

# DGT HOLDINGS CORP.

## FORM 10-Q (Quarterly Report)

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D. C. 20549  
**FORM 10-Q**

**QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT**  
OF 1934 For quarterly period ended October 27, 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 0-3319*

**DEL GLOBAL TECHNOLOGIES CORP.**

(Exact name of registrant as specified in its charter)

New York  
-----

(State or other jurisdiction of  
incorporation or organization)

13-1784308  
-----

(I.R.S. Employer  
Identification No.)

One Commerce Park, Valhalla, NY 10595  
(Address of principal executive offices) (Zip Code)

914-686-3600  
(Registrant's telephone number including area code)

None

(Former name, former address and former fiscal year, if changed since last report) 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 requirements for the past 90 days.

Yes No  The number of shares of Registrant's common stock outstanding as of October 27, 2001 was 7,847,515

# DEL GLOBAL TECHNOLOGIES CORP. AND SUBSIDIARIES

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**DEL GLOBAL TECHNOLOGIES CORP. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Dollars in Thousands except share data)

(Unaudited)

	Three Months Ended	
	October 27, 2001	October 28, 2000
	-----	-----
NET SALES	\$19,481	\$22,147
COST OF SALES	15,738	17,861
	-----	-----
GROSS MARGIN	3,743	4,286
	-----	-----
Selling, general and administrative	5,251	3,831
Research and Development	581	696
Litigation settlement recovery	(258)	-
Facilities reorganization costs	42	-
	-----	-----
Total operating expenses	5,616	4,527
	-----	-----
OPERATING LOSS	(1,873)	(241)
Interest expense - net	462	267
Other expense	17	3
	-----	-----
LOSS BEFORE INCOME TAX BENEFIT AND MINORITY INTEREST	(2,352)	(511)
INCOME TAX BENEFIT	(829)	(193)
	-----	-----
NET LOSS BEFORE MINORITY INTEREST	(1,523)	(318)
MINORITY INTEREST	12	58
	-----	-----
NET LOSS	\$(1,535)	\$ (376)
	=====	=====
LOSS PER COMMON SHARE;		
BASIC AND DILUTED	\$ ( .20)	\$ ( .05)
	=====	=====
Weighted average number of common shares outstanding, basic and diluted	7,847,515	7,847,515
	=====	=====

See notes to consolidated financial statements

**DEL GLOBAL TECHNOLOGIES CORP. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(Dollars in Thousands)

(Unaudited)

**ASSETS**

	October 27, 2001	July 28, 2001
	-----	-----
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 2,765	\$1,402
Marketable securities	353	379
Trade receivables (net of allowance for doubtful accounts of \$797 and \$607 at October 27, 2001 and July 28, 2001	17,021	19,026
Inventory - net	26,669	27,528
Deferred income tax asset - current	4,087	4,643
Prepaid expenses and other current assets	650	391
	-----	-----
Total current assets	51,545	53,369
REFUNDABLE INCOME TAXES	3,829	3,829
FIXED ASSETS - Net	9,889	9,731
DEFERRED INCOME TAX ASSET-NON CURRENT	11,354	9,796
GOODWILL - Net	3,393	3,450
INTANGIBLES-Net	620	666
OTHER ASSETS	621	817
	-----	-----
TOTAL ASSETS	\$81,251	\$81,658
	=====	=====

See notes to consolidated financial statements

**DEL GLOBAL TECHNOLOGIES CORP. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(Dollars in Thousands)

(Unaudited)

