TIDEL TECHNOLOGIES INC
Form 10-Q
February 19, 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 December 31, 2001
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 [X] NO [ ]

APPLICABLE ONLY TO CORPORATE ISSUERS:

The number of shares of Common Stock outstanding as of the close of business on February 14, 2001 was 17,426,210.

TIDEL TECHNOLOGIES, INC.

I N D E X

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TIDEL TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

ASSETS	DECEMBER 31, 2001 (UNAUDITED)
Current Assets:	
Cash and cash equivalents	$ 3,170,164
Trade accounts receivable, net of allowance of $21,410,565 and $21,427,042, respectively	5,597,148
Notes and other receivables, net of allowance of $4,000,000	1,356,493
Federal income tax receivable	4,356,383
Inventories	10,670,897
Prepaid expenses and other	572,034
Total current assets	25,723,119
Property, plant and equipment, at cost	5,710,624
Accumulated depreciation	(4,253,489)

Net property, plant and equipment	1,457,135
Intangible assets, net of accumulated amortization of $1,209,055 and $1,199,579, respectively	492,018
Notes receivable	2,507,125
Other assets	181,038
Total assets	$ 30,360,435

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities:	
Current maturities -	
Long-term debt	$ 4,872,000
Convertible debentures	18,000,000
Accounts payable	1,824,676
Accrued liabilities	2,912,528
Total current liabilities	27,609,204
Long-term debt, net of current maturities	--
Total liabilities	27,609,204
Commitments and contingencies	
Shareholders' Equity:	
Common stock, $.01 par value, authorized 100,000,000 shares; issued and outstanding 17,426,210 shares	174,262
Additional paid-in capital	19,245,958
Accumulated deficit	(16,023,781)
Stock subscriptions receivable	(217,188)
Accumulated other comprehensive loss	(428,020)
Total shareholders' equity	2,751,231
Total liabilities and shareholders' equity	$ 30,360,435

See accompanying notes to consolidated financial statements.

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

	THREE MONTHS ENDED DECEMBER 31,	
	2001	2000
Revenues	$ 4,636,651	$16,696,463
Cost of sales	3,435,276	10,395,117
Gross profit	1,201,375	6,301,346
Selling, general and administrative	2,616,707	2,755,368

Depreciation and amortization	256,535	340,854
Operating income (loss)	(1,671,867)	3,205,124
Interest expense, net	728,849	322,105
Income (loss) before taxes	(2,400,716)	2,883,019
Income tax expense	--	995,000
Net income (loss)	$ (2,400,716)	$ 1,888,019
Basic earnings (loss) per share:		
Net income (loss)	$ (0.14)	$ 0.11
Weighted average common shares outstanding	17,426,210	17,376,210
Diluted earnings (loss) per share:		
Net income (loss)	$ (0.14)	$ 0.10
Weighted average common and dilutive shares outstanding	17,426,210	20,396,115

See accompanying notes to consolidated financial statements.

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

	Three Months Ended December 31,	
	2001	2000
Net income (loss)	$(2,400,716)	$ 1,888,019
Other comprehensive income (loss):		
Unrealized loss on investment in 3CI	(41,909)	(32,758)
Comprehensive income (loss)	$(2,442,625)	$ 1,855,261

See accompanying notes to consolidated financial statements.

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

	Three Months Ended Dec
	2001

Cash flows from operating activities:		
Net income (loss)	$(2,400,716)	$
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	256,535	
Amortization of debt discount and financing costs	--	
Changes in assets and liabilities:		
Trade accounts receivable, net	1,439,285	
Notes and other receivables	(228,549)	
Federal income tax receivable	1,240,000	
Inventories	659,729	
Prepaids and other assets	(8,997)	
Accounts payable and accrued liabilities	(481,756)	
Net cash provided by (used in) operating activities	475,531	
Cash flows from investing activities -		
Purchases of property, plant and equipment	(19,603)	
Cash flows from financing activities:		
Repayments of revolving credit note	(520,000)	
Repayments of term loan	(32,000)	
Net cash used in financing activities	(552,000)	
Net decrease in cash and cash equivalents	(96,072)	
Cash and cash equivalents at beginning of period	3,266,236	
Cash and cash equivalents at end of period	$ 3,170,164	$
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 72,816	$
Cash paid for taxes, net of refunds receivable	$ --	$

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 year ended September 30, 2001.

