# SECURITIES AND EXCHANGE COMMISSION
**Washington, D.C. 20549**

# FORM 10-K

(Mark One)

[**X**] Annual report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended **June 30, 2001** or

[ ] Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from ________________ to ________________.

Commission File Number **0-16271**

# DVI, INC.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Delaware**<br>(State or other jurisdiction of incorporation or organization) | **22-2722773**<br>(I.R.S. Employer Identification No.) |
| **2500 York Road**<br>**Jamison, Pennsylvania**<br>(Address of principal executive offices) | **18929**<br>(Zip Code) |

Registrant's telephone number, including area code **(215) 488-5000**

Securities registered pursuant to Section 12(b) of the Act:

| Title of Each Class | Name of Each Exchange on which Registered |
|---|---|
| **Common Stock, par value $.005 per share** | **New York Stock Exchange, Inc.** |
| **9 $^{7}/_{8}$% Senior Notes due 2004** | **New York Stock Exchange, Inc.** |

Securities registered pursuant to Section 12(g) of the Act:

**Warrants to Purchase Common Stock**
(Title of Class)

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes **X** No ____

The aggregate market value of the registrant's Common Stock (its only voting stock) held by nonaffiliates of the registrant as of July 31, 2001 was approximately $207,443,371 based upon the last reported sale price of the Common Stock on the New York Stock Exchange on that date. (Reference is made to Page 16 herein for a statement of the assumptions upon which this calculation is based.)

As of July 31, 2001, the registrant had 14,337,104 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates information by reference from the registrant's definitive Proxy Statement to be filed with the Commission within 120 days after the close of the registrant's fiscal year.

## PART I

## ITEM 1. BUSINESS

### Introduction

In this discussion, the terms "DVI", the "Company", "we", "us" and "our" refer to DVI, Inc. and its subsidiaries, except where it is made clear that such terms mean only DVI, Inc. or an individual subsidiary.

DVI conducts its business principally through two operating subsidiaries, DVI Financial Services Inc., referred to as "DVI Financial Services" and DVI Business Credit Corporation, referred to as "DVI Business Credit". We conduct securitizations through special-purpose subsidiaries. We also conduct other structured financings through limited-purpose subsidiaries or through our operating subsidiaries.

### Overview

We are an independent specialty finance company that provides asset-backed financing to healthcare service providers. Our core businesses are medical equipment finance and medical receivables finance. We provide these services principally in the U.S., Latin America, Europe, the United Kingdom, South Africa, Asia, Japan and Australia. We also provide asset-backed financing for emerging growth companies. As of June 30, 2001, our total assets and shareholders' equity were $1.5 billion and $222.2 million, respectively.

We principally serve the financing needs of middle-market healthcare service providers, such as outpatient healthcare providers, medical imaging centers, physician group practices, integrated healthcare delivery networks and hospitals. Many of our customers are growing entrepreneurial companies that have capitalized on trends affecting the healthcare delivery systems in the U.S. and other countries to build their businesses. These trends include:

- Significant growth in the level of healthcare expenditures worldwide;
- Dramatic efforts by governmental and market forces to reduce healthcare delivery costs and increase efficiency;
- Favorable demographic and public policy trends worldwide;
- Growth, consolidation and restructuring of healthcare service providers and
- Advances in medical technologies that have increased the demand for healthcare services and the need for sophisticated medical diagnostic and treatment equipment.

As a result of these trends, our business has grown substantially. From June 30, 1995 to June 30, 2001, our managed net financed assets portfolio increased 359% to approximately $2.3 billion from $494.9 million, representing an annual compound growth rate of 28.9%.

#### *Medical Equipment Finance*

Our medical equipment finance business, which had net financed assets of $940.5 million and total revenues of $97.0 million as of June 30, 2001, operates by:

- Providing financing directly to end users of diagnostic imaging and other sophisticated medical equipment;
- Providing financing directly to end users of lower-cost medical devices and
- Providing domestic and international finance programs for vendors of diagnostic and other sophisticated medical equipment.

Our typical equipment contracts for diagnostic, patient treatment and other sophisticated medical equipment (originated both domestically and internationally) range from $200,000 to $3.0 million while equipment contracts for lower cost medical devices range from $5,000 to $200,000. Most of our equipment contracts are structured so that the full cost of the equipment and all financing costs are repaid during the financing term, which is typically five years. Because most of our equipment contracts are structured as notes secured by equipment or as direct financing leases with a bargain purchase option, our exposure to residual asset value is limited. Our residual asset value was $62.2 million at June 30, 2001.

For accounting purposes, we classify the equipment contracts we originate as:

- Notes secured by equipment,
- Direct financing leases or
- Operating leases.

Generally, in transactions where notes are secured by equipment and in direct financing leases, the obligor has substantially all of the benefits and risks of ownership of the equipment. Operating leases provide for the rental of the asset. The different classifications can result in accounting treatments that provide substantially different income and costs during the contract term. Direct financing leases and notes secured by equipment are reflected on our balance sheet as "investment in direct financing leases and notes secured by equipment or medical receivables". For statement of operations purposes, those transactions result in amortization of finance income over the contract term in the amounts computed using the interest method.

We enter into two types of direct financing lease transactions, which are referred to as "conditional sales agreements" and "fair market value transactions". Conditional sales agreements and notes secured by equipment represent those transactions in which we retain no residual interest in the underlying equipment. Fair market value transactions are those transactions in which we do retain a residual interest in the equipment. We record this residual interest on our books as an estimate of the financed equipment's projected fair market value at the end of the transaction term. At the inception of notes secured by equipment and direct financing lease fixed payment transactions, "unearned income" represents the amount by which the gross transaction receivables and the estimated residual value (on fair market value transactions) exceed equipment cost. At the inception of notes secured by equipment and direct financing lease variable rate transactions, the beginning receivable balance is equal to the equipment cost only. Variable rate contracts have scheduled principal payments and variable interest payments that are calculated and accrued monthly on the remaining principal balance. The accrued interest receivable on variable rate contracts is reflected on the balance sheet under accounts receivable.

Leases and contracts for the rental of equipment that do not meet the criteria of direct financing leases are accounted for as operating leases. We record equipment under an operating lease or a rental contract on the balance sheet at our cost under the caption of "Equipment on operating leases" and depreciate this equipment on a straight-line basis over its estimated useful life. Income is also recognized on a straight-line basis over the life of the contract.

Notes secured by equipment and direct financing lease transactions are all "net" transactions under which the obligor must make all scheduled payments, maintain the equipment, insure the equipment against casualty loss and pay all equipment-related taxes. In fair market value transactions, at the end of the initial financing term, the obligor has the option to purchase the equipment for its fair market value, extend the financing term under renegotiated payments or return the equipment to us. If the equipment is returned to us, we must sell or lease the equipment to another user.

In transactions that we permanently fund through securitization or other structured finance transactions which we treat as debt, income is deferred and recognized using the interest method over the respective term of the contracts. If an obligor under a contract defaults, we may not receive all or a portion of the unamortized income associated with the transaction.

For those securitizations that are treated as sales, we retain the obligation to service the individual contracts although they are removed from our balance sheet at the time of sale. We are compensated for these services under contractual terms, which include our receipt of a servicing fee, late charges, and ancillary revenue that we believe would more than adequately compensate a substitute servicer. Generally accepted accounting principles ("GAAP") requires us to recognize as a servicing asset the excess of that compensation received over amounts that would otherwise be paid to an independent third party to perform this specific type of servicing. The amount of unamortized servicing assets recorded at June 30, 2001 was $8.8 million.

We have traditionally focused our financing activities on the domestic outpatient diagnostic and treatment services sector of the healthcare industry. This sector typically consists of radiologists and other diagnostic service providers who were among the first in the domestic healthcare industry to move away from the hospital setting toward outpatient treatment centers. We expect the range of outpatient services we finance to expand, and we intend to focus on the equipment used and medical receivables generated as a result of that expansion.

In recent years, we have significantly expanded our international business in which we finance the purchase of diagnostic imaging and other sophisticated medical equipment by private clinics, diagnostic centers and hospitals. Our international business is focused on providing finance programs for equipment manufacturers doing business in Latin America, Europe, the United Kingdom, South Africa, Asia and Australia. We believe our presence in these regions enhances our relationships with certain medical equipment manufacturers and permits us to capitalize on the growing international markets for medical equipment financing. We view continued expansion of our relationships with medical equipment vendors and manufacturers as an integral component of our growth strategy, and we intend to continue our expansion of international medical equipment finance activities. At June 30, 2001, our portfolio of international equipment contracts was $316.8 million.

***Medical Receivables Finance***

Our medical receivables financing business, which had net financed assets of $248.4 million and total revenues of $33.9 million as of June 30, 2001, generally consists of providing loans to healthcare providers that are secured by their receivables. Substantially all of these lines of credit are collateralized by third party medical receivables due from Medicare, Medicaid, HMOs, PPOs, commercial insurance companies, self-insured corporations, and, to a limited extent, other healthcare service providers. At times, we may use additional types of collateral to secure these loans. We generally advance 70% to 85% of our estimate of the net collectible value of the eligible receivables from third party payors. Clients continue to bill and collect the accounts receivable, subject to lockbox collection and sweep arrangements established for our benefit. The interest and fee income generated from these loans are recognized over the terms of the lines of credit, which are typically one to three years, and are recorded as amortization of finance income and other income. We conduct due diligence on our potential medical receivables clients for all financings and follow underwriting and credit policies in providing financing to customers. Our credit risk is mitigated by our security interest in the customer’s eligible and ineligible receivables and by the customer’s additional collateral, where applicable. Our medical receivables loans are structured as floating rate lines of credit. These lines of credit typically range in size from $1.0 million to $15.0 million; however, in certain circumstances commitments ranging from $20.0 million to $40.0 million are also provided.

Medical receivables financing is readily available for many hospitals and for physicians seeking relatively small amounts of funding. However, for outpatient healthcare providers seeking funding in excess of $1.0 million, the principal sources of financing generally are limited to specialty finance companies or factoring companies that purchase receivables at a discount. We believe the principal reasons for the lack of financing in these areas historically have been the uncertainty of the value of the receivables, the lack of permanent funding vehicles and the potential for fraud due to the difficulty of verifying the performance of healthcare services. More recently, interest in providing financing for this sector has increased as a result of improved understanding of the expected reimbursement levels for healthcare services and the availability of historical performance data on which to base credit decisions. Our strategy in medical receivables financing is to differentiate ourselves from many of our competitors by offering loans secured by medical receivables. We believe that loans secured by medical receivables are often more attractive to borrowers that generate high-quality medical receivables because those borrowers find that our financing services cost less than receivables factoring.

The following describes the unique risks involved in the medical receivables financing business:

- Healthcare providers may overstate the quality and characteristics of the medical receivables that we analyze in determining the amount of the line of credit to be secured by such receivables. After our determination has been made, healthcare providers could change their billing and collection systems, accounting systems, or patient records in a way that could adversely affect our ability to monitor the quality and/or performance of the related medical receivables.
- There are technical legal issues associated with creating and maintaining perfected security interests in medical receivables, specifically those generated by Medicaid and Medicare claims.
- Payors may make payments directly to healthcare providers that have the effect (intentionally or otherwise) of circumventing our rights in such payments.
- Payors may attempt to offset their payments against debts owed to the payors by the healthcare providers.

- As a lender whose position is secured by medical receivables, we are less likely to collect outstanding receivables in the event of a borrower's insolvency than a lender whose position is secured by medical equipment that the borrower needs to operate its business.
- A borrower that defaults on obligations secured by medical receivables may require additional loans (or modifications to the terms of existing loans) to continue operations and repay outstanding loans.
- A conflict of interest may arise when we act as servicer for an equipment-based securitization and originate medical receivables loans to borrowers whose equipment contracts have been securitized.
- The fact that the use of structured finance transactions to fund medical receivables is a relatively new process may impair our efforts to develop suitable sources of funding.

***Income Classifications***

Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements", outlines the accounting for revenue recognition and includes both broad conceptual discussions as well as certain industry-specific guidance. Based on these guidelines, it states that revenue should not be recognized until it is realized or realizable and earned. We have implemented SAB 101 in the current financial statements and it has not had a material impact on the results of operations.

We classify income under the categories of:

- "Amortization of finance income", which consists primarily of the interest component of scheduled payments on notes secured by equipment, medical receivables and direct financing leases (calculated using the interest method whereby the income is reported at a level rate of return on the net investments over the contract term);

- "Corvis deferred loan fees", which are treated as an adjustment of yield in accordance with Statement of Financial Accounting Standards ("SFAS") No. 91;

- "Other income", which consists primarily of medical receivables fees, late fees, net service fee income, contract fees and penalties, income realized from customer warrants not related to current lending activities, and consulting and advisory fees (see Item 8, Note 9 for a summary of other income) and

- "Net gain on sale of financing transactions", in which gains are recognized when we permanently fund transactions through off-balance sheet securitizations or other contract sales.

Revenue from medical receivables fees, late fees, net service fee income, and contract fees and penalties is recorded in other income when earned according to signed contractual terms. Revenue from investment advisory services is recorded in other income when the services are rendered, when the fair value of our interest can be reasonably established and when collection is estimated to be short-term (within 90 days).

**Business Strategy**

Our goal is to be the leading provider of asset-backed financing services to growing segments of the healthcare industry and to be the primary source for all of the financing needs of our customers. The principal components that we believe will enable us to attain this goal include:

- *Generating additional financing opportunities with equipment manufacturers and their customers in domestic and international markets.* We view continued expansion of our relationships with medical equipment manufacturers as an integral component of our growth strategy. We intend, to the extent appropriate in pursuit of that objective, to continue to expand our medical equipment finance activities outside the U.S. We have formed international joint ventures or established branch offices or subsidiaries in Latin America, Europe, the United Kingdom, South Africa, Asia and Australia that provide medical equipment financing in these regions to strengthen our relationships with certain manufacturers of medical equipment and to capitalize on the growing international markets for medical equipment financing. We believe that by helping manufacturers finance their customers' equipment purchases outside the U.S., we will encourage those manufacturers to increase the financing opportunities they refer to us within the U.S.

- *Continuing to expand our medical receivables financing business.* We intend to further expand our medical receivables financing business by generating financing opportunities through our existing medical equipment financing customer base, particularly from those customers who are expanding to provide additional healthcare services as well as through providers who do not finance significant amounts of medical equipment. We intend to maintain a strategy of differentiating ourselves from many of our competitors by continuing to offer contracts secured by medical receivables rather than factoring those receivables at a discount.

- *Expanding our presence in the lower-cost medical devices market.* We seek to use our reputation as a medical equipment financing specialist and our ability to finance a wide range of healthcare providers to establish a presence in the relatively more competitive market for financing lower-cost medical equipment. This market includes diagnostic and patient treatment devices. As part of this strategy, in September 1998, we acquired substantially all the assets and retained 39 employees of a 15-year old “small ticket” medical equipment financing business, referred to as DVI Strategic Partner Group (“DVI SPG”), formerly known as Affiliated Capital. This business is serving as a platform for the expansion of our vendor sales program into this market.

- *Offering fee-based financing services to healthcare providers.* Our goal is to become the primary source for all of the financing needs of our customers. We intend to continue to introduce new financing products to service the needs of our customers and to leverage our existing expertise in the healthcare markets to become the preferred provider of healthcare-related finance within our chosen segments of the healthcare markets.

- *Acquiring specialty businesses.* Growth through acquisitions of specialty businesses that fit within our existing operations and long-term business strategy will allow us to expand into other segments of the healthcare industry. During the last three years, we acquired a provider of asset-backed financing for emerging growth companies, a “small ticket” medical equipment financing business and a custom software design firm that provides software and services to the healthcare industry. We have integrated these activities with our financing services offered to the healthcare industry. Through these acquisitions, we intend to significantly expand our presence in new markets.

**<u>Sales and Marketing</u>**

We generate most of our financing opportunities from two sources:

- Medical equipment manufacturers that use third parties to finance the sale of their products and
- Healthcare providers with whom our sales organization has relationships.

Generally, medical equipment manufacturers refer customers to us for financing because they believe we have the ability to understand and measure the creditworthiness of the customer’s business and to provide the financing necessary for the completion of the equipment sale.

We have established a close working relationship, both domestically and internationally, with major manufacturers of diagnostic imaging equipment by meeting their needs to arrange financing for the higher-cost equipment they sell to healthcare providers. Because of some of these relationships with medical equipment manufacturers, especially those targeting the international markets, we have formed joint ventures or subsidiaries to provide medical equipment financing to the customers of the manufacturers in the international market. We currently have joint ventures, branch offices or subsidiaries in Latin America, Europe, the United Kingdom, South Africa, Asia and Australia. We believe that these relationships give us a competitive advantage over other providers of medical equipment financing.

Our target market for the medical receivables lines of credit we originate includes “middle market” healthcare companies and providers with annual revenues between $10.0 and $150.0 million. By definition, this sector of the marketplace precludes both start-up healthcare companies as well as extremely mature or rated medical organizations that can obtain traditional bank financing. This sector has been one that most traditional financing sources have avoided due to the payor complexity and specialization required. “Middle market” companies and providers that comprise our target market include the following:

- Specialty outpatient clinics, including imaging centers, surgery centers, oncology centers, and medical laboratories;
- Hospitals, including acute care and sub-acute facilities, and community and specialty hospitals;

- Health service companies, including home healthcare, nursing homes, skilled nursing, physical and occupational therapy, pharmacy, infusion, and specialty treatment centers and
- Medical practitioners, including medical groups, individual physicians with large practices and management service organizations.

Our sales and sales management staff consists of 85 healthcare finance specialists located in various parts of the world. These individuals generally have a finance and/or medical equipment background. We typically locate sales personnel in geographic areas where they have knowledge of the local market. We believe that sales personnel who understand local economic and political trends are a valuable component of our credit underwriting process.

**Credit Underwriting**

We believe that the credit underwriting process used in originating contracts is effective in managing our risk. The overall credit underwriting process follows detailed guidelines and procedures and reflects our significant experience in evaluating the creditworthiness of potential borrowers. The guidelines use those attributes that are most relevant among different customer types within our targeted markets.

We have historically focused most of our efforts on the non-hospital sector of the healthcare marketplace, which requires rigorous credit analysis and structuring discipline. Our underwriting expertise enables us to require specific working capital and net worth requirements and specify the amount and form of any credit enhancement and/or financial support (such as cash collateral, letters of credit, guarantees, or fee subordination).

In medical receivables lending, we conduct collateral and receivables underwriting in addition to credit underwriting. Our due diligence staff performs on-site testing to confirm that billing and collections systems, accounting systems and patient records are adequately maintained and comply with our lending policies. A large portion of the analysis consists of a review of receivables quality through the appropriate testing of cash receipts and cash applications on a sample basis. Payor types, collection history and age of receivables are analyzed.

Due to the large size of our transactions, each one is analyzed and reviewed on its own merits. Pursuant to our Company policy, the Director of Credit for DVI Financial Services has approval authority for all transactions up to $500,000. The Vice President of Credit for DVI Financial Services has approval authority for all transactions up to $750,000. The Chief Credit Officer – USA and the Chief Credit Officer of DVI, with the agreement of any other member of the credit committee, has approval authority up to $1.0 million. The credit committee has approval authority for all transactions greater than $1.0 million. Credit committee approval must also be given each time a customer's aggregate exposure exceeds an increment of $3.0 million.

Because of the relatively small size of the medical equipment contracts generated through DVI SPG, the underwriting criteria are significantly different from those we typically use. DVI SPG's applications from obligors are analyzed for approval based upon a combination of the applicant's financial condition and credit score (for applicants who are individuals), which is obtained from a national credit reporting organization. Applications are filed with the credit department and screened for repeat customers, in which case the previous file, credit and payment history are also analyzed. Based on such information, an individual credit analyst assigns a status to the application (approved, declined, request for further information or change in acceptable terms). If the application is approved and the conditions and requirements of approval are met, an account manager or sales support representative processes the file and issues a signed purchase order. The account is then reviewed for completion of all requirements and signed for authorization to book the transaction. In general, DVI SPG completes UCC filings on all transactions where the cost of the equipment exceeds $25,000.
DVI SPG has established specific credit guidelines for hospitals, group practices and sole practitioners that generally require obligors to:

- Be in business for a certain period of time, usually for a minimum of one to two years;
- Provide financial statements, corporate resolutions and the appropriate purchase documents;
- Provide personal guarantees under certain circumstances;
- Provide proof of medical license and
- Meet the credit report score requirements of independent scoring services.

DVI SPG has imposed other requirements in certain circumstances and may consider an obligor's medical specialty in evaluating creditworthiness. DVI SPG may allow exceptions to the foregoing requirements as warranted, in which case the approval of two credit officers is required.

**Credit Experience**

The following table sets forth certain information with respect to delinquencies for our contracts for the periods indicated:

| *(in millions of dollars)* | 2001 $ | 2001 %(2) | 2000 $ | 2000 %(2) | 1999 $ | 1999 %(2) |
|---|---|---|---|---|---|---|
| Managed net financed assets | 2,273.2 | - | 1,992.0 | - | 1,661.8 | - |
| Delinquencies (1) | | | | | | |
| 31 – 60 days | 13.0 | 0.6 | 13.6 | 0.7 | 14.9 | 0.9 |
| 61 – 90 days | 21.3 | 0.9 | 14.7 | 0.7 | 8.8 | 0.5 |
| 91+ days | 83.6 | 3.7 | 87.3 | 4.4 | 59.1 | 3.6 |
| Total delinquencies | 117.9 | 5.2 | 115.6 | 5.8 | 82.8 | 5.0 |

(1) Under the relevant agreements, our obligors generally are considered in default if payment on a contract has not been received when due. Information presented does not include obligations that are overdue by less than 30 days.
(2) Delinquencies as a percentage of managed net financed assets. Delinquencies reflect the remaining outstanding balance on delinquent contracts.