**LIABILITIES AND SHAREHOLDERS' EQUITY**

	October 27, 2001	July 28, 2001
	-----	-----
<b>CURRENT LIABILITIES</b>		
Short-term credit facilities	\$ 5,052	\$ 4,450
Callable debt	8,000	8,500
Current portion of long-term debt	698	790
Accounts payable - trade	7,807	7,823
Accrued liabilities	9,322	8,825
Deferred compensation liability	228	228
Income taxes payable	557	484
	-----	-----
Total current liabilities	31,664	31,100
 <b>NON-CURRENT LIABILITIES</b>		
Long-term debt	4,843	4,703
Obligation to issue subordinated note	1,519	1,519
Other long-term liabilities	2,058	1,927
	-----	-----
Total liabilities	40,084	39,249
 <b>MINORITY INTEREST IN SUBSIDIARY</b>		
	678	618
	-----	-----
 <b>COMMITMENTS AND CONTINGENCIES</b>		
 <b>SHAREHOLDERS' EQUITY</b>		
Common stock, \$.10 par value; Authorized 20,000,000 shares; Issued and outstanding - 8,476,081 shares at October 27, 2001 and July 28, 2001	847	847
Additional paid-in capital	52,221	52,187
Obligation to issue shares and warrants	4,410	4,410
Accumulated other comprehensive loss	(192)	(391)
Accumulated deficit	(11,295)	(9,760)
 Less common stock in treasury - 628,566 shares at October 27, 2001 and July 28, 2001	 (5,502)	 (5,502)
	-----	-----
Total shareholders' equity	40,489	41,791
 <b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>		
	\$ 81,251	\$ 81,658
	=====	=====

See notes to consolidated financial statements

**DEL GLOBAL TECHNOLOGIES CORP. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Dollars in Thousands)

(Unaudited)

	Three Months Ended	
	October 27, 2001	October 28, 2000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (1,535)	\$ (376)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	664	835
Deferred income tax benefit	(897)	(239)
Loss on sale of fixed assets	16	10
Unrealized loss on sale of marketable securities	26	25
Minority interest	12	58
Stock based compensation expense	36	28
Changes in operating assets and liabilities		
Decrease (Increase) in trade receivables	2,636	(1,366)
Decrease (Increase) in inventory	1,407	(1,282)
Increase in prepaid expenses and other current assets	(240)	(471)
Decrease in other assets	209	113
Decrease in refundable income taxes	-	109
Decrease in accounts payable - trade	(344)	(221)
Increase in accrued liabilities	343	2,428
Increase (Decrease) in income taxes payable	68	(286)
Increase in other long-term liabilities	16	92
Payment of deferred compensation liability	-	(11)
Net cash provided by (used in) operating activities	2,417	(554)
CASH FLOWS FROM INVESTING ACTIVITIES		
Fixed asset purchases	(473)	(201)
Net cash used in investing activities	(473)	(201)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from bank borrowings	258	241
Repayment of bank borrowings	(842)	52
Stock repurchase	-	(108)
Net cash (used in) provided by financing activities	(584)	185
EFFECT OF EXCHANGE RATE CHANGES	3	(4)
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,363	(574)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	1,402	888
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	\$2,765	\$ 314

See notes to consolidated financial statements

# DEL GLOBAL TECHNOLOGIES CORP. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

### BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation have been included. Results of operations for the interim periods are not necessarily indicative of the results that may be expected for the full year. The consolidated financial statements should be read in conjunction with the financial statements and notes thereto as of July 28, 2001 and for the year then ended filed on a form 8-K dated April 5, 2002.

The accounting policies followed by the Company are set forth in Note 1 to the Company's consolidated financial statements for the year ended July 28, 2001. The financial statements of the consolidated subsidiary Villa are denominated in Euros and are translated into U.S. dollars for reporting purposes. As a result, they are therefore subject to the effects of currency fluctuations which may affect reported earnings and future cash flows. These foreign currency translations are made in accordance with SFAS No. 52, "Foreign Currency Translation".

### NEW ACCOUNTING PRONOUNCEMENTS

During July 2001, the FASB issued SFAS No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 requires the use of the purchase method of accounting for all business combinations initiated after June 30, 2001. Additionally, this statement further clarifies the criteria for recognition of intangible assets separately from goodwill for all business combinations completed after June 30, 2001, as well as requiring additional disclosures for business combinations. SFAS No. 142 requires that goodwill acquired after June 30, 2001 no longer be subject to amortization over their estimated useful lives. Beginning on August 3, 2002, amortization of goodwill will no longer be permitted and the Company will be required to assess these assets for impairment annually, or more frequently if circumstances indicate a potential impairment. Furthermore, this statement provides specific guidance for testing goodwill for impairment. Transition-related impairment losses, if any, which result from the initial assessment of goodwill and certain intangible assets would be recognized by the Company as a cumulative effect of accounting change on August 3, 2002. The Company has not yet determined the impact, if any, that the adoption of SFAS No. 142 will have on its consolidated financial statements.

