# DGT HOLDINGS CORP.

## FORM 10-Q
(Quarterly Report)

Filed 12/12/03 for the Period Ending 11/01/03

| | |
|---|---|
| Address | 100 PINE AIRE DRIVE<br>BAY SHORE, NY 11706 |
| Telephone | 631 231-6400 |
| CIK | 0000027748 |
| Symbol | DGTC |
| SIC Code | 3679 - Electronic Components, Not Elsewhere Classified |
| Industry | Medical Equipment & Supplies |
| Sector | Healthcare |
| Fiscal Year | 07/31 |

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

[x] QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the quarterly period ended November 1, 2003

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 | 13-1784308 |
| (State or other jurisdiction of incorporation or organization) | (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 /X/        No / /

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-25 of the Exchange Act)

Yes / /        No /X/

The number of shares of Registrant's common stock outstanding as of December 12, 2003 was 10,332,548.

DEL GLOBAL TECHNOLOGIES CORP. AND SUBSIDIARIES

Table of Contents





PART I FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS

DEL GLOBAL TECHNOLOGIES CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in Thousands except share data)
(Unaudited)

| | Three Months Ended November 1, 2003 | Three Months Ended November 2, 2002 |
|---|---|---|
| NET SALES | $21,642 | $25,733 |
| COST OF SALES | 17,163 | 20,517 |
| GROSS MARGIN | 4,479 | 5,216 |
| Selling, general and administrative | 4,287 | 5,409 |
| Research and development | 306 | 312 |
| Facilities reorganization costs | - | 234 |
| Total operating expenses | 4,593 | 5,955 |
| OPERATING LOSS | (114) | (739) |
| Interest expense | 316 | 356 |
| Other income | 71 | 503 |
| LOSS BEFORE INCOME TAX PROVISION AND MINORITY INTEREST | (359) | (592) |
| INCOME TAX PROVISION | 183 | 27 |
| NET LOSS BEFORE MINORITY INTEREST | (542) | (619) |
| MINORITY INTEREST | 67 | (13) |
| NET LOSS | $ (609) | $ (606) |
| LOSS PER COMMON SHARE: | | |
| BASIC AND DILUTED | $(0.06) | $ (0.06) |
| Weighted average number of common shares outstanding, basic and diluted | 10,332,548 | 10,347,515 |

See notes to consolidated financial statements



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

ASSETS

| | November 1, 2003 | August 2, 2003 |
|---|---|---|
| CURRENT ASSETS | | |
| Cash and cash equivalents | $ 2,309 | $ 1,381 |
| Trade receivables (net of allowance for doubtful accounts of $1,367 and $1,232 at November 1, 2003 and August 2, 2003, respectively) | 15,814 | 17,063 |
| Inventory - Net | 18,067 | 18,448 |
| Deferred income tax asset - current | 2,591 | 2,591 |
| Prepaid expenses and other current assets | 957 | 730 |
| Total current assets | 39,738 | 40,213 |
| REFUNDABLE INCOME TAXES | 66 | 55 |
| FIXED ASSETS - Net | 8,940 | 9,293 |
| DEFERRED INCOME TAX ASSET-NON CURRENT | 6,063 | 6,148 |
| GOODWILL | 3,239 | 3,239 |
| INTANGIBLES - Net | 296 | 333 |
| OTHER ASSETS | 1,177 | 1,211 |
| TOTAL ASSETS | $59,519 | $60,492 |

See notes to consolidated financial statements



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

LIABILITIES AND SHAREHOLDERS' EQUITY

| | November 1, 2003 | August 2, 2003 |
|---|---|---|
| CURRENT LIABILITIES | | |
| Short-term credit facilities | $ 6,431 | $ 6,446 |
| Current portion of long-term debt | 670 | 655 |
| Accounts payable - trade | 8,598 | 8,990 |
| Accrued liabilities | 7,653 | 7,730 |
| Litigation settlement reserves | 2,461 | 2,553 |

| | | |
|---|---|---|
| Income taxes payable | 427 | 241 |
| Total current liabilities | 26,240 | 26,615 |
| NON-CURRENT LIABILITIES | | |
| Long-term debt | 5,076 | 5,312 |
| Subordinated note | 1,832 | 1,788 |
| Other long-term liabilities | 2,576 | 2,545 |
| Total liabilities | 35,724 | 36,260 |
| MINORITY INTEREST IN SUBSIDIARY | 1,339 | 1,253 |
| COMMITMENTS AND CONTINGENCIES | | |
| SHAREHOLDERS' EQUITY | | |
| Common stock, $.10 par value; Authorized 20,000,000 shares; Issued and outstanding - 10,976,081 at November 1, 2003 and August 2, 2003 | 1,097 | 1,097 |
| Additional paid-in capital | 63,691 | 63,682 |
| Accumulated other comprehensive gain | 640 | 563 |
| Accumulated deficit | (37,426) | (36,817) |
| Less common stock in treasury - 643,533 shares at November 1, 2003 and August 3, 2002 | (5,546) | (5,546) |
| Total shareholders' equity | 22,456 | 22,979 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | $ 59,519 | $ 60,492 |

See notes to consolidated financial statements



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

| | Three Months Ended | |
|---|---|---|
| | Nov. 1, 2003 | Nov. 2, 2002 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | $(609) | $(606) |
| Adjustments to reconcile net loss to | | |

| | | |
|---|---|---|
| net cash provided by operating activities: | | |
| Depreciation and amortization | 544 | 572 |
| Imputed interest - Subordinated note | 45 | 46 |
| Minority interest | 67 | (13) |
| Stock based compensation expense | 10 | 36 |
| Non-cash facilities reorganization charge | - | 70 |
| Changes in operating assets and liabilities: | | |
| Decrease in trade receivables | 1,305 | 1,330 |
| Decrease in inventory | 482 | 469 |
| Decrease in income taxes receivable | - | 3,106 |
| (Increase) decrease in prepaid expenses and other current assets | (220) | 677 |
| Decrease in other assets | 45 | 64 |
| Decrease in accounts payable - trade | (452) | (1,262) |
| Decrease in accrued liabilities | (110) | (159) |
| Increase in income taxes payable | 170 | 35 |
| Increase in other long-term liabilities | 1 | 9 |
| Net cash provided by operating activities | 1,278 | 4,374 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Fixed asset purchases | (96) | (718) |
| Net cash used in investing activities | (96) | (718) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Repayment of bank borrowings | (302) | (3,316) |
| Net cash used in financing activities | (302) | (3,316) |
| EFFECT OF EXCHANGE RATE CHANGES | 48 | 3 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 928 | 343 |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD | 1,381 | 895 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD | $ 2,309 | $ 1,238 |

See notes to consolidated financial statements



DEL GLOBAL TECHNOLOGIES CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except share data)
(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 of the results for the interim period 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. These consolidated financial statements should be read in conjunction with the financial statements and the notes thereto included in the Company's annual report on Form 10-K filed with the Securities and Exchange Commission for the year ended August 2, 2003. Certain prior year's amounts have been reclassified to conform to the current period presentation.