The 39.6% increase in fiscal year 2000 delinquencies to $115.6 million is the result of the 19.9% growth in managed net financed assets at June 30, 2000, a $3.6 million bankruptcy of a borrower of Third Coast Capital (which was subsequently cleared by the bankruptcy court and rewritten as a new contract), a $6.5 million loan to an assisted living facility that was later restructured, a $4.9 million loan to a psychiatric hospital in California that was secured by all assets including real estate and $3.7 million of additional delinquencies at DVI Capital, which was discontinued in March 2000.

Ultimately, we expect the borrowers to own all of the equipment financed. Our experience has been that, in instances of delinquency, the market value of the equipment generally has been sufficient to allow for the restructuring of contracts without any significant adjustments to the original yield or the manner in which we record such contracts. We have also exercised our right to bring in new management to operate centers that have defaulted on their contracts.

The following table sets forth information with respect to losses for our contracts for the periods indicated:

| *(in thousands of dollars)* | Year Ended June 30, 2001 | 2000 | 1999 |
|---|---|---|---|
| Net charge-offs | $ 9,534 | $ 7,449 | $ 5,345 |
| Average net financed assets | 1,254,759 | 1,157,560 | 916,528 |
| Average managed net financed assets | 2,090,093 | 1,868,630 | 1,437,597 |
| Net charge-offs as a percentage of average net financed assets | 0.76% | 0.64% | 0.58% |
| Net charge-offs as a percentage of average managed net financed assets | 0.46% | 0.40% | 0.37% |

Net charge-offs during fiscal 2001 increased $2.1 million over the prior year. Likewise, net charge-offs during fiscal 2000 increased $2.1 million over the net charge-offs in fiscal 1999. Receivable contracts are charged off when a loss is considered probable and all reasonable remedies have been pursued. Charge-offs by business segment are summarized below for the periods indicated:

| *(in thousands of dollars)* | Year Ended June 30, 2001 | 2000 | 1999 |
|---|---|---|---|
| Equipment finance | $ 7,344 | $ 7,357 | $ 5,345 |

| | | | |
|---|---|---|---|
| Medical receivables financing | - | 92 | - |
| Corporate and all other | 2,190 | - | - |
| Total | $ 9,534 | $ 7,449 | $ 5,345 |

The 2001 net charge-offs in corporate and all other relate to asset-backed financing to four customers in emerging growth industries. Net charge-offs during fiscal 1999 include a bankruptcy filing by Allegheny Health Education and Research Foundation in the amount of $2.0 million. Small-ticket medical equipment financing charge-offs totaled $1.1 million.

The allowance for losses on receivables (the “allowance”) is available to absorb our current estimates of credit losses for impaired receivables in our managed portfolio. Each month we compile information on the performance of our portfolio to assess the adequacy of the allowance on a loan-by-loan basis. We begin our review with an identification of all loans for which specific impairment evaluation is deemed necessary. Based on this review, we perform detailed analyses for specific obligors that are greater than 90 days delinquent to evaluate discrete factors adversely affecting their ability to comply with the terms of their agreements with us. Our loan-by-loan analyses begin with a review of the fair value of the underlying collateral and the financial strength of the guarantors. We then consider other factors, which include, but are not limited to: our legal options to enforce management changes based on contractual provisions, the financial condition and economic outlook of each obligor, the observable market price of the underlying receivables and the projected future cash flows of the obligor. This information is then evaluated in the context of general economic and political conditions in order to form conclusions as to the need for a specific allowance for each receivable included in our review. Based on the conclusions of those analyses, we make provisions for losses at the end of each fiscal quarter in amounts deemed necessary to maintain an adequate allowance for each identified impaired receivable. As these assessments are often influenced by factors outside our control, there is uncertainty inherent in them, making it possible that they could change in the near term. We believe the allowance is adequate to provide for losses on impaired receivables in the portfolio as of the balance sheet date. See Item 8, Note 4 for an analysis of the allowance for losses on receivables for each of the past three years.

The Securities and Exchange Commission’s Staff Accounting Bulletin (“SAB”) No. 102 expresses views on the development, documentation and application of a systematic methodology for determining allowances for loan and lease losses in accordance with generally accepted accounting principles. We believe that the adoption of SAB 102 will not have an effect as we currently comply with its provisions.

Our historical levels of allowances and delinquencies are not necessarily predictive of future losses. Various factors, including changes in the way our customers are paid for their services, other developments in the healthcare industry, increasing international activity, general economic conditions, and new technological developments affecting the resale value of equipment we finance, could cause our losses and delinquency rates to be different than those experienced historically.

## Capital Resources and Funding

We obtain initial funding for most of our equipment contracts through interim “warehouse” facilities provided by banks and other financial institutions. Contracts made under these facilities are repaid when we permanently fund our equipment contracts through securitization or other limited-recourse permanent funding programs, including sales. Typically, equipment contracts are held for 30 to 180 days before they are permanently funded.

In addition to the funding provided under our warehouse and permanent funding facilities, our need for capital is affected by four primary factors:

- The level of credit enhancement required under our various warehouse and permanent funding facilities,
- The amount of contracts we hold that do not qualify as eligible collateral under those facilities,
- Growth in overseas markets for which funding resources have not been fully developed and
- Growth in new businesses for which funding resources have not been fully developed.

While these factors tend to reduce our liquidity at times of strong growth in contract origination, they may have the effect of improving our cash flow from operations in the short term if our contract growth were to decline.

The Company's strong growth in contract origination and net financed assets has required substantial amounts of external funding. Through our operating subsidiaries, we finance our equipment and medical receivables on an interim basis with secured credit facilities provided by banks and other financial institutions. These warehouse facilities are refinanced using asset securitizations, contract sales and other structured finance techniques that permanently fund most of our equipment and medical receivables contracts. Permanently funded equipment and medical receivables are funded through the life of the respective assets. These permanent financings require us to invest additional capital to fund reserve accounts or to meet the overcollateralization required in the securitizations and sales of our contracts.

Each of our warehouse facilities and permanent funding vehicles requires us to provide equity or a form of recourse credit enhancement to the respective lenders or investors and generally does not permit us to fund general corporate requirements. Therefore, the actual liquidity, or funds available to us to finance our growth, is limited to the cash generated from operations and the available proceeds of equity or debt securities we issue. At times of strong origination growth, our cash flows from operations are insufficient to fund these requirements. As a result, our need to fund during periods of high growth in contract origination necessitates external funding to provide the equity or capital required as recourse credit enhancement to leverage borrowings.

We periodically manage the demands on our capital by placing loans with other financial institutions when the circumstances and economics make such placements attractive for us. Placement of contracts can take place through the sale of contracts we already own, or we can earn a brokerage fee by finding financing for our customers before the transaction has been consummated.

***Warehouse Facilities***

At June 30, 2001, we had an aggregate of $495.5 million available for both domestic and international equipment contract financing under various warehouse facilities of which we had borrowed an aggregate of $297.2 million. These facilities are provided by a syndicate of banks that participate in a revolving credit arrangement, by several banks lending directly to our international business and by investment banking firms that we use for securitizations. The contracts made under these bank warehouse facilities bear interest at floating rates and are full recourse obligations of the Company. Borrowings made under the domestic facilities typically are repaid with the proceeds of advances made under securitization facilities. Those advances in turn are typically repaid with proceeds from permanent fundings. Contracts funded under securitization facilities cease to be eligible collateral if they are not securitized within a specified period. The amount advanced under the securitization facilities is 92% of the discounted value of the pledged receivables. If we were unable to arrange continued access to acceptable warehouse financing, we would have to curtail our contract origination, which in turn would have a material adverse effect on our financial condition and operations. See Item 8, Note 8 for a summary of our warehouse availability at June 30, 2001.

***Medical Receivables Financing***

We fund our medical receivables financing business through various sources. We have established a revolving credit agreement with a syndicate of banks that is used to warehouse medical receivables contracts up to $80.0 million. We also have an additional warehouse facility of $3.0 million available through another bank. We had $43.0 million outstanding under these facilities at June 30, 2001. See Item 8, Note 8 for a summary of our warehouse availability at June 30, 2001.

***Permanent Funding Program***

The most important sources of permanent funding for our contracts have been securitization and other forms of structured finance. Securitization is a process in which a pool of contracts is transferred to a special-purpose financing entity that issues notes to investors. The notes are secured by a pledge of the assets or other collateral in the contract pool. Principal and interest on these notes are paid from the cash flows produced by the contract pool. In the securitizations we sponsor, equipment contracts funded through securitizations must be credit enhanced to receive an investment grade credit rating.

Credit enhancement can be provided in a number of ways, including cash collateral, letters of credit, a subordinated tranche of each individual transaction or an insurance policy. Typically, our securitizations are enhanced through subordinated tranches and cash collateral. In the equipment securitizations we have sponsored to date, we have been effectively required to furnish credit enhancement equal to the difference between the total discounted cash flows of the securitization pool and the net proceeds we receive in such a securitization. In the medical receivables securitizations we have sponsored to date, we have furnished credit enhancement through subordinated tranches, corporate guarantees and cash collateral. The majority of the credit enhancements is recorded as subordinated interests of the present value of the discounted cash flows and is repaid from their share of those future cash flows. Income from the subordinated interests is recognized over the life of the securitized receivables using the effective yield method. These credit enhancements are classified as held-to-maturity debt securities that are evaluated for potential impairment on a quarterly basis.

The requirement to provide this credit enhancement reduces our liquidity and requires us to obtain additional capital periodically. There can be no assurance that we will be able to obtain additional capital in the future.

For accounting purposes, our securitizations are treated as either financings (on-balance sheet transactions) or sales (off-balance sheet transactions). In an on-balance sheet transaction, the contracts being securitized remain on our balance sheet as an asset for their originally contracted term and the proceeds raised are accounted for as discounted receivables in which no gain or loss is recognized. In a transfer classified as a sale, we remove the contracts from our balance sheet and recognize a gain or loss on the sale of these contracts. The previously recorded amounts are allocated between the assets sold and any retained interests, in this case recourse credit enhancements and servicing assets, based on the relative fair values on the date of transfer. Quoted market prices are generally not available for the retained interests that we record. We estimate fair value based on the present value of expected cash flows using management's best estimate of the key assumptions, which are credit losses and discount rates commensurate with the risks involved. We believe that such assumptions are consistent with those that would be used by other market participants in determining fair value. The net proceeds received are adjusted on our balance sheet by recording the fair value of recourse credit enhancements and servicing assets. Recourse credit enhancements and servicing assets are reviewed quarterly for impairment by analyzing the current adequacy of the key assumptions and by reassessing the anticipated cash flows resulting from the retained interests.

We continually seek to improve the efficiency of our permanent funding techniques by reducing up-front costs and minimizing our cash requirements. We may consider alternative structures, including senior and subordinated tranches, and alternative forms of credit enhancement, such as letters of credit and surety bonds. The transaction expenses of each securitization and other forms of structured financing depend on market conditions, costs of securitization and the availability of credit enhancement options. We expect to continue to use securitization and other forms of structured financing, on both a public and private basis, as our principal source of permanent funding for the foreseeable future.

To be cost efficient, a securitization must cover a relatively large and diverse portfolio of contracts. One of the basic requirements of the credit rating agencies (entities that rate the quality of the notes issued in our securitizations) relates to borrower concentration. This requirement specifies that no single credit (borrower) may constitute a significant portion of the pool of contracts being securitized. Because of this concentration requirement, we generally must accumulate in excess of

$75.0 million in contracts for each securitization. The credit rating agencies also have other concentration guidelines such as equipment type, geographic location of the obligors and medical receivables payor concentrations. Our portfolio management software allows us to continually monitor borrower concentrations, as well as other concentrations dealt with in the agency guidelines. These requirements mean that not all of the contracts held in our warehouse facilities at any point in time can be placed in one securitization.

The securitization of our equipment contracts are often structured as sales and resulted in gains totaling $37.1 million, $25.7 million and $29.8 million for years ended June 30, 2001, 2000 and 1999, respectively. We find distinct advantages to this structure over the on-balance sheet structure that does not result in a gain and, subject to the continuing availability of the sale structure, intend to use it in future years. The principal advantage of this structure is that it accelerates the recognition of revenue that would otherwise be recognized over the term of the underlying contracts. This acceleration of revenue, in turn, increases our capital base, which increases the amount of funds that we can borrow. The greater borrowing capacity can be used to acquire greater amounts of earning assets, which promotes our growth and profitability.

If, for any reason, we were to become unable to access the securitization market to permanently fund our equipment and medical receivables contracts, the consequences would be materially adverse. Our ability to complete securitizations and other structured finance transactions depends upon a number of factors, including:

- The general conditions in the credit markets,
- The size and liquidity of the market for the types of receivable-backed securities we issue or place in securitizations and
- The overall financial performance of our contract portfolio.

We do not have binding commitments for permanent funding, through either securitization or contract sales. We have non-binding agreements with investment banking entities to fund future contracts through securitization. While we expect to be able to continue to obtain the permanent funding we require for our equipment and medical receivables financing businesses, we cannot give any assurance that we will be able to do so. If, for any reason, any of these types of funding were unavailable in the amounts and on terms deemed reasonable by us, our equipment and medical receivables financing activities would be adversely affected. We believe that our present warehouse and permanent funding sources are sufficient to fund our current needs for our equipment and medical receivables financing businesses.

***Credit Risk***

Many of our customers are outpatient healthcare providers. Contracts to such customers require a high degree of credit analysis. Although we try to reduce our risk of default and credit losses through our underwriting practices, contract servicing procedures and the use of various forms of non-recourse or limited-recourse financing (in which the financing sources that permanently fund our equipment and other contracts assume all or some of the risk of default by our customers), we remain exposed to potential losses resulting from a default by a customer. Customer defaults could result in:

- Requiring us to make certain payments under our warehouse facilities,
- Requiring us to make payments to the extent of our remaining credit enhancement position under our permanent equipment and other funding arrangements,
- The loss of the cash or other collateral pledged as credit enhancement or
- The loss of any remaining interest we may have kept in the underlying equipment.

During the period of time that occurs between a contract’s initial funding and its funding on a permanent basis, we are exposed to full recourse liability in case of default by the borrower. While we have typically been able to permanently fund our equipment and other contracts, we may not be able to permanently fund many of the contracts in our international portfolio. We are pursuing various funding opportunities, such as planning for additional securitizations for portions of the Latin America portfolio, identifying new banks for coverage via our insurance policy at Exporters Insurance Company, Ltd., entering into new loans with the Inter-American Development Bank and acquiring additional credit lines at several Latin American banks. Consequently, we may be subject to credit risk for a longer period. In some cases, this risk will extend over the life of the contracts. In addition, the terms of securitizations and other types of structured finance transactions generally require us to replace or repurchase equipment and other contracts in the event they fail to conform to the representations and warranties made by us, even in transactions otherwise designated as non-recourse or limited recourse.

Defaults by our customers could also adversely affect our ability to obtain additional financing in the future, including our ability to use securitization or other forms of structured finance. The sources of such permanent funding take into account the credit performance of the equipment and other contracts we previously financed in deciding whether and on what terms to make new contracts. In addition, the credit rating agencies often involved in securitizations consider prior credit performance in determining the rating to be given to the securities issued in the securitizations that we sponsor.

At June 30, 2000, we held $150.0 million of transfer and convertibility risk insurance. In February 2001, this coverage was reduced to $120.0 million. The insurance is provided by the Multilateral Investment Guarantee Agency ("MIGA"), a division of the World Bank. This program is utilized by MSF Holding Ltd., our 72%-owned joint venture business in Latin America, to cover the risks associated with transferring payments out of Brazil. The MIGA guarantee program helps to eliminate certain capital allocations for lenders and assists DVI in obtaining favorable agency credit ratings needed for bank funding and sales of assets to investors through securitization.

In the past few years, we originated a significantly greater number of equipment, medical receivables and other contracts than we did previously. Because of this growth, our managed net financed asset portfolio grew from $494.9 million at June 30, 1995 to $2.3 billion at June 30, 2001. In light of this growth, the historical performance of our contract portfolio, including rates of credit loss, may not be useful in predicting future contract portfolio performance.

Since November 1997, we have also provided asset-backed financing to emerging growth companies and, to a lesser extent, merger and acquisition advisory services to the healthcare industry. We had not provided these services previously. We cannot give any assurance that we will continue to be able to market these services successfully or that their future returns will be consistent with their historical financial results.

**Competition**

The business of financing medical equipment is highly competitive. We compete with equipment manufacturers that finance sales of their own equipment, finance subsidiaries of national and regional commercial banks, and equipment leasing and financing companies. Many of our competitors have significantly greater financial and marketing resources than we do. In addition, the competition in the new markets we have recently targeted, specifically the medical device financing market and the medical receivables financing market, may be greater than the levels of competition we have historically experienced.

We believe that a decrease in the number of competitors in the higher cost medical equipment financing market, combined with our high level of focus and experience in this market, resulted in increased equipment contract origination during the past few years. We cannot give any assurance that new competitive providers of financing will not enter the medical equipment financing market in the future. To meet our long-term growth objectives, we must increase our presence in our targeted markets for lower-cost medical device financing and medical receivables financing. To achieve this goal we may be required to reduce our margins to remain competitive.

**Government Regulation**

Although most states do not regulate the equipment financing business, certain states do require the licensing of lenders and financiers by requiring adequate disclosure of certain contract terms and limitations on certain collection practices and creditor remedies. Some states impose limitations on interest rates and other charges. In addition, federal, state, local and international authorities regulate the operation of certain types of diagnostic imaging and patient treatment equipment. For example, a shared service provider or healthcare provider using the equipment that we finance may be required to obtain and maintain approvals from governmental authorities to service other healthcare providers with whom we have entered into service agreements. Failure by our customers to comply with these requirements could adversely affect their ability to meet their obligations to us. Our customers could be adversely affected by changes in regulations that limit or prohibit the referral of patients by physicians who have invested in healthcare facilities that we finance.

**Employees**

As of June 30, 2001, the Company had 375 full-time employees consisting of:

- 9 executive officers,
- 85 sales and sales management personnel,
- 100 documentation and credit personnel,
- 80 accounting and treasury personnel and
- 101 other administrative and technical personnel.

None of our employees are covered by a collective bargaining agreement, and management believes that its relationship with its employees is good.

## ITEM 2. PROPERTIES

The Company leases all of its office buildings. The lease agreement for our principal executive offices located in Jamison, Pennsylvania contains escalation clauses. We lease an aggregate of approximately 133,005 square feet of office space worldwide. In addition, we own a 1,553 square-foot residential property located in Jamison, PA for use by those visiting our principal office on company business. We also own a 450 square-foot apartment unit in New York City for use by Company officers while conducting business there.

## ITEM 3. LEGAL PROCEEDINGS

In December 2000, a former employee of the Company filed an action in the Circuit Court of Cook County, Illinois (the Company subsequently had the case removed to the U.S. District Court for the Northern District of Illinois) arising out of the Company's purchase of a partnership interest in and assets of Third Coast Capital ("TCC"), the Company's venture leasing division, in 1998. The plaintiff alleges that his decision to sell his interest in TCC and accept employment with the Company was based on his reliance on a number of promises allegedly made by the Company, including the Company's ability and willingness to fund the venture business in the future. The complaint alleges that these promises were false when made and represented a scheme to facilitate the Company's misappropriation and conversion of TCC's worth, alleged to be $25.0 million. The complaint alleges, among other things, fraud and breach of contract and seeks various remedies. The litigation is in the motion and discovery phase.

The Company believes the lawsuit is without merit and will vigorously defend against it. The Company believes it will prevail in this matter and, accordingly, no contingent loss provision has been recorded.

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

There were no matters submitted to a vote of security holders during the three months ended June 30, 2001.

**Executive Officers of the Registrant**

As of June 30, 2001, the executive officers of DVI, Inc. were:

| Name | Age | Position |
|---|---|---|
| Michael A. O'Hanlon | 54 | Director, President and Chief Executive Officer |
| St.John Brown | 45 | Executive Vice President and President, DVI Europe |
| Steven R. Garfinkel | 58 | Executive Vice President and Chief Financial Officer |
| Richard E. Miller | 49 | Executive Vice President and President, DVI Financial Services Inc. |
| Anthony J. Turek | 58 | Executive Vice President and Chief Credit Officer |
| Terry Cady | 54 | Senior Vice President and President, DVI Business Credit Corp. |
| John P. Boyle | 51 | Vice President and Chief Accounting Officer |
| Melvin C. Breaux | 60 | Vice President, Secretary and General Counsel |
| Cynthia J. Cohn | 42 | Vice President and Executive Vice President, DVI Business Credit Corp. |

***Michael A. O'Hanlon*** is the Company's president and chief executive officer and has served as such since November 1995. Mr. O’Hanlon was president and chief operating officer from September 1994 to November 1995. Mr. O'Hanlon joined the Company in March 1993 and until September 1994 served as executive vice president. Mr. O'Hanlon became a director of the Company in November 1993. Before joining the Company, Mr. O’Hanlon served for nine years as president and chief executive officer of Concord Leasing, Inc., a major source of medical, aircraft, ship and industrial equipment financing. Previously, Mr. O'Hanlon was a senior executive with Pitney Bowes Credit Corporation. Mr. O'Hanlon received his MBA from the University of Connecticut and his Bachelor of Business Administration Degree from the Philadelphia College of Textiles and Science.

***St.John Brown*** is an executive vice president of the Company and president of DVI Europe. Mr. Brown is responsible for managing and developing the growth of the Company’s entire European operations and vendor relationships. Prior to joining the Company in April 2001, Mr. Brown was a Senior Vice President of Philips Medical Systems and CEO of their Customer Services Business. He worked for Philips Medical Systems from 1992 to 2001, serving in Singapore and The Netherlands. Prior to that, Mr. Brown worked for GE Medical from 1986 to 1992, based in Hong Kong and Singapore. Before joining GE, Mr. Brown was a consultant with The Boston Consulting Group, London, and with Citibank, N.A. and Citibank International Bank Limited in London. Mr. Brown graduated from Oxford University with an M.A. in Modern History.

