

# DGT HOLDINGS CORP.

## FORM 8-K (Current report filing)

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Address	100 PINE AIRE DRIVE BAY SHORE, NY 11706
Telephone	631 231-6400
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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 8-K

CURRENT REPORT

Pursuant to Section 13 OR 15(d) of The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) March 15, 2004

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DEL GLOBAL TECHNOLOGIES CORP.  
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(Exact name of registrant as specified in charter)

New York	0-3319	13-1784308
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(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

One Commerce Park, Valhalla, NY 10595

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(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code (914) 686-3600  
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(Former name or former address, if changed since last report)

ITEM 5. OTHER EVENTS

On March 15, 2004, the Registrant announced that (i) it has reached an agreement in principle with the U.S. Government regarding a settlement of the civil and criminal aspects of the previously disclosed Department of Defense ("DOD") investigation into certain past business practices at the Registrant's RFI subsidiary, (ii) it has received a waiver from its U.S. lender of certain financial covenant defaults under the Registrant's U.S. credit facility and signed a Fourth Amendment to the U.S. credit facility, (iii) the Registrant's Board of Directors has retained Imperial Capital, LLC, an investment bank, to assist the Registrant in exploring all strategic alternatives to raise the additional capital necessary to fund the proposed settlement regarding the DOD matter and to maximize returns to shareholders and (iv) it will host a conference call on Tuesday, March 16, 2004 at 4:00 p.m. Eastern time to discuss its fiscal year 2004 second quarter financial results. For additional information, reference is made to the press release which is attached hereto as Exhibit 99.01 and incorporated herein by reference.

ITEM 7. FINANCIAL STATEMENTS, PRO FORMA FINANCIAL INFORMATION AND EXHIBITS.

(a) Financial Statements of Business Acquired.

Not Applicable.

(b) Pro Forma Financial Information.

Not Applicable.

(c) Exhibits.

99.01 Press Release dated March 15, 2004.

ITEM 12. RESULTS OF OPERATIONS AND FINANCIAL CONDITION.

On March 15, 2004, the Registrant announced operating results for the fiscal year 2004 second quarter and six months ended January 31, 2004, as well as summary balance sheet data as of January 31, 2004. Such information, including the Exhibit attached hereto, shall not be deemed "filed" for purposes of Section 18 of the Securities Act of 1934, as amended, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such filing. For additional information, reference is made to the press release which is attached hereto as Exhibit 99.01 and is incorporated herein by reference.

SIGNATURES

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

DEL GLOBAL TECHNOLOGIES CORP.

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(Registrant)

Date: March 15, 2004

By: /s/ Thomas V. Gilboy

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Thomas V. Gilboy  
Chief Financial Officer

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EXHIBIT INDEX

Exhibit No. -----	Description -----
99.01	Press Release dated March 15, 2004

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FOR IMMEDIATE RELEASE

DEL GLOBAL TECHNOLOGIES ANNOUNCES  
FISCAL 2004 SECOND QUARTER AND SIX MONTHS OPERATING RESULTS

## UPDATES SHAREHOLDERS ON A VARIETY OF MATTERS

## Q2 FY 2004 Highlights

- o Net Sales Rise 14.4% to \$29.9 Million, Driven By Completed I.M.S.S. Contract for Mexico
- o Consolidated Gross Margin Remains Stable at 21% Versus Prior Year Period and Q1 Fiscal 2004
- o
- o Reaches Agreement in Principle With U.S. Government Regarding Settlement Of Department of Defense Investigation; Records \$3.2 Million Related Charge
- o Records \$1.5 Million Non-Cash Write-Off of Goodwill and Other Intangible Assets
- o Recognizes \$7.4 Million Non-Cash Income Tax Expense; Increases "Valuation Reserve" Against Carrying Value of Deferred Tax Assets
- o Retains Investment Bank Imperial Capital, LLC To Explore All Strategic Alternatives

VALHALLA, NY - March 15, 2004 -- Del Global Technologies Corp. (DGTC) ("Del Global") today announced operating results for its fiscal 2004 second quarter and six month period ended January 31, 2004 (see attached tables), summary balance sheet data as of January 31, 2004 (see attached tables) and updated shareholders on a variety of matters.

Walter F. Schneider, President and Chief Executive Officer of Del Global, commented, "The Company reported higher sales and operating income at the Medical Systems Group, which were offset by lower sales and an increased operating loss at the Power Conversion Group. Our efforts to strengthen gross margins are producing positive results at the Medical Systems Group, where margins for the second quarter of fiscal 2004 remained stable with the first quarter of fiscal 2004 at 23.9%."

