

Edgar Filing: TIDEL TECHNOLOGIES INC - Form 10-Q

TIDEL TECHNOLOGIES INC
Form 10-Q
May 21, 2001

1

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 For the quarterly period ended March 31, 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 (I.R.S. Employer
incorporation or organization) 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

APPLICABLE ONLY TO CORPORATE ISSUERS:

The number of shares of Common Stock outstanding as of the close of
business on May 21, 2001 was 17,426,210.

2

TIDEL TECHNOLOGIES, INC.

I N D E X

Edgar Filing: TIDEL TECHNOLOGIES INC - Form 10-Q

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Balance Sheets as of March 31, 2001
(unaudited) and September 30, 2000.....

Consolidated Statements of Income (unaudited) for the
three months and six months ended
March 31, 2001 and 2000.....

Consolidated Statements of Comprehensive Income
(unaudited) for the three months and
six months ended March 31, 2001 and 2000.....

Consolidated Statements of Cash Flows (unaudited) for
the six months ended March 31, 2001 and 2000.....

Notes to Consolidated Financial Statements (unaudited).....

Item 2. Management's Discussion and Analysis of Financial
Condition and Results of Operations.....

Item 3. Quantitative and Qualitative Disclosures About Market Risks.....

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.....

Item 2. Changes in Securities.....

Item 3. Defaults Upon Senior Securities.....

Item 4. Submission of Matters to a Vote of Security Holders.....

Item 5. Other Information.....

Item 6. Exhibits and Reports on Form 8-K.....

SIGNATURE.....

3

TIDEL TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

ASSETS	March 31, 2001 ----- (unaudited)	September 30, 2000 -----
Current Assets:		
Cash and cash equivalents	\$ 2,515,504	\$16,223,19
Trade accounts receivable, net of allowance of \$462,644 and \$448,037, respectively	30,897,789	29,168,13

Edgar Filing: TIDEL TECHNOLOGIES INC - Form 10-Q

Notes and other receivables	8,474,738	1,151,68
Inventories	13,516,477	10,415,49
Deferred tax assets and other	1,609,751	1,502,72
	-----	-----
Total current assets	57,014,259	58,461,22
Investment in 3CI, at market value	207,374	130,96
Property, plant and equipment, at cost	5,575,452	4,919,18
Accumulated depreciation	(3,445,311)	(2,954,87
	-----	-----
Net property, plant and equipment	2,130,141	1,964,31
Intangible assets, net of accumulated amortization of \$1,180,627 and \$1,161,675, respectively	520,446	539,39
Deferred financing costs and other assets	2,008,045	1,964,46
	-----	-----
Total assets	\$61,880,265	\$63,060,35
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Current maturities of long-term debt	\$ 128,000	\$ 128,00
Accounts payable	6,574,181	8,176,90
	-----	-----
Accrued liabilities	1,824,974	3,640,26
	-----	-----
Total current liabilities	8,527,155	11,945,16
Long-term debt, net of current maturities	5,360,000	5,424,00
Convertible debentures, net of discount of \$1,010,763 and \$1,155,157, respectively	16,989,237	16,844,84
	-----	-----
Total liabilities	30,876,392	34,214,01
	-----	-----
Commitments and contingencies		
Shareholders' Equity:		
Common stock, \$.01 par value, authorized 100,000,000 shares; issued and outstanding 17,426,210 shares and 17,376,210 shares, respectively	174,262	173,76
Additional paid-in capital	17,282,262	17,207,13
Retained earnings	14,272,146	12,318,72
Deferred financing costs	(364,459)	(416,52
Accumulated other comprehensive loss	(360,338)	(436,75
	-----	-----
Total shareholders' equity	31,003,873	28,846,34
	-----	-----
Total liabilities and shareholders' equity	\$61,880,265	\$63,060,35
	=====	=====

See accompanying notes to consolidated financial statements.