***Steven R. Garfinkel*** is an executive vice president of the Company and its chief financial officer. Mr. Garfinkel also serves on the executive committee of the Company. Mr. Garfinkel joined the Company in 1995. His responsibilities include corporate finance, loan funding, balance sheet management, treasury, accounting and financial reporting, internal control, financial and strategic planning, and human resources. Mr. Garfinkel has extensive experience in developing and managing corporate finance relationships, money market funding, derivative hedging, financial planning and management information systems. Prior to joining the Company, Mr. Garfinkel spent twenty-nine years with two large bank holding companies: CoreStates Financial Corp. and First Pennsylvania Corporation. For twenty years, he was either controller or treasurer of those organizations. Mr. Garfinkel received his Master of Business Administration degree from Drexel University, and his Bachelor of Arts degree from Temple University.

***Richard E. Miller*** is an executive vice president of the Company and president of DVI Financial Services Inc. He joined the Company in April 1994. Mr. Miller also serves on the executive committee of the Company. His primary responsibility is to manage operations and the Company's sales organization of financing specialists that interface directly with the Company’s customers. Before joining the Company, he served for six years as vice president of sales for Toshiba America Medical Systems, a major manufacturer of medical imaging equipment. Previously, Mr. Miller was national sales manager for Thomsen CGR, a French manufacturer of medical imaging equipment, which was acquired by General Electric Medical Systems. Mr. Miller received his Bachelor of Arts degree from Eastern College.

***Anthony J. Turek*** is an executive vice president and the chief credit officer of the Company. Mr. Turek has served in that capacity since joining the Company in March 1988. Mr. Turek also serves on the executive committee of the Company. Before joining the Company, Mr. Turek was vice president of commercial banking at Continental Illinois National Bank (now a unit of Bank of America) from 1968 to 1988. For the last five years of his tenure at Continental Illinois National Bank, Mr. Turek managed the equipment leasing and transportation divisions. His prior responsibilities included management positions in the special industries, metropolitan and national divisions of Continental Illinois National Bank. Mr. Turek received his Master of Science degree from the University of Missouri and his Bachelor of Science degree from Iowa State University.

***Terry Cady*** is a senior vice president of the Company and president of DVI Business Credit Corporation. Mr. Cady joined the Company in February 2000. His primary responsibility is to manage the operations and marketing for DVI Business Credit. Prior to joining the Company, Mr. Cady gained over 20 years of healthcare financing experience, including venture capital, corporate finance and various lending activities, while working for Bank of America, Donaldson, Lufkin, & Jenrette Securities Corporation, Wells Fargo Bank, G.E. Capital, LINC and Heller Financial. Mr. Cady also started and managed the healthcare corporate finance unit for the Canadian Imperial Bank of Commerce. Mr. Cady received his MBA from New York University and his Bachelors degree from Purdue University.

***John P. Boyle*** is a vice president and chief accounting officer of the Company. Mr. Boyle joined the Company in January 1995. His primary responsibilities are managing the Company's accounting, tax and financial reporting functions. Mr. Boyle is a General Securities Principal and a CPA with over twenty years of experience in the financial services industry. Mr. Boyle spent five years of his professional career with Peat Marwick Mitchell & Co. in Philadelphia. Beyond his accounting background, he has extensive experience in credit and corporate finance matters. Mr. Boyle received his Bachelor of Arts degree from Temple University.

***Melvin C. Breaux*** is general counsel, secretary and a vice president of the Company, as well as general counsel and a vice president of DVI Financial Services Inc. Before joining the Company in July 1995, Mr. Breaux was a partner in the Philadelphia, Pennsylvania law firm of Drinker Biddle & Reath for 17 years and an associate of the firm for 8 years. As a member of that firm’s banking and finance department, he specialized in secured and unsecured commercial lending transactions, a wide variety of other financing transactions, and the general practice of business law. Mr. Breaux received his Juris Doctorate degree from the University of Pennsylvania School of Law and his Bachelor of Arts degree from Temple University.

***Cynthia J. Cohn*** has been a vice president of the Company since October 1988 and executive vice president of DVI Business Credit Corporation since January 1994. Ms. Cohn is responsible for the treasury functions of DVI Business Credit Corporation, the Company’s medical receivables financing subsidiary. She served as an assistant vice president from July 1987 to October 1988. Prior to joining the Company, Ms. Cohn served as research coordinator for Cantor, Fitzgerald Co., Inc., a stock brokerage firm, from February 1983 to July 1986, where she was responsible for development and coordination of that firm's research product. Ms. Cohn received her Bachelor of Arts degree from Ithaca College. Ms. Cohn is the daughter of Gerald L. Cohn, a director of the Company.

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For the purposes of calculating the aggregate market value of the shares of Common Stock of the Registrant held by nonaffiliates, as shown on the cover page of this report, we assumed that all the outstanding shares were held by nonaffiliates except for the shares owned by directors of the Company, executive officers of the Company and by CIBC Trust Company. However, we cannot be sure that all such persons or entities are, in fact, affiliates of the Registrant, or that there are not other persons who may be deemed to be affiliates of the Registrant. Further information concerning shareholdings of officers, directors and principal shareholders is included in our definitive proxy statement relating to our scheduled November 28, 2001 Annual Meeting of Shareholders to be filed with the Securities and Exchange Commission.

## PART II

**ITEM 5. MARKET FOR THE COMPANY'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS**

**Price Range of Common Stock**

The common stock of DVI, Inc. is listed on the New York Stock Exchange. The following table sets forth high and low sales prices per share of common stock as reported on the Composite Tape for the periods indicated:

| | Year Ended June 30, | | | |
|---|---|---|---|---|
| | 2001 | | 2000 | |
| | High | Low | High | Low |
| First Quarter | $ 20.44 | $ 14.75 | $ 17.50 | $ 15.13 |
| Second Quarter | 19.50 | 14.69 | 16.44 | 11.25 |
| Third Quarter | 17.88 | 12.95 | 18.06 | 13.38 |
| Fourth Quarter | 17.60 | 13.00 | 17.00 | 12.56 |

**Dividend Policy**

We have not declared or paid any cash dividends since our inception, and we anticipate that any future earnings will be retained for investment in our corporate operations. Any declaration of dividends in the future will be determined in light of a number of factors affecting us at that time, including our earnings, financial condition, capital requirements, level of debt and the terms of any contractual limitations on dividends. Restrictions now exist in Company agreements with respect to Bank Revolving Credits, Senior Notes and Convertible Subordinated Notes, which place limitations on the payment of cash dividends.

As of July 31, 2001, there were approximately 2,639 beneficial holders of the Company's common stock.

## ITEM 6. SUMMARY CONSOLIDATED FINANCIAL AND OPERATING INFORMATION

***(in thousands of dollars except share data)***

| Statement of Operations Data | Year Ended June 30, 2001 | 2000 | 1999 | 1998 | 1997 |
|---|---|---|---|---|---|
| Finance and other income | $ 139,643 | $ 143,372 | $ 103,798 | $ 74,355 | $ 56,334 |
| Interest expense | 94,666 | 78,943 | 60,850 | 49,212 | 38,395 |
| Net interest and other income | 44,977 | 64,429 | 42,948 | 25,143 | 17,939 |
| Net gain on sale of financing transactions | 37,070 | 25,728 | 29,813 | 20,977 | 14,039 |
| Selling, general and administrative expenses | 42,257 | 38,702 | 31,529 | 18,493 | 14,117 |
| Provision for losses on receivables | 8,739 | 9,477 | 6,301 | 4,735 | 2,386 |
| Earnings before minority interest, equity in net income (loss) of investees, and provision for income taxes | 33,063 | 41,978 | 34,931 | 22,892 | 15,475 |
| Net earnings | 18,435 | 23,442 | 19,668 | 12,858 | 8,563 |
| Basic earnings per share | $1.29 | $1.65 | $1.39 | $1.12 | $0.78 |
| Diluted earnings per share | $1.22 | $1.54 | $1.30 | $1.03 | $0.74 |
| Weighted average number of dilutive shares outstanding | 15,764 | 15,714 | 15,686 | 13,246 | 12,487 |

| Balance Sheet Data | June 30, 2001 | 2000 | 1999 | 1998 | 1997 |
|---|---|---|---|---|---|
| Cash and cash equivalents | $ 11,013 | $ 6,353 | $ 5,695 | $ 15,192 | $ 3,141 |
| Restricted cash and cash equivalents | 101,888 | 73,691 | 36,744 | 47,582 | 32,515 |
| Net financed assets | 1,248,978 | 1,157,530 | 988,576 | 728,135 | 580,637 |
| Total assets | 1,477,691 | 1,333,784 | 1,096,272 | 828,490 | 647,191 |
| Borrowings under warehouse facilities | 340,195 | 306,610 | 270,434 | 83,064 | 45,203 |
| Long-term debt | 744,255 | 664,827 | 502,013 | 479,187 | 447,646 |
| Shareholders' equity | 222,225 | 215,363 | 191,647 | 172,285 | 95,660 |

The Company has not declared or paid any cash dividends since its inception (see Dividend Policy).

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Results of Operations

#### *Impact of Financing Strategies on Results of Operations*

Our financing strategy is to obtain permanent funding for most of our equipment and medical receivables contracts through securitization and contract sales. When funding contracts through securitization, the issuer generally can structure the securitization so that the funding is treated for accounting purposes either as long-term debt secured by equipment or medical receivables contracts owned by us, or as a sale. The manner in which income arising in those transactions is recognized for financial reporting purposes differs significantly depending on which of the two structures the issuer uses. When we sponsor a securitization structured as debt, we treat the proceeds as long-term debt on our financial statements and report the amortization of finance income on those contracts. When we sell contracts, we recognize the discounted unamortized finance income at the time the funding takes place. However, even in a funding treated as a sale, we may recognize servicing income and interest income on our subordinated interest in the securitization over the remaining term of the equipment contracts sold.

Over the past few years, we have focused our strategy on increasing our market share. We cannot give any assurance that our historical growth rate or current profitability can be sustained in the future. Additionally, our expense levels are based in part on our expectations of future financing volumes. We may be unable to adjust our spending in a timely manner to compensate for a decrease in demand for financing of medical equipment and receivables. Accordingly, operating results may be adversely impacted by future fluctuations in such demand. We believe that general economic conditions have not had a material adverse effect on our recent operating results. However, we cannot give any assurance that general economic conditions will not have a material adverse effect on us in the future.

#### *Year Ended June 30, 2001 Compared to Year Ended June 30, 2000*

Total equipment financing contracts originated and acquired increased 17.5% to $881.1 million in fiscal 2001. This increase is due to higher volumes of new business in all of our divisions. Our fiscal 2000 origination included $47.3 million in new business from DVI Capital, our wholesale leasing business division. The operations of this division were closed in March 2000.

Net financed assets increased 7.9% to $1.2 billion at June 30, 2001. Not included in net financed assets were the contracts sold but still serviced by us, which increased 22.5% to $1.1 billion as of June 30, 2001. Managed net financed assets, the aggregate of those appearing on our balance sheet and those which have been sold and are still serviced by us, totaled $2.3 billion as of June 30, 2001, representing a 14.1% increase over the total as of June 30, 2000.

During fiscal 2001, new line of credit commitments in our medical receivables financing business increased 59.2% to $159.0 million, much of which occurred during the fourth quarter. Net medical receivables funded at June 30, 2001 totaled $250.3 million, a decrease of 1.1%, or $2.7 million when compared to the prior year. This decrease is mainly due to lower utilization of credit line commitments. Average net medical receivables funded during fiscal year 2001 increased 6.3% to $249.2 million from $234.5 million in the prior year. The yield on average net medical receivables funded for the year ended June 30, 2001 was 11.4% compared to 11.0% for the prior year.

Total finance and other income decreased by 2.6% to $139.6 million for the year ended June 30, 2001.

- Amortization of finance income was $120.9 million for the year ended June 30, 2001 compared to $107.1 million for the year ended June 30, 2000. A $98.4 million increase in average net financed assets contributed $9.1 million to the increase in finance income, while an increase in average yields provided a $4.7 million increase in finance income. Based on average net financed assets of $1.3 billion for fiscal 2001 and $1.2 billion for fiscal 2000, the yield for the year ended June 30, 2001 was 9.6% compared to 9.3% for the prior year.

- During fiscal 2001, we recognized Corvis deferred loan fees of $7.6 million resulting from Corvis' full repayment of their loan in November 2000. For fiscal year 2000, $5.8 million related to the amortization of Corvis deferred loan fees was recorded.

- Other income decreased 63.3% to $11.2 million for the year ended June 30, 2001. The decrease is attributable mainly to the inclusion of $15.4 million in the prior year representing a combination of the sale of shares of Cisco Systems stock, income from investment advisory services and proceeds from higher levels of late fees. Recurring sources of other income consist primarily of medical receivables fees, late fees, net service fee income, and contract fees and penalties. See Item 8, Note 9 for a summary of other income.

Interest expense increased $15.7 million, or 19.9%, to $94.7 million for the year ended June 30, 2001. Of this increase, $13.2 million is due to an increase in average interest-bearing liabilities of $157.9 million used to fund a larger portfolio, increased securitization cash collateral requirements and assets previously funded by equipment vendors. The remaining increase of $2.5 million was the result of an increase in the cost of funds. Higher interest rates and transaction costs associated with an international securitization contributed to the increase in the cost of funds. The rate on average interest-bearing debt for the year ended June 30, 2001 increased to 8.6% when compared to 8.4% in the prior year.

The net gain on sale of financing transactions increased 44.1% to $37.1 million for the year ended June 30, 2001, representing 7.7% of the $479.4 million in contracts sold that year. This compares to $25.7 million recognized in fiscal 2000, or 7.1% of the $364.4 million in contracts sold. The increase in gains of $11.4 million is due to both additional loans sold, which contributed $8.1 million to the increase, and improvements in securitization market conditions, which accounted for the remaining increase of $3.3 million.

Net selling, general and administrative expenses (“SG&A”) increased 9.2% to $42.3 million for the year ended June 30, 2001. The increase is primarily due to higher legal collection costs related to the resolution of loan delinquencies, increased equipment and building costs, increased staffing levels, and the continued expansion and development of our international operations. See Item 8, Note 10 for a summary of the major components of SG&A expenses.

The allowance for losses was $15.9 million at June 30, 2001, or 0.70% of our managed portfolio, compared to $14.3 million at the end of the prior year, which represented 0.72% of the managed portfolio at that time. During fiscal 2001, we provided $11.2 million for losses on receivables (including $2.4 million on recourse credit enhancements), compared to $9.5 million in the prior year. Each month we charge off contracts in which losses are probable and all reasonable remedies have been pursued. We then evaluate the adequacy of the allowance for losses to absorb our current estimates of credit losses that have occurred in our managed portfolio. We make additional provisions for loss to restore the allowance to its required level. The increase in the provisions for loss in fiscal years 2001 and 2000 reflects higher levels of charge-offs during the respective years and higher estimates of credit losses within the managed portfolio. Our net charge-offs for the quarters ended September 30, 2000, December 31, 2000, March 31, 2001, and June 30, 2001 were $1.8 million, $2.5 million, $2.2 million, and $3.0 million, respectively, which represent 10.2%, 15.2%, 14.5%, and 19.1%, respectively, of the quarter-end allowance for losses. Recoveries on receivables previously charged off totaled $1.2 million for the year ended June 30, 2001. See Item 8, Note 4 for an analysis of the allowance for losses on receivables for each of the past three years.

Earnings before minority interest, equity in net income of investees and provision for income taxes decreased 21.2% to $33.1 million for the year ended June 30, 2001.

The provision for income taxes decreased 18.9% to $15.1 million. The effective income tax rate for fiscal 2001 was 45.1%. This effective tax rate is higher than the U.S. statutory rate of 35.0% because of state income taxes, foreign withholding taxes (which are not affected by a decrease in pretax earnings) and our inability to record a tax benefit for foreign losses. The deferred tax balance changed only slightly when comparing the amount at June 30, 2001 to the prior year balance, reflecting an increase due to the deferred portion of fiscal 2001 earnings, offset by unrealized losses on our available-for-sale security investments and adjustments to the prior year’s deferred items.

Net earnings were $18.4 million or $1.22 per diluted share for the year ended June 30, 2001 as compared to net earnings of $23.4 million or $1.54 per diluted share in the prior year.

***Year Ended June 30, 2000 Compared to Year Ended June 30, 1999***

Total equipment financing contracts originated were $749.6 million in fiscal 2000 compared with $784.6 million in fiscal 1999, a decrease of 4.5%. Included in these amounts were corporate acquisitions of $22.5 million and $59.7 million for fiscal

2000 and 1999, respectively. In addition, new business from DVI Capital, our wholesale leasing business division, decreased to $47.3 million in fiscal 2000 compared with $75.4 million in fiscal 1999. In March 2000, we closed the operations of this division.

Net financed assets totaled $1.2 billion at June 30, 2000, an increase of $168.9 million or 17.1% over the prior year. Not included in net financed assets were the contracts sold but still serviced by us, which increased to $877.7 million as of June 30, 2000 compared to $735.3 million as of June 30, 1999, an increase of 19.4%. Managed net financed assets, the aggregate of those appearing on our balance sheet and those which have been sold and are still serviced by us, totaled $2.0 billion as of June 30, 2000, representing a 19.9% increase over the total as of June 30, 1999.

During fiscal 2000, new line of credit commitments in our medical receivables financing business were $99.9 million compared with $144.9 million in fiscal 1999, a decrease of 31.1%. This decrease is due to discontinued marketing efforts in certain lines of business during fiscal 2000. Net medical receivables funded at June 30, 2000 totaled $253.0 million, an increase of $65.6 million or 35.0% over the prior year.

Total finance and other income increased 38.1% to $143.4 million for the year ended June 30, 2000 from $103.8 million in the prior year. Finance income was $107.1 million for the year ended June 30, 2000, or 9.3% of average net financed assets of $1.2 billion. This compares to $83.8 million for the 1999 fiscal year, which was 9.1% of that year's average net financed assets of $916.5 million. This 27.8% increase in finance income was largely due to the overall increase in the size of our loan portfolio. Other income increased 52.2% to $30.5 million in fiscal 2000 as compared to $20.0 million in fiscal 1999. Most of this increase was due to income realized from customer warrants not related to current lending activities of $11.8 million for the year ended June 30, 2000, compared to $1.7 million for the year ended June 30, 1999. We recognized $5.8 million in loan fees in fiscal 2000 that were related to the Corvis transaction. See Item 8, Note 9 for a summary of other income.

Interest expense was $78.9 million for the year ended June 30, 2000, or 6.8% of average net financed assets. This compares to $60.9 million of interest expense for fiscal 1999, which was 6.6% of average net financed assets during that year. The $18.0 million increase in interest expense can be directly attributed to higher levels of debt necessary to finance a larger average portfolio in 2000. The weighted average interest rate on discounted receivables remained the same at 7.8% for fiscal years 2000 and 1999.

The net gain on sale of financing transactions decreased 13.7% to $25.7 million for the year ended June 30, 2000, representing 7.1% of the $364.4 million in contracts sold that year. This compares to $29.8 million recognized in fiscal 1999, or 7.9% of the $376.6 million in contracts sold. The decrease in gains during this fiscal year is due to rising interest rates, volatility in the bond markets and widening spreads on asset-backed paper.

Selling, general and administrative expenses ("SG&A") increased 22.8% to $38.7 million for the year ended June 30, 2000 from $31.5 million for the year ended June 30, 1999. The increase over the prior fiscal year is related primarily to our acquisitions, the development of our medical receivables and international businesses, and our 30.0% growth in average managed net financed assets. To support this growth, we increased our personnel to 345 employees from 283 one year earlier. See Item 8, Note 10 for a summary of the major components of SG&A expenses.

The allowance for losses was $14.3 million at June 30, 2000, or 0.72% of our managed portfolio, compared to $12.3 million at the end of the prior year, which represented 0.74% of the managed portfolio at that time. We made provisions for losses on receivables during fiscal 2000 of $9.5 million, compared to $6.3 million in the prior year. Our net charge-offs for the quarters ended September 30, 1999, December 31, 1999, March 31, 2000, and June 30, 2000 were $1.5 million, $2.5 million, $1.7 million, and $1.7 million, respectively, which represent 11.2%, 16.8%, 12.2%, and 12.2%, respectively, of the quarter-end allowance for losses. Recoveries on receivables previously charged off were $1.0 million for the year ended June 30, 2000.

Earnings before minority interest, equity in net loss of investees and provision for income taxes increased 20.2% to $42.0 million for the year ended June 30, 2000 compared to $34.9 million a year earlier. Net earnings were $23.4 million or $1.54 per diluted share for the year ended June 30, 2000 as compared to net earnings of $19.7 million or $1.30 per diluted share in the prior year.

***Year Ended June 30, 1999 Compared to Year Ended June 30, 1998***

Total equipment financing contracts originated were $784.6 million in fiscal 1999 compared with $532.9 million in fiscal 1998, an increase of 47.2%. Net financed assets totaled $988.6 million at June 30, 1999, an increase of $260.5 million or 35.8% over the prior year. Not included in net financed assets were the contracts sold but still serviced by us, which increased to $735.3 million as of June 30, 1999 compared to $546.2 million as of June 30, 1998, an increase of 34.6%. Managed net financed assets, the aggregate of those appearing on our balance sheet and those which have been sold and are still serviced by us, totaled $1.7 billion as of June 30, 1999, representing a 35.9% increase over the total as of June 30, 1998.

During fiscal 1999, new line of credit commitments in our medical receivables financing business were $144.9 million compared with $183.2 million in fiscal 1998, a decrease of 20.9%. Net medical receivables funded at June 30, 1999 totaled $187.3 million, an increase of $50.0 million or 36.4% over the prior year.