The Company's fiscal year is based on a 52/53 week cycle ending on the Saturday nearest to July 31. Results of the Company's Milan, Italy based Villa Sistemi Medicali S.p.A ("Villa") subsidiary are reported on a one-month lag.

The Company recognizes revenue upon shipment, provided there is persuasive evidence of an arrangement, there are no uncertainties concerning acceptance, the sales price is fixed, collection of the receivable is probable and only perfunctory obligations related to the arrangement need to be completed. The Company's products are covered primarily by one year warranty plans and in some cases optional extended warranties for up to five years are offered. The Company establishes allowances for warranties as more fully described in the Product Warranty footnote herein. The Company recognizes service revenue when repairs or out of warranty repairs are completed. The Company has an FDA obligation to continue to provide repair service for certain medical systems for up to seven years past the warranty period, which are billed to the customers at market rates.

SFAS No. 148, Accounting for Stock-based Compensation-Transition and Disclosure, an amendment of FASB Statement No. 123, amends SFAS No. 123 to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. It also amends the disclosure provisions of SFAS No. 123 to require prominent disclosure in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company has elected to continue to account for stock-based awards to employees using the intrinsic value method of accounting in accordance with Accounting Principles Board Opinion No 25, "Accounting for Stock Issued to Employees." The Company's practice in granting these awards to employees is to set the exercise price of the stock options equal to the market price of our underlying stock on the date of grant. Therefore under the intrinsic value method, no compensation expense is recognized in the Company's Consolidated Statements of Operations.



Had compensation cost for the Company's stock option plans been determined based on the fair value at the grant dates for awards under those plans consistent with the methods recommended by SFAS 123, the Company's net loss and net loss per share for the three months ended November 1, 2003 and November 2, 2002 would have been stated at the pro forma amounts indicated below:

| | Three Months Ended | |
| --- | --- | --- |
| | Nov. 1, 2003 | Nov. 2, 2002 |
| Net loss - as reported | $(609) | $(606) |
| Add: Total stock-based awards determined under fair value method | (114) | (161) |

| | | |
|---|---|---|
| Proforma Net loss | $(723) | $(767) |
| Loss per share - Basic and diluted | | |
| As reported | $ (0.06) | $(0.06) |
| Proforma | $ (0.07) | $(0.07) |

NEW ACCOUNTING PRONOUNCEMENTS

During May 2003, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" ("SFAS No. 150"). SFAS No. 150 clarifies the accounting for certain financial instruments with characteristics of both liabilities and equity and requires that those instruments be classified as liabilities in statements of financial position. Previously, many of those financial instruments were classified as equity. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003 and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of this statement did not have a material effect on the Company's consolidated financial statements.

In January 2003, the FASB issued FASB Interpretation No. 46 "Consolidation of Variable Interest Entities ("VIE"), an Interpretation of ARB No. 51." FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 was effective immediately for new VIEs established or purchased subsequent to January 31, 2003. For VIEs entered into prior to February 1, 2003, FIN 46 was originally effective for interim periods beginning after June 15, 2003. In October 2003, the FASB deferred this effective date until interim or annual periods ending after December 15, 2003. Early adoption is permitted. The adoption of FIN 46 for these VIEs is not expected to have a material impact on the Company's



consolidated financial statements. FIN 46 further requires the disclosure of certain information related to VIEs in which the Company holds a significant variable interest. As of November 1, 2003, the Company did not own any such interests that required disclosure.

GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill represents the excess of the cost of acquisitions over the fair value of the identifiable assets acquired and liabilities assumed. Other intangible assets are the Company's distribution network and non-compete agreements acquired with the purchase of certain assets of a subsidiary. Intangibles are being amortized on a straight-line basis over their estimated useful lives, which range from 5 to 10 years. The components of our amortizable intangible assets are as follows:

| November 1, 2003 | | August 2, 2003 | |
|---|---|---|---|
| Gross Carrying | Accumulated | Gross Carrying | Accumulated |

| | Amounts | Amortization | Amounts | Amortization |
|---|---|---|---|---|
| Non-Compete Agreements | $ 902 | $ 758 | $ 902 | $ 738 |
| Distribution Network | 653 | 501 | 653 | 484 |
| Total | $ 1,555 | $ 1,259 | $ 1,555 | $ 1,222 |

Amortization expense for intangible assets during the first quarter of fiscal years 2004 and 2003 was $37 and $36, respectively. Estimated amortization expense for the remainder of 2004 and the five succeeding fiscal years is as follows:

| | |
|---|---|
| 2004 (remainder) | 107 |
| 2005 | 144 |
| 2006 | 45 |
| 2007 | - |
| 2008 | - |
| 2009 | - |

There are no components of intangible assets that have an indefinite life.

There were no changes in goodwill balances during the first quarter of fiscal year 2004.



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 evaluated using perpetual inventory records for interim reporting periods. For certain subsidiaries during interim periods we estimate the amount of labor and overhead costs related to finished goods inventories. The estimation methodologies used for interim reporting purposes are described in Management's Discussion and Analysis of Financial Condition and Results of Operations under the subtitle "Critical Accounting Policies".

| | November 1, 2003 | August 2, 2003 |
|---|---|---|
| Raw materials and purchased parts | $ 15,274 | $ 15,161 |
| Work-in-process | 3,518 | 3,757 |
| Finished goods | 3,304 | 3,377 |
| | 22,096 | 22,295 |
| Less allowance for obsolete and excess inventory | (4,029) | (3,847) |
| Total inventory, net | $ 18,067 | $ 18,448 |

PRODUCT WARRANTIES

The Company's products are covered primarily by one-year warranty plans and in some cases optional extended contracts may be offered covering products for periods up to five years, depending upon the product and contractual terms of sale. The Company establishes allowances for warranties on an aggregate basis for specifically identified, as well as anticipated, warranty claims based on contractual terms, product conditions and actual warranty experience by product line.

During the first quarter of fiscal 2004, the Company incurred payments of $259 related to warranty claims submitted and accrued $277 related to product warranties issued during the first quarter of fiscal 2004. The liability related to warranties is included in accrued expenses on the accompanying Consolidated Balance Sheets and is $688 and $670 at November 1, 2003 and August 2, 2003, respectively.