SFAS No. 143, Accounting for Asset Retirement Obligations, was issued in June 2001. This statement addresses financial accounting and reporting for the obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This statement is effective for financial statements issued for fiscal years beginning after June 15, 2002. The Company has not yet determined the impact, if any, that the adoption of this statement will have on its consolidated financial statements.

SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, was issued in October 2001. SFAS No. 144 replaces SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of. SFAS No. 144 requires that long-lived assets whose carrying amount is not recoverable from its undiscounted cash flows be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. Therefore, discontinued operations will no longer be measured at net realizable or include amounts for operating losses that have not yet occurred. SFAS No. 144 also broadens the reporting of discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity and that will be eliminated from the ongoing operations of the entity in a disposal transaction. The provisions of SFAS No. 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001 and are to be applied prospectively. The Company has not yet determined the impact, if any, that the adoption of this statement will have on its consolidated financial statements.



**DEL GLOBAL TECHNOLOGIES CORP. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

**INVENTORY**

Inventory is stated at the lower of cost (first-in, first-out) or market. Inventories and their effect on cost of sales are determined by physical count for annual reporting purposes and are estimated by management for interim reporting purposes. The estimation methodologies used for interim reporting purposes are described in management's discussion and analysis under the subtitle Critical Accounting Policies.

	October 27, 2001	July 28, 2001
Raw materials and purchased parts	\$ 12,573	\$ 13,671
Work-in-process	13,092	15,069
Finished goods	5,049	3,986
	30,714	32,726
Less allowance for obsolete and excess inventory	(4,045)	(5,198)
	\$ 26,669	\$ 27,528
	\$ 26,669	\$ 27,528

**COMPREHENSIVE LOSS**

Comprehensive loss for the Company includes foreign currency translation adjustments and net loss reported in the Company's Consolidated Statements of Operations.

Comprehensive loss for 2002 and 2001 was as follows:

	For the Quarters Ended	
	October 27, 2001	October 28, 2000
Net Loss	\$(1,535)	\$(376)
Foreign currency translation adjustments	199	(158)
Comprehensive loss	\$(1,336)	\$(534)

**DEL GLOBAL TECHNOLOGIES CORP. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Dollars in Thousands except share data)

(Unaudited)

LOSS PER SHARE	Three Months	
	October 27, 2001	October 28, 2000
Numerator:		
Net Loss	\$ (1,535)	\$ (376)
Denominator:		
Denominator for basic loss per share - Weighted average shares outstanding	7,847,515	7,847,515
Effective of dilutive securities	-	-
Denominator for diluted loss per share	7,847,515	7,847,515
Loss per basic and diluted common share	\$ (.20)	\$ (.05)

Common shares outstanding for the current year and prior year ended were reduced by 628,566 shares of treasury stock.

The computation of diluted shares outstanding does not include 1,825,055 employee stock options and 65,000 warrants to purchase Company common stock, since the effect of their assumed conversion would be anti-dilutive.

**SEGMENT INFORMATION**

The Company has two reportable segments, which are Medical Imaging Systems and Power Conversion Group. Interim segment information is as follows:

	Medical Imaging Systems	Power Conversion Group	Other	Total
For three months ended October 27, 2001				
Net Sales to Unaffiliated Customers	\$ 9,640	\$ 9,841	-	\$19,481
Operating Income(Loss)before unusual items	372	(2,461)	-	(2,089)
Facilities reorganization costs	-	42	-	42
Litigation settlement benefit	-	-	(258)	(258)
Operating Income (Loss), as reported	\$ 372	(2,503)	\$ 258	\$(1,873)
For three months ended October 28, 2000				
Net Sales to Unaffiliated Customers	\$12,598	\$ 9,549	-	\$22,147
Operating Loss, as reported	\$ (74)	\$ (167)	-	\$ (241)