Total finance and other income increased 39.6% to $103.8 million for the year ended June 30, 1999 from $74.4 million in the prior year. Finance income was $83.8 million for the year ended June 30, 1999, or 9.1% of average net financed assets of $916.5 million. This compares to $63.3 million for the 1998 fiscal year, which was 9.3% of that year's average net financed assets of $679.6 million. This 32.3% increase in finance income was largely due to the overall increase in the size of our loan portfolio. Other income increased 81.5% to $20.0 million in fiscal 1999 as compared to $11.0 million in fiscal 1998. Other income in fiscal 1999 consisted primarily of medical receivables fees, consulting and advisory fees, servicing fees, late charges, amounts received upon exercise of warrants issued by other companies, and contract fees and penalties. See Item 8, Note 9 for a summary of other income.

Interest expense was $60.9 million for the year ended June 30, 1999, or 6.6% of average net financed assets. This compares to $49.2 million of interest expense for fiscal 1998, which was 7.2% of average net financed assets during that year. Since $69.0 million of average net financed assets in fiscal 1999 were financed by an increase in average shareholders' equity of that amount, the $11.7 million increase in interest expense can be directly attributed to higher levels of debt necessary to finance a larger average portfolio in 1999. The weighted average interest rate on discounted receivables decreased to 7.8% for fiscal 1999 compared to 8.1% for fiscal 1998.

The net gain on sale of financing transactions increased 42.1% to $29.8 million for the year ended June 30, 1999, representing 7.9% of the $376.6 million in contracts sold that year. This compares to $21.0 million recognized in fiscal 1998, or 7.2% of the $292.7 million in contracts sold. The increase in gain is principally due to the increased number of contracts sold in fiscal year 1999 and, to a lesser extent, better and more efficient executions and lower transaction costs resulting from larger transactions.

Selling, general and administrative expenses ("SG&A") increased 70.5% to $31.5 million for the year ended June 30, 1999 from $18.5 million for the year ended June 30, 1998. The increase over the prior fiscal year is related primarily to our acquisitions, the development of our medical receivables and international businesses, and our 35.0% growth in average managed net financed assets. To support this growth, we increased our personnel to 283 employees from 193 one year earlier. See Item 8, Note 10 for a summary of the major components of SG&A expenses.

The allowance for losses was $12.3 million at June 30, 1999, or 0.74% of our managed portfolio, compared to $10.0 million at the end of the prior year, which represented 0.81% of the managed portfolio at that time. We made provisions for losses on receivables during fiscal 1999 of $6.3 million, compared to $4.7 million in the prior year. The increase in the provision was the result of the recognition of a higher loss than previously anticipated resulting from the bankruptcy filing by Allegheny Health Education and Research Foundation ("Allegheny"). Our net charge-offs for the quarters ended September 30, 1998, December 31, 1998, March 31, 1999, and June 30, 1999 were $0.9 million, $2.8 million, $0.8 million, and $0.8 million, respectively, which represent 7.6%, 26.1%, 6.9%, and 6.9%, respectively, of the quarter-end allowance for losses. The increase in net charge-offs during the second quarter of fiscal 1999 is the result of Allegheny's bankruptcy filing. Recoveries on receivables previously charged off were $0.2 million for the year ended June 30, 1999.

Earnings before minority interest, equity in net loss of investees and provision for income taxes increased 52.6% to $34.9 million for the year ended June 30, 1999 compared to $22.9 million a year earlier. Net earnings were $19.7 million or $1.30 per diluted share for the year ended June 30, 1999 as compared to net earnings of $12.9 million or $1.03 per diluted share in the prior year.

**Business Segments**

***Equipment Financing***

In our equipment financing business, net financed assets increased $95.1 million to $940.5 million at June 30, 2001 from $845.4 million as of June 30, 2000. Net earnings for the year ended June 30, 2001 were $11.5 million compared to $12.2 million for the prior year.

Amortization of finance income increased $10.2 million over the prior year. A $65.4 million increase in average net financed assets contributed $6.4 million of the increase in finance income. An increase in average yields to 10.2% during fiscal 2001 from 9.8% during fiscal year 2000 contributed the remaining increase of $3.8 million.

Other income decreased $3.0 million due to lower late fees, service fees and miscellaneous fees. The net gain on sale of financing transactions increased $7.8 million due to an increase in the number of contracts sold and improvements in securitization market conditions.

Interest expense increased $14.4 million over the prior year. Of this increase, $9.3 million is due to a $111.0 million increase in average interest-bearing liabilities used to fund a larger portfolio, increased securitization cash collateral requirements, and carrying assets previously funded by equipment vendors. The remaining increase of $5.1 million is related to an increase in the average cost of funds. Higher interest rates and transaction costs associated with an international securitization contributed to the increase in the cost of funds. The rate on average interest bearing debt was 9.0% during fiscal year 2001 compared with 8.4% during fiscal year 2000.

Net selling, general and administrative ("SG&A") expenses increased $3.0 million due to legal collection costs related to the resolution of loan delinquencies, increased sales commissions and equipment costs, and continued expansion of international operations.

***Medical Receivables Financing***

In our medical receivables financing business, net financed assets at June 30, 2001 were $248.4 million, a decrease of 1.0%, or $2.6 million from the amount at June 30, 2000. This decrease is mainly due to lower utilization of credit line commitments.

Average net financed assets increased 3.9% during fiscal year 2001 to $243.8 million from $234.7 million in the prior year. Total finance and other income increased 6.7% to $33.9 million. Amortization of finance income increased $2.7 million over the prior year. A $9.1 million increase in average net financed assets contributed $1.0 million of the increase in finance income. An increase in average yields to 11.7% during fiscal year 2001 from 11.0% during fiscal year 2000 contributed the remaining increase of $1.7 million.

Interest expense was essentially unchanged due to the overall decline in market interest rates on slightly increased average debt balances. The rate on average interest bearing debt remained constant at 8.1% for both years.

After a $0.4 million increase in net SG&A expenses due to increased staffing levels, and a $0.8 million reduction in the provision for losses on receivables, after-tax net earnings increased $1.4 million to $3.7 million.

***Corporate and All Other***

Net financed assets decreased $1.0 million to $60.1 million as of June 30, 2001 from $61.1 million at June 30, 2000. For the year ended June 30, 2001, net earnings decreased $5.7 million to $3.2 million.

Finance and other income decreased $11.1 million from the prior year. Average net financed assets increased to $58.9 million during fiscal year 2001 from $56.4 million during fiscal year 2000. Other income in fiscal 2000 included $11.8 million from customer warrants not related to current lending activities and $3.6 million from an advisory fee.

During fiscal years 2001 and 2000, we recorded $7.6 million and $5.8 million, respectively, related to the amortization of Corvis deferred loan fees.

**Liquidity and Capital Resources**

***General***

As a result of the rapid growth of our domestic and international equipment financing businesses, our medical receivables financing business and our new financing services, the amount of warehouse and permanent funding we require has significantly increased. We obtain warehouse funding from commercial and investment banks. These warehouse borrowings are full recourse obligations in which the lender has recourse against the collateral pledged to secure our obligations and against the Company itself upon default. Our permanent funding is obtained principally on a limited recourse basis in which the lender's primary recourse is against the pledged collateral and the lender has only a limited ability to recover directly from us upon default. In the case of limited recourse funding, we retain some risk of loss because we share in any losses incurred, and/or we may forfeit any residual interest in the underlying sold or permanently funded assets if defaults occur.

A substantial portion of our debt represents permanent funding of equipment contracts obtained on a limited recourse basis and is structured so that the cash flows from the underlying contracts service the debt. Most of our warehouse borrowings are used to fund temporarily the equipment and medical receivables contracts. These borrowings are repaid with the proceeds obtained from the permanent funding and cash flows from the underlying transactions.

To meet our requirements for increased warehouse funding, we have expanded our warehouse facilities with banks and have obtained warehouse facilities with investment banking firms we use for our securitizations. To meet our requirement for increased permanent funding, we have enhanced our ability to fund equipment and medical receivables contracts. If suitable sources of both warehouse and permanent funding are not available in the future, our growth will be limited and we may be forced to use less attractive funding sources in order to ensure liquidity.

In addition to the interim and permanent funding referred to above, our continued growth in contract origination and net financed receivables requires substantial amounts of external funding, primarily to fund the reserve account or overcollateralization required by the securitizations and sales of our contracts. These funds essentially provide the credit enhancement for our leveraged investments in our contract portfolios, and typically are obtained through sales of debt or equity securities.

***Summary of Cash Flows***

Our cash and cash equivalents at June 30, 2001 and June 30, 2000 were $11.0 million and $6.4 million, respectively. The following describes the changes in the items that had the most significant impact on our cash flow during the years ended June 30, 2001 and 2000.

Our net cash used in operating activities for the year ended June 30, 2001 was $5.1 million. The net cash used in operating activities for the year ended June 30, 2000 was $24.9 million. Restricted cash changes resulted in outflows of $28.2 million in fiscal 2001 compared to outflows of $36.9 million in fiscal 2000. Most of the fiscal 2001 change was due to the additional cash collateral required by an international securitization completed during the year. The fiscal 2000 change can be attributed in part to the higher levels of cash escrow and collateral coverage required by our November 1999 DVI Business Credit securitization agreement, as well as increased cash from additional borrowings at year-end. The change in other assets contributed $9.1 million in fiscal 2001 outflows compared to $27.0 million in fiscal 2000. Most of the fiscal 2000 change related to increases in servicer assets, prepaid items and repossessed property.

Our net cash used in investing activities for the year ended June 30, 2001 was $95.4 million compared to $154.0 million in the prior year. The net decrease in notes collateralized by medical receivables provided inflows of $2.7 million in fiscal 2001 compared to outflows of $65.6 million in fiscal 2000. This decrease is the result of lower utilization of credit line commitments in fiscal 2001.

Our net cash provided by financing activities for the year ended June 30, 2001 was $105.4 million compared to $179.8 million in the prior year. Proceeds from warehouse borrowings, net of repayments, provided inflows of $33.6 million for the year ended June 30, 2001, compared to $16.3 million in the prior year. Proceeds from long-term debt borrowings, net of repayments, provided inflows of $70.6 million for the year ended June 30, 2001, compared to $162.8 million in the prior year.

***Warehouse Facilities***

At June 30, 2001 we had available an aggregate of $578.5 million under various warehouse facilities for medical equipment and medical receivables financing, consisting of $339.8 million available for domestic equipment contracts, $155.7 million for international contracts, and $83.0 million for medical receivables contracts. See Item 8, Note 8 for more detail on our warehouse lines of credit.

***Permanent Funding Methods***

Through June 30, 2001, we have completed 28 securitizations for medical equipment and medical receivables financings totaling approximately $3.6 billion, consisting of public debt issues and private placements of debt and contract sales, each totaling $1.8 billion. We expect to continue to use securitization (on both a public and private basis) or other structured finance transactions as our principal means to permanently fund our contracts for the foreseeable future. If for any reason we were to become unable to access the securitization market to permanently fund our contracts, the consequences for us would be materially adverse.

Our use of securitization significantly affects our need for warehouse facilities and our liquidity and capital requirements due to the amount of time required to assemble a portfolio of contracts to be securitized. When using securitization, we are required to hold contracts in warehouse facilities until a sufficient quantity, generally in excess of $75.0 million, is accumulated in order to attract investor interest and to allow for a cost-effective placement. This increases our exposure to changes in interest rates and temporarily reduces our warehouse facility liquidity. See Item 7A and Item 8, Notes 2 and 19 for discussions about our efforts to manage this exposure through hedging.

We have $255.0 million available under a credit facility with the option to sell to it certain equipment contracts. As of June 30, 2001, $131.8 million was sold to this facility. Our obligations under this facility include servicing of the assets and assisting the owners in the securitization of the assets if the owners choose to do so.

In addition, we have investment agreements with two shareholders, the International Finance Corporation (an affiliate of the World Bank) ("IFC") and the Netherlands Development Finance Company ("FMO"), which provide for the borrowing of $15.0 million and $10.0 million respectively. Borrowings under this loan bear interest at 2.75% over the six-month LIBOR, payable semiannually in arrears. Full principal loan repayment is due May 15, 2005. This loan is secured by granting perfected and registered first priority security interests on all lease/loan receivables assigned to IFC and FMO.

The agreements also provide for syndicated borrowings from IFC and FMO, for which we had $18.7 million outstanding at June 30, 2001. Borrowings under this loan bear interest at 3.25% over the six-month LIBOR, payable semiannually in arrears. Principal loan repayment commenced on November 15, 2000 and is to be paid in full on May 15, 2003. This loan is secured by granting perfected and registered first priority security interests on all lease/loan receivables assigned to IFC and FMO.

In November 2000, we entered into an agreement with Deutsche Investitions – und Entwicklungsgesellschaft mbH ("DEG"), a German Development Bank. The agreement provides for the borrowing of 15.0 million Euros, for which we had 11.0 million Euros ($9.3 million) outstanding at June 30, 2001. Borrowings under this loan bear interest at 3.625% over the six-month Euribor, payable semiannually in arrears. Principal loan repayment will commence on May 15, 2003 and is to be paid in full on May 15, 2006. This loan is secured by granting perfected and registered first priority security interests on all lease/loan receivables assigned to DEG.

In April 2001, we entered into an agreement with the Bank of Montreal for Latin American financing that was backed by a comprehensive insurance policy issued by Exporters Insurance Company, Ltd. The insurance policy covers 95% of the principal and interest payments. The insurance coverage requires an upfront premium payment for Latin American countries of 2.25% per annum (2.75% for Colombia and Venezuela) on the limit of liability at each payment date under the individual contracts covered. The limit of liability is defined as the remaining principal and interest flows at a certain payment date. The loan agreement provides for a borrowing of $25.0 million, for which we had $2.1 million outstanding as of June 30,

2001. The initial funding period ends October 2002. Principal amortization occurs through October 2007 with full repayment of the unamortized balance due at termination. Borrowings under this loan bear interest at 1.50% over the 30-day LIBOR, payable monthly in arrears.

In June 2001, we entered into a secured exchangeable note financing agreement with J.E. Matthew, LLC. The agreement provides for borrowings of $12.0 million, for which we had $9.0 million outstanding at June 30, 2001. Borrowings under this loan bear interest at 9.5%, payable monthly in arrears. Principal loan repayment will commence on August 1, 2001 and is to be paid in full on November 30, 2004. In lieu of cash payments, we have the option to exchange amounts due under the note into shares of DVI common stock subject to certain conditions.

As of June 30, 2001, management believes that the Company was in compliance with the financial covenants of these agreements.

***Debt and Equity Offerings***

On January 30, 1997, we completed a public offering of $100.0 million principal amount of $9^7/_8$% Senior Notes due 2004 ("Senior Notes"). The agreement with respect to the Senior Notes contains, among other things, limitations on our ability to pay dividends and to make certain other kinds of payments. That agreement also prohibits us from incurring additional indebtedness unless certain financial ratio tests are met. Currently, we have met these financial ratio tests and we are not prohibited from incurring additional debt. Interest on the notes is payable semi-annually on February 1 and August 1 of each year. The Senior Notes will be redeemable at our option in whole or in part at any time on or after February 1, 2002 at specified redemption prices.

On April 24, 1998, we registered under the Securities Act of 1933, as amended ("Securities Act"), $500.0 million of common stock, preferred stock, depositary shares, debt securities, and warrants with the Securities and Exchange Commission ("SEC"). The SEC declared the registration statement (Registration No. 333-50895) effective on May 4, 1998.

On December 16, 1998, we completed a public offering of $55.0 million principal amount of $9^7/_8$% Senior Notes due 2004. The agreement with respect to these Senior Notes contains substantially the same terms and limitations as those in the agreement for the $100.0 million Senior Notes issuance of January 30, 1997 discussed above.

On March 22, 1999, we registered under the Securities Act $600.0 million of Asset-Backed Securities issuable in series with the SEC. The SEC declared the registration statement (Registration No. 333-74901) effective on July 12, 1999.

On January 12, 2000, we registered under the Securities Act $1.125 billion of Asset-Backed Securities issuable in series with the SEC. The SEC declared the registration statement (Registration No. 333-94523) effective on January 24, 2000.

At June 30, 2001, approximately $388.8 million of common stock, preferred stock, depositary shares, debt securities and warrants remained registered and unissued under the Securities Act.

We believe that the cash available from our operating, investing and financing activities will be sufficient to fund our current needs for our equipment financing and medical receivables businesses. However, we cannot give any assurance in this regard, and we may encounter liquidity problems that could affect our ability to meet such needs while attempting to withstand competitive pressures or adverse economic conditions.

***Net Financed Assets***

The following represents a summary of the components of net financed assets:

| | Year Ended June 30, | |
|---|---|---|
| *(in thousands of dollars)* | **2001** | **2000** |
| Receivables in installments | $ 991,389 | $ 900,432 |
| Receivables and notes – related parties | 3,413 | 3,413 |
| Net notes collateralized by medical receivables | 250,260 | 252,974 |

| | | |
|---|---|---|
| Residual valuation | 62,157 | 40,271 |
| Unearned income | (119,160) | (112,167) |
| Retained interests in securitizations - recourse credit enhancements | 51,006 | 43,222 |
| Equipment on operating leases | 9,913 | 29,385 |
| Net financed assets | $1,248,978 | $1,157,530 |

**Income Tax Issues**

Historically, we have deferred a portion of our federal and state income tax liabilities because of our ability to obtain depreciation deductions from transactions structured as fair market value leases. In addition, we have structured all sales of financing transactions since the quarter ended June 30, 1997 as borrowings for tax purposes versus sales for book (GAAP) purposes. Future sales of financing transactions may also be structured in this manner. Additionally, we believe our effective tax rate will increase moderately in future periods as a result of our inability to receive a full credit for federal tax purposes on taxes that have been paid in foreign countries, as well as our inability to currently recognize tax benefits related to losses incurred by foreign operations.

**Inflation**

We do not believe that inflation has had a material effect on our operating results during the past three years. We cannot give any assurance that our business will not be affected by inflation in the future.

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to two primary types of market risk: interest rate risk and foreign currency exchange risk. We actively manage both of these risks.

### Interest Rate Risk

The majority of our assets and liabilities are financial contracts with fixed and variable rates. Any mismatch between the repricing and maturity characteristics of our assets and liabilities exposes us to interest rate risk when interest rates fluctuate. For example, our equipment loans are structured and permanently funded on a fixed-rate basis, but we use line-of-credit "warehouse" facilities until the permanent matched funding is obtained. Since funds borrowed through warehouse facilities are obtained on a floating-rate basis, we are exposed to a certain degree of risk if interest rates rise and increase our borrowing costs. In addition, when we originate equipment loans, we base our pricing in part on the spread we expect to achieve between the interest rate we charge our equipment loan customers and the effective interest cost we will pay when we permanently fund those loans. Increases in interest rates that increase our permanent funding costs between the time the loans are originated and the time they are permanently funded could narrow, eliminate or even reverse this spread. In addition, changes in interest rates affect the fair market value of fixed rate assets and liabilities. In a rising interest rate environment, fixed rate assets lose market value whereas fixed rate liabilities gain market value and vice versa.

To manage our interest rate risk, we employ a hedging strategy using derivative financial instruments such as forward rate agreements, Treasury locks, forward start swaps and interest rate swaps, caps and collars. We do not use derivative financial instruments for trading or speculative purposes. We manage the credit risk of possible counterparty default in these derivative transactions by dealing exclusively with counterparties with investment grade ratings.

Before entering into a derivative transaction for hedging purposes, we determine that a high degree of initial effectiveness exists between the change in the value of the hedged item and the change in the value of the derivative from a movement in interest rates. High effectiveness means that the change in the value of the derivative will be effectively offset by the change in the value of the hedged asset or liability. We measure the effectiveness of each hedge throughout the hedge period. Any hedge ineffectiveness, as defined by Statement of Financial Accounting Standards ("SFAS") No. 133, is recognized in the income statement.

There can be no assurance that our hedging strategies or techniques will be effective, that our profitability will not be adversely affected during any period of change in interest rates or that the costs of hedging will not exceed the benefits.