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## REACHES AGREEMENT IN PRINCIPLE WITH U.S. GOVERNMENT REGARDING DEPARTMENT OF DEFENSE INVESTIGATION

Del Global has reached an agreement in principle with United States Government regarding a settlement of the civil and criminal aspects of the previously disclosed Department of Defense ("DoD") investigation into certain past business practices at the Company's RFI subsidiary. The terms of this settlement call for Del Global to pay, by September 30, 2004, fines and restitution of up to \$5 million and to plead guilty to one criminal count. The amounts payable would be reduced by \$400,000 if Del Global were to pay the U.S. Government by June 30, 2004. There can be no assurances that Del Global will enter into a binding agreement with the U.S. Government regarding the proposed settlement, or that the terms will not be changed. Management expects that the Company will need to raise additional capital to fund the proposed settlement. There can be no assurance that additional capital will be available to the Company on acceptable terms to either pay or accelerate the payment of these potential fines and restitution amounts.

In connection with this settlement, Del Global recorded a \$3.2 million charge in the second quarter of fiscal 2004. This charge represented the difference between the previously announced \$2.3 million charge taken during the third quarter of fiscal 2003, which represented Del Global's estimate of the low end of a range of potential fines and restitution, plus estimated legal and professional fees, and the up to \$5 million in fines and restitution, plus estimated legal and professional fees, related to this settlement.

Del Global expects to work with the DoD to avoid any future limitations on the ability of the Company to do business with U.S. Government entities. Such limitations could include seeking a "debarment" or exclusion 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, the Company believes this settlement will not limit or interrupt its ability to service the governmental and defense sectors of its business.

Mr. Schneider stated, "We are pleased to have reached an agreement in principle with the US Government regarding these civil and criminal matters. This proposed settlement removes a layer of uncertainty and allows management to further focus its energies on strengthening Del Global's operations and enhancing shareholder value."

## FISCAL 2004 SECOND QUARTER RESULTS

Net sales for the second quarter of fiscal 2004 increased 14.4% to \$29.9 million from \$26.1 million in the second quarter of fiscal 2003; consolidated net sales also increased 38% sequentially from the first quarter of fiscal 2004. Increased net sales for the fiscal 2004 second quarter reflect higher sales at the Company's Medical Systems Group, most notably from deliveries on the previously announced \$8.5 million order from Instituto Mexicano del Seguro Social ("I.M.S.S.") for 22 "Mercury" remote controlled digital Radiographic/Fluoroscopic ("R/F") imaging systems. Higher sales at the Medical

Systems Group were partially offset by lower sales at the Power Conversion Group.

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Medical Systems Group sales increased 56% to \$23.8 million from the same period last year, and represented approximately 80% of total net sales. Higher sales were attributable to the aforementioned I.M.S.S. order, which offset a slight decline in domestic sales, plus favorable exchange rate effects at the Company's Villa Sistemi Medicali S.p.A. ("Villa") subsidiary. Sales at the Power Conversion Group decreased 44.1% from the fiscal 2003 second quarter to \$6.1 million. This decline was due principally to decreases in the Company's Explosive Detection Systems business ("EDS") and the shift to in-house production of components formerly purchased from Del Global by a large customer.

Consolidated gross margin for the fiscal 2004 second quarter remained stable at 21.1% compared to 21.2% in the same period last year, and increased slightly from the 20.7% reported in the first quarter of fiscal 2004. Gross margin at the Medical Systems Group for the fiscal 2004 second quarter was 23.9%, a decrease from 24.5% in the comparable prior year period. This change was due to the lower margins on the large I.M.S.S. sale, offset by higher margins due to the effects of cost cutting measures at Del Global's domestic Medical Systems business. Gross margin at the Power Conversion Group for the fiscal 2004 second quarter was 9.9% versus 16.6% in the prior year. The prior year's second quarter margins reflected shipments of higher margin EDS product.

The Company reported an operating loss of \$4.4 million for the fiscal 2004 second quarter, compared to an operating loss of \$1.0 million in the prior year's second quarter. The Medical Systems Group reported operating income of \$2.0 million. The \$5.6 million operating loss at the Power Conversion Group includes the following:

- o the previously discussed \$3.2 million charge related to the agreement in principle with the U.S. Government regarding the settlement of the DoD matter; and
- o a \$1.5 million non-cash write off of goodwill and intangible assets associated with the Power Conversion Group's High Voltage business, due to operating losses at that business.