**DEL GLOBAL TECHNOLOGIES CORP. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

**CONTINGENCIES**

Security and Exchange Commission ("SEC") Investigation - On December 11, 2000, the Division of Enforcement of the SEC issued a formal Order Directing Private Investigation, designating SEC officers to take testimony and requiring the production of certain documents, in connection with matters giving rise to the need to restate the Company's previously issued financial statements. The Company has provided numerous documents to and continues to cooperate fully with the SEC staff. In connection with the ongoing SEC investigation, there is a possibility that the SEC will assess some monetary fine against the Company in connection with the accounting practices under review. The likelihood or the dollar amount of such a fine or penalty is unknown at this time. Management of the Company cannot predict the duration of such investigation or its potential outcome.

Class Action Litigation - A consolidated class action complaint against the Company, certain of its former officers and directors and its auditors was filed in the United States District Court for the Southern District of New York. The complaint alleged violations of the federal securities laws and sought to recover damages on behalf of all purchasers of the Company's common stock during the class period November 6, 1997 to November 6, 2000. The complaint sought rescission of the purchase of shares of the Company's Common Stock or alternatively, unspecified compensatory damages, along with costs and expenses including attorney's fees.

On July 26, 2001, the Company and certain other defendants reached an agreement in principle to settle the complaint. Under the terms of the settlement, the Company will provide the plaintiffs: (i) a \$2,000,000 subordinated note due five years from the date of issuance with interest in arrears accrued at 6% per annum; (ii) 2.5 million shares of the Company's common stock; and, (iii) 1 million warrants to purchase the Company's Common Stock at \$2 per share. The Warrants are callable by the Company at \$0.25 per share if the Company stock trades at a price in excess of \$4 for 10 days or more. This settlement was approved by the United States District Court for the Southern District of New York on January 29, 2002.

Management of the Company believes the terms of the agreement in principle provided a reasonable basis to estimate the value of the Company's portion of the settlement as of July 28, 2001 and, accordingly, recorded a charge of \$9,759,000 in fiscal year 2001. This amount was calculated using a discount factor of 12% to present value the subordinated note, the per share price of \$1.50 that was the closing price of the Company's stock in the over the counter market on July 28, 2001, and an option pricing model to value the warrants. Also included in the charge are legal and other specialized fees incurred through July 2001 of \$3,572,000 and an accrual of legal and related fees to be incurred in the future of \$821,000.

When the Court approved the class action settlement on January 29, 2002, and opportunities for appeal expired on March 21, 2002, all uncertainty regarding the final value of the securities issued by the Company in the settlement had been eliminated. Therefore, in the Third Quarter of Fiscal Year 2002, the Company will recognize an additional charge related to the increase in the value of the common stock and warrants from July 28, 2001, to January 29, 2002. This additional charge will be approximately \$7,000,000.

Department of Defense Investigation-On March 8, 2002, RFI Corporation, a subsidiary of the Company and part of the Power Conversion Group segment, was served with a subpoena by the US Attorney Eastern District of New York. RFI supplies noise suppression filters for communications and defense applications. A portion of RFI's sales is to prime contractors to the US Government, and approximately 14% to 17% of RFI's sales over each of the last three years has been sales directly to the Department of Defense ("DoD"), Defense Supply Centers ("DSC") or to the US Armed Forces.

**DEL GLOBAL TECHNOLOGIES CORP. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

The Company believes that the DoD has launched an investigation into RFI's quality control practices and record keeping. In addition, the DoD appears to be investigating other suppliers, some of whom may be distributors who sell many different components to the DoD, including some parts that may be manufactured by RFI.

The Company is fully cooperating with this investigation, and has retained special counsel to represent the Company on this matter. Management of the Company cannot predict the duration of such investigation or its potential outcome.