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 2003 and 2002 was as follows:

| | Three Months Ended | |
|---|---|---|
| | November 1, 2003 | November 2, 2002 |
| Net loss | $ (609) | $(606) |
| Foreign currency translation adjustments | 77 | 6 |
| Comprehensive loss | $ (532) | $(600) |

| LOSS PER SHARE | Three Months Ended | |
|---|---|---|
| | November 1, 2003 | November 2, 2002 |
| Numerator: | | |
| Net loss | $(609) | $ (606) |
| Denominator: | | |
| Denominator for basic loss per share - | | |
| Weighted average shares outstanding | 10,332,548 | 10,347,515 |
| Effect of dilutive securities | - | - |
| Denominator for diluted loss per share | 10,332,548 | 10,347,515 |
| Loss per basic and diluted common share | $ (0.06) | $ (0.06) |

Common shares outstanding for the current period and prior period ended were reduced by 643,533 and 628,566 shares of treasury stock, respectively. The computation of diluted shares outstanding does not include 2,116,815 and 1,990,055 employee stock options and 1,065,000 and 1,065,000 warrants to purchase Company common stock, as of November 1, 2003 and November 2, 2002, respectively, since the effect of their assumed conversion would be anti-dilutive.



SEGMENT INFORMATION

The Company has three reportable segments: Medical Systems Group, Power Conversion Group and Other. The "Other" segment includes unallocated corporate costs. Interim segment information is as follows:

| For three months ended November 1, 2003 | Medical Systems Group | Power Conversion Group | Other | Total |
|---|---|---|---|---|
| Net Sales to Unaffiliated Customers | $13,701 | $ 7,941 | - | $21,642 |
| Cost of sales | 10,416 | 6,747 | - | 17,163 |
| Gross margin | 3,285 | 1,194 | - | $ 4,479 |
| Operating expenses | 2,379 | 1,670 | $ 544 | 4,593 |
| Total operating expenses | 2,379 | 1,670 | 544 | 4,593 |
| Operating income / (loss) | $ 906 | $ (476) | $ (544) | $ (114) |

| For three months ended November 2, 2002 | Medical Systems Group | Power Conversion Group | Other | Total |
|---|---|---|---|---|
| Net Sales to Unaffiliated Customers | $12,068 | $13,665 | - | $25,733 |
| Cost of sales | 9,537 | 10,980 | - | 20,517 |
| Gross margin | 2,531 | 2,685 | - | 5,216 |
| Operating expenses | 2,652 | 1,975 | $ 1,094 | 5,721 |
| Facilities reorganization costs | - | 104 | 130 | 234 |
| Total operating expenses | 2,652 | 2,079 | 1,224 | 5,955 |
| Operating income / (loss) | $ (121) | $ 606 | $(1,224) | $ (739) |

CONTINGENCIES

Securities and Exchange Commission ("SEC") Investigation - On December 11, 2000, the Division of Enforcement of the SEC issued the SEC Order, 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. In conjunction with this investigation, the Company provided numerous documents and cooperated fully with the SEC staff.

In December 2003, the Company signed a consent agreement with the Staff of the SEC for a settlement of the SEC's claims against the Company that includes a previously announced penalty of $400 and an injunction against future violations of the antifraud, periodic reporting, books and records and internal accounting control provisions of the federal securities law. The settlement is subject to, among other things final approval by the Commission and court approval. We can give no assurance that this settlement will receive final Commission approval or court approval.

Previously, the Company had reached an agreement in principle with the SEC on these settlement terms, which management believed provided a reasonable basis for estimating the financial impact of this SEC investigation. As a result, the Company recorded a charge of $685 in the fourth quarter of fiscal year 2002 related to the agreement in principle with the SEC staff, which included associated legal costs.

Department of Defense ("DOD") 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 in connection with an investigation by the US Department of Defense ("DOD"). RFI supplies noise suppression filters for communications and defense applications. Since March 2002, the DOD has been investigating certain past practices at RFI which date back more than six years and pertain to RFI's Military Specification testing, record keeping and general operating procedures. Management retained special counsel to represent the Company on this matter. The Company has cooperated fully with this investigation, including voluntarily providing employees to be interviewed by the Defense Criminal Investigative Services division of the DOD.

In June 2003, the Company was advised that the US Government is willing to enter into negotiations regarding a comprehensive settlement of this investigation. Management believes that a potential comprehensive settlement will include the Company's pleading guilty to certain criminal charges, and agreeing to pay certain fines and restitution to the Government in an amount which could be material to the Company. Prior to the preliminary discussions with the US Government in June 2003, the Company had no basis to estimate the financial impact of this investigation. Based on preliminary settlement discussions with the US Government, discussions with the Company's legal advisors, consideration of settlements reached by other parties in investigations of this nature, and consideration of the Company's capital resources, management then developed an estimate of the low end of the





potential range of the financial impact. Accordingly, during the third quarter of fiscal 2003, the Company recorded a charge of $2,347 which represents its estimate of the low end of a range of potential fines and legal and professional fees. The liability associated with this charge is included in Litigation settlement reserves on the accompanying consolidated balance sheet as of August

2, 2003 and November 1, 2003. In October 2003, based on discussions with the US Government, the Company was advised that the US Government is currently seeking up to approximately $5 million in the fines and restitution portion of any comprehensive settlement. The Company is continuing to negotiate with the US Government regarding a comprehensive settlement, including the amount of such fines.

The Company believes that any settlement could cause the DOD to seek to limit the ability of the Company to do business with US Government entities. Such limitations could include seeking a "debarment" or exclusion from doing business with US Government entities for a period of time. Because management believes that it has been responsive in addressing the problems that affected RFI in the past, and RFI is the sole source provider of certain products to certain critical defense programs, the Company is hopeful that as a result of the potential settlement, its ability to service the governmental and defense sectors of its business will not be interrupted.

There can be no assurance that such a settlement will be reached and, even if reached, that the ultimate fines and outcome of any settlement will not vary significantly from the fines and restitution included in the $2,347 charge recognized in the third quarter of fiscal 2003. This charge recorded in the third quarter represented the Company's original estimate of its minimum liability. The Company has not recorded an additional charge as a result of the $5,000 requested by the US Government. In addition, such a settlement, even on the most favorable terms, may have a material adverse impact on the Company's financial condition, liquidity and operations.

ERISA Matters - During the year ended July 28, 2001, management of the Company concluded that violations of the Employee Retirement Income Security Act, ("ERISA") existed relating to a defined benefit plan for which accrual of benefits had been frozen as of February 1, 1986. The violations related to excess concentrations of the Common stock of the Company in the plan assets. In July 2001, management of the Company decided to terminate this plan, subject to having available funds to finance the plan in accordance with rules and regulations relating to terminating pension plans. This plan has not been terminated yet, but the Company expects to start the process of terminating this plan in fiscal 2004. At time of settlement, the Company expects to recognize a related charge of approximately $0.5 million, including a cash disbursement of approximately $0.2 million.





Employment Matters - The Company has an employment agreement with Samuel Park, the previous CEO, for the period May 1, 2001 to April 30, 2004. The terms of this agreement provided a base salary, bonuses and deferred compensation. The bonus provided by this agreement was based on a percentage of the base salary, if certain performance goals established by the board were achieved. In addition, the employment agreement provided for certain payments in the event of death, disability or change in the control of the Company.