Edgar Filing: TIDEL TECHNOLOGIES INC - Form 10-Q

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

	Three Months Ended March 31,		Six M
	2001	2000	20
	-----		-----
Revenues	\$ 8,155,917	\$18,662,690	\$24,852,
Cost of sales	5,145,773	11,564,350	15,540,
	-----		-----
Gross profit	3,010,144	7,098,340	9,311,
Selling, general and administrative	2,220,400	2,863,885	4,975,
Depreciation and amortization	341,618	318,111	682,
	-----		-----
Operating income	448,126	3,916,344	3,653,
Interest expense, net	347,720	89,169	669,
	-----		-----
Income before income taxes	100,406	3,827,175	2,983,
Income tax expense	35,000	1,308,000	1,030,
	-----		-----
Net income	\$ 65,406	\$ 2,519,175	\$ 1,953,
	-----		-----
Basic earnings per share:			
Net income	\$ 0.00	\$ 0.15	\$ 0
	=====	=====	=====
Weighted average common shares outstanding	17,418,988	16,290,536	17,397,
	=====	=====	=====
Diluted earnings per share:			
Net income	\$ 0.00	\$ 0.14	\$ 0.
	=====	=====	=====
Weighted average common and dilutive shares outstanding	18,360,759	18,320,446	18,469,
	=====	=====	=====

See accompanying notes to consolidated financial statements.

Edgar Filing: TIDEL TECHNOLOGIES INC - Form 10-Q

	Three Months Ended March 31,		Six M
	2001	2000	20
Net income	\$ 65,406	\$ 2,519,175	\$ 1,953,
Other comprehensive income:			
Unrealized gain on investment in 3CI	109,170	130,962	76,
Comprehensive income	\$ 174,576	\$ 2,650,137	\$ 2,029,

See accompanying notes to consolidated financial statements.

3

6

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

	Six Months Ended March 31	
	2001	2000
Cash flows from operating activities:		
Net income	\$ 1,953,425	\$ 4,000,
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	682,472	628,
Amortization of debt issuance costs and discounts	196,460	
Changes in assets and liabilities:		
Trade accounts receivable, net	(1,729,655)	(2,442,
Notes and other receivables	(7,323,058)	(245,
Inventories	(3,100,985)	(4,071,
Prepays and other assets	(323,692)	23,
Accounts payable and accrued liabilities	(3,418,014)	1,669,
Net cash used in operating activities	(13,063,047)	(437,
Cash flows from investing activities -		
Purchases of property, plant and equipment	(656,266)	(243,
Cash flows from financing activities:		
Repayments of long-term debt	--	(894,
Repayments of notes payable	(64,000)	(64,
Proceeds from exercise of warrants and options	75,625	342,
Net cash provided by (used in) financing activities	11,625	(616,

Edgar Filing: TIDEL TECHNOLOGIES INC - Form 10-Q

Net decrease in cash and cash equivalents	(13,707,688)	(1,297,
Cash and cash equivalents at beginning of period	16,223,192	2,423,
Cash and cash equivalents at end of period	\$ 2,515,504	\$ 1,126,
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 859,614	\$ 225,
Cash paid for taxes	\$ 1,640,000	\$ 1,880,

See accompanying notes to consolidated financial statements.

4

7

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, 2000.

(2) INVENTORIES

Inventories consisted of the following at March 31, 2001 and September 30, 2000:

	March 31, 2001	September 30, 2000
	-----	-----
Raw materials.....	\$ 8,214,134	\$ 9,047,215
Work in process.....	10,782	12,191
Finished goods.....	4,842,925	1,244,944
Other.....	458,935	398,560
	-----	-----
	13,526,776	10,702,910
Inventory reserve.....	(10,299)	(287,418)

Edgar Filing: TIDEL TECHNOLOGIES INC - Form 10-Q

 \$ 13,516,477
 =====

 \$ 10,415,492
 =====

(3) EARNINGS PER SHARE

Basic earnings per share is computed by dividing the income 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 for the three months and six months ended March 31, 2001 and 2000:

	Income	Weighted Average Shares Outstanding
	-----	-----
Three Months Ended March 31, 2001:		
Basic earnings per share.....	\$ 65,406	17,418,988
Effect of dilutive warrants and options.....	--	941,771
	-----	-----
Diluted earnings per share.....	\$ 65,406	18,360,759
	=====	=====

5

8

	Income	Weighted Average Shares Outstanding
	-----	-----
Three Months Ended March 31, 2000:		
Basic earnings per share.....	\$ 2,519,175	16,290,536
Effect of dilutive warrants and options.....	--	2,029,910
	-----	-----
Diluted earnings per share.....	\$ 2,519,175	18,320,446
	=====	=====
Six Months Ended March 31, 2001:		
Basic earnings per share.....	\$ 1,953,425	17,397,364
Effect of dilutive warrants and options.....	--	1,072,569
	-----	-----
Diluted earnings per share.....	\$ 1,953,425	18,469,933
	=====	=====
Six Months Ended March 31, 2000:		
Basic earnings per share.....	\$ 4,000,242	16,193,449
Effect of dilutive warrants and options.....	--	1,694,108
	-----	-----
Diluted earnings per share.....	\$ 4,000,242	17,887,557
	=====	=====

Edgar Filing: TIDEL TECHNOLOGIES INC - Form 10-Q

(4) INVESTMENT IN 3CI

The Company owned 698,464 shares of 3CI Complete Compliance Corporation common stock at March 31, 2001 and September 30, 2000, which is carried at market value. In addition, the Company recorded unrealized gains of \$109,170 and \$76,412 as components of other comprehensive income for the three months and six months ended March 31, 2001, respectively.