**Employment Matters** - The Company had an employment agreement with the former Chief Executive Officer through July 2005. The agreement provided a minimum base salary, deferred compensation and bonuses, as defined. The Company accrued deferred compensation at a rate of 5% of pretax income with a minimum of \$100 and a maximum of \$125.

In the third quarter of fiscal 2001, the employment of the former Chief Executive Officer was terminated. In connection with the termination of the former Chief Executive Officer's employment, there is a possibility of the former Chief Executive Officer making certain claims under his employment agreement. The Company believes that it has substantiated counterclaims that it could assert in any such action and, therefore, believes that its exposure to such a potential claim is not material to the Company's consolidating financial statements.

In order to protect and assert the counter claims referred to above, the Company filed a lawsuit against the former Chief Executive Officer in the United States District Court, Southern District of New York, alleging fraudulent and other wrongful acts, including securities law violations, fraudulent accounting practices, breaches of fiduciary duties, insider trading violations and corporate mismanagement. The complaint seeks damages in excess of \$15 million.

The former Chief Executive Officer has not yet filed an answer but is expected to counterclaim for damages based on the termination of his employment by the Company, and may seek damages in excess of \$3 million. The Company intends to pursue vigorously its claims against the former Chief Executive Officer and believes it has meritorious defenses to the expected counterclaims.

The Company has entered into an employment agreement with its new Chief Executive Officer for the period July 2001 to April 2004. The terms of this agreement provide base salary, bonuses and deferred compensation. The new Chief Executive Officer may earn a bonus, which will be based on a percentage of his base salary, if certain performance goals established by the board are achieved. The new Chief Executive Officer's agreement provides that the new Chief Executive Officer will have the option to defer a portion of his bonus. In addition, the new Chief Executive Officer's employment agreement provides for certain payments in the event of death, disability or change in the control of the Company.

**Other Legal Matters** - The Company is a defendant in several other legal actions arising from normal course of business. On the advice of counsel, management believes the Company has meritorious defenses to such actions and that the outcomes will not be material to the Company's consolidated results of operations or consolidated financial condition.

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

This Management Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements. Such statements involve various risks that may cause actual results to differ materially. These risks include, but are not limited to, the ability of the Company to grow internally or by acquisition and to integrate acquired businesses, changing industry or competitive conditions, and other risks referred to in the Company's registration statements and periodic reports filed with the Securities and Exchange Commission.

**Overview**

As noted earlier in the Contingencies note to the interim financial statements, the SEC is conducting a formal investigation in connection with the Company's consolidated financial statements issued in fiscal year 2000 and previous years. Prior to this current 10Q filing, the Company last made a 10Q filing in June 2000 for the quarter ended April 29, 2000. In April of 2002, the Company filed audited financial statements for Fiscal year 2001 and an audited Balance Sheet as of July 29, 2000 as exhibits to a Form 8-K. This current 10Q filing is a new filing for quarterly periods subsequent to July 29, 2000 and includes quarterly data not previously reported in a Form 10Q filing.

During the fourth calendar Quarter of 2002, the Company will attempt to file an Annual Report on Form 10K for Fiscal 2002. This filing will include operating results for Fiscal 2002 and 2001, and the Company will attempt on Form 10k to include operating results for Fiscal 2000, and a restatement of operating results for Fiscal 1997 through 1999. No assurance can be given that the Company will be successful in this effort to complete financial statements for the Fiscal 2000 period, or the restatement of past periods.

In the future, the Company expects to be able to file timely quarterly reports.

Despite the Company's legal and regulatory problems, the Company's main businesses continue to compete vigorously and Del continues to enjoy solid relationships with its customers. The withdrawal of a major medical systems group competitor is expected to contribute to increased orders and sales for the Medical Imaging Group. Del's Power Conversion Group has been selected as a supplier of high voltage power systems by the two FAA qualified manufacturers of Explosive Detection Systems ("EDS") for checked baggage.