On October 10, 2003, the Company announced the appointment of Walter F. Schneider as President and CEO to replace Mr. Park, effective as of such date. As a result, the Company recorded a charge of $200 during the first quarter of fiscal 2004 to accrue the balance remaining under Mr. Park's employment agreement.

In addition, the Company's Board of Directors elected at the Company's Annual Meeting of Shareholders held on May 29, 2003 had previously reviewed the "change in control" provisions regarding payments totaling up to approximately $1,800 under the employment agreement between the Company and Mr. Park. As a result of this review and based upon, among other things, the advice of special counsel, the Company's Board of Directors determined that no obligation to pay these amounts has been triggered. Prior to his departure from the Company on October 10, 2003, Mr. Park orally informed the Company that, after reviewing the matter with his counsel, he believes that the obligation to pay these amounts has been triggered. On October 27, 2003, the Company received a letter from Mr. Park's counsel demanding payment of certain sums and other consideration pursuant to the Company's employment agreement with Mr. Park, including these change in control payments. On November 17, 2003, the Company filed a complaint against Mr. Park seeking a declaratory judgment that no change in control payment was or is due to Mr. Park and that an amendment to the employment contract with Mr. Park regarding advancement and reimbursement of legal fees is invalid and unenforceable. If paid in a lump sum, these payments may have a material adverse effect on the Company's liquidity. In the event Mr. Park seeks to assert a claim for these payments, it is not possible to predict the outcome of any such claim.

Indemnification Legal Expenses - Pursuant to indemnification and undertaking agreements with certain former officers, directors and employees, the Company has advanced legal expenses in connection with the Company's previously reported accounting irregularities and the related shareholder litigation and governmental enforcement actions. During fiscal 2003, the Company spent approximately $310 in the advancement of legal expenses pursuant to these agreements. Management is unable to estimate at this time the amount of legal fees that the Company may have to pay in the future related to these matters. Further, there can be no assurance that those to whom we have been advancing expenses will have the financial means to repay the Company pursuant to undertaking agreements that they executed, if it is later determined that such individuals were not entitled to be indemnified.





Other Legal Matters - On October 6, 2003, Carmelo Guiseppe Ammendola, a minority shareholder of Villa, served a summons on Villa in the Civil Court of Milan, Italy, challenging the terms of certain related party transactions between Villa and the Company relating to intercompany pricing and a management fee. Villa is vigorously defending against this claim, believes that there is no merit to the case, and that Villa has meritorious defenses. Although these can be no assurances, management believes that the impact of this action will not have a material adverse effect on the financial position or results of operations of either Villa or the Company.

In addition, the Company is a defendant in several other legal actions arising from the normal course of business in various US and foreign jurisdictions. Management believes the Company has meritorious defenses to such actions and that the outcomes will not be material to the Company's consolidated financial statements.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Dollars in Thousands except share data)

This Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on current expectations and the current economic environment. We caution that these statements are not guarantees of future performance. They involve a number of risks and uncertainties that are difficult to predict including, but not limited to, our ability to implement our business plan, retention of management, changing industry and competitive conditions, obtaining anticipated operating efficiencies, securing necessary capital facilities, favorable determinations in various legal and regulatory matters, including a settlement of the Department of Defense investigation on terms that we can afford and that does not include a debarment from doing business with the US Government, and favorable general economic conditions. Actual results could differ materially from those expressed or implied in the forward-looking statements. Important assumptions and other important factors that could cause actual results to differ materially from those in the forward-looking statements are specified in the Company's filings with the Securities and Exchange Commission including our Form 10-K for the fiscal year ended August 2, 2003.

OVERVIEW

The Company is a leader in developing, manufacturing and marketing medical imaging equipment and power conversion subsystems and components worldwide. Our products include stationary and portable medical diagnostic imaging equipment, high voltage power systems and electronic systems and components such as electronic filters, transformers and capacitors. We manage our business in two operating segments; our Medical Systems Group and our Power Conversion Group. In addition, we have a third reporting segment, Other, comprised of certain unallocated corporate General and Administrative expenses.

CRITICAL ACCOUNTING POLICIES

Complete descriptions of significant accounting policies are outlined in Note 1 of our Form 10-K for the fiscal year ended August 2, 2003. Within these policies, we have identified the accounting for deferred tax assets and the allowance for obsolete and excess inventory as being critical accounting policies due to the significant amount of estimates involved. In addition, for interim periods, we have identified the valuation of finished goods inventory as being critical due to the amount of estimates involved.

Deferred Income Taxes

We account for deferred income taxes in accordance with Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes," whereby we recognize an asset related to our net operating loss carry forwards and other temporary differences between financial reporting basis and income tax basis. As of November 1, 2003, this deferred income tax asset represented approximately 15% of our total assets.

This deferred income tax asset is net of a valuation allowance of $10.1 million established during fiscal 2003 that was computed by considering the amount of future U.S. taxable income expected over the net operating loss carryforward period, considering recent performance and other specific actions the Company has taken to improve profitability. The valuation allowance recorded is the estimate of the amount of deferred income tax assets that may not be realized.

No assurances can be given that the Company's results of operations will generate profits in the future.

OBSOLETE AND EXCESS INVENTORY

Another significant estimate is our allowance for obsolete and excess inventory. We re-evaluate our allowance for obsolete inventory once a quarter, and this allowance comprises the most significant portion of our inventory reserves. The re-evaluation of reserves is based on a written policy, which requires at a minimum that reserves be established based on our analysis of historical actual usage on a part-by-part basis. In addition, if management learns of specific obsolescence in addition to this minimum formula, these additional reserves will be recognized as well. Specific obsolescence might arise due to a technological or market change, or based on cancellation of an order. As we typically do not purchase inventory substantially in advance of production requirements, we do not expect cancellation of an order to be a material risk. However, market or technology changes can and do happen.

VALUATION OF FINISHED GOODS INVENTORIES

In addition, we use certain estimates in determining interim operating results. The most significant estimates in interim reporting relate to the valuation of finished goods inventories. For certain subsidiaries, for interim periods, we estimate the amount of labor and overhead costs related to finished goods inventories. As of November 1, 2003, finished goods represented approximately 15.9% of the gross carrying value of our total gross inventory. We believe the estimation methodologies used to be appropriate and are consistently applied.

CONSOLIDATED RESULTS OF OPERATIONS

Consolidated net sales of $21.6 million for the first quarter of fiscal 2004 decreased by $4.1 million or 15.9% from fiscal 2003 first quarter net sales of $25.7 million, with decreases at the Power Conversion Group partially offset by increases at our Medical Systems Group. The Medical Systems Group's first quarter fiscal 2004 sales of $13.7 million improved by $1.6 million or 13.5% from the prior year's first quarter with increases at both domestic and international locations, plus favorable exchange rate effects from the translation of Villa's financial statements from euros. The Power Conversion Group's first quarter fiscal 2003 sales of $7.9 million decreased by $5.7 million or 41.9% from last year's levels, primarily due to decreases in Explosive Detection System ("EDS") business and the shift to in-house production of components formerly purchased from us by a large customer, both of which took place after the end of last year's first quarter.