(5) MAJOR CUSTOMERS

During the six months ended March 31, 2001, the Company made loans to three customers pursuant to a distributor financing program. The aggregate principal amount of the loans was \$8,073,000, of which \$6,873,000 was outstanding as of March 31, 2001. The loans are secured, bear interest at 12% per annum and are due at varying dates. One of these customers, Credit Card Center ("CCC"), accounted for \$11,607,516 and \$18,787,833 of sales during the six months ended March 31, 2001 and 2000, respectively. See "Major Customers and Credit Risks", "Risk Factors" and "Part II, Item 1, Legal Proceedings" for additional information about the Company's relationship with CCC and other major customers.

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

RESULTS OF OPERATIONS

The Company develops, manufactures, sells and supports automated teller machines (the "ATM" products) and electronic cash controller safes (the "Timed Access Cash Controller" or "TACC" products).

PRODUCT REVENUES

The Company's revenues were \$8,156,000 for the quarter ended March 31, 2001, representing a decrease of \$10,507,000, or 56%, from \$18,663,000 for the same quarter in 2000. The decrease in sales was due to the curtailment of ATM shipments to CCC while the Company is trying to resolve delinquent notes and accounts receivable due from CCC. See "Major Customers and Credit Risks", "Risk Factors" and "Part II, Item 1, Legal Proceedings" for additional information about the Company's relationship with CCC. A breakdown of sales by product is presented in the following table:

	(Dollars in 000's)		
	Three Months Ended March 31,		Six Months E
	2001	2000	2001
ATM.....	\$ 5,459	\$ 15,104	\$ 18,556
TACC.....	1,911	1,988	3,383
Parts, service and other.....	786	1,571	2,913

Edgar Filing: TIDEL TECHNOLOGIES INC - Form 10-Q

-----	-----	-----
\$ 8,156	\$ 18,663	\$ 24,852
=====	=====	=====

The three month and six month periods ended March 31, 2000 included sales to CCC of \$10,850,000 and \$18,788,000, respectively, or 58% of total revenues for each of the respective periods. Although ATM unit shipments to non-CCC customers were up 32% for the quarter ended March 31, 2001 compared to the same quarter in 2000, average sales prices per unit were approximately \$960 lower due to the introduction of the lower-priced is2000 model in August 2000.

TACC sales decreased slightly for the three months and six months ended March 31, 2001 compared to the same periods in 2000, due to a lower number of unit shipments during the period. Due to the timing of large TACC orders, results vary from quarter to quarter.

The decrease in parts, service and other revenues was attributable to the discontinuance of sales to CCC.

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
	2001	2000	2001
	-----	-----	-----
Gross profit.....	\$ 3,010	\$ 7,098	\$ 9,311
Selling, general and administrative	2,220	2,864	4,976
Depreciation and amortization.....	342	318	682
Operating income.....	448	3,916	3,653
Interest expense.....	348	89	670
Income before taxes.....	100	3,827	2,983
Income taxes.....	35	1,308	1,030
Net income.....	65	2,519	1,953

Gross profit on product sales was \$3,010,000 for the quarter ended March 31, 2001, a decrease of \$4,088,000, or 58%, compared to the same quarter in 2000. The gross margin, as a percentage of sales, was 36.9% for the quarter ended March 31, 2001 compared to 38.0% for the same quarter in

2000. The decline in gross margin was principally due to lower production levels during the period as a result of suspending shipments to CCC.

Selling, general and administrative expenses were \$2,220,000 for the quarter ended March 31, 2001, a decrease of \$644,000, or 22%, compared to the same quarter in 2000. The decrease was primarily a result of reduced marketing and warranty costs related to the sharp decline in revenues. As a percentage of sales, these costs were 27% for the quarter ended March 31, 2001 compared to 15% for the same quarter in 2000.