(2) INVENTORIES

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

	December 31, 2001	September 30, 2001
Raw materials	$ 7,535,145	$ 7,361,295
Work in process	61,947	--
Finished goods	1,502,171	1,926,505
Inventory repurchased from Credit Card Center	1,370,097	1,822,450
Other	321,587	310,426
	10,790,947	11,420,676
Inventory reserve	(120,050)	(90,050)
	$ 10,670,897	$ 11,330,626

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 estate of 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 December 31, 2001, $4,680,000 was outstanding under the Revolving Credit Facility and $192,000 was outstanding under the term loan, compared to $5,200,000 and $224,000, respectively, at September 30, 2001. The Revolving Credit Facility was amended on December 18, 2001 to provide for, among other things, certain modifications to the financial covenants set forth in the Revolving Credit Agreement, modifications to the borrowing base, the reduction of the revolving line of credit from $10,000,000 to $7,000,000, and the waiver of compliance with certain covenants by the Company for the quarters ended June 30, 2001 and September 30, 2001. Under the terms of the Revolving Credit Facility, we currently lack the necessary borrowing base to enable us to borrow any significant amount of the unused portion of the

revolving line of credit, and accordingly have only minimal availability under the Revolving Credit Facility. In addition, the Company was not in compliance with certain financial covenants under the Revolving Credit Facility as of December 31, 2001, and continues to be in non-compliance as of the filing date. As a result, the Lender could declare an event of default and exercise its remedies under the Revolving Credit Facility. Such remedies include the acceleration of all outstanding loans and the termination of the commitments. The Company does not have the funds available to repay all of its outstanding borrowings under the Revolving Credit Facility at the present time. Additionally, the Revolving Credit Facility expires, in accordance with its terms, on April 30, 2002. There can be no assurance that the Revolving Credit Facility will be renewed, and if it is not renewed, there can be no assurance that the Company will be able to obtain similar financing. The Company has been negotiating with other lenders to obtain financing to replace the Revolving Credit Facility at its expiration. In January 2002, the Company obtained a commitment from another lender, that would provide for up to $5 million of such financing. This commitment requires the Company to meet certain conditions and covenants and to restrict certain assets as collateral for the financing, as well as the execution of additional loan documents. The Company expects to comply with such conditions and covenants, although there can be no assurance that the Company will be able to comply with such conditions and covenants.

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 our 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 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 we fail 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 is currently in negotiations 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.

Even in the event the ongoing negotiations are successful in waiving provisions, delaying payments or restructuring the provisions of the Revolving Credit Facility and/or 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 Revolving Credit Facility and/or 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 ended December 31, 2001 and 2000. Note that diluted loss per share for the three months ended December 31, 2001 is the same as basic loss per share due to the loss reported for the period:

	Income (loss)	W Aver Ou
Three Months Ended December 31, 2001:		
Basic loss per share....................................	$(2,400,716)	1
Effect of dilutive warrants, options and convertible debt....................................	--	
Diluted loss per share..................................	$(2,400,716)	1
Three Months Ended December 31, 2000:		
Basic earnings per share................................	$ 1,888,019	1
Effect of warrants, options and convertible debt....................................	179,665	
Diluted earnings per share..............................	$ 2,067,684	2

Common stock equivalents consisting of warrants, options and convertible debt that provide for the purchase of or conversion into 4,250,857 and 3,068,689 shares of common stock were excluded from the computation of diluted earnings per share due to their anti-dilutive effect for the quarters ended December 31, 2001 and 2000, respectively.

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

RESULTS OF OPERATIONS

OVERVIEW

Sales to one customer, JRA 222, Inc. d/b/a Credit Card Center ("CCC"), were $11,748,018, or 70% of the Company's net sales, for the quarter ended December 31, 2000. During January 2001, the Company became aware that CCC was experiencing financial difficulties and sales to this customer were discontinued. Prior to CCC's financial difficulties it was one of the largest distributors of offpremise ATMs in the U.S. There have been no shipments to CCC since January 1, 2001, and the Company does not expect to make any shipments to CCC in the future. As a result, the termination of sales to CCC had a material adverse effect on the Company's sales and earnings for the quarter ended December 31, 2001.

The Company's revenues were $4,637,000 for the three months ended December 31, 2001, representing a decrease of $12,059,000, or 72%, from revenues of $16,696,000 in the same quarter of the prior year. The decrease in sales was primarily due to the loss of business from CCC.