The following table provides information about certain financial instruments held that are sensitive to changes in interest rates. For assets and liabilities, the table presents principal cash flows and related weighted average interest rates by expected maturity date at June 30, 2001. For derivative financial instruments, the table presents notional amounts and weighted average interest rates by expected (contractual) maturity dates. These notional amounts generally are used to calculate the contractual payments to be exchanged under the contract. Weighted average variable rates, which are generally LIBOR-based, represent the interest rates in effect at June 30, 2001. The information is presented in U.S. dollar equivalents, which is our reporting currency. The actual cash flows are denominated in U.S. dollars (US), Singapore dollars (SGD), Hong Kong dollars (HKD), Japanese yen (JPY), Australian dollars (AUD), British pounds (GBP), Euro (EUR) and South African Rand (ZAR), as indicated in parentheses. The table excludes investments in direct financing leases totaling $245.1 million in accordance with disclosure requirements, although our lease contracts are exposed to interest rate risk. The information does not include any estimates for prepayments, reinvestment, refinancing or credit losses. See Item 8, Note 19 for a description of the methods used to determine fair value.

| *(in thousands of dollars)* | Expected Maturity Date – Year Ended June 30, 2002 | 2003 | 2004 | 2005 | 2006 | There-after | Total | Fair Value |
|---|---|---|---|---|---|---|---|---|
| **Rate-Sensitive Assets:** | | | | | | | | |
| Fixed rate receivables in installments (US) | $ 86,806 | $ 58,619 | $ 49,120 | $ 37,983 | $ 23,055 | $ 11,145 | $ 266,728 | $ 266,848 |
| Average interest rate | 9.82% | 9.90% | 9.93% | 9.79% | 9.80% | 10.13% | 9.82% | |
| Fixed rate receivables in installments (SGD) | $ 1,024 | $ 590 | $ 653 | $ 568 | $ 158 | $ 84 | $ 3,077 | $ 3,076 |
| Average interest rate | 10.10% | 10.10% | 10.10% | 10.10% | 8.36% | 8.36% | 10.10% | |
| Fixed rate receivables in installments (JPY) | $ 2,278 | $ 3,637 | $ 2,556 | $ 1,194 | $ 255 | - | $ 9,920 | $ 9,320 |
| Average interest rate | 6.13% | 6.13% | 6.13% | 6.55% | 6.17% | - | 6.13% | |
| Fixed rate receivables in installments (AUD) | $ 828 | $ 69 | $ 51 | $ 104 | - | - | $ 1,052 | $ 1,036 |
| Average interest rate | 8.46% | 8.85% | 8.65% | 8.68% | - | - | 8.46% | |
| Fixed rate receivables in installments (GBP) | $ 32 | $ 57 | $ 20 | - | - | - | $ 109 | $ 110 |
| Average interest rate | 10.88% | 10.88% | 10.88% | - | - | - | 10.88% | |
| Fixed rate receivables in installments (EUR) | $ 6,900 | $ 5,506 | $ 5,599 | $ 5,202 | $ 4,009 | $ 1,602 | $ 28,818 | $ 29,027 |
| Average interest rate | 8.17% | 8.19% | 8.23% | 8.37% | 8.72% | 9.16% | 8.17% | |
| Floating rate receivables in installments (US) | $ 47,474 | $ 37,324 | $ 26,177 | $ 12,657 | $ 6,814 | $ 1,114 | $ 131,560 | $ 131,560 |
| Average interest rate | 7.57% | 8.08% | 8.42% | 8.36% | 7.74% | 7.76% | 7.57% | |
| Floating rate notes collateralized by medical receivables (US) | $186,119 | $ 46,965 | $ 9,030 | $ 14,059 | - | - | $ 256,173 | $ 256,173 |
| Average interest rate | 8.67% | 8.53% | 8.35% | 8.60% | - | - | 8.67% | |
| Fixed rate recourse credit enhancements (US) | $ 12,613 | $ 15,136 | $ 10,756 | $ 7,182 | $ 4,099 | $ 1,220 | $ 51,006 | $ 49,841 |
| Average interest rate | 6.53% | 6.53% | 6.55% | 6.55% | 6.24% | 6.30% | 6.53% | |
| Totals | $344,074 | $167,903 | $103,962 | $ 78,949 | $ 38,390 | $ 15,165 | $ 748,443 | $ 746,991 |
| Average interest rate | 8.71% | 8.67% | 8.88% | 8.91% | 8.91% | 9.54% | 8.69% | |
| **Derivatives Matched Against Assets:** | | | | | | | | |
| **Interest Rate Swaps** | | | | | | | | |
| Pay variable rate swaps (US) | $ 5,000 | - | - | - | - | - | $ 5,000 | $ - |
| Weighted average pay rate | 6.20% | - | - | - | - | - | 6.20% | |
| Weighted average receive rate | 5.83% | - | - | - | - | - | 5.83% | |
| Pay fixed rate swaps (AUD) | $ 552 | - | - | $ 1,427 | $ 1,486 | - | $ 3,465 | $ (44) |
| Weighted average pay rate | 5.56% | - | - | 6.64% | 6.42% | - | 6.37% | |
| Weighted average receive rate | 4.83% | - | - | 5.05% | 5.05% | - | 5.01% | |
| Pay fixed rate swaps (EUR) | - | - | $ 4,725 | $ 5,079 | - | - | $ 9,804 | $ (147) |
| Weighted average pay rate | - | - | 5.08% | 5.35% | - | - | 5.22% | |
| Weighted average receive rate | - | - | 4.48% | 4.56% | - | - | 4.52% | |
| Totals | $ 5,552 | | $ 4,725 | $ 6,506 | $ 1,486 | | $ 18,269 | $ (191) |

**Expected Maturity Date – Year Ended June 30,** **There-after** **Total** **Fair Value**

| *(in thousands of dollars)* | 2002 | 2003 | 2004 | 2005 | 2006 | | | |
|---|---|---|---|---|---|---|---|---|
| **Rate-Sensitive Liabilities:** | | | | | | | | |
| Variable rate borrowings under warehouse facilities (US)............. | $234,517 | - | - | - | - | - | $ 234,517 | $ 234,517 |
| Average interest rate ........................ | 5.62% | - | - | - | - | - | 5.62% | |
| Variable rate borrowings under warehouse facilities (AUD) .......... | $ 11,789 | - | - | - | - | - | $ 11,789 | $ 11,789 |
| Average interest rate ........................ | 7.11% | - | - | - | - | - | 7.11% | |
| Variable rate borrowings under warehouse facilities (GBP) ........... | $ 10,904 | - | - | - | - | - | $ 10,904 | $ 10,904 |
| Average interest rate ........................ | 6.53% | - | - | - | - | - | 6.53% | |
| Variable rate borrowings under warehouse facilities (JPY) ............ | $ 24,120 | - | - | - | - | - | $ 24,120 | $ 24,120 |
| Average interest rate ........................ | 2.81% | - | - | - | - | - | 2.81% | |
| Variable rate borrowings under warehouse facilities (SGD) ........... | $ 6,901 | - | - | - | - | - | $ 6,901 | $ 6,901 |
| Average interest rate ........................ | 4.80% | - | - | - | - | - | 4.80% | |
| Variable rate borrowings under warehouse facilities (HKD) .......... | $ 3,702 | - | - | - | - | - | $ 3,702 | $ 3,702 |
| Average interest rate ........................ | 6.56% | - | - | - | - | - | 6.56% | |
| Variable rate borrowings under warehouse facilities (EUR)........... | $ 47,511 | - | - | - | - | - | $ 47,511 | $ 47,511 |
| Average interest rate ........................ | 5.53% | - | - | - | - | - | 5.53% | |
| Variable rate borrowings under warehouse facilities (ZAR)........... | $ 751 | - | - | - | - | - | $ 751 | $ 751 |
| Average interest rate ........................ | 14.50% | - | - | - | - | - | 14.50% | |
| Fixed rate discounted receivables (US)........................... | $ 99,269 | $ 78,226 | $ 53,490 | $ 31,595 | $ 11,254 | $ 2,012 | $ 275,846 | $ 283,332 |
| Average interest rate ........................ | 6.91% | 6.96% | 7.06% | 7.07% | 6.75% | 6.99% | 6.91% | |
| Variable rate discounted receivables (US)........................... | $ 92,516 | $102,028 | $ 10,944 | $ 5,911 | $ 3,126 | - | $ 214,525 | $ 214,525 |
| Average interest rate ........................ | 5.36% | 5.32% | 7.40% | 7.40% | 7.40% | - | 5.53% | |
| Senior notes (US)................................ | - | - | $155,000 | - | - | - | $ 155,000 | $ 144,150 |
| Average interest rate ........................ | - | - | 9.88% | - | - | - | 9.88% | |
| Subtotals ...................................... | $531,980 | $180,254 | $219,434 | $ 37,506 | $ 14,380 | $ 2,012 | $ 985,566 | $ 982,202 |

| *(in thousands of dollars)* | Expected Maturity Date – Year Ended June 30, 2002 | 2003 | 2004 | 2005 | 2006 | There-after | Total | Fair Value |
|---|---|---|---|---|---|---|---|---|
| **Rate-Sensitive Liabilities (continued):** | | | | | | | | |
| Other debt (US) | $ 16,972 | $ 15,179 | $ 4,751 | $ 27,456 | $ 456 | - | $ 64,814 | $ 62,254 |
| Average interest rate | 7.87% | 7.92% | 8.60% | 6.90% | 5.25% | - | 7.51% | |
| Other debt (GBP) | $ 1,322 | $ 1,089 | $ 608 | $ 405 | $ 427 | $ 807 | $ 4,658 | $ 3,979 |
| Average interest rate | 7.30% | 7.57% | 7.20% | 7.24% | 7.24% | 7.13% | 7.31% | |
| Other debt (EUR) | $ 1,697 | $ 8,119 | $ 3,935 | $ 1,561 | $ 350 | - | $ 15,662 | $ 14,910 |
| Average interest rate | 6.28% | 7.73% | 7.28% | 7.40% | 6.64% | - | 7.40% | |
| Convertible sub notes (US) | - | - | $ 13,750 | - | - | - | $ 13,750 | $ 22,830 |
| Average interest rate | - | - | 9.12% | - | - | - | 9.12% | |
| Totals | $551,971 | $204,641 | $242,478 | $ 66,928 | $ 15,613 | $ 2,819 | $1,084,450 | $1,086,175 |
| Average interest rate | 5.81% | 6.25% | 9.03% | 7.04% | 6.85% | 7.03% | 6.69% | |
| **Derivatives Matched Against Liabilities:** | | | | | | | | |
| **Interest Rate Swaps** | | | | | | | | |
| Pay fixed rate swaps (US) | $105,000 | - | - | $ 8,000 | - | - | $ 113,000 | $ (236) |
| Weighted average pay rate | 5.17% | - | - | 5.84% | - | - | 5.22% | |
| Weighted average receive rate | 5.02% | - | - | 4.71% | - | - | 4.98% | |
| Pay fixed rate swaps (JPY) | $ 2,964 | - | - | - | - | - | $ 2,964 | $ (1) |
| Weighted average pay rate | 0.47% | - | - | - | - | - | 0.47% | |
| Weighted average receive rate | 0.06% | - | - | - | - | - | 0.06% | |
| Totals | $107,964 | | | $ 8,000 | | | $ 115,964 | $ (237) |

Total rate-sensitive assets increased $40.1 million from the prior year. This increase is primarily due to higher fixed-rate domestic equipment receivables of $26.3 million.

Total rate-sensitive liabilities increased $113.0 million from the prior year. This increase was primarily due to the completion of an $80.0 million international equipment securitization and additional warehouse facilities.

Current and prior year derivative positions represent the hedging of anticipated equipment securitizations and interest rate swaps and caps to convert floating rate borrowings to fixed rates in order to minimize the interest rate mismatch to fixed rate assets. Changes in the overall derivative positions held at June 30, 2001 and 2000 reflect the changes in the Company's exposures in its financial contracts.

## Foreign Currency Exchange Rate Risk

We have foreign currency exposures in our international operations due to lending in some areas in local currencies. As a general practice, we have not hedged the foreign exchange exposure related to either the translation of overseas earnings into U.S. dollars or the translation of overseas equity positions back to U.S. dollars. Our preferred method for minimizing foreign currency transaction exposure is to fund local currency assets with local currency borrowings. For specific local currency-denominated receivables or for a portfolio of local currency-denominated receivables for a specific period of time, hedging with derivative financial instruments may be necessary to manage the foreign currency exposure derived from funding in U.S.

dollars. The types of derivative instruments used are foreign exchange forward contracts and cross-currency interest rate swaps.

The following table provides information about certain financial instruments held that are sensitive to changes in foreign exchange rates. For assets and liabilities, the table presents principal cash flows and related weighted average interest rates by expected maturity date at June 30, 2001. For foreign currency forward exchange agreements, the table presents notional amounts and weighted average exchange rates by expected (contractual) maturity dates. These notional amounts generally are used to calculate the contractual payments to be exchanged under the contract. The information is presented in U.S. dollar equivalents, which is our reporting currency. The actual cash flows are denominated in Singapore dollars (SGD), Japanese yen (JPY), Australian dollars (AUD), British pounds (GBP), Euro (EUR), Hong Kong dollars (HKD) and South African Rand (ZAR), as indicated in parentheses. The table excludes investments in direct financing leases totaling $142.6 million in accordance with disclosure requirements, although our lease contracts are exposed to foreign currency rate risk. The information does not include any estimates for prepayments, reinvestment, refinancing or credit losses. See Item 8, Note 19 for a description of the methods used to determine fair value.

| | Expected Maturity Date – Year Ended June 30, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| ***(in thousands of dollars)*** | **2002** | **2003** | **2004** | **2005** | **2006** | **There-after** | **Total** | **Fair Value** |
| **Foreign Currency Sensitive Assets:** | | | | | | | | |
| Fixed rate receivables in installments (SGD) ....................... | $ 1,024 | $ 590 | $ 653 | $ 568 | $ 158 | $ 84 | $ 3,077 | $ 3,076 |
| Average interest rate ......................... | 10.10% | 10.10% | 10.10% | 10.10% | 8.36% | 8.36% | 10.10% | |
| Fixed rate receivables in installments (JPY)......................... | $ 2,278 | $ 3,637 | $ 2,556 | $ 1,194 | $ 255 | - | $ 9,920 | $ 9,320 |
| Average interest rate ......................... | 6.13% | 6.13% | 6.13% | 6.55% | 6.17% | - | 6.13% | |
| Fixed rate receivables in installments (AUD)....................... | $ 828 | $ 69 | $ 51 | $ 104 | - | - | $ 1,052 | $ 1,036 |
| Average interest rate ......................... | 8.46% | 8.85% | 8.65% | 8.68% | - | - | 8.46% | |
| Fixed rate receivables in installments (GBP)........................ | $ 32 | $ 57 | $ 20 | - | - | - | $ 109 | $ 110 |
| Average interest rate ......................... | 10.88% | 10.88% | 10.88% | - | - | - | 10.88% | |
| Fixed rate receivables in installments (EUR) ....................... | $ 6,900 | $ 5,506 | $ 5,599 | $ 5,202 | $ 4,009 | $ 1,602 | $ 28,818 | $ 29,027 |
| Average interest rate ......................... | 8.17% | 8.19% | 8.23% | 8.37% | 8.72% | 9.16% | 8.17% | |
| Totals ............................................ | $ 11,062 | $ 9,859 | $ 8,879 | $ 7,068 | $ 4,422 | $ 1,686 | $ 42,976 | $ 42,569 |
| Average interest rate ..................... | 7.96% | 7.56% | 7.77% | 8.21% | 8.56% | 9.12% | 7.85% | |
| **Derivatives Matched Against Assets:** | | | | | | | | |
| **Foreign Exchange Agreements** | | | | | | | | |
| Receive USD / Pay EUR ...................... | $ 5,094 | - | - | - | - | - | $ 5,094 | $ (2) |
| Avg. contractual exchange rate......... | 0.85 | - | - | - | - | - | 0.85 | |

| *(in thousands of dollars)* | Expected Maturity Date – Year Ended June 30, 2002 | 2003 | 2004 | 2005 | 2006 | There-after | Total | Fair Value |
|---|---|---|---|---|---|---|---|---|
| **Foreign Currency Sensitive Liabilities:** | | | | | | | | |
| Variable rate borrowings under warehouse facilities (AUD) | $ 11,789 | - | - | - | - | - | $ 11,789 | $ 11,789 |
| Average interest rate | 7.11% | - | - | - | - | - | 7.11% | |
| Variable rate borrowings under warehouse facilities (GBP) | $ 10,904 | - | - | - | - | - | $ 10,904 | $ 10,904 |
| Average interest rate | 6.53% | - | - | - | - | - | 6.53% | |
| Variable rate borrowings under warehouse facilities (JPY) | $ 24,120 | - | - | - | - | - | $ 24,120 | $ 24,120 |
| Average interest rate | 2.81% | - | - | - | - | - | 2.81% | |
| Variable rate borrowings under warehouse facilities (SGD) | $ 6,901 | - | - | - | - | - | $ 6,901 | $ 6,901 |
| Average interest rate | 4.80% | - | - | - | - | - | 4.80% | |
| Variable rate borrowings under warehouse facilities (HKD) | $ 3,702 | - | - | - | - | - | $ 3,702 | $ 3,702 |
| Average interest rate | 6.56% | - | - | - | - | - | 6.56% | |
| Variable rate borrowings under warehouse facilities (EUR) | $ 47,511 | - | - | - | - | - | $ 47,511 | $ 47,511 |
| Average interest rate | 5.53% | - | - | - | - | - | 5.53% | |
| Variable rate borrowings under warehouse facilities (ZAR) | $ 751 | - | - | - | - | - | $ 751 | $ 751 |
| Average interest rate | 14.50% | - | - | - | - | - | 14.50% | |
| Other debt (GBP) | $ 1,322 | $ 1,089 | $ 608 | $ 405 | $ 427 | $ 807 | $ 4,658 | $ 3,979 |
| Average interest rate | 7.30% | 7.57% | 7.20% | 7.24% | 7.24% | 7.13% | 7.31% | |
| Other debt (EUR) | $ 1,697 | $ 8,119 | $ 3,935 | $ 1,561 | $ 350 | - | $ 15,662 | $ 14,910 |
| Average interest rate | 6.28% | 7.73% | 7.28% | 7.40% | 6.64% | - | 7.40% | |
| Totals | $108,697 | $ 9,208 | $ 4,543 | $ 1,966 | $ 777 | $ 807 | $ 125,998 | $ 124,567 |
| Average interest rate | 5.28% | 7.71% | 7.27% | 7.37% | 6.97% | 7.13% | 5.59% | |

Total foreign currency sensitive liabilities increased $50.7 million from the prior year, due primarily to new international borrowings.

The current and prior year derivative positions are forward sales of currencies to hedge foreign currency denominated assets funded on a short-term basis with U.S. dollars.

On July 1, 2000, we adopted SFAS 133. The recognition of the fair value of all freestanding derivative instruments resulted in recording liabilities in the amount of $260,000. The transition adjustment for derivatives in cash flow hedges was to record a liability of $380,000 and was recognized as a cumulative-effect-type adjustment in accumulated other comprehensive loss (a component of shareholders' equity). The transition adjustment for derivatives in fair value hedges was to record an asset of $56,000 and was recognized as a cumulative-effect-type adjustment to net income. This adjustment was offset by the adjustment of the carrying value of the hedged assets. The transition adjustment for derivatives in hedges of net investments in foreign operations was to record a liability of $88,000 and was recognized as a cumulative-effect-type adjustment in cumulative translation adjustments.

**Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995**

Any statements contained in this Form 10-K that are not historical facts are forward-looking statements. Such statements are based upon many important factors that may be outside the Company's control, causing actual results to differ materially from those suggested. Such factors include, but are not limited to, changes (legislative and regulatory) in the healthcare industry, demand for our services, pricing, market acceptance, the effect of economic conditions, litigation, competitive products and services, corporate financing arrangements, the ability to complete transactions, and other risks identified in our filings with the Securities and Exchange Commission.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following consolidated financial statements of the Company and its subsidiaries are filed on the pages listed below, as part of Part II, Item 8.

## INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

**INDEPENDENT AUDITORS' REPORT**

Board of Directors and Shareholders
DVI, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of DVI, Inc. and its subsidiaries (the "Company") as of June 30, 2001 and 2000, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended June 30, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of DVI, Inc. and its subsidiaries as of June 30, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2001 in conformity with accounting principles generally accepted in the United States of America.