Edgar Filing: TIDEL TECHNOLOGIES INC - Form 10-Q

Depreciation and amortization was \$342,000 for the quarter ended March 31, 2001, an increase of \$24,000, or 8%, compared to the same quarter in 2000. The increase was due to the additions of property, plant and equipment primarily for the production of new models in the Ignition and Chameleon series ATM product lines.

Interest expense was \$348,000 for the quarter ended March 31, 2001, an increase of \$259,000, or 291%, compared to the same quarter in 2000. The increased interest expense relates to the \$18,000,000 convertible debentures issued in September 2000.

Income tax expense provisions of \$35,000 and \$1,308,000 for the quarters ended March 31, 2001 and 2000, respectively, represented an effective tax rate of 35.0% in 2001 and 34.2% in 2000.

LIQUIDITY AND CAPITAL RESOURCES

The following is a summary of key indicators as of March 31, 2001 and September 30, 2000:

	(Dollars in 000's)	
	March 31, 2001	September 30, 2000
Cash.....	\$ 2,516	\$ 16,223
Working capital.....	48,487	46,516
Total assets.....	61,880	63,060
Shareholders' equity.....	31,004	28,846

Although there was a slight increase in working capital during the period, the Company utilized a significant amount of cash due to a lack of payments from CCC on its amounts due to the Company. In addition, the Company provided certain of its major customers with financing as described in Note 5 to the financial statements.

The Company has a credit agreement with a bank which provides for a \$10,000,000 revolving line of credit with interest equal to the prime rate and a \$640,000 term loan at 8.4% interest per annum. At March 31, 2001 and September 30, 2000, \$5,200,000 was outstanding pursuant to the revolving line of credit. Pursuant to the terms of the credit agreement, the Company is restricted from borrowing any of the unused portion of the revolving line of credit. See "Risk Factors" for additional information about financing matters.

In September 2000, the Company issued an aggregate of \$18,000,000 of the Company's 6% Convertible Debentures, due September 8, 2004, to two investors convertible into the Company's common stock at a price of \$9.50 per share. The debentures provide for three methods to convert the debentures into shares of the Company's common stock: (1) conversion at the option of the investors at

any time at a price of \$9.50 per share; (2) conversion at the option of the Company at a price of \$9.50 per share, if the per share market value of the Company's common stock exceeds 150% of the then applicable conversion price for

Edgar Filing: TIDEL TECHNOLOGIES INC - Form 10-Q

20 trading days (which need not be consecutive); and (3) a put option whereby the investors may put the debentures back to the Company on either the 270th day or 540th day following the original issue date. However, on either the 250th day or 520th day following the original issue date, the Company may indicate to the investors the maximum amount of cash that the Company will pay upon the put dates. If the investors still elect to put all or a portion of the debentures, then any amounts in excess of the maximum amount of cash that the Company will pay will convert into shares of common stock at a conversion price equal to the average of the per share market values for the five trading days preceding the put date, without regard to the stated conversion price of \$9.50 per share. If the investors exercise the put option, the Company shall pay the investors the put price, up to the maximum amount of cash that the Company will pay, within 60 days following the put date. The Company has notified the holder of \$15 million of the debentures that it will pay the maximum of cash should the put be exercised on June 5, 2001. See "Risk Factors" for additional information about the convertible debentures and other financing matters

The Company's research and development budget for fiscal 2001 has been estimated at \$3,200,000. The majority of these expenditures are applicable to enhancements of the existing product lines, development of new automated teller machine products and the development of new technology to facilitate applications such as check cashing, electronic bill payment, money order issuance and full-motion video advertising. Total research and development expenditures were approximately \$515,000 and \$1,074,000 for the three months and six months ended March 31, 2001, respectively.

With its present capital resources and continuing earnings from operations, the Company believes it should have sufficient resources to meet its operating needs for the foreseeable future and to provide for debt maturities and capital expenditures.

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.

SEASONALITY

The Company can experience seasonal variances in its operations and historically has its lowest dollar volume sales months between November and February. The Company's operating results for any particular quarter may not be indicative of the results for the future quarter or for the year.

MAJOR CUSTOMERS AND CREDIT RISKS

The Company generally retains a security interest in the underlying equipment that is sold to customers until it receives payment in full. In addition, CCC and two other major customers have pledged additional collateral to the Company pursuant to financing agreements. The Company would incur an accounting loss equal to the carrying value of the notes and accounts receivable, less any amounts recovered from liquidation of collateral, if a customer failed to perform according to the terms of the credit arrangements. See also "Risk Factors" and "Part II, Item 1, Legal Proceedings" for additional information about the Company's relationship with CCC.