On a pro forma basis, absent the charges noted above, Del Global had Operating Income in the second quarter of approximately \$283,000, versus a pro forma Operating Loss in the prior year of \$757,000. For the first two quarters of fiscal 2004, Del Global had pro forma Operating Income of approximately \$168,000, versus a pro forma operating loss in the prior year of \$1.3 million. The reconciliation of these "non-GAAP financial measures" to the Company's reported results is presented below:

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	Six Months ended			
	Q2	Q2	January 31,	February 1,
	Fiscal 2004	Fiscal 2003	2004	2003
	-----	-----	----	----
	(amounts in thousands)			
Operating loss as reported	\$ (4,369)	\$ (976)	\$ (4,484)	\$ (1,715)
Add back: Litigation settlement costs	3,199	-	3,199	-
Impairment of intangibles	1,453	-	1,453	-
Facilities reorganization costs	-	219	-	453
	-----	-----	-----	-----
Pro forma operating income (loss)	\$ 283	\$ (757)	\$ 168	\$ (1,262)

Selling, general and administrative expense ("SG&A") declined as a percentage of net sales to 18.7% in the second quarter, from 21.3% in the same period one year ago, and also decreased from 19.8% in the first quarter of fiscal 2004. The decline in SG&A as a percent of sales is due to the higher sales volume in the second quarter. The decline in SG&A expenses in the first half of fiscal 2004 is a result of reduced corporate legal and accounting costs, reductions in headcount and the consolidation of the Hicksville facility.

The net loss for the second quarter of fiscal 2004 was \$12.4 million, or \$1.20 per diluted share, versus a net loss of \$6.3 million, or \$.60 per diluted share, in the same period one year ago. The net loss for the fiscal 2004 second quarter included:

- o the \$3.2 million, or \$0.31 per diluted share, charge related to the agreement in principle with the US Government regarding the settlement of the DoD matter, versus no such charge in the same period last year;
- o the \$1.5 million, or \$0.14 per diluted share, non-cash write off in goodwill and intangible assets associated with the Power Conversion Group's High Voltage business, versus no such charge in the year earlier period; and
- o a \$7.4 million, or \$0.71 per diluted share, income tax provision versus an income tax provision of \$4.8 million, or \$0.46 per diluted share, in the same period last year.

Thomas V. Gilboy, Chief Financial Officer, commented on the income tax provision for the second quarter of fiscal 2004, "As part of our standard review process, we re-evaluated the carrying value of certain U.S. deferred tax assets, which

represent the economic value of the expected future realization of Net Operating Losses for tax purposes. As a result, we increased the valuation allowance by \$7.2 million to \$15.1 million, which reduces the carrying value of our domestic deferred tax assets to approximately \$732,000, which management believes to be recoverable. The Company is currently not paying any significant cash taxes in the US, and does not expect to for some time."

#### BACKLOG

Consolidated backlog at January 31, 2004 was \$22.0 million versus backlog at August 2, 2003 of approximately \$26.3 million. The backlog in the Power Conversion Group decreased \$4.8 million from levels at the beginning of the 2004

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fiscal year, partially offset by a \$0.4 million increase in the backlog at Del's Medical Systems Segment.

#### FINANCIAL CONDITION

Del Global's balance sheet at January 31, 2004 reflected working capital of \$9.1 million, shareholders' equity of \$10.6 million and a stated book value of \$1.03 per share.

#### RECEIVES WAIVER FROM U.S. LENDER

As of January 31, 2004, the Company was not in compliance with certain financial covenants in its current U.S. credit facility. In March 2004, the Company received a waiver of these covenant defaults from its U.S. lender and signed a Fourth Amendment to the U.S. credit facility. This Fourth Amendment (i) includes revisions to the financial covenants, (ii) provides for a \$100,000 waiver fee payable immediately and a \$500,000 fee earned immediately but payable on the earlier to occur of (a) the expiration date of its U.S. credit facility and/or (b) the date of repayment of all amounts outstanding under, and the termination of, the facility, (iii) includes the elimination of the early termination fee, (iv) contains the consent of the lender for the Company to obtain funding from a junior lender to fund the proposed settlement regarding the DoD matter, (v) replaces the existing prime rate and LIBOR pricing with pricing based on 30 day Commercial Paper plus 3.5% and (vi) requires the Company to have entered into a written settlement agreement regarding the DoD matter and to have paid the US Government an amount not to exceed \$5 million with respect to such settlement by September 30, 2004. In addition, the termination date of the credit facility has been changed from June 2005 to December 31, 2004.

While Del Global expects to be able to meet these revised covenants, there can be no assurance that the Company will be able to continue to meet them.

The Company will record additional interest expense of \$600,000 in the third quarter of fiscal 2004 to reflect the additional financing charges associated with this Waiver and Fourth Amendment.

#### RETAINS IMPERIAL CAPITAL

The Board of Directors of Del Global has retained Imperial Capital, LLC, an investment bank, to assist the Company in exploring all strategic alternatives to raise the additional capital necessary to fund the proposed DoD settlement and to maximize returns to shareholders. In particular, such alternatives include potential financings and asset sales.