**/s/ DELOITTE & TOUCHE LLP**

Princeton, New Jersey
August 10, 2001

**DVI, Inc. and Subsidiaries**

**Consolidated Balance Sheets**

**Assets**

| *(in thousands of dollars except share data)* | June 30, 2001 | June 30, 2000 |
|---|---|---|
| Cash and cash equivalents | $ 11,013 | $ 6,353 |
| Restricted cash and cash equivalents | 101,888 | 73,691 |
| Accounts receivable | 43,032 | 36,818 |
| Investments | 24,193 | 10,116 |
| Contract receivables: | | |
| Investment in direct financing leases and notes secured by equipment or medical receivables: | | |
| Receivables in installments | 991,389 | 900,432 |
| Receivables and notes - related parties | 3,413 | 3,413 |
| Net notes collateralized by medical receivables | 250,260 | 252,974 |
| Residual valuation | 62,157 | 40,271 |
| Unearned income | (119,160) | (112,167) |
| Net investment in direct financing leases and notes secured by equipment or medical receivables | 1,188,059 | 1,084,923 |
| Less: Allowance for losses on receivables | (15,933) | (14,307) |
| Net contract receivables | 1,172,126 | 1,070,616 |
| Retained interests in securitizations - recourse credit enhancements | 51,006 | 43,222 |
| Servicing assets | 8,792 | 6,262 |
| Equipment on operating leases (net of accumulated depreciation of $3,749 and $9,155, respectively) | 9,913 | 29,385 |
| Repossessed assets | 13,185 | 18,624 |
| Furniture and fixtures (net of accumulated depreciation of $6,930 and $5,261, respectively) | 5,588 | 4,670 |
| Goodwill (net of accumulated amortization of $4,223 and $3,265, respectively) | 8,854 | 9,649 |
| Other assets | 28,101 | 24,378 |
| Total assets | $ 1,477,691 | $ 1,333,784 |

*The accompanying notes are an integral part of these consolidated financial statements.*

**DVI, Inc. and Subsidiaries**

**Consolidated Balance Sheets, continued**

**Liabilities and Shareholders' Equity**

| *(in thousands of dollars except share data)* | June 30, 2001 | June 30, 2000 |
|---|---|---|
| Accounts and equipment payables | $ 81,821 | $ 64,036 |
| Accrued expenses and other liabilities | 31,479 | 24,749 |
| Borrowings under warehouse facilities | 340,195 | 306,610 |
| Long-term debt: | | |
| Discounted receivables (primarily limited recourse) | 490,371 | 424,759 |
| 9 $^{7}/_{8}$% Senior notes due 2004 | 155,000 | 155,000 |
| Other debt | 85,134 | 71,168 |
| Convertible subordinated notes | 13,750 | 13,900 |
| Total long-term debt | 744,255 | 664,827 |
| Deferred income taxes | 50,390 | 50,414 |
| Total liabilities | 1,248,140 | 1,110,636 |
| Commitments and contingencies (Note 16) | | |
| Minority interest in consolidated subsidiaries | 7,326 | 7,785 |
| Shareholders' equity: | | |
| Preferred stock, $10.00 par value; authorized 100,000 shares; no shares issued | | |
| Common stock, $.005 par value; authorized 25,000,000 shares; outstanding 14,337,104 and 14,222,974 shares, respectively | 72 | 71 |
| Additional capital | 136,795 | 135,346 |
| Retained earnings | 100,932 | 82,497 |
| Accumulated other comprehensive loss | (15,574) | (2,551) |
| Total shareholders' equity | 222,225 | 215,363 |
| Total liabilities and shareholders' equity | $ 1,477,691 | $ 1,333,784 |

*The accompanying notes are an integral part of these consolidated financial statements.*

**DVI, Inc. and Subsidiaries**

**Consolidated Statements of Operations**

| *(in thousands of dollars except share data)* | Year Ended June 30, 2001 | 2000 | 1999 |
|---|---|---|---|
| Finance and other income: | | | |
| Amortization of finance income | $ 120,882 | $ 107,116 | $ 83,791 |
| Corvis deferred loan fees | 7,579 | 5,800 | - |
| Other income | 11,182 | 30,456 | 20,007 |
| Total finance and other income | 139,643 | 143,372 | 103,798 |
| Interest expense | 94,666 | 78,943 | 60,850 |
| Net interest and other income | 44,977 | 64,429 | 42,948 |
| Net gain on sale of financing transactions | 37,070 | 25,728 | 29,813 |
| Gain on revaluation of Corvis warrants | 2,012 | - | - |
| Net operating income | 84,059 | 90,157 | 72,761 |
| Selling, general and administrative expenses | 42,257 | 38,702 | 31,529 |
| Provision for losses on receivables | 8,739 | 9,477 | 6,301 |
| Earnings before minority interest, equity in net income (loss) of investees, and provision for income taxes | 33,063 | 41,978 | 34,931 |
| Minority interest in net loss of consolidated subsidiaries | 395 | 67 | 471 |
| Equity in net income (loss) of investees | 69 | - | (353) |
| Provision for income taxes | 15,092 | 18,603 | 15,381 |
| Net earnings | $ 18,435 | $ 23,442 | $ 19,668 |
| Net earnings per share: | | | |
| Basic | $ 1.29 | $ 1.65 | $ 1.39 |
| Diluted | $ 1.22 | $ 1.54 | $ 1.30 |

*The accompanying notes are an integral part of these consolidated financial statements.*

**DVI, Inc. and Subsidiaries**

**Consolidated Statements of Shareholders' Equity**

| *(in thousands of dollars except share data)* | Common Stock $.005 Par Value Shares | Common Stock $.005 Par Value Amount | Additional Capital | Retained Earnings | Accumulated Other Comprehensive Loss | Total Shareholders' Equity |
|---|---|---|---|---|---|---|
| **Balances at June 30, 1998** | 14,080,358 | $ 70 | $ 133,516 | $ 39,387 | $ (688) | $ 172,285 |
| Net earnings | | | | 19,668 | | 19,668 |
| Currency translation adjustment | | | | | (1,401) | (1,401) |
| Comprehensive income | | | | | | 18,267 |
| Issuance of common stock upon exercise of stock options and warrants | 88,250 | 1 | 1,116 | | | 1,117 |
| Cost of issuance of common stock | | | (199) | | | (199) |
| Non-employee stock option grants | | | 177 | | | 177 |
| **Balances at June 30, 1999** | 14,168,608 | 71 | 134,610 | 59,055 | (2,089) | 191,647 |
| Net earnings | | | | 23,442 | | 23,442 |
| Unrealized loss on available-for-sale securities (net of deferred taxes of $70) | | | | | (105) | (105) |
| Currency translation adjustment | | | | | (357) | (357) |
| Comprehensive income | | | | | | 22,980 |
| Issuance of common stock upon exercise of stock options and warrants | 54,366 | | 690 | | | 690 |
| Non-employee stock option grants | | | 46 | | | 46 |
| **Balances at June 30, 2000** | 14,222,974 | 71 | 135,346 | 82,497 | (2,551) | 215,363 |
| Net earnings | | | | 18,435 | | 18,435 |
| Unrealized loss on available-for-sale securities (net of deferred taxes of $4,891) | | | | | (9,071) | (9,071) |
| Unrealized loss on derivative instruments designated as cash flow hedges (net of deferred taxes of $760) | | | | | (1,136) | (1,136) |
| Currency translation adjustment | | | | | (2,816) | (2,816) |
| Comprehensive income | | | | | | 5,412 |
| Issuance of common stock upon exercise of stock options and warrants | 99,980 | 1 | 1,230 | | | 1,231 |
| Non-employee stock option grants | | | 69 | | | 69 |
| Conversion of subordinated notes | 14,150 | | 150 | | | 150 |
| **Balances at June 30, 2001** | 14,337,104 | $ 72 | $ 136,795 | $100,932 | $(15,574) | $ 222,225 |

*The accompanying notes are an integral part of these consolidated financial statements.*

**DVI, Inc. and Subsidiaries**

**Consolidated Statements of Cash Flows**

| *(in thousands of dollars)* | Year Ended June 30, 2001 | 2000 | 1999 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Net earnings | $ 18,435 | $ 23,442 | $ 19,668 |
| Adjustments to reconcile net earnings to net cash provided by (used in) operating activities: | | | |
| Equity in net (income) loss of investees | (69) | - | 353 |
| Depreciation and amortization | 27,586 | 20,878 | 18,285 |
| Provision for losses on receivables | 8,739 | 9,477 | 6,301 |
| Net gain on sale of financing transactions | (37,070) | (25,728) | (29,813) |
| (Gain) loss on disposition of furniture and fixtures | (4) | 164 | - |
| Loss on disposition of investments | 249 | - | - |
| Minority interest in net loss of consolidated subsidiaries | (395) | (67) | (471) |
| Unrealized gain on investments | (1,892) | (211) | - |
| Changes in assets and liabilities: | | | |
| (Increases) decreases in: | | | |
| Restricted cash and cash equivalents | (28,197) | (36,947) | 10,838 |
| Accounts receivable | 2,786 | (6,950) | (16,006) |
| Other assets | (9,133) | (27,034) | (14,314) |
| Increases (decreases) in: | | | |
| Accounts payable | 3,452 | 4,720 | (5,641) |
| Accrued expenses and other liabilities | 4,832 | (446) | 6,498 |
| Deferred income taxes | 5,627 | 13,788 | 17,303 |
| Total adjustments | (23,489) | (48,356) | (6,667) |
| Net cash provided by (used in) operating activities | (5,054) | (24,914) | 13,001 |
| **Cash flows from investing activities:** | | | |
| Acquisition of businesses (net of cash received) | (797) | (3,280) | (77,506) |
| Receivables originated or purchased | (834,002) | (740,946) | (749,862) |
| Portfolio receipts net of amounts included in income and proceeds from sale of financing transactions | 738,839 | 657,913 | 650,087 |
| Net decrease (increase) in notes collateralized by medical receivables | 2,714 | (65,647) | (50,011) |
| Investment in common and preferred stock of investees | - | (705) | (8,479) |
| Cash received from sale of investments in investees | 544 | - | 4,482 |
| Furniture and fixtures additions | (2,654) | (1,312) | (2,192) |
| Net cash used in investing activities | (95,356) | (153,977) | (233,481) |
| **Cash flows from financing activities:** | | | |
| Exercise of stock options and warrants | 1,231 | 690 | 1,117 |
| Common stock issuance costs | - | - | (199) |
| Borrowings under warehouse facilities, net of repayments | 33,585 | 16,279 | 187,370 |
| Borrowings under long-term debt | 221,960 | 338,873 | 151,562 |
| Repayments on long-term debt | (151,382) | (176,059) | (128,736) |
| Net cash provided by financing activities | 105,394 | 179,783 | 211,114 |
| Effect of exchange rate changes on cash and cash equivalents | (324) | (234) | (131) |

*continued*

**DVI, Inc. and Subsidiaries**

**Consolidated Statements of Cash Flows (concluded)**

| *(in thousands of dollars)* | Year Ended June 30, 2001 | 2000 | 1999 |
|---|---|---|---|
| Net increase (decrease) in cash and cash equivalents | $ 4,660 | $ 658 | $ (9,497) |
| Cash and cash equivalents, beginning of year | 6,353 | 5,695 | 15,192 |
| Cash and cash equivalents, end of year | $ 11,013 | $ 6,353 | $ 5,695 |
| **Cash paid (received) during the year for:** | | | |
| Interest | $ 85,978 | $ 70,717 | $ 51,063 |
| Income taxes, net of refunds | $ 5,850 | $ 1,565 | $ (1,869) |

**Supplemental disclosures of noncash transactions:**

**Investments:**

***Corvis* –** During the quarter ended September 30, 2000, $15.0 million was reclassified from contract receivables to investments. The September 30, 2000 Corvis valuation resulted in an additional $15.0 million recorded in investments and was realized as income. The December 31, 2000 Corvis valuation resulted in a decrease to investments of $12.9 million and was charged against income.

Effective January 1, 2001, DVI elected to convert the warrants to common stock and hold the shares as an available-for-sale investment. After executing a cashless exercise on January 24, 2001, DVI received 714,453 shares of Corvis common stock. The March 31, 2001 mark-to-market valuation resulted in a decrease to investments of $12.0 million and was charged to accumulated other comprehensive loss (a component of shareholders' equity), net of deferred taxes of $4.2 million. The June 30, 2001 mark-to-market valuation resulted in a decrease to investments of $1.9 million and was again charged to accumulated other comprehensive loss, net of deferred taxes of $0.7 million.

***Primedex* –** During the quarter ended December 31, 2000, $5.5 million was reclassified from contract receivables to investments to reflect the value of preferred shares received for payment of a promissory note.

***Medical Resources* –** During the quarter ended March 31, 2001, $5.5 million was reclassified from contract receivables to investments to reflect the value of common stock received for repayment of a contract.

**Repossessed Assets:** During the year ended June 30, 2000, $14.1 million was reclassified from contract receivables to repossessed assets. During the quarter ended March 31, 2001, DVI financed the purchase of a repossessed center and reclassified $5.2 million back to contract receivables.

**Other:** During the quarter ended June 30, 2001, $9.0 million in exchangeable term note financing was recorded as other debt and accounts receivable. The transaction was consummated on June 29, with the actual transfer of funds occurring on July 6, 2001.

For the quarter ended December 31, 2000, $150,000 of Convertible subordinated notes were converted into common stock.

*The accompanying notes are an integral part of these consolidated financial statements.*

**Notes to Consolidated Financial Statements**

**Note 1. Nature of Operations**

In this discussion, the terms “DVI”, the “Company”, “we”, “us” and “our” refer to DVI, Inc. and its subsidiaries, except where it is made clear that such terms mean only DVI, Inc. or an individual subsidiary.

We are primarily engaged in the business of providing equipment and receivable financing for domestic and foreign users of diagnostic imaging, radiation therapy and other medical technologies. Our customer base consists principally of outpatient healthcare providers, physician groups and hospitals.

**Ability to Access the Securitization Market -** Our ability to complete securitizations and other structured finance transactions depends upon a number of factors, including:

- The general conditions in the credit markets,
- The size and liquidity of the market for the types of receivable-backed securities that we issue or place in securitizations and
- The overall financial performance of our contract portfolio.

Additionally, our ability to securitize assets is dependent upon our ability to provide credit enhancement, which reduces our liquidity and periodically requires us to obtain additional capital to enable us to expand our operations.

**Credit Risk -** A customer’s failure to pay back amounts borrowed is a risk faced by all finance companies. Many of our customers are outpatient healthcare providers that have complex credit characteristics, and to provide financing for these customers involves sophisticated credit analysis. By the terms of the underlying financing contracts, our customers are generally considered in default if payment on a contract has not been received. Equipment under direct financing leases and notes secured by equipment, combined with obligor guarantees and vendor recourse, serve as collateral for unpaid contract payments. Receivables under medical receivables financing transactions serve as collateral for unpaid contract payments.

**Continuing Need for Capital -** Our ability to maintain and build our financing business is dependent on our ability to obtain warehouse and long-term debt financing.

**Regulation and Consolidation -** Considerable regulatory attention has been directed towards physician-owned healthcare facilities and other arrangements whereby physicians are compensated, directly or indirectly, for referring patients to such healthcare facilities. Furthermore, the market is subject to consolidation among outpatient facilities, physician groups and hospitals. Our source of customers is subject to the effects of regulatory actions and market consolidation.

**Investments in Foreign and Initial Operations -** In an effort to mitigate the impact of regulation and consolidation within the United States, and to expand our market, we have initiated operations internationally and have made investments in certain emerging markets. We have operations in Latin America, the United Kingdom, Spain, Germany, Italy, The Netherlands, Turkey, Australia and South Africa. We also have a joint venture based in Singapore to serve the medical equipment market in the Asia-Pacific region.

In May 1998, we entered into a joint venture, MSF Holding Ltd., with the International Finance Corporation (an affiliate of the World Bank) (“IFC”), the Netherlands Development Finance Company (“FMO”) and Philadelphia International Equities, Inc., a subsidiary of First Union National Corporation. Through MSF Holding Ltd., we provide financing programs for vendors and manufacturers of diagnostic and patient treatment equipment and devices in Latin America, including Brazil, Argentina, Colombia, Venezuela and Mexico. This joint venture holding company conducts business utilizing cross-border transactions as well as through its local subsidiaries. Initially owning 59%, we increased our ownership of this joint venture holding company to 72% through an equity contribution of $10.0 million on December 31, 2000. As of June 30, 2001, the total equity in the joint venture was $30.1 million (DVI’s portion was $21.8 million). As a result of this transaction, MSF Holding Ltd. has provided for the right of all shareholders to purchase from DVI until December 31, 2001, a portion of the additional equity we contributed so that each shareholder’s prior economic ownership percentage may be restored. We consolidate the operations of MSF Holding Ltd. within our financial statements. Our customer base for equipment vendors within this region is private clinics, diagnostic centers and local hospitals. As of June 30, 2001, we have $43.7 million outstanding from a syndicate of banks headed by IFC and FMO.

The success and ultimate recovery of these investments is dependent upon many factors including foreign regulation, customs, currency exchange, the achievement of management's planned projections for these markets, and our ability to manage these operations.

**Note 2. Summary of Significant Accounting Policies**

**Consolidation Policy -** The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. The equity method of accounting is used for 20%- to 50%-owned entities or for investments in less than 20%-owned entities in which we have the ability to exercise significant influence over the operating and financial policies of the investee. Investments in less than 20%-owned entities in which we do not have the ability to exercise significant influence over the investee are accounted for using the cost method of accounting. Intercompany accounts and transactions have been eliminated.

**Use of Estimates -** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Translation Adjustments -** All assets and liabilities denominated in foreign currencies are translated at the exchange rate on the balance sheet date. Revenues, costs and expenses are translated at average rates of exchange prevailing during the period. Translation adjustments are reported within accumulated other comprehensive loss (a component of shareholders' equity). Gains and losses resulting from foreign currency transactions are included in the consolidated statements of operations.

**Cash and Cash Equivalents -** Cash and cash equivalents include highly liquid securities with original maturities of 90 days or less.

**Restricted Cash and Cash Equivalents -** Restricted cash and cash equivalents consist of cash and money market mutual funds that are pledged as collateral for securitizations and certain limited recourse borrowings related to direct financing leases, notes secured by equipment and operating leases.

**Accounts Receivable -** Accounts receivable includes advances to our serviced receivables portfolio, interest receivable on principal notes, capitalized expenses to be recovered through litigation and floating lease accrued interest receivable.

**Investments -** Equity securities classified as trading securities are reported at their estimated fair market value, with unrealized gains and losses included in earnings. Equity securities classified as available-for-sale securities are reported at their estimated fair market value, with unrealized gains and losses excluded from earnings and reported within accumulated other comprehensive loss (a component of shareholders' equity), net of deferred taxes. All debt securities are classified as held-to-maturity and are stated at cost. The fair value of our investments is determined by using market quotes from nationally traded exchanges. For investments in equity securities that are not publicly traded, and therefore have no readily determinable fair value, carrying amount is used to approximate fair value. The carrying value of our investments is periodically reviewed for impairment and recoverability, with writedowns recognized in the period that impairment is determined.

**Investment in Direct Financing Leases and Notes Secured by Equipment -** At contract commencement, we record the gross contract receivable, initial direct costs, estimated residual value of the financed equipment, if any, and unearned income of fixed payment contracts. The principal portion and initial direct costs of variable rate contracts are recorded at commencement, and interest is calculated and accrued monthly on the scheduled remaining principal balance. At June 30, 2001 and 2000, unamortized initial direct costs amounted to $14.4 million and $11.4 million, respectively. Initial direct costs, net of any fees or consideration received, are deferred and amortized over the life of the contract using the interest method, which reflects a constant effective yield.

**Securitization, Recourse Credit Enhancements and Net Gain on Sale of Financing Transactions -** The most important sources of permanent funding for our contracts have been securitization and other forms of structured finance. Securitization is a process in which a pool of contracts is transferred to a special-purpose financing entity that issues notes to investors. The notes are secured by a pledge of the assets or other collateral in the contract pool. Principal and interest on these notes are paid from the cash flows produced by the contract pool. In the securitizations we sponsor, equipment contracts funded through securitizations must be credit enhanced to receive an investment grade credit rating.

Credit enhancement can be provided in a number of ways, including cash collateral, letters of credit, a subordinated tranche of each individual transaction or an insurance policy. Typically, our securitizations are enhanced through subordinated tranches and cash collateral. In the equipment securitizations we have sponsored to date, we have been effectively required to furnish credit enhancement equal to the difference between the total discounted cash flows of the securitization pool and the net proceeds we receive in such a securitization. In the medical receivables securitizations we have sponsored to date, we have furnished credit enhancement through subordinated tranches, corporate guarantees and cash collateral. The majority of the credit enhancements is recorded as subordinated interests of the present value of the discounted cash flows and is repaid from their share of those future cash flows. Income from the subordinated interests is recognized over the life of the securitized receivables using the effective yield method. These credit enhancements are classified as held-to-maturity debt securities and are evaluated for potential impairment on a quarterly basis.

For accounting purposes, our securitizations are treated as either financings (on-balance sheet transactions) or sales (off-balance sheet transactions). In an on-balance sheet transaction, the contracts being securitized remain on our balance sheet as an asset for their originally contracted term and the proceeds raised are accounted for as discounted receivables in which no gain or loss is recognized. In a transfer classified as a sale, we remove the contracts from our balance sheet and recognize a gain or loss on the sale of these contracts. The previously recorded amounts are allocated between the assets sold and any retained interests, in this case recourse credit enhancements and servicing assets, based on the relative fair values on the date of transfer. Quoted market prices are generally not available for the retained interests that we record. We estimate fair value based on the present value of expected cash flows using management's best estimate of the key assumptions, which are credit losses and discount rates, commensurate with the risks involved. We believe that such assumptions are consistent with those that would be used by other market participants in determining fair value. The net proceeds received are adjusted on our balance sheet by recording the fair value of recourse credit enhancements and servicing assets. Recourse credit enhancements and servicing assets are reviewed quarterly for impairment by analyzing the current adequacy of the key assumptions and by reassessing the anticipated cash flows resulting from the retained interests.

**Net Notes Collateralized by Medical Receivables -** Notes collateralized by medical receivables consist of notes receivable resulting from working capital loans and other contracts made to entities in the healthcare industry.

**Residual Valuation -** Residual values, representing the estimated value of the equipment at the end of the lease term, are recorded in the financial statements at the inception of each fair market value lease. These amounts are estimated by management based upon its experience and judgment. In addition, we have purchased the residual value of equipment leased to local municipalities in the United Kingdom and Australia. These residuals are recorded as either the amount paid to the lessor at the inception of the contract or the present value of the amount that will be paid at the end of the contract's term.

**Receivables Impairment -** Impaired receivables are measured based on the present value of the expected cash flows discounted at the receivables' effective interest rate or the fair value of the collateral. A receivable is considered impaired when it becomes probable that we will be unable to collect all amounts due according to the contract terms.

**Allowance for Losses on Receivables -** The allowance for losses on receivables is available to absorb credit losses in our managed portfolio. Each month we evaluate the adequacy of the allowance to absorb our current estimates of credit losses that have occurred in our managed portfolio. Our evaluation is based on a continuing assessment of the specific delinquencies, historical loss experience, asset valuations, assessment of collateral and strength of guarantors, and legal options to enforce management changes or sustain legal positions. That evaluation includes estimates that may be significantly affected by changes in economic conditions or discrete events adversely affecting specific obligors. We believe that the allowance is adequate to provide for credit losses.

We generally place receivables contracts on non-accrual status (in which we halt the recognition of income) when they become seriously delinquent. At that time, we consider the range of remedies available to mitigate a probable loss. Remedies include the pursuit of underlying collateral and guarantors (including recourse to dealers and manufacturers), draws on letters of credit, and protecting our investment by taking control of a medical facility's operations and replacing its existing management. Receivables contracts are charged-off when a loss is considered probable and all reasonable remedies have been pursued. The small delinquent contracts arising from our vendor programs are generally charged-off when they become greater than 180 days delinquent. Cash received while a contract is in non-accrual status is applied only to the principal balance due with no impact to income.

**Equipment on Operating Leases -** Leases that do not meet the criteria for direct financing leases are accounted for as operating leases. Equipment on operating leases is recorded at cost and depreciated straight-line over its estimated useful life. The residual values for operating leases are excluded from the leased equipment's net depreciable basis. We evaluate the residual's carrying value for potential impairment each quarter and record any required changes in valuation. Rental income is recorded monthly on a straight-line basis. Initial direct costs associated with operating leases are deferred and amortized straight-line over the lease term, which approximates a constant effective yield. There were no writedowns in residual valuation during the years ended June 30, 2001, 2000 and 1999.

**Repossessed Assets -** Repossessed assets result from taking possession of collateral, through foreclosure or other proceedings, in satisfaction of defaulted contracts, and are recorded at the lower of their historical cost or estimated realizable value. Realizable value is the asset's fair market value less the costs associated with the maintenance and eventual disposal of the equipment. Any difference between this realizable value and the equipment's historical cost is charged off against the allowance for losses on receivables at the time of repossession. The assets are reviewed periodically and adjusted quarterly for adverse changes to their realizable value.