**CRITICAL ACCOUNTING POLICIES**

Significant accounting policies are outlined in the footnotes to the Company's annual financial statements referred to above, and the financial statements included in this 10Q should be read in conjunction with those annual financial statements and related footnotes. In addition to those accounting policies outlined in the Company's annual financial statements for the year ended July 28 2001, the Company also uses certain estimates in determining interim operating results. The most significant estimates in interim reporting relate to the valuation of inventories. For certain subsidiaries, for interim periods, the Company makes an estimate of the amount of labor and overhead costs attached to finished goods inventories. As of July 28 2001, finished goods represented approximately 15% of the net carrying value of the Company's total net inventory. In addition, at one subsidiary, the valuation of all inventories at an interim period end is valued on a gross margin roll-forward method. In most quarters, the value of this subsidiary's inventory represents approximately 15% of the Company's net carrying value of inventory (excluding that subsidiary's finished goods, which would be included in the discussion above regarding finished goods). Management believes the estimation methodologies used in both these cases to be appropriate.

## DEL GLOBAL TECHNOLOGIES CORP. AND SUBSIDIARIES

### Consolidated Results of Operations

Net sales for the Q1 of 2002, three months ended October 27, 2001, were approximately \$ 19.5 million as compared to approximately \$ 22.1 million for the three months ended October 28, 2000, a decrease of 12%. Del's Medical Imaging business accounted for all of that year on year one-quarter sales decline primarily in Del's North American Medical Imaging business. This quarterly sales decline was caused by uncertainty amongst Del's distributors regarding Del, as result of the unfavorable press Del received in trade publications regarding Del's accounting irregularities and management changes. This uncertainty was further exacerbated by a major restructuring at one of Del's larger distributors, and that customer holding back some orders in Q1 of fiscal 2002. These uncertainties regarding Del, and the reorganization of this one particular distributor were substantially resolved by the second quarter of 2002.

Gross Margins in Q1 of Fiscal 2002 versus 2001 were flat at approximately 19%. Gross Margins in the Medical Imaging business increased year over year due to higher pricing imposed by Del Medical Imaging in North America. Gross Margins in the Power Conversion Group declined due to the inefficiencies associated with the wind down of operations at our Dynarad facility and the start up of those product lines at our other facilities. Research and development expenses in the first quarter of 2002 were approximately \$ 581,000, as compared to \$696,000 for the comparable period in fiscal 2001. The Company continues to invest in research and development but allocates resources more judiciously in projects that it expects will lead to new products and increased profits.

Operating expenses increased in Q1 of Fiscal 2002 versus Q1 of Fiscal 2001, driven largely by higher audit and specialized accounting fees. In addition, in Q1 of Fiscal 2002, the Company recognized a recovery from insurance of \$258,000 for legal costs from the class action litigation, and \$42,000 of additional facilities reorganization costs from the finalization of severance arrangements from the shutdown of Dynarad. Litigation settlement costs are not expected to be significant going forward in fiscal 2002 but the Company will be reporting significant expenses in the second, third and fourth quarters of 2001. In Del's third Quarter of Fiscal 2002 (ended April), the Company will recognize a \$7 million non cash charge associated with the finalization of the class action litigation settlement in Q2 of Fiscal 2002.

Net interest expense was approximately \$462,000 for the three months ended January 26, 2002 as compared to approximately \$267,000 for the corresponding period in the prior year. The year to year period interest increase was due to increased borrowings, higher interest rates and fees.

Income tax benefits was approximately 35% of pretax loss for the three months ended October 27, 2001 and approximately 38% for the comparable quarter ended October 28, 2000.

As a result of the above, Del's net loss for the first Quarter of Fiscal 2002 was \$1.5 million, or \$(0.20) per share (basic and diluted), compared to a loss of \$376,000, or \$(0.05) per share (basic and diluted) in Fiscal 2001. Del's first Quarter (which ends at the end of October) is typically its weakest Quarter, as several of its operations have a practice of suspending operations for vacation periods in August.

## DEL GLOBAL TECHNOLOGIES CORP. AND SUBSIDIARIES

The weighted number of common shares outstanding was unchanged as there were no stock transactions for the period. No additional shares were issued or retired during the period. Therefore, shares used for calculating loss per share was unchanged from the previous period at 7,847,515. Basic and fully diluted shares are the same for all periods reported.