#### INVESTOR CONFERENCE CALL

Suzanne M. Hopgood, Walter F. Schneider and Thomas V. Gilboy will host a conference call on Tuesday, March 16, 2004 at 4:00 P.M. Eastern Time to discuss this news release. The telephone number to join this conference call is (800) 915 - 4836. A taped replay of the call will be available through 5:00 P.M. Eastern Time, Friday, March 19, 2004. Please dial (800) 428 - 6051 (Domestic) or (973) 709 - 2089 (International) and enter the number 343276 to listen to the

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replay. In addition, the conference call will be broadcast live over the Internet via the Webcast section of Del Global's web site at [WWW.DELGLOBAL.COM](http://WWW.DELGLOBAL.COM). To listen to the live call on the Internet, go to the web site at least 15 minutes early to register, download and install any necessary software. If you are unable to participate in the live call, the conference call will be archived and can be accessed on Del Global's website for approximately five business days.

Del Global Technologies Corp. is primarily engaged in the design, manufacture and marketing of cost-effective medical imaging and diagnostic systems consisting of stationary and portable x-ray systems, radiographic/fluoroscopic systems, dental imaging systems and proprietary high-voltage power conversion subsystems for medical and other critical industrial applications. Industrial applications for which Del Global supplies power subsystems include airport explosives detection, analytical instrumentation, semiconductor capital equipment and energy exploration.

Statements about future results made in this release may constitute 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. Del Global cautions that these statements are not guarantees of future performance. These statements involve a number of risks and uncertainties that are difficult to predict, including, but not limited to, the ability of Del Global to implement its 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; the ability of Del Global to meet its obligations under the agreement in principle with the US Government regarding the proposed settlement of the DoD matter; the ability of Del Global to avoid a debarment from doing business with the U.S. 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.

<p>CONTACT:          Del Global Technologies Corp.          Walter F. Schneider, President &amp; Chief Executive Officer          Thomas V. Gilboy, Chief Financial Officer          (914) 686-3600</p>	<p>INVESTOR RELATIONS:          The Equity Group Inc.          Devin Sullivan (212) 836-9608          Adam Prior (212) 836-9606</p>
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DEL GLOBAL TECHNOLOGIES CORP. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
 (dollars in thousands, except per share data)  
 (unaudited)

	Three Months Ended		Six Months Ended	
	January 31, 2004 ----	February 1, 2003 ----	January 31, 2004 ----	February 1, 2003 ----
NET SALES	\$ 29,903	\$ 26,135	\$ 51,545	\$ 51,868
COST OF SALES	23,594	20,587	40,757	41,104
	-----	-----	-----	-----
GROSS MARGIN	6,309	5,548	10,788	10,764
Selling, general and administrative	5,601	5,571	9,889	10,980
Research and development	425	734	731	1,046
Litigation settlement costs	3,199	--	3,199	--
Impairment of goodwill and other intangible assets	1,453	--	1,453	--
Facilities reorganization costs	--	219	--	453
	-----	-----	-----	-----
Total operating expenses	10,678	6,524	15,271	12,479
OPERATING LOSS	(4,369)	(976)	(4,484)	(1,715)
Interest expense	331	357	647	713
Other income (expense)	19	31	(52)	(472)
	-----	-----	-----	-----
LOSS BEFORE INCOME TAXES AND MINORITY INTEREST	(4,719)	(1,364)	(5,079)	(1,956)
INCOME TAX PROVISION	7,356	4,761	7,539	4,788
	-----	-----	-----	-----
LOSS BEFORE MINORITY INTEREST	(12,075)	(6,125)	(12,618)	(6,744)
MINORITY INTEREST	279	130	346	117
	-----	-----	-----	-----
NET LOSS	\$(12,354)	\$ (6,255)	\$(12,964)	\$ (6,861)
	=====	=====	=====	=====
LOSS PER SHARE, BASIC AND DILUTED	\$ (1.20)	\$ (0.60)	\$ (1.25)	\$ (0.66)
	=====	=====	=====	=====
Weighted average number of common shares outstanding, basic and diluted	10,333	10,348	10,333	10,348
	=====	=====	=====	=====

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DEL GLOBAL TECHNOLOGIES CORP. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (dollars in thousands, except per share data)  
 (unaudited)

	January 31, 2004 -----	August 2, 2003 -----
Current Assets	\$49,719	\$40,213
Total Assets	\$63,115	\$60,492

Current Liabilities	\$40,657	\$26,615
Total Liabilities	\$50,748	\$36,260
Minority Interest in Subsidiary	\$ 1,743	\$ 1,253
Shareholders' Equity	\$10,624	\$22,979
Common Shares Outstanding End of Period	10,333	10,333
Book Value Per Share	\$ 1.03	\$ 2.22