**Furniture and Fixtures -** Furniture and fixtures are stated at cost less accumulated depreciation and are depreciated using the straight-line method over their estimated useful lives (generally five years).

**Goodwill -** Goodwill represents the excess purchase price over the fair value of net assets stemming from business acquisitions. Goodwill amortization was $1.0 million, $1.3 million and $0.9 million for the years ended June 30, 2001, 2000 and 1999, respectively. We evaluate the recoverability of our goodwill separately for each applicable business acquisition quarterly. The recoverability of goodwill is determined by comparing the carrying value of the goodwill to the estimated operating income of the related entity on an undiscounted cash flow basis. Should the carrying value of the goodwill exceed the estimated operating income for the expected period of benefit, impairment for the excess is recorded at that time. No impairments to goodwill were recorded for the years presented.

**Servicing Assets -** For those securitizations that are treated as sales, we retain the obligation to service the individual contracts although they are removed from our balance sheet at the time of sale. We are compensated for these services under contractual terms, which include our receipt of a servicing fee, late charges, and ancillary revenue that we believe would more than adequately compensate a substitute servicer. We recognize as a servicing asset the excess of that compensation received over amounts that would otherwise be paid to an independent third party to perform this specific type of servicing. The amount of unamortized servicing assets recorded at June 30, 2001 was $8.8 million. Servicing assets are amortized in proportion to, and over the period of, estimated net servicing income. Servicing assets are assessed quarterly for impairment based on estimated fair value.

**Debt Issuance Costs -** Debt issuance costs related to our warehouse facilities, securitizations, senior notes, convertible subordinated notes and other debt are included in other assets. These costs are being amortized over the lives of the notes using the interest and straight-line methods, as applicable.

**Recourse Obligations -** Subsequent to a sale, we retain either a limited remaining interest in the transaction or underlying equipment, or none at all. Accordingly, we carry no obligation to indemnify the purchaser in the event of a default on the transaction by the obligor, except when the sale agreement provides for participation in defined excess interest spreads or limited recourse in which we guarantee reimbursement under the agreement up to a specific maximum. Consequently, in case of default by the obligor, the investor would exercise its rights under the lien with limited or no further recourse against us.

**Amortization of Finance Income -** Amortization of finance income primarily consists of three categories:

- Income on fixed payment equipment transactions,
- Income on variable rate equipment transactions and
- Income on notes collateralized by medical receivables.

The interest component of scheduled payments on notes secured by equipment and direct financing lease fixed-payment transactions is calculated using the interest method in order to approximate a level rate of return on the net investment. The interest component of notes secured by equipment and direct financing lease variable rate transactions is calculated and accrued monthly on the remaining current principal balance. The interest component on medical receivables is calculated and accrued monthly on the average balance outstanding during the period.

**Other Income -** Other income is accrued when earned and consists primarily of medical receivables fees, late fees, net service fee income, contract fees and penalties, income realized from customer warrants not related to current lending activities, and consulting and advisory fees. Revenue from medical receivables fees, late fees, net service fee income, and contract fees and penalties are recorded when earned according to signed contractual terms. Revenue from investment advisory services is recorded when the services are rendered, when the fair value of our interest can be reasonably established and when collection is estimated to be short-term (within 90 days). See Note 9 for a summary of other income.

**Taxes on Income -** Deferred taxes on income result from temporary differences between the reporting of income for financial statement and tax reporting purposes. Such differences arise principally from recording gains on sales of financing transactions, and lease transactions in which the operating lease method of accounting is used for tax purposes and the financing lease method is used for financial statement purposes. Under the operating lease method, leased equipment is recorded at cost and depreciated over the useful life of the equipment, and lease payments are recorded as revenue when earned.

**Stock Options -** We apply Accounting Principles Board Opinion No. 25 and related interpretations for accounting for our stock option plans. Accordingly, we record no compensation expense for the granting of stock options to our employees and directors. The fair value of stock options granted to consultants, however, is recorded as an expense over the service or vesting period. See Note 13 for a summary of the activity under our stock option plans.

**Hedging Instruments -** We use various interest rate contracts such as forward rate agreements and interest rate swaps to manage our interest rate risk from our floating rate liabilities and anticipated securitization and sale transactions. No contracts are held for trading purposes. All derivatives are recorded on the balance sheet at fair value and are marked to fair value on a quarterly basis. The change in the fair value of a derivative that does not qualify for hedge accounting is recognized through earnings. The change in the fair value of a derivative that does qualify for hedge accounting is recognized according to the type of hedge:

***Fair value hedge –*** the change in the fair value of the derivative is recognized through the income statement along with the fair value adjustment to the underlying hedged asset or liability.

***Cash flow hedge –*** the change in the fair value of the derivative is recognized as an adjustment to accumulated other comprehensive loss (a component of shareholders' equity).

***Net investment in foreign operations hedge –*** the change in the fair value of the derivative is included in the cumulative translation adjustment.

Before entering into a derivative transaction for hedging purposes, we determine that a high correlation exists between the change in the value of the hedged item and the change in the value of the derivative from a movement in interest rates. High correlation means that the change in the value of the derivative will be substantially equal and opposite to the change in the value of the hedged asset or liability. We monitor this correlation throughout the hedged period. If a high degree of correlation is not maintained, the hedge becomes ineffective, and gains and losses in the value of the derivative are recognized in income. We manage the credit risk of possible counterparty default in these derivative transactions by dealing exclusively with counterparties with investment grade ratings.

**Reclassifications and Restatements -** Certain amounts as previously reported have been reclassified to conform to the year ended June 30, 2001 presentation.

**Note 3. Recent Accounting Developments**

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard ("SFAS") No. 141, *Business Combinations* and SFAS No. 142, *Goodwill and Other Intangible Assets.* SFAS No. 141 requires that all business combinations initiated after June 30, 2001 be accounted for under the purchase method and addresses the initial recognition and measurement of goodwill and other intangible assets acquired in a business combination. Business combinations originally accounted for under the pooling of interest method will not be changed. Management does not expect the adoption of SFAS 141 to have an impact on the financial position, results of operations or cash flows of the Company. SFAS No. 142 addresses the initial recognition and measurement of intangible assets acquired outside of a business combination and the accounting for goodwill and other intangible assets subsequent to their acquisition. SFAS No. 142 provides that intangible assets with finite useful lives be amortized and that goodwill and intangible assets with indefinite lives will not be amortized, but will rather be tested at least annually for impairment. We will adopt SFAS No. 142 for our fiscal year beginning July 1, 2001. Upon adoption of SFAS 142, we will stop the amortization of goodwill with a net carrying value of $8.9 million at the date of adoption and annual amortization of approximately $1.0 million that resulted from business combinations completed prior to the adoption of SFAS 141. We have evaluated the carrying value of our goodwill under the SFAS 142 transitional impairment test and have determined that there is no impairment loss.

In September 2000, the Financial Accounting Standards Board issued SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities – a Replacement of FASB Statement No. 125.* SFAS No. 140 revises criteria for accounting for securitizations, other financial-asset transfers and collateral and introduces new disclosures, but otherwise carries forward most of the provisions of SFAS No. 125, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* without amendment. We adopted the disclosure requirements of SFAS No. 140 on December 31, 2000, as required. All other provisions of SFAS No. 140 were adopted after March 31, 2001, as required by the standard.

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. This statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. SFAS No. 133, as amended, is effective for all quarters of fiscal years beginning after June 15, 2000 and does not permit retroactive restatement of prior period financial statements. This statement requires the recognition of all derivative instruments as either assets or liabilities in the statement of financial position measured at fair value. Generally, increases or decreases in the fair value of derivative instruments will be recognized as gains or losses in earnings in the period of change. If certain conditions are met, where the derivative instrument has been designated as a fair value hedge, the hedged item will also be marked to market through earnings thus creating an offset. If the derivative is designated and qualifies as a cash flow hedge, the changes in fair value of the derivative instrument will be recorded in accumulated other comprehensive loss (a component of shareholders' equity). If the derivative is designated as a hedge of a net investment in foreign operations, changes in the fair value of the derivative will be recorded as cumulative translation adjustments.

On July 1, 2000, we adopted SFAS 133. The recognition of the fair value of all freestanding derivative instruments resulted in recording liabilities in the amount of $260,000. The transition adjustment for derivatives in cash flow hedges was to record a liability of $380,000 and was recognized as a cumulative-effect-type adjustment in accumulated other comprehensive loss. The transition adjustment for derivatives in fair value hedges was to record an asset of $56,000 and was recognized as a cumulative-effect-type adjustment to net income. This adjustment was offset by the adjustment of the carrying value of the hedged assets. The transition adjustment for derivatives in hedges of net investments in foreign operations was to record a liability of $88,000 and was recognized as a cumulative-effect-type adjustment in cumulative translation adjustments.

The majority of our assets and liabilities are financial contracts with fixed and variable rates. Any mismatch between the repricing and maturity characteristics of our assets and liabilities exposes us to interest rate risk when interest rates fluctuate. To manage our interest rate risk, we employ a hedging strategy using derivative financial instruments.

Our equipment loans are structured and permanently funded on a fixed-rate basis, but we use line-of-credit "warehouse" facilities until the permanent funding is obtained. Since funds borrowed through these warehouse facilities are obtained on a floating-rate basis, we are exposed to a certain degree of risk if interest rates rise and increase our borrowing costs. We manage this exposure through interest rate swaps or interest rate caps whereby we effectively change the variable borrowing cost to a fixed borrowing cost. These types of hedges are considered cash flow hedges.

In addition, when we originate equipment loans, we base our pricing in part on the spread we expect to achieve between the interest rate we charge our equipment loan customers and the effective interest cost we will pay when we permanently fund those loans, usually through securitization. Increases in interest rates that increase our permanent funding costs between the time the loans are originated and the time they are securitized could narrow, eliminate or even reverse this spread. We manage this exposure using forward start interest rate swaps to effectively fix the benchmark-pricing index of our forecasted securitization transactions. These types of hedges are considered cash flow hedges.

Changes in the interest rates affect the fair value of fixed rate assets and liabilities. In a rising interest rate environment, fixed rate assets lose market value whereas fixed rate liabilities gain market value and vice versa. We manage our fixed rate asset exposure to fair value changes through the use of interest rate swaps whereby we attempt to limit the change in their fair value by effectively changing the benchmark pricing index from a fixed rate to a floating rate. These types of hedges are considered fair value hedges.

At June 30, 2001, we held the following derivative positions to manage our interest rate risk:

| *(in thousands of dollars)* | **Notional Amount** | **Fair Value** |
|---|---|---|
| **Cash Flow Hedges:** | | |
| Interest rate swaps...................................................................... | $115,964.3 | $ (237.0) |
| **Fair Value Hedges:** | | |
| Interest rate swaps...................................................................... | $ 13,269.0 | $ (191.1) |

In the next twelve months, we are forecasting to complete two domestic equipment securitizations. When these securitizations are completed, the fair value adjustments in accumulated other comprehensive loss will be reclassified into earnings and will be offset through the securitization closing entries, including adjustments to the gain on sale. If the fair value of the hedges is negative, the actual securitization pricing is lower than our hedged rate, which fixes our effective borrowing cost at our hedged rate. If the fair value of the hedges is positive, the actual securitization pricing is higher than our hedged rate, which also fixes our effective borrowing cost at our hedged rate. When the forecasted securitizations close, we currently expect $2,983 in fair value adjustments to be reclassified from accumulated other comprehensive loss into earnings.

The maximum length of time that we are hedging the exposure of our future cash flows for forecasted transactions is through November 7, 2005.

We have foreign currency exposures in our international operations due to lending in some areas in local currencies that are not funded with local currency borrowings but with U.S. dollars. In order to limit our exposure to foreign currency movements, we employ a hedging strategy using derivative instruments, primarily forward sales of the appropriate foreign currency. These types of hedges are considered net investment in foreign operations hedges.

At June 30, 2001, we held the following derivative positions to manage our foreign currency exposure:

| *(in thousands of dollars)* | Notional Amount | Fair Value |
|---|---|---|
| **Net Investment in Foreign Operations Hedges:** | | |
| Foreign currency denominated forward rate agreements | $ 5,094.0 | $ (1.8) |

Gains totaling $799,023 were reported in cumulative translation adjustments for the year ended June 30, 2001.

Before entering into a derivative transaction for hedging purposes, we determine that a high degree of initial effectiveness exists between the projected change in the value of the hedged item and the projected change in the value of the derivative from a movement in interest rates or foreign currency rates, as applicable. High effectiveness means that the change in the value of the derivative will effectively offset the change in the value of the hedged item. We measure the effectiveness of each hedge throughout the hedge period. Any hedge ineffectiveness as defined by SFAS 133 is recognized in the income statement. When options are used for hedging, the time value of the option is excluded from this effectiveness assessment. For the year ended June 30, 2001, there was a decline in fair value of $170,958 due to hedge ineffectiveness on cash flow hedges. This decrease was recognized in other income.

**Accumulated Derivative Loss**

The following table summarizes activity in accumulated other comprehensive loss related to derivatives classified as cash flow hedges that we held for the year ended June 30, 2001:

| *(in thousands of dollars, net of deferred taxes)* | |
|---|---|
| Beginning balance, July 1, 2000 | $ (228) |
| Losses reclassified into earnings | 1,436 |
| Change in fair value of derivatives | (2,344) |
| Accumulated derivative loss included in accumulated other comprehensive loss as of June 30, 2001 | $ (1,136) |

**Note 4. Investment in Direct Financing Leases and Notes Secured by Equipment or Medical Receivables and Equipment on Operating Leases**

Receivables in installments are due in varying amounts and are collateralized primarily by the underlying equipment, along with obligor guarantees and vendor recourse. Notes collateralized by medical receivables consist of notes receivable resulting from working capital loans and are due at maturity. Medical receivable lines of credit outstanding have no scheduled maturity dates and are expected to be recovered within a year due to their revolving nature. Scheduled rents on operating leases relate to noncancelable operating leases and are due in contractual installments of varying amounts.

Information regarding scheduled collections for direct financing leases, notes secured by equipment or medical receivables and operating leases is as follows:

| *(in thousands of dollars)* Year Ended June 30, | Direct Financing Leases and Notes Secured by Equipment or Medical Receivables | Scheduled Rents on Operating Leases | Total Receivables |
|---|---|---|---|
| 2002 | $ 627,590 | $ 2,960 | $ 630,550 |
| 2003 | 258,635 | 2,788 | 261,423 |
| 2004 | 187,235 | 1,727 | 188,962 |
| 2005 | 125,011 | 945 | 125,956 |
| 2006 | 66,717 | 465 | 67,182 |
| Thereafter | 30,880 | - | 30,880 |
| Subtotal | 1,296,068 | 8,885 | 1,304,953 |
| Equipment residual value | 62,157 | - | 62,157 |
| Total | $ 1,358,225 | $ 8,885 | $ 1,367,110 |

The total receivables balance is comprised of notes primarily secured by equipment (43.8%), direct financing leases (37.2%), medical receivables (18.3%) and scheduled rents on operating leases (0.7%). We are exposed to credit risk on these receivables. At June 30, 2001, the top ten obligors represented 9.08% of the portfolio. Geographic concentration for the top five states was Texas (8.6%), California (8.0%), New York (6.3%), Florida (5.9%) and New Jersey (5.0%). International contracts (those outside the 50 United States) represented 25.1% of the portfolio.

Equipment residual value represents the estimated amount to be received at contract termination from the disposition of equipment financed under fair market value leases. Amounts to be realized at contract termination depend on the fair market value of the related equipment and may vary from the recorded estimate. Carrying values are reviewed periodically to determine if the equipment's anticipated fair market value is below its recorded value.

During the years ended June 30, 2001, 2000 and 1999, we sold receivables to third parties realizing gains of $37.1 million (net of provision for credit losses of $2.4 million), $25.7 million and $29.8 million, respectively. In connection with our sales, we have retained subordinated interests in the receivables totaling $51.0 million and $43.2 million at June 30, 2001 and 2000, respectively. Valuations of our retained interests in securitizations (recourse credit enhancements) at the date of sale and at each reporting period are based on discounted cash flow analyses using our best estimates of market assumptions. There can be a wide range in market assumptions that are used by participants in the market to value such assets, including discount rate, prepayment, loss frequency and loss severity assumptions. Accordingly, our estimate of fair value is subjective. Under the sale agreements, we are at risk for losses on the receivables up to our subordinated interests. Once repurchased or substituted such leases are included within our portfolio and all managed net financed assets are evaluated within the allowance for losses on receivables.

The following represents a summary of the major components of our retained interests in securitizations (recourse credit enhancements):

| | Year Ended June 30, | |
|---|---|---|
| *(in thousands of dollars)* | 2001 | 2000 |
| Balance, beginning of year | $ 43,222 | $ 62,106 |
| Principal payments | (13,029) | (14,715) |
| Additions | 47,498 | 35,354 |
| Reduction in required advance rate | (26,685) | (39,523) |
| Balance, end of year | $ 51,006 | $ 43,222 |

At June 30, 2001, receivables amounting to $655.9 million were assigned as collateral for long-term debt.

The following is an analysis of the allowance for losses on receivables:

| *(in thousands of dollars)* | Year Ended June 30, 2001 | 2000 | 1999 |
|---|---|---|---|
| Balance, beginning of year | $ 14,307 | $ 12,279 | $ 9,955 |
| Provision for losses on receivables and securitizations | 11,160 | 9,477 | 6,301 |
| Allowance assumed in business acquisition | - | - | 1,368 |
| Net charge-offs | (9,534) | (7,449) | (5,345) |
| Balance, end of year | $ 15,933 | $ 14,307 | $ 12,279 |

The increase in the provisions for loss during fiscal years 2001 and 2000 reflects higher levels of charge-offs during the year and higher estimates of credit losses within the managed portfolio. Recoveries on receivables previously charged off were $1.2 million, $1.0 million and $0.2 million for each of the years ended June 30, 2001, 2000 and 1999, respectively.

The net investment of non-performing contracts, including the managed portfolio, on which income recognition was suspended, was $67.5 million and $67.1 million at June 30, 2001 and 2000, respectively. Income recognized and cash received during fiscal 2001 on contracts classified as non-performing at June 30, 2001 totaled $1.4 million and $0.5 million, respectively. Cash collected on all non-accrual contracts is applied to the net investment.

**Note 5. Investments**

The following represents a summary of investments and associated receivables held as of June 30, 2001 and 2000:

*(in thousands of dollars)*

| Investee | Classification | Date Acquired | Year Ended June 30, 2001 Total Investment | Total Receivables |
|---|---|---|---|---|
| OnCure (Operator of radiation therapy centers) | Cost | Mar 1999 | $ 7,500 | $ 4,454 |
| Primedex Health Systems (Diagnostic Img. Centers) | Cost | Nov 2000 | 5,542 | - |
| Medical Resources (Diagnostic Imaging Centers) | Cost | Feb 2001 | 5,471 | - |
| Corvis (Optical Communications Systems) | Avail-for-sale | Jan 2001 | 3,136 | - |
| Asiamedic (Operator of MRI center) | Equity | Sep 1999 | 829 | - |
| Claimsnet (Online healthcare transaction processor) | Avail-for-sale | Oct 1998 | 239 | - |
| Other | Various | Various | 1,476 | 3,663 |
| Total | | | $ 24,193 | $ 8,117 |

*(in thousands of dollars)*

| Investee | Classification | Date Acquired | Year Ended June 30, 2000 Total Investment | Total Receivables |
|---|---|---|---|---|
| OnCure (Operator of radiation therapy centers) .......... | Cost | Mar 1999 | $ 7,500 | $ 2,107 |
| Cisco Systems (Internet/hardware solutions)............... | Trading | Nov 1999 | 912 | - |
| Asiamedic (Operator of MRI center) ........................... | Equity | Sep 1999 | 890 | - |
| Claimsnet (Online healthcare transaction processor).... | Avail-for-sale | Oct 1998 | 325 | - |
| Other.......................................................................... | Various | Various | 489 | 3,675 |
| Total.......................................................................................................... | | | $ 10,116 | $ 5,782 |

We had receivables from and investments in OnCure Technologies Corporation ("OnCure") (formerly U.S. Cancer Care) totaling $12.0 million included on our balance sheet at June 30, 2001. We serviced receivables from OnCure of $15.0 million that were not included in our balance sheet.

During the quarter ended December 31, 2000, $5.5 million was reclassified from contract receivables to investments to reflect the value of preferred shares of Primedex stock received for payment of a promissory note.

During the quarter ended March 31, 2001, $5.5 million was reclassified from contract receivables to investments to reflect the value of common shares of Medical Resources stock received for repayment of a contract.

Management has reviewed the value of the collateral that secures these contracts and believes that there is sufficient collateral to cover the contracts outstanding.

We sold 143,000 shares of Cisco Systems, Inc. (Nasdaq: CSCO) in early November 1999, generating income of $10.8 million. The shares were acquired by our Third Coast Capital unit following its exercise of warrants issued by privately-held Cerent Corporation. The warrants were converted into the right to receive shares of Cisco common stock following its acquisition of Cerent Corporation. We recognized $3.8 million of income in the quarter ended September 30, 1999 to reflect the pre-acquisition value of the unexercised warrants. The remaining $7.0 million was recognized in the quarter ended December 31, 1999. Changes in market value were recorded in the quarters ended March 31, 2000 and June 30, 2000. The balance at June 30, 2000 reflects the market value of 14,354 Cisco shares held.

In September 1999, we entered into a joint venture agreement with a company to take over an MRI center in Singapore from a former delinquent account. We have a 40% ownership interest in the joint venture and our ownership is limited to eight years. The amount we recorded as an investment is equal to the outstanding funds we had previously advanced to the center net of amounts provided in a new Hire Purchase agreement with the center. We expect to fully recover our investment through future income from the center.