The Company has good relationships with its customers, but there can be no assurance that these relationships will continue. The loss of any of the

Edgar Filing: TIDEL TECHNOLOGIES INC - Form 10-Q

Company's major customers, or a substantial portion of these accounts, could have a material adverse effect on the Company. Sales to major customers were as follows for the three months and six months March 31, 2001 and 2000:

	(Dollars in 000's)		
	----- Three Months Ended March 31, -----		Six Month -----
	2001	2000	2001

Credit Card Center.....	\$ --	\$10,850,432	\$11,607,51
Customer B.....	1,890,296	874,460	3,728,31
Customer C.....	908,515	490,518	1,564,78
Customer D.....	172,020	838,588	342,91

Foreign sales accounted for 13% and 6% of the Company's total sales during the three months ended March 31, 2001 and 2000, respectively. On a year to date basis, foreign sales accounted for 6% of sales in both 2001 and 2000.

RISK FACTORS

Please see the risk factors contained in the Company's Annual Report on Form 10-K for the year ended September 30, 2000 as filed with the Securities and Exchange Commission. Subsequent to the filing, the risk factors should be amended as follows:

We have extended substantial amounts of credit to one major customer, and we could incur a substantial accounting loss if we fail to collect amounts owed to us.

At May 21, 2001, CCC owed us approximately \$26,700,000, excluding any amounts for interest and other charges. The obligation is secured by a collateral pledge of accounts receivable, inventories and transaction income. We have not received any payments from CCC since January 2001, and we are presently in negotiation with CCC to resolve the outstanding amounts due us. Notwithstanding these negotiations, we have taken additional action to perfect our security interests in the collateral supporting these receivables. On May 14, 2001, we filed a petition in the State of Texas that seeks to secure our security interests in certain inventories and revenue streams owned by CCC. We will continue to monitor this matter closely and, if necessary, we may take additional action depending on our assessment of the situation from time to time. We believe that the inventory, receivables and revenue streams comprising the collateral are sufficient to support the recoverability of all amounts, and accordingly, no reserves for collection loss are deemed necessary at this time. In the event CCC is unable to repay all amounts due and it becomes necessary to take possession of the collateral, however, we may not be able to realize all of the anticipated value. In that event, we could incur a significant charge to earnings in future periods. See also "Major Customers and Credit Risks" and "Part II, Item 1, Legal Proceedings" for additional information about the Company's relationship with CCC.

We are not presently doing business with CCC, which previously accounted for a significant portion of revenues and earnings, and we may not be able to replace this business.

CCC accounted for 70% of our net sales for the quarter ended December 31, 2000, and 61% and 40% of our net sales for the years ended September 30, 2000 and

Edgar Filing: TIDEL TECHNOLOGIES INC - Form 10-Q

1999, respectively. We made no shipments to CCC during the quarter ended March 31, 2001 due to the ongoing efforts to resolve the seriously delinquent amounts due to us. In the event that this matter is not resolved and business does

10

13

not resume with CCC, sales and earnings for future periods would be adversely impacted if we are unable to replace this business with sales to new customers. See also "Major Customers and Credit Risks" and "Part II, Item 1, Legal Proceedings" for additional information about the Company's relationship with CCC.

We may be required to repay up to \$18,000,000 of our 6% Convertible Debentures; any such repayment would require an amendment.

The holders of our 6% Convertible Debentures in the aggregate amount of \$18 million have the right to put the debentures back to us on each of the 270th and 540th day following the date of issuance of the Convertible Debentures. However, on either the 250th or 520th day following the original issue date, we may indicate to the investors the maximum amount of cash that we will pay in connection with such put rights. We have notified the debenture holder of \$15 million of the Convertible Debentures (and we will notify the debenture holder of \$3 million of the Convertible Debentures) that we intend to pay in cash that portion of the principal amount of and interest under the Convertible Debentures that the debenture holders may put back to us on the 270th day following the effective date of the respective Convertible Debentures. This date falls on June 5, 2001 with respect to Convertible Debentures in the aggregate principal amount of \$15 million and on June 26th with respect to Convertible Debentures in the aggregate principal amount of \$3 million. At this time, we do not know whether any of the debenture holders intend to put any of the Convertible Debentures to us. However, in the event that the Debenture Holders exercise their put right, we would be required to repay all of the principal amount, together with all accrued but unpaid interest, on the 60th day following such respective put dates. At the present time we do not have the funds available to make such payments, should they be required. In the event we are unable to obtain such funds necessary to pay any such amounts, to the extent due, it may have a material adverse effect against us. In addition, any such repayments would require an amendment of the Revolving Credit Facility, and absent such amendment, would be a violation thereto. In the event prepayments of all or a portion of the Convertible Debentures are required, and we fail to prepay any portion due, the debenture holders may either rescind their put notice or convert into our shares all or a portion of the unpaid amount due at a conversion price equal to the lower of the market price on the date the cash payment becomes due or the date of rescission by the debenture holders. Such a conversion would result in substantial dilution of your shares. However, any issuance of stock required by such conversion in excess of 19.99% of our issued and outstanding shares will require shareholder approval under Nasdaq Rules, accordingly, it is unlikely that such an issuance would be permitted, which would subject the Company to additional penalties. In the event we fail to prepay the Convertible Debentures as required, the Convertible Debenture holders would also have the right to declare an Event of Default under the Convertible Debentures.