Consolidated backlog at November 1, 2003 was $24.6 million versus backlog at August 2, 2003 of approximately $26.3 million. The backlog in the Power Conversion Group decreased $2.8 million from levels at beginning of the fiscal year partially offset by a $1.1 million increase in the backlog at our Medical Systems Segment. Substantially all of the backlog should result in shipments within the next 12 months.

Gross margins as a percent of sales were 20.7% for the first quarter of fiscal 2004, compared to 20.3% in the first quarter of fiscal 2003. The Power Conversion Group's margins for the first quarter of fiscal 2004 were 15.0%, versus 19.7% in the prior year quarter. The prior year's first quarter margins reflected shipments of higher margin EDS product partially offset by depressed margins at RFI due to the DOD investigation. First quarter fiscal 2004 Power Conversion group margins also benefited from an approximate $0.8 million reduction in labor and overhead resulting from the consolidation of the Hicksville facility completed during the second half of fiscal 2003. The Medical Systems Group's fiscal 2004 first quarter gross margins of 24.0% improved from the 21.0% level in the prior year first quarter due to increased shipments and a favorable product mix at both locations.

Selling, General and Administrative expenses ("SG&A") for the first quarter of fiscal 2004 were $4.3 million (19.8% of sales) compared to $5.4 million (21% of sales) in the prior year's first quarter. The decrease in SG&A in the first quarter of fiscal 2004 reflects reduced corporate legal and accounting costs, reductions in headcount and the consolidation of the Hicksville facility. SG&A in the prior year's first quarter includes an expense of $0.2 million for separation payments to the former president of our Italian subsidiary and unusually high legal and accounting fees of $0.5 million.

Facilities reorganization costs in the first quarter of fiscal 2003 related to the phase out of the Power Conversion Group's Hicksville facility and integration into the Valhalla facility, which was started in the fourth quarter of fiscal 2002. The reorganization of the Valhalla facility and personnel, as well as the balance of the physical move of Hicksville inventory, equipment and personnel was completed in the second half of fiscal 2003. We are attempting to sublet the Hicksville facility through the end of our lease in May 2004. Any remaining rental obligations or other expenses related to terminating our tenancy will be charged against a balance sheet accrual established during fiscal 2002.

As a result of the foregoing, we recognized a first quarter fiscal 2004 operating loss of $0.1 million compared to an operating loss of $0.7 million in the first quarter of fiscal 2003. The Medical Systems Group posted a first quarter fiscal 2004 operating profit of $0.9 million, offset by a $0.5 million operating loss at the Power Conversion Group, and unallocated corporate costs of $0.5 million.

Interest expense for the first quarter of fiscal 2004 was lower than the prior year's first quarter due to decreased borrowings and lower interest rates.



During the first quarter of fiscal 2003, the Company recognized other income of $0.5 million related to the settlement of a dispute in connection with a 1999 product line acquisition.

The Company has not provided for a U.S. domestic income tax benefit in the first quarter of either fiscal 2004 or fiscal 2003 despite a loss for these periods. With the exception of tax provisions and adjustments recorded at Villa, our Italian subsidiary, we recorded no adjustments to our current or net deferred tax accounts during the first quarter of fiscal 2004 or fiscal 2003. We expect to be profitable in future periods; however management periodically evaluates the likelihood of the recoverability of the deferred tax asset recognized on our balance sheet. Based on management's current analysis, we believe it is more likely than not that the remaining deferred tax assets will be realized.

Reflecting the above, we recorded net losses of $0.6 million or $0.06 per share in the first quarter of fiscal 2004, which were comparable to amounts recorded in the prior year's first quarter.

## FINANCIAL CONDITION

### LIQUIDITY AND CAPIAL RESOURCES

We fund our investing and working capital needs through a combination of cash flow from operations and short-term credit facilities.

Working Capital - At November 1, 2003 and August 2, 2003, our working capital was approximately $ 13.5 million and $ 13.6 million, respectively. At such dates we had approximately $2.3 million and $1.4 million, respectively, in cash and cash equivalents. As of November 1, 2003 we had approximately $3.3 million of excess borrowing availability under our domestic revolving credit facility.

As a result of the potential settlement of the DOD investigation, we have taken a temporary reduction of $0.5 million against our excess domestic borrowing availability under our revolving credit facility with Transamerica. At this time, we do not expect these temporary reductions of borrowing availability to have a material detrimental impact on our ability to finance working capital requirements. However, there can be no assurance that the ultimate outcome of the DOD investigation matters will not differ materially from our estimates or the amount of the temporary reduction.

In addition, as of November 1, 2003, our Villa subsidiary has an aggregate of approximately $7.0 million of excess borrowing availability under its various short-term credit facilities. Terms of the Italian credit facilities do not permit the use of borrowing availability to finance operating activities at our U.S. subsidiaries.

Cash Flows from Operating Activities - For the three months ended November 1, 2003 the Company generated approximately $1.3 million of cash from operations, compared to a generation of $4.4 million in the first quarter of the prior fiscal year. Contributing to cash generation in the first quarter of fiscal 2004 were a decrease in trade receivables of approximately $1.3 million, and a reduction in inventory of approximately $0.5 million. The first quarter



of fiscal 2003 included the collection of approximately $3.1 million in income tax receivable. This income tax receivable was the result of filing amended tax returns and carryback claims for fiscal 1997 through 2001 due to a change in the tax laws permitting loss carrybacks of five years from two years.

Cash Flows from Investing Activities - We continue to invest in capital equipment and improvements, principally for manufacturing operations, in order to improve our manufacturing capability and capacity. We have expended approximately $0.1 million for facility improvements and capital equipment for the three months ended November 1, 2003. We anticipate fiscal 2004 capital expenditures will be lower than the expenditures in fiscal 2003 due to the completion of the facility consolidation work in Valhalla and the HVAC system in Italy during fiscal 2003.

Cash Flows from Financing Activities - During the first quarter of fiscal 2004, we repaid a total of approximately $0.3 million of indebtedness on our domestic and Italian borrowings.

The following table summarizes our contractual obligations, including debt and operating leases at August 2, 2003: (in thousands)

| Obligations | Total (1) | Within 1 Year | 2-3 Years | 4-5 Years | After Year |
|---|---|---|---|---|---|
| Long-Term Debt Obligations | $2,895 | $ 508 | $1,037 | $ 771 | $ 5 |
| Capital Lease Obligations | 3,072 | 148 | 358 | 641 | 1,9 |
| Subordinated Note | 2,000 | - | - | 2,000 | |
| Operating Lease Obligations | 1,873 | 959 | 897 | 17 | |
| Total Contractual Cash Obligations | $9,840 | $1,615 | $2,292 | $3,429 | $2,50 |

(1) In addition, as of August 2, 2003 we had approximately $6.2 million revolving credit debt in the U.S. and $0.2 million in Italy. The Italian credit facilities are generally renewed on a yearly basis and the Transamerica Facility matures in fiscal 2005. The maturity of the Transamerica Facility is subject to acceleration upon certain events of default as defined in the credit agreement, including uncured covenant defaults. Upon maturity, the Company anticipates refinancing any balances remaining on the U.S. facility.