### FINANCIAL CONDITION

#### Liquidity and Capital Resources

The Company has funded its operations through a combination of cash flow from operations and bank borrowings.

Working Capital - At October 27, 2001 and July 28, 2001, the Company's working capital was approximately \$19.9 million and \$22.3 million, respectively. At such date the Company had approximately \$2.7 million and \$1.4 million, respectively, in cash and cash equivalents. The Company's short-term debt in total remained relatively unchanged from July of 2001.

Trade receivables decreased approximately \$2.0 million at October 27, 2001 as compared to July 28, 2001. Inventory at October 27, 2001 also decreased approximately \$859,000 as compared to July 28, 2001.

Credit Facility and Borrowing - As a result of the delay in issuing the July 29, 2000 financial statements, the Company is not in compliance with the terms of its U.S. credit agreement, and the amounts outstanding under such agreement (\$8.0 million at October 27, 2001 and \$8.5 million at July 28, 2001, respectively), are callable by the lenders. The Company's U.S. subsidiaries' cash and investment balances at October 27, 2001 are not sufficient to fund the repayment of the amounts owed under the U.S. subsidiaries' debt agreement.

On March 21, 2002, the Company signed a commitment letter for working capital financing with a replacement lender. This new credit facility is for \$10 million. Conditions for closing of this new credit facility are customary for these types of agreements, and management believes that it will be able to close this new financing during the fourth quarter of fiscal 2002.

The Company anticipates that cash generated from operations and amounts available from its new credit facility will be sufficient to satisfy its currently projected operating cash needs.

Capital Expenditures -The Company continues to invest in capital equipment, principally for its manufacturing operations, in order to improve its manufacturing capability and capacity. The Company has expended approximately \$473,000 for capital equipment for the three-month period ended October 27, 2001.

Shareholders' Equity -Shareholders' equity has declined to approximately \$40.5 million at October 27, 2001 from approximately \$41.8 million at July 28, 2001, due to the loss reported for the period.

Obligation to issue Shares and Warrants - The Company's Obligation to issue shares and warrants included in the shareholder's equity section, reflect the terms of the settlement reached in July 2001 in connection with a class action complaint brought by shareholders against the Company and other parties. As a result of the settlement, the Company is obligated to issue subordinated notes, shares and warrants to certain shareholders. The equity portion of the settlement totaled \$4,410,000 and appears as "Obligation to issue Shares and Warrants" in the consolidated balance sheet. Common shares were valued at \$3,750,000 and warrants at \$660,000. These shares and warrants were revalued at January 29, 2002 when final court approval was obtained with a resulting increase in value of \$7,000,000 resulting in a non-cash charge in the third quarter of fiscal 2002.

## DEL GLOBAL TECHNOLOGIES CORP. AND SUBSIDIARIES

### Item 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Historically and as of October 27, 2001, the Company has not used derivative instruments or engaged in hedging activities. The Company is exposed to foreign currency and interest rate risks. The Company's 80% owned Italian subsidiary maintains its financial records in Euros and converts them to US Dollars.

## PART II

### Item 1. Legal Proceedings

See notes to financial statements

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

b: Reports on Form 8-K

Audited Consolidated Balance Sheets of the Registrant and its Subsidiaries as of July 28, 2001 and July 29, 2000, and the Related Consolidated Statements of Operations, Stockholders' Equity, and Cash Flows for the Fiscal Year ended July 28, 2001 were filed on April 5, 2002 with the Securities and Exchange Commission on Form 8-K.



**DEL GLOBAL TECHNOLOGIES CORP. AND SUBSIDIARIES**

**SIGNATURES**

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

**DEL GLOBAL TECHNOLOGIES CORP.**

*/S/ Samuel Park*

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*Samuel Park*  
*Chief Executive Officer*  
*and President*

*/S/Thomas V Gilboy*

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*Thomas V Gilboy*  
*Chief Financial Officer,*  
*Vice President*

Dated : May 23, 2002

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