimate the damages, or the range of damages, if any, that the Company might incur in connection with these lawsuits. The inability of the Company to prevail in this action could have a material adverse affect on the Company's future business, financial condition, and results of operations.

The Company and its subsidiaries are each subject to certain litigation and claims arising in the ordinary course of business. In the opinion of the management of the Company, the amounts ultimately payable, if any, as a result of such litigation and claims will not have a materially adverse effect on the Company's financial position.

ITEM 2. CHANGES IN SECURITIES

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

See "Liquidity and Capital Resources" in Item 2 of this Quarterly Report on Form 10-Q for a discussion of the Revolving Credit Facility and the Convertible Debentures.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

ITEM 5. OTHER INFORMATION

In March 2002, the Company was notified by The Nasdaq National Market that the price of the Company's common stock had closed below the minimum continued listing requirement of $1.00 per share for thirty consecutive trading days. Accordingly, on March 22, 2002, the Company voluntarily transferred its listing to The Nasdaq SmallCap Market where it will have until August 13, 2002 to regain compliance with the $1.00 minimum bid

price requirement. If it does not, then the Company has been notified that it will be provided with written notification that its securities will be subject to delisting procedures. For additional information, see "Risk Factors - Compliance with NASDAQ National Market Continued Listing Requirements" contained in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2001.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a) EXHIBITS

None.

b) REPORTS ON FORM 8-K

The Company filed two reports on Form 8-K under Item 5 - Other Events dated January 17, 2002 and February 5, 2002.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TIDEL TECHNOLOGIES, INC.
(Registrant)

DATE: May 20, 2002

By:/s/ MARK K. LEVENICK

Mark K. Levenick
Interim Chief Executive Officer