Credit Facility and Borrowing - The Company has a $10 million senior revolving credit agreement with Transamerica under the Transamerica Facility, as amended dated as of June 10, 2002. This facility has a term of three years and interest under this U.S. credit facility is at prime plus 3/4%, or at the Company's option, at a rate tied to LIBOR. The interest rate on the revolving line of credit is 4.75% at August 2, 2003. The Transamerica Facility is subject to commitment fees of 3/8% on the daily unused portion of the facility, payable monthly. Under terms of the Transamerica Facility, interest is calculated based on the higher of the actual balance, or a floor revolving credit balance of $5 million. The Transamerica Facility is secured by substantially all of the Company's accounts receivable, inventory, and fixed assets in the U.S. The terms of the Transamerica Facility require the Company to comply with various operational and financial covenants, and place limitations on the Company's ability to make capital expenditures and to pay dividends.



Our Villa subsidiary is a party to various short-term credit facilities with interest rates ranging from 6% to 14%. These facilities generally renew on a yearly basis and include overdraft, receivables and import export financing facilities.

In addition, Villa is a party to various medium-term commercial and Italian Government long-term loans. Medium term facilities have interest rates ranging from 3 to 6%, with principal payable semi-annually through maturity in March 2007, and interest payable quarterly. The Government long-term facilities have an interest rate of 3.4% with principal payable annually through September 2010. Villa's manufacturing facility is subject to a capital lease obligation which matures in 2011 with an option to purchase. Villa is in compliance with all related financial covenants under these short and long-term financings.

As of November 1, 2003, the Company has a minimum liability and corresponding debit in other comprehensive income to account for the unfunded status of its defined benefit plan, in accordance with SFAS No. 87. In accordance with SFAS No. 88, at the time of final settlement of the pension plan, the Company will recognize an expense to the statement of operations for the amount of such debit to other comprehensive income, adjusted for the difference between the cost to settle the pension obligation and the amount of the recorded net liability. This plan has not been terminated yet, but the Company expects to start the process of terminating this plan in fiscal 2004. At time of settlement, the Company expects to recognize a related charge of approximately $0.5 million, including a cash disbursement of approximately $0.2 million.

During fiscal 2004 we intend to complete a registration statement with the SEC covering the issuance of one million shares of our common stock underlying warrants that were issued to certain shareholders in connection with the previous shareholder litigation. Prior to completing this amended registration statement and having it declared effective, we must satisfactorily respond to questions raised by the SEC in its review of the registration statement, and there can be no assurances that the SEC will declare the registration statement effective in fiscal 2004. Should the SEC declare this registration statement effective, shareholders would be able to exercise the warrants issued as part of the shareholder litigation settlement and purchase the Company's common stock at a price of $2 per share. These warrants are also callable by the Company at a price of $0.25 per warrant, if the Common Stock trades at or above $4 per share for ten (10) consecutive days. We anticipate using any proceeds received from the exercise of the warrants to pay down our Transamerica Facility.

As described in "Legal Proceedings" Part II, Item 1 below, management had developed an estimate of the low end of the potential range of the financial impact of a potential comprehensive settlement with the DOD regarding an ongoing investigation of our RFI subsidiary. Accordingly, during the third quarter of fiscal 2003, we recorded a charge of $2.3 million, which represents our estimate of the low end of a range of potential fines and legal and professional fees. The liability associated with this charge is included in Litigation settlement reserves on the accompanying balance sheet. In October 2003, based on discussions with the U.S. Government, the Company was advised that the U.S. Government is currently seeking approximately $5 million in the



fines and restitution portion of any comprehensive settlement. The Company is continuing to negotiate with the U.S. Government regarding a comprehensive settlement, including the amount of such fines.

It is possible that the DOD could seek a "debarment" or exclusion of the Company from doing business with U.S. Government entities for a period of time. Because management believes that it has been responsive in addressing the problems that affected RFI in the past, and RFI is the sole source provider of certain products to several critical defense programs, we are hopeful that our ability to service the governmental and defense sectors will not be interrupted as a result of the potential settlement. There can be no assurance that such a settlement will be reached and, even if such a settlement is reached that the ultimate fines and outcome of any settlement will not vary significantly from the Company's original estimate and expectations. In addition, such a settlement, even on the most favorable terms, may have a material adverse impact on the Company's financial condition, liquidity and operations.

The Company's Board of Directors elected at the Company's Annual Meeting of Shareholders held on May 29, 2003 has reviewed the "change in control" provisions regarding payments totaling up to approximately $1.8 million under the employment agreement between the Company and its former Chief Executive Officer, Samuel Park. As a result of this review and based upon, among other things, the advice of special counsel, the Company's Board of Directors has determined that no obligation to pay these amounts has been triggered. Prior to his departure from the Company on October 10, 2003, Mr. Park orally informed the Company that, after reviewing the matter with his counsel, he believes that the obligation to pay these amounts has been triggered. On October 27, 2003, the

Company received a letter from Mr. Park's counsel demanding payment of certain sums and other consideration pursuant to the Company's employment agreement with Mr. Park, including these change in control payments. On November 17, 2003, the Company filed a complaint against Mr. Park seeking a declaratory judgment that no change in control payment was or is due to Mr. Park and that an amendment to the employment contract with Mr. Park regarding advancement and reimbursement of legal fees is invalid and unenforceable. If paid in a lump sum, these payments may have a material adverse effect on the Company's liquidity. In the event Mr. Park seeks to assert a claim for these payments, it is not possible to predict the outcome of any such claim; however, the Company's Board of Directors does not believe that such a claim is reasonably likely to result in a material decrease in the Company's liquidity in the foreseeable future.

The outcome of the elections at the Company's Annual Meeting of Shareholders held on May 29, 2003 represents a change in control under change in control agreements between the Company and each of four other members of executive management. However, as each of these agreements contains "double-triggers" requiring the termination of the individual, no change in control payments are currently due to any such individuals.



We anticipate that cash generated from operations and amounts available from credit facilities will be sufficient to satisfy our currently projected operating cash needs for at least the next twelve months, and for the foreseeable future. In the event the potential settlement of the DOD investigation is materially higher than anticipated, we will consider all available alternatives. However, there is no assurance that any alternatives will be available to the Company on acceptable terms at such time.

## Item 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We do not ordinarily hold market risk sensitive instruments for trading purposes. We do, however, recognize market risk from interest rate and foreign currency exchange exposure. There have been no changes in financial market risk as originally discussed in the Company's Annual Report on Form 10-K for the fiscal year ended August 2, 2003.