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

We have a credit agreement with a bank which provides for a \$10,000,000 revolving line of credit, of which \$5,200,000 was outstanding at March 31, 2001. Pursuant to the terms of the credit agreement, we lack the necessary borrowing base to enable us to borrow any of the unused portion of the revolving line of credit. As of March 31, 2001, we had cash and cash equivalents of \$2,515,504 as

Edgar Filing: TIDEL TECHNOLOGIES INC - Form 10-Q

compared to \$16,223,192 as of September 30, 2000.

If we are unable to collect on a significant portion of our outstanding receivables, we will need to sell additional equity or debt securities to continue operations. 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. If we were to raise additional funds through the issuance of equity or convertible debt securities, the current stockholders could be substantially diluted and those additional securities could have preferences and privileges that current security holders do not have.

11

14

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 Company's future product sales, gross profit, selling, general and administrative expense, the Company's financial position, working capital 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 2001, 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

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 material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

On May 14, 2001, Tidel Engineering L.P. filed its Plaintiff's Original Petition and Application for Temporary Injunction Including Temporary Restraining Order against JRA222, Inc. d/b/a Credit Card Center ("CCC"). In conjunction therewith, Tidel Engineering L.P. also filed its Application for Sequestration, seeking to secure its security interests in certain inventory located in the State of Texas, and its Application for Writ of Garnishment, seeking to secure its

Edgar Filing: TIDEL TECHNOLOGIES INC - Form 10-Q

security interests in processing income generated from ATM transactions processed by two processors located in the State of Texas. On May 14, 2001, the 134th Judicial Court of Dallas County, Texas granted the Temporary Restraining Order restricting the activities of CCC in derogation of Tidel Engineering's credit and security agreements and otherwise preserving Tidel Engineering's collateral. Furthermore, on the same date, the 134th Judicial District Court granted Tidel Engineering's Application for Sequestration allowing the seizure of inventory collateral in El Paso, Bexar and Travis counties, Texas. A hearing on the temporary injunction has been set for May 21, 2001.

ITEM 2. CHANGES IN SECURITIES

Not applicable.

12

15

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

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

At the Annual Meeting of Stockholders held on February 8, 2001 in Houston, Texas, the following proposals were adopted by the margins indicated:

- a) Election of Directors to hold office until the next annual meeting of stockholders and until their successors are elected and qualified.

	Number of Shares	
	----- For -----	Withheld -----
James T. Rash.....	15,429,411	77,550
James L. Britton, III.....	15,366,671	140,290
Jerrell G. Clay.....	15,423,411	83,550
Mark K. Levenick.....	15,429,711	77,250
Raymond P. Landry.....	15,339,371	167,590
Michael F. Hudson.....	15,341,771	165,190

- b) Ratification of the selection of KPMG LLP as the Company's independent auditors for fiscal year 2001.

For.....	15,371,041
Against.....	87,636
Abstentions.....	48,284

- c) Approval of an amendment to the 1997 Long-Term Incentive plan to increase the authorized shares from 1,000,000 to 2,000,000.

For.....	6,896,238
Against.....	708,830
Abstentions.....	135,509
Non-Votes.....	7,766,384

ITEM 5. OTHER INFORMATION

Edgar Filing: TIDEL TECHNOLOGIES INC - Form 10-Q

Not applicable.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

A) EXHIBITS

None

B) REPORTS ON FORM 8-K

The Company filed no reports on Form 8-K during the three months ended March 31, 2001.

13

16

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 21, 2001

By: /s/ JAMES T. RASH

James T. Rash
Principal Executive
and Financial Officer

14