The Company incurred a net loss of $(2,401,000) for the three months ended December 31, 2001, compared to net income of $1,888,000 in the same quarter of the prior year. The net loss for the three months ended December 31, 2001 was caused primarily by i) lower sales volumes after the loss of CCC's business, ii) legal and accounting fees related to the collection of receivables from CCC, and iii) higher interest expenses related to the "put" of the Company's 6% subordinated convertible debentures in June 2001.

See the Company's Annual Report on Form 10-K for the year ended September 30, 2001 for additional information about the Company's relationship with CCC.

PRODUCT REVENUES

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

	(Dollars in 000's) Three Months Ended December 31,	
	2001	2000
ATM................................	$ 2,179	$13,098
TACC...............................	1,675	1,472
Parts, service and other...........	783	2,126
	$ 4,637	$16,696

ATM sales decreased 83% in the past year due primarily to the loss of CCC as a customer as described elsewhere herein. For the quarter ended December 31, 2001, the Company shipped a total of 677 ATM units, an 80% decrease from the 3,310 units shipped in the same quarter of the prior year. For the quarter ended December 31, 2001, shipments to non-CCC customers decreased 30% from the 971 units shipped to non-CCC customers in the same quarter of the prior year. In the opinion of management, the decline in non-CCC business in the quarter ended December 31, 2001 was due primarily to i) the economic downturn as a result of the events of September 11, 2001 and ii) the deferral of ATM purchases by certain retailers until 2002.

Timed Access Cash Controller ("TACC") sales increased 14% in the quarter ended December 31, 2001, due primarily to the timing of the receipt of orders from customers.

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 December 31,	
	2001	2000
Gross profit	$ 1,201	$6,301
Selling, general and administrative	2,617	2,755
Depreciation and amortization	256	341
Operating income (loss)	(1,672)	3,205
Interest expense	729	322
Income (loss) before taxes	(2,401)	2,883
Income taxes	--	995
Net income (loss)	$(2,401)	$1,888

Gross profit on product sales decreased $5,100,000 from the quarter ended December 31, 2000, primarily as a result of the sharp decline in sales for the period. Gross margin as a percentage of sales, was 26% in the quarter ended December 31, 2001, compared to 38% 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.

Selling, general and administrative expenses for the quarter ended December 31, 2001 decreased slightly from the same quarter of the previous year despite the significant decline in sales for the period. Reduction in variable costs was offset by an increase of approximately $300,000 in legal and accounting fees associated with the CCC bankruptcy and other matters.

Depreciation and amortization for the quarter ended December 31, 2001 was $256,000, a decrease of $85,000 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.

Interest expense increased $407,000 in the quarter ended December 31, 2001 when compared to the same quarter of the previous year, due to accelerated interest on the Company's 6% subordinated convertible debentures from June 27, 2001, as a result of the missed "put payment" on August 27, 2001.

Income tax expense included a provision in the quarter ended December 31, 2000 representing an effective tax rate of 34.5%. In the quarter ended December 31 2001, the Company established a valuation allowance equal to the amount of income tax benefit due to the uncertainty of the Company's ability to utilize such benefit.

LIQUIDITY AND CAPITAL RESOURCES

The financial position of the Company deteriorated during fiscal 2001 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 December 31, 2001 and September 30, 2001:

	(dollars in 000's)	
	December 31, 2001	September 30, 2001
Cash................................	$ 3,170	$ 3,266
Working capital (deficit)...........	(1,886)	565
Total assets........................	30,360	33,837
Shareholders' equity................	2,751	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 December 31, 2001, $4,680,000 was outstanding under the Revolving Credit Facility and $192,000 was outstanding under the term loan, compared to $5,200,000 and $224,000, respectively, at September 30, 2001. The Revolving Credit Facility was amended on December 18, 2001 to provide for, among other things, certain modifications to the financial covenants set forth in the Revolving Credit Agreement, modifications to the borrowing base, the reduction of the revolving line of credit from $10,000,000 to $7,000,000, and the waiver of compliance with certain covenants by the Company for the quarters ended June 30, 2001 and September 30, 2001. Under the terms of the Revolving Credit Facility, we currently lack the necessary borrowing base to enable us to borrow any significant amount of the unused portion of the revolving line of credit, and accordingly have only minimal availability under the Revolving Credit Facility. In addition, the Company was not in compliance with certain financial covenants under the Revolving Credit Facility as of December 31, 2001, and continues to be in non-compliance as of the filing date. As a result, the Lender could declare an event of default and exercise its remedies under the Revolving Credit Facility. Such remedies include the acceleration of all outstanding loans and the termination of the commitments. The Company does not have the funds available to repay all of its outstanding borrowings under the Revolving Credit Facility at the present time. Additionally, the Revolving Credit Facility expires, in accordance with its terms, on April 30, 2002. There can be no assurance that the Revolving Credit Facility will be renewed, and if it is not renewed, there can be no assurance that the Company will be able to obtain similar financing. The Company has been negotiating with other lenders to obtain financing to replace the Revolving Credit Facility at its expiration. In January 2002, the Company obtained a commitment from another lender, that would provide for up to $5 million of such financing. This commitment requires the Company to meet certain conditions and covenants and to restrict certain assets as collateral for the financing, as well as the execution of additional loan documents. The Company expects to comply with such conditions and covenants, although there can be no assurance that the Company will be able to comply with such conditions and covenants.

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

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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 our 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 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 we fail 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 is currently in negotiations 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.

Even in the event the ongoing negotiations are successful in waiving provisions, delaying payments or restructuring the provisions of the Revolving Credit Facility and/or 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 Revolving Credit Facility and/or 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 agreement with a bank.

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 such advanced services as check cashing and money order issuance. Total research and development expenditures were approximately $677,000 for the quarter ended December 31, 2001.

In addition to the matters described in the foregoing paragraphs relating to indebtedness, the Company's financial position has also been adversely impacted by the downturn in operations as more fully described above. Reduced sales, together with the recoupment of inventory from the estate of CCC, have resulted in a buildup of finished goods and inventories in excess of the level normally maintained by the Company.

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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.

Sales to CCC and the Company's other two major customers were as follows for the three months ended December 31, 2001 and 2000:

	(Dollars in 000's) Three Months Ended December 31,	
	2001	2000
Credit Card Center.............	$ --	$11,786,718
Customer B.....................	1,067,385	1,838,020
Customer C.....................	490,815	--

Sales to customers outside the United States were approximately 9% and 3% of total revenues in the three months ended December 31, 2001 and 2000, respectively. All sales were 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, the Company's financial position and working capital availability, the Company's future product sales, gross profit, selling, general and administrative expense, and seasonal variances in the Company's operations, as well as general market conditions), 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,

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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 commenced against CCC 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.

The Company and several of its officers and directors were named as 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. The plaintiffs in these actions purport to represent purchasers of our Common Stock from April 6, 2000 to February 8, 2001. These cases have not yet been consolidated, nor has the court appointed a lead plaintiff. The plaintiffs in the various cases are seeking unspecified amounts of compensatory damages, interest, and costs, including legal fees. The Company denies the allegations in the complaints and intends to defend itself vigorously. The 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

The Company was not in compliance with certain financial covenants under the Revolving Credit Facility as of December 31, 2001, and continues to be in non-compliance as of the filing date. See "Liquidity and Capital Resources".

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

Not applicable.

ITEM 5. OTHER INFORMATION

The Company has been notified by The Nasdaq National Market that the price of the Company's common stock has closed below the minimum continued listing requirement of $1.00 per share for thirty consecutive trading days, and that the Company will have until May 15, 2002 to regain compliance with the minimum bid price requirement. The Company has been notified that if it cannot regain compliance with the minimum bid requirements, then it will be provided with written notification that its securities will be subject to delisting procedures. The Company intends to apply to transfer its securities to The Nasdaq SmallCap Market, which transfer would take effect in the event the Company were unable to remain listed on The Nasdaq National Market. 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.

On February 5, 2002, the Company announced that James T. Rash, its Chairman, CEO and CFO, had taken a leave of absence for personal health reasons. The Board of Directors appointed Mark K.

Levenick, COO of Tidel, to the position of Interim CEO. The Company's Audit Committee, chaired by Raymond P. Landry, has provided additional oversight for various financial responsibilities during Mr. Rash's absence.

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 October 19, 2001 and December 21, 2001.

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: February 19, 2002

By: /s/ MARK K. LEVENICK

Mark K. Levenick
Interim Chief Executive Officer