## Item 4 CONTROLS AND PROCEDURES

The Company, under the supervision and with the participation of the Company's management, including Walter F. Schneider, Chief Executive Officer and Thomas V. Gilboy, Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's "disclosure controls and procedures", as such term is defined in Rules 13a-15e and 15d-15e promulgated under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this Form 10-Q. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this Form 10-Q to provide reasonable assurance that information required to be disclosed by the Company in reports that it files or submits under the Securities Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

In the ordinary course of business, the Company routinely enhances its information systems by either upgrading its current systems or implementing new systems. There were no changes in the Company's internal controls or in other factors that could significantly affect these controls, during the Company's first fiscal quarter ended November 1, 2003 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.



## PART II - OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS (Dollars in Thousands)

Securities and Exchange Commission ("SEC") Investigation - On December 11, 2000, the Division of Enforcement of the SEC issued the SEC Order, 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. In conjunction with this investigation, the Company provided numerous documents and cooperated fully with the SEC staff.

In December 2003, the Company signed a consent agreement with the Staff of the SEC for a settlement of the SEC's claims against the Company that includes a previously announced penalty of $400 and an injunction against future violations of the antifraud, periodic reporting, books and records and internal accounting control provisions of the federal securities law. The settlement is subject to, among other things, final approval by the Commission and court approval. We can give no assurance that this settlement will receive final approval by the Commission or court approval.

Previously, the Company had reached an agreement in principle with the SEC on these settlement terms, which management believed provided a reasonable basis for estimating the financial impact of this SEC investigation. As a result, the Company recorded a charge of $685 in the fourth quarter of fiscal year 2002 related to the agreement in principle with the SEC staff, which includes associated legal costs.

Department of Defense ("DOD") 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 in connection with an investigation by the US Department of Defense ("DOD"). RFI supplies noise suppression filters for communications and defense applications. Since March 2002, the DOD has been investigating certain past practices at RFI which date back more than six years and pertain to RFI's Military Specification testing, record keeping and general operating procedures. Management retained special counsel to represent the Company on this matter. The Company has cooperated fully with this investigation, including voluntarily providing employees to be interviewed by the Defense Criminal Investigative Services division of the DOD.

In June 2003, the Company was advised that the US Government is willing to enter into negotiations regarding a comprehensive settlement of this investigation. Management believes that a potential comprehensive settlement will include the Company's pleading guilty to certain criminal charges, and agreeing to pay certain fines and restitution to the Government in an amount which could be material to the Company. Prior to the preliminary discussions with the US Government in June 2003, the Company had no basis to estimate the financial impact of this investigation. Based on preliminary settlement discussions with the US Government, discussions with the Company's legal advisors, consideration of settlements reached by other parties in investigations of this nature, and consideration of the Company's capital resources, management then developed an estimate of the low end of the potential range of the financial impact. Accordingly, during the third quarter of fiscal 2003, the Company recorded a charge of $2,347 which represents its



estimate of the low end of a range of potential fines and legal and professional fees. The liability associated with this charge is included in Litigation settlement reserves on the accompanying consolidated balance sheet as of August 2, 2003 and November 1, 2003. In October 2003, based on discussions with the US Government, the Company was advised that the US Government is currently seeking up to approximately $5 million in the fines and restitution portion of any comprehensive settlement. The Company is continuing to negotiate with the US Government regarding a comprehensive settlement, including the amount of such fines.

The Company believes that any settlement could cause the DOD to seek to limit the ability of the Company to do business with US Government entities. Such limitations could include seeking a "debarment" or exclusion from doing business with US Government entities for a period of time. Because management believes that it has been responsive in addressing the problems that affected RFI in the past, and RFI is the sole source provider of certain products to several critical defense programs, the Company is hopeful that as a result of the potential settlement, its ability to service the governmental and defense sectors of its business will not be interrupted.

There can be no assurance that such a settlement will be reached and, even if reached, that the ultimate fines and outcome of any settlement will not vary significantly from the fines and restitution included in the $2,347 charge recognized in the third quarter of fiscal 2003. This charge recorded in the third quarter represented the Company's original estimate of its minimum liability. The Company has not recorded an additional charge as a result of the $5,000 requested by the US Government. In addition, such a settlement, even on the most favorable terms, may have a material adverse impact on the Company's financial condition, liquidity and operations.

ERISA Matters - During the year ended July 28, 2001, management of the Company concluded that violations of the Employee Retirement Income Security Act, ("ERISA") existed relating to a defined benefit plan for which accrual of benefits had been frozen as of February 1, 1986. The violations related to excess concentrations of the Common stock of the Company in the plan assets. In July 2001, management of the Company decided to terminate this plan, subject to having available funds to finance the plan in accordance with rules and regulations relating to terminating pension plans. This plan has not been terminated yet, but the Company expects to start the process of terminating this plan in fiscal 2004.

Employment Matters - The Company had an employment agreement with Samuel Park, the previous CEO, for the period May 1, 2001 to April 30, 2004. The terms of this agreement provided a base salary, bonuses and deferred compensation. The bonus provided by this agreement was based on a percentage of the base salary, if certain performance goals established by the board were achieved. In addition, the employment agreement provided for certain payments in the event of death, disability or change in the control of the Company.

On October 10, 2003, the Company announced the appointment of Walter F. Schneider as President and CEO to replace Mr. Park, effective as of such date. As a result, the Company recorded a charge of $200 during the first quarter of fiscal 2004 to accrue the balance remaining under Mr. Park's employment agreement.



In addition, the Company's Board of Directors elected at the Company's Annual Meeting of Shareholders held on May 29, 2003 had previously reviewed the "change in control" provisions regarding payments totaling up to approximately $1,800 under the employment agreement between the Company and Mr. Park. As a result of this review and based upon, among other things, the advice of special counsel, the Company's Board of Directors determined that no obligation to pay these amounts has been triggered. Prior to his departure from the Company on October 10, 2003, Mr. Park orally informed the Company that, after reviewing the matter with his counsel, he believes that the obligation to pay these amounts has been triggered. On October 27, 2003, the Company received a letter from Mr. Park's counsel demanding payment of certain sums and other consideration pursuant to the Company's employment agreement with Mr. Park, including these change in control payments. On November 17, 2003, the Company filed a complaint against Mr. Park seeking a declaratory judgment that no change in control payment was or is due to Mr. Park and that an amendment to the employment contract with Mr. Park regarding advancement and reimbursement of legal fees is invalid and unenforceable. If paid in a lump sum, these payments may have a material adverse effect on the Company's liquidity. In the event Mr. Park seeks to assert a claim for these payments, it is not possible to predict the outcome of any such claim.

Indemnification Legal Expenses - Pursuant to indemnification and undertaking agreements with certain former officers, directors and employees, the Company has advanced legal expenses in connection with the Company's previously reported accounting irregularities and the related shareholder litigation and governmental enforcement actions. During fiscal 2003, the Company spent approximately $310 in the advancement of legal expenses pursuant to these agreements. Management is unable to estimate at this time the amount of legal fees that the Company may have to pay in the future related to these matters. Further, there can be no assurance that those to whom we have been advancing expenses will have the financial means to repay the Company pursuant to undertaking agreements that they executed, if it is later determined that such individuals were not entitled to be indemnified.

Other Legal Matters - On October 6, 2003, Carmelo Guiseppe Ammendola, a minority shareholder of Villa, served a summons on Villa in the Civil Court of Milan, Italy, challenging the terms of certain related party transactions between Villa and the Company relating to intercompany pricing and a management fee. Villa is vigorously defending against this claim, believes that there is no merit to the case, and that Villa has meritorious defenses. Although these can be no assurances, management believes that the impact of this action will not have a material adverse effect on the financial position or results of operations of either Villa or the Company.

In addition, the Company is a defendant in several other legal actions arising from the normal course of business in various US and foreign jurisdictions. Management believes the Company has meritorious defenses to such actions and that the outcomes will not be material to the Company's consolidated financial statements.



Item 6. EXHIBITS AND REPORTS ON FORM 8-K

a: Exhibits

| | |
|---|---|
| 4.1* | Amendment No. 1 dated July 17, 2003 to the Del Global Technologies Corp Amended and Restated Stock Option Plan (as adopted effective as of January 1, 1994 and as amended December 14, 2000). |
| 31.1* | Certification of Chief Executive Officer, Walter F. Schneider, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2* | Certification of Chief Financial Officer, Thomas V. Gilboy, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1* | Certification of the Chief Executive Officer, Walter F. Schneider, pursuant to 18 U.S.C. Section 1350 adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2* | Certification of the Chief Financial Officer, Thomas V. Gilboy, pursuant to 18 U.S.C. Section 1350 adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

* Filed herewith

b: Reports on Form 8-K

On October 10, 2003, the Company filed a Current Report on Form 8-K reporting under Item 5. "Other Events" to report that the Company had appointed a new President and CEO and a new Chairman.

On October 31, 2003, the Company filed a Current Report on Form 8-K reporting under Item 5. "Other Events" to report that the Company announced plans to issue financial results for the Company on November 3, 2003.



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/ Walter F. Schneider
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Walter F. Schneider
Chief Executive Officer
and President

/s/ Thomas V. Gilboy
--------------------------------
Thomas V. Gilboy
Chief Financial Officer,
Vice President

Dated: December 12, 2003



Exhibit 31.1

CERTIFICATIONS

I, Walter F. Schneider, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Del Global Technologies Corp.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

    (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 12, 2003

/s/ Walter F. Schneider
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Walter F. Schneider
Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, Thomas V. Gilboy, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Del Global Technologies Corp.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as

defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 12, 2003

/s/ Thomas V. Gilboy
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Thomas V. Gilboy
Chief Financial Officer

Exhibit 32.1

Certification of Chief Executive Officer (1)

Pursuant to 18 U.S.C. Section 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the following certification is being made to accompany the Registrant's Quarterly Report on Form 10-Q for the period ended November 1, 2003:

In connection with the Quarterly Report of Del Global Technologies Corp. (the "Company") on Form 10-Q for the period ended November 1, 2003 as filed with the

Securities and Exchange Commission on the date hereof (the "Report"), I, Walter F. Schneider, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Walter F. Schneider
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Name: Walter F. Schneider
Chief Executive Officer
Date: December 12, 2003

(1) A signed original of this written statement required by Section 906 has been provided to Del Global Technologies Corp and will be retained by Del Global Technologies Corp. and furnished to the Securities and Exchange Commission or its staff upon request.

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.

Exhibit 32.2

Certification of Chief Financial Officer (1)

Pursuant to 18 U.S.C. Section 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the following certification is being made to accompany the Registrant's Quarterly Report on Form 10-Q for the period ended November 1, 2003:

In connection with the Quarterly Report of Del Global Technologies Corp. (the "Company") on Form 10-Q for the period ended November 1, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Thomas V. Gilboy, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Thomas V. Gilboy
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Name: Thomas V. Gilboy

Chief Financial Officer
Date: December 12, 2003

(1) A signed original of this written statement required by Section 906 has been provided to Del Global Technologies Corp and will be retained by Del Global Technologies Corp. and furnished to the Securities and Exchange Commission or its staff upon request.

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.

EXHIBIT 4.1

AMENDMENT NO. 1 TO
DEL GLOBAL TECHNOLOGIES CORP.
AMENDED AND RESTATED
STOCK OPTION PLAN
(as adopted effective as of January 1, 1994
and as amended December 14, 2000)

AMENDMENT NO. 1, dated July 17, 2003 (the "Amendment"), to the Amended and Restated Stock Option Plan (the "Plan"), as adopted effective as of January 1, 1994 and as amended December 14, 2000, by Del Global Technologies Corp., a New York corporation (the "Company"). All capitalized terms used herein and not defined shall have the meanings ascribed to such terms in the Plan.

RECITALS

WHEREAS, the Board of Directors created the Plan on January 1, 1994 and amended and restated the plan on December 14, 2000;

WHEREAS, Section 8 of the Plan provides that the term of each Non-Qualified Stock Option shall be fifteen (15) years from the date of grant, subject to earlier termination as provided in the Plan;

WHEREAS, the Company's Board of Directors deems it advisable to leave the term of each Option to the discretion of the Committee;

WHEREAS, this amendment has been unanimously approved and adopted by the Company's Board of Directors;

NOW, THEREFORE, the Plan shall be amended as follows:

1. Section 8, titled "Terms of Options" is hereby amended to read in its entirety as follows:

> The term of each ISO shall be for ten (10) years from the date of grant, subject to earlier termination as provided in Section 10 hereof and subject to the provisions of Section 6 hereof. The term of each NON-QUALIFIED STOCK OPTION, subject to earlier termination as provided in Section 10 hereof, shall be as determined by the Committee at the time of grant, but in no case shall the term of such NON-QUALIFIED STOCK OPTION be for more than ten (10) years from the date of grant. Any stock options expiring within the period during which the Company's shares are suspended from trading on the NASDAQ Stock Market shall be subject to an extension of 6 months from the earlier

of (i) the date trading resumes on a recognized National exchange or (ii) the filing of the Company's Form 10K for the fiscal year ended July 29, 2000, Forms 10Q for the first two quarters of fiscal 2001, and any other required filings. Any provision of the PLAN to the contrary notwithstanding, no OPTION shall be exercised after the time limitations stated in this Section 8.

IN WITNESS WHEREOF, the undersigned has executed this Amendment No. 1 as of the date first above written.

DEL GLOBAL TECHNOLOGIES CORP.

By: /s/ Samuel E. Park
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Samuel E. Park
President and Chief Executive Officer