**Corvis Corporation Warrants**

Beginning in July 1999, we made certain loans to Corvis Corporation (Nasdaq: CORV) for which we received warrants to acquire an aggregate of 737,900 shares of Corvis common stock at a price of $0.76 per share. There was a 180-day lock-up on the exercise of these warrants that prohibited us from selling or otherwise disposing of them before January 24, 2001. This provision affected the warrants' liquidity, and as a result, the warrants were accorded a lower value than similar securities without such a transferability restriction. The fair market value of the warrants was adjusted using a value determined by an independent professional appraiser to reflect the price at which the warrants would have changed hands between willing buyers and sellers subject to the lock-up provision. We recognized the value of the warrants to be $15.0 million, classified as deferred loan fees. This amount was scheduled to be amortized into income over the life of the underlying loans. Upon the early repayment of the loans in November 2000, the remaining unamortized loan fees were recognized as income.

On July 1, 2000, we adopted SFAS 133, which classified the warrants as derivatives and required them to be recorded in our financial statements at fair value. At September 30, 2000, the increase in the warrant's fair market value was $15.0 million reflecting the consummation of Corvis' initial public offering and the subsequent active trading of the stock. This adjustment to the warrants' carrying value to reflect fair value was recorded in income. The total estimated fair value of $30.0 million for the warrants at that date was included on our balance sheet under Investments. At December 31, 2000, the estimated fair value adjustment resulted in a $13.0 million decrease in the value of the warrants to $17.0 million.

Effective January 1, 2001, DVI elected to convert the warrants to common stock and hold the shares as an available-for-sale investment. After executing a cashless exercise on January 24, 2001, DVI received 714,453 shares of Corvis common stock.

Quarterly market value adjustments at March 31, 2001 and June 30, 2001 resulted in $12.0 million and $1.9 million decreases, respectively, in the value of the common stock. Subsequent to June 30, 2001, the market value of our investment in Corvis remained significantly below its fair value of $17.0 million at December 31, 2000. We believe that this decline is temporary in nature. We will continue to evaluate whether this investment is permanently impaired. Should we conclude that the decline in value is other than temporary, we will record a loss in other income at that time. At June 30, 2001, the stock is valued at $3.1 million and is included under Investments on our balance sheet.

**Note 6. Retained Interests from Sales of Receivables**

During fiscal years 2001 and 2000, we recognized new servicing assets of $5.5 million and $8.1 million, respectively. The total unamortized servicing assets were $8.8 million at June 30, 2001 and $6.3 million at June 30, 2000. The amortization of new and existing servicing assets was $3.0 million and $1.8 million for fiscal years 2001 and 2000, respectively. Servicing assets are assessed quarterly for impairment based on estimated fair value. Fair value is approximated based on management's estimates of the future revenues and the estimated market assumptions for costs to service, anticipated average lives and discount rates. The fair value of the servicing assets was $9.1 million at June 30, 2001 and $6.9 million at June 30, 2000. Servicing assets are stratified by asset type for purposes of evaluating potential impairment. There was no impairment of the servicing assets at June 30, 2001 and June 30, 2000.

During fiscal years 2001 and 2000, we sold direct financing leases and notes secured by equipment into securitization companies and recognized pretax gains of $37.1 million and $25.7 million, respectively. In all of these securitizations, we retained servicing responsibilities and subordinated interests. We receive annual servicing fees of 0.45% of the outstanding balance and rights to future cash flows arising after the investors in the securitizations have received the return for which they contracted. The investors have no recourse to other assets of DVI for failure of obligors to pay when due. Our retained interests are subordinate to investor's interests.

Key economic assumptions used in measuring the fair value of retained interests at the date of securitization during fiscal year 2001 were anticipated credit losses at 0.40% per annum and a discount rate of 10%. There is no prepayment risk due to the nature of our contracts, and weighted average life assumptions would not have a material effect on the sensitivity analysis. Our contracts are non-cancelable by our customers. If we decide to permit a prepayment, our contracts require make-whole payments. There is no interest rate risk since both the securitization bonds and underlying assets have fixed rates.

At June 30, 2001, the key economic assumptions and the sensitivity of the current value of retained interest cash flows to immediate 20% and 40% adverse changes in those assumptions are as follows:

| ***(in millions of dollars)*** | **Current** | **20%** | **40%** |
|---|---|---|---|
| Carrying amount of retained interests .............................. | $51.0 | | |
| Expected credit losses (annual rate)................................ | 0.40% | $ (1.0) | $ (1.9) |
| Residual cash flows discount rate (annual)...................... | 10.0% | (1.1) | (2.1) |

These sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a 20% variation in assumptions generally cannot be extrapolated because the relationship between a change in assumption and its effect on fair value may not be linear. In addition, in this table, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing the other assumption; in reality, a change in one factor may change the other, which might magnify or counteract the sensitivities.

Static pool losses are calculated by dividing the sum of the actual and projected future credit losses by the original balance of each pool of assets. At June 30, 2001, static pool losses were 0.40% for assets securitized in fiscal years 1999, 2000 and 2001. We exercised our right to repurchase delinquent loans from the securitizations and therefore the actual losses were not incurred in the securitization pools.

The table below summarizes certain cash flows received from and paid to securitization companies during the year ended June 30, 2001:

| *(in millions of dollars)* | |
|---|---|
| Proceeds from new securitizations | $ 445.7 |
| Servicing fees received | 3.8 |
| Cash flows received on retained interests | 15.9 |
| Purchases of delinquent assets | (13.6) |
| Servicing advances | (28.2) |
| Repayments of servicing advances | 21.3 |

The following table presents historical loss and delinquency information for the total managed portfolio for the year ended June 30, 2001:

| *(in millions of dollars)* | Total Principal Amount | 61+ Days Past Due | Average Balance | Net Credit Losses |
|---|---|---|---|---|
| **Type of Contracts** | | | | |
| Direct finance leases and notes secured by equipment | $ 2,024.8 | $ 104.9 | $ 1,840.9 | $ 9.5 |
| Notes secured by medical receivables | 248.4 | - | 249.2 | - |
| Total managed portfolio | $ 2,273.2 | $ 104.9 | $ 2,090.1 | $ 9.5 |
| **Comprised of:** | | | | |
| Securitized contracts | $ 1,531.6 | $ 22.1 | | |
| Other contracts held in portfolio | $ 741.6 | $ 82.8 | | |

## Note 7. Other Assets

The following represents a summary of the major components of other assets:

| | Year Ended June 30, | |
|---|---|---|
| *(in thousands of dollars)* | 2001 | 2000 |
| Unamortized debt issuance costs | $ 14,424 | $ 12,613 |
| Prepaid expenses | 6,133 | 6,096 |
| Refunds due on foreign taxes paid | 5,187 | 1,646 |
| Miscellaneous | 2,357 | 4,023 |
| Total other assets | $ 28,101 | $ 24,378 |

## Note 8. Interest Bearing Debt

**Warehouse Facilities -** The following summarizes our warehouse lines of credit at June 30, 2001:

*(in millions of dollars)*

| Type of | Line of | Rate at | Maturity |
|---|---|---|---|

| Facility | Country | Credit | June 30, 2001 (1) | Date | |
|---|---|---|---|---|---|
| Equipment | U.S. | $ 152.5 | LIBOR + 1.375% | 2/28/2002 | |
| Equipment | U.S. | 150.0 | LIBOR + 0.80% | 12/15/2001 | |
| Equipment | U.S. | 25.0 | LIBOR + 2.75% | 12/31/2001 | |
| Equipment | U.S. | 5.0 | Prime | 12/31/2001 | |
| Equipment | U.S. | 5.0 | Prime – 0.375% | 8/23/2002 | |
| Equipment | U.S. | 2.3 | LIBOR + 2.35% | 8/6/2001 | (2) |
| | | 339.8 | | | |
| Equipment | Asia | 40.0 | Various | 12/18/2001 | |
| Equipment | Asia | 30.0 | LIBOR + 1.25% | 6/26/2002 | |
| Equipment | Italy | 20.5 | Various | Various | |
| Equipment | Europe | 14.4 | Euribor + 1.50% | 12/18/2001 | |
| Equipment | Germany | 12.7 | Euribor + 1.25% | 12/31/2001 | |
| Equipment | Europe | 10.9 | LIBOR + 1.75% | Various | |
| Equipment | Australia | 10.0 | BBSY + 1.375% | 8/29/2001 | |
| Equipment | Germany/ Eastern Europe | 9.7 | Euribor + 1.0%, 2.0% | 9/30/2001 | |
| Equipment | Asia | 5.0 | TIBOR + 2.25% | 8/15/2001 | |
| Equipment | Spain | 1.3 | MIBOR + 1.00% | 6/15/2002 | |
| Equipment | S. Africa | 1.2 | Prime Overdraft | 6/30/2002 | |
| | | 155.7 | | | |
| Medical Receivables | U.S. | 80.0 | LIBOR + 1.75% | 11/30/2001 | |
| Medical Receivables | U.S. | 3.0 | LIBOR + 4.50% | 8/15/2001 | (3) |
| | | 83.0 | | | |
| Total lines of credit .................... | | $ 578.5 | | | |

(1) The LIBOR (or country equivalent rates) charged under our lines of credit ranged from 3.84% to 5.08% at June 30, 2001. The Prime rate was 6.75% at June 30, 2001.
(2) Renewed through 8/6/2002.
(3) Renewed for an additional month and expected to be renewed further.

**Long-term Debt -** The discounted receivables are direct financing lease obligations, notes secured by equipment and medical receivables that were securitized and offered to investors primarily on a limited or nonrecourse basis. They are primarily collateralized by the underlying equipment and medical receivables.

Future annual maturities of discounted receivables are as follows:

***(in thousands of dollars)***

| Year Ended June 30, | |
|---|---|
| 2002 | $ 191,785 |
| 2003 | 180,254 |
| 2004 | 64,434 |
| 2005 | 37,506 |
| 2006 | 14,380 |
| Thereafter | 2,012 |
| Total | $ 490,371 |

All of the discounted receivables have been permanently funded through 11 structured transactions that were initiated during fiscal years 1995 through 2001. Debt under these securitizations is limited recourse and bears interest at fixed rates ranging between 4.28% to 10.85% and floating interest rates ranging between 0.35% and 7.35% over 30-day LIBOR. We service all of these receivables. The related securitization agreements contain various recourse provisions that require us to comply with certain servicing requirements and maintain limited cash collateral or residual interests.

We have convertible subordinated notes outstanding of $13.8 million and $13.9 million at June 30, 2001 and 2000, respectively. The notes are convertible into common shares at $10.60 per share at the discretion of the noteholders, bear interest at a rate of $9^1/_8$% payable in quarterly installments of interest only and mature in June 2004. During the year ended June 30, 2001, $150,000 of these notes was converted into 14,150 shares of DVI common stock. There were no conversions in each of the three years ended June 30, 2000, 1999 and 1998. During the year ended June 30, 1997, $600,000 of these notes was converted into 56,603 shares of DVI common stock. Cumulatively, $1.3 million of these notes have been converted into 117,922 shares of DVI common stock.

On January 30, 1997, we completed a public offering of $100.0 million principal amount of $9\ ^7/_8$% Senior Notes due 2004 ("Senior Notes"). The agreement with respect to the Senior Notes contains, among other things, limitations on our ability to pay dividends and to make certain other kinds of payments. That agreement also prohibits us from incurring additional indebtedness unless certain financial ratio tests are met. Interest on the notes is payable semiannually on February 1 and August 1 of each year. The Senior Notes will be redeemable at our option in whole or in part at any time on or after February 1, 2002 at specified redemption prices. On December 16, 1998, we completed another public offering of $55.0 million principal amount of $9\ ^7/_8$% Senior Notes due 2004 under substantially the same terms.

We have facilities totaling $1.5 million outstanding with a foreign bank to fund a portfolio of equipment contracts in Turkey and another $8.0 million outstanding from an unsecured facility for general corporate purposes.

In addition, we have investment agreements with two shareholders, the International Finance Corporation (an affiliate of the World Bank) ("IFC") and the Netherlands Development Finance Company ("FMO"), which provide for the borrowing of $15.0 million and $10.0 million respectively. Borrowings under this loan bear interest at 2.75% over the six-month LIBOR, payable semiannually in arrears. Full principal loan repayment is due May 15, 2005. This loan is secured by granting perfected and registered first priority security interests on all lease/loan receivables assigned to IFC and FMO.

The agreements also provide for syndicated borrowings from IFC and FMO, for which we had $18.7 million outstanding at June 30, 2001. Borrowings under this loan bear interest at 3.25% over the six-month LIBOR, payable semiannually in arrears. Principal loan repayment commenced on November 15, 2000 and is to be paid in full on May 15, 2003. This loan is secured by granting perfected and registered first priority security interests on all lease/loan receivables assigned to IFC and FMO.

In November 2000, we entered into an agreement with Deutsche Investitions – und Entwicklungsgesellschaft mbH ("DEG"), a German Development Bank. The agreement provides for the borrowing of 15.0 million Euros, for which we had 11.0 million Euros ($9.3 million) outstanding at June 30, 2001. Borrowings under this loan bear interest at 3.625% over the six-month Euribor, payable semiannually in arrears. Principal loan repayment will commence on May 15, 2003 and is to be paid in full on May 15, 2006. This loan is secured by granting perfected and registered first priority security interests on all lease/loan receivables assigned to DEG.

In April 2001, we entered into an agreement with the Bank of Montreal for Latin American financing that was backed by a comprehensive insurance policy issued by Exporters Insurance Company, Ltd. The insurance policy covers 95% of the principal and interest payments. The insurance coverage requires an upfront premium payment for Latin American countries of 2.25% per annum (2.75% for Colombia and Venezuela) on the limit of liability at each payment date under the individual contracts covered. The limit of liability is defined as the remaining principal and interest flows at a certain payment date. The loan agreement provides for a borrowing of $25.0 million, for which we had $2.1 million outstanding as of June 30, 2001. The initial funding period ends October 2002. Principal amortization occurs through October 2007 with full repayment of the unamortized balance due at termination. Borrowings under this loan bear interest at 1.50% over the 30-day LIBOR, payable monthly in arrears.

In June 2001, we entered into a secured exchangeable note financing agreement with J.E. Matthew, LLC. The agreement provides for borrowings of $12.0 million, for which we had $9.0 million outstanding at June 30, 2001. Borrowings under this loan bear interest at 9.5%, payable monthly in arrears. Principal loan repayment will commence on August 1, 2001 and is to be paid in full on November 30, 2004. In lieu of cash payments, we have the option to exchange amounts due under the note into shares of DVI common stock subject to certain conditions.

As of June 30, 2001, management believes that the Company was in compliance with the financial covenants of these agreements.

Our principal warehouse facility prohibits DVI Financial Services, our principal operating subsidiary, from paying cash dividends. In addition, the agreement with respect to our Senior Notes and Convertible Subordinated Notes places limitations on the payment of dividends by the Company and its subsidiaries.

The following chart summarizes interest-bearing credit facilities as of June 30, 2001 and 2000:

| | | As of June 30, 2001 | | As of June 30, 2000 | |
|---|---|---|---|---|---|
| *(in thousands of dollars)* | **Maturity** | **Balance** | **Rate** | **Balance** | **Rate** |
| **Short-term Debt:** | | | | | |
| Warehouse facilities (1) | 2001-2002 | $ 340,195 | 7.34% | $ 306,610 | 7.68% |
| **Long-term Debt:** | | | | | |
| Discounted receivables | 2002-2008 | $ 490,371 | 8.12% | $ 424,759 | 7.82% |
| 9 7/8% Senior notes | 2004 | 155,000 | 10.85% | 155,000 | 10.85% |
| Other debt | 2002-2007 | 85,134 | 10.33% | 71,168 | 9.56% |
| Convertible sub notes | 2004 | 13,750 | 9.96% | 13,900 | 9.96% |
| Total long-term debt | | $ 744,255 | | $ 664,827 | |

(1) $578,483 and $677,211 were available at June 30, 2001 and 2000, respectively.

## Note 9. Other Income

The following represents a summary of the major components of other income:

| | Year Ended June 30, | | |
|---|---|---|---|
| *(in thousands of dollars)* | **2001** | **2000** | **1999** |
| Medical receivables fees | $ 4,828 | $ 5,388 | $ 4,661 |
| Late fees | 2,218 | 3,296 | 1,917 |
| Net service fee income | 1,495 | 2,102 | 3,135 |
| Contract fees and penalties | 874 | 1,118 | 1,234 |
| Preferred stock dividends received on investments | 737 | 725 | 134 |
| Consulting and advisory fees | 543 | 4,188 | 3,774 |
| Contract placement fees | 503 | 350 | 174 |
| Gains from asset disposals | 272 | 584 | 201 |
| Commitment and referral fees | 27 | 595 | 524 |
| Income realized from customer warrants (1) | (119) | 11,830 | 1,740 |
| Miscellaneous | (196) | 280 | 2,513 |
| Total other income | $ 11,182 | $ 30,456 | $ 20,007 |

(1) Not related to current lending activities.

## Note 10. Selling, General and Administrative Expenses

The following represents a summary of the major components of selling, general and administrative expenses ("SG&A"), net of initial direct costs:

| *(in thousands of dollars)* | Year Ended June 30, 2001 | 2000 | 1999 |
|---|---|---|---|
| Salaries and benefits | $ 17,778 | $ 17,774 | $ 14,308 |
| Outside services | 9,745 | 7,551 | 6,018 |
| Equipment | 3,470 | 2,897 | 2,860 |
| Building costs | 3,695 | 2,690 | 2,139 |
| Travel and entertainment | 2,722 | 2,432 | 2,070 |
| Other | 4,847 | 5,358 | 4,134 |
| Total SG&A | $ 42,257 | $ 38,702 | $ 31,529 |

## Note 11. Income Taxes

The provision for income taxes is comprised of the following:

| *(in thousands of dollars)* | Year Ended June 30, 2001 | 2000 | 1999 |
|---|---|---|---|
| Current taxes payable (refundable) | $ 7,368 | $ 2,602 | $ (3,083) |
| Foreign | 2,097 | 2,213 | 1,161 |
| Deferred | 5,627 | 13,788 | 17,303 |
| Total | $ 15,092 | $ 18,603 | $ 15,381 |

A reconciliation of the provision for income taxes to the amount of income tax expense that would result from applying the federal statutory rate (35%) to earnings from continuing operations is as follows:

| *(in thousands of dollars)* | Year Ended June 30, 2001 | | 2000 | | 1999 | |
|---|---|---|---|---|---|---|
| | $ | % | $ | % | $ | % |
| Provision for income taxes at the federal statutory rate | 11,735 | 35.0 | 14,715 | 35.0 | 12,267 | 35.0 |
| State income taxes, net of federal tax benefit | 1,700 | 5.1 | 2,005 | 4.8 | 1,676 | 4.8 |
| Foreign taxes, net of federal tax benefit | 1,363 | 4.1 | 1,438 | 3.4 | 755 | 2.2 |
| Limitation on utilization of foreign losses | 228 | 0.7 | 371 | 0.9 | 503 | 1.4 |
| Other | 66 | 0.2 | 74 | 0.2 | 180 | 0.5 |
| Total | 15,092 | 45.1 | 18,603 | 44.3 | 15,381 | 43.9 |

Earnings before minority interest, equity in net income (loss) of investees, and provision for income taxes consist of the following:

| *(in thousands of dollars)* | Year Ended June 30, 2001 | 2000 | 1999 |
|---|---|---|---|
| Domestic | $ 33,714 | $ 42,071 | $ 34,261 |
| Foreign | (651) | (93) | 670 |
| Total | $ 33,063 | $ 41,978 | $ 34,931 |

The major components of our net deferred tax liability of $50.4 million at June 30, 2001 and 2000 are as follows:

| *(in thousands of dollars)* | Year Ended June 30, 2001 | 2000 |
|---|---|---|
| Accumulated depreciation | $ 69,656 | $ 51,523 |
| Deferred gain on financing transactions | 29,554 | 21,822 |
| Net unrealized gains on security transactions | 6,036 | 3,800 |
| Other | 1,062 | 1,242 |
| Total deferred tax liability | 106,308 | 78,387 |
| | | |
| Deferred recognition of lease income | 37,798 | 13,130 |
| Allowance for losses on receivables | 5,787 | 4,221 |
| Hedging activities (included in accumulated other comprehensive loss) | 760 | - |
| Unrealized securities losses (included in accumulated other comprehensive loss) | 4,961 | 70 |
| Net operating loss carryforward | 1,708 | 7,240 |
| Alternative minimum tax credit carryforward | 2,282 | - |
| Other | 2,622 | 3,312 |
| Total deferred tax asset | 55,918 | 27,973 |
| | | |
| Total net deferred tax liability | $ 50,390 | $ 50,414 |

The Federal net operating loss carryforward of $3.2 million expires in year 2021. The alternative minimum tax credit carryforward has an unlimited carryforward period.

**Note 12. Shareholders' Equity**

In October 1999, we granted options to purchase 10,000 shares of DVI common stock at an exercise price of $13.50 per share as an incentive to a marketing and public relations firm. The options will be fully vested on October 29, 2002 and will expire on October 29, 2009.

In July 1999, October 1998 and August 1997, we issued options to purchase a total of 125,000, 75,000 and 50,000 common shares at $16.9375, $15.00 and $15.3125 per share, respectively, to directors of the Company. We record no compensation expense on these transactions. The options vest at various dates through July 2002 and will expire through July 2009.

In June 1997, we granted options to purchase 100,000 shares of DVI common stock at an exercise price of $13.50 per share as compensation to a financial advisory firm. The options are fully vested and are exercisable for a period of five years from the date of grant.

Prior to June 30, 1998, we issued warrants to purchase a total of 80,000 common shares at prices between $7.625 and $8.375 per share to all directors. During fiscal 2001, 20,000 shares at $8.375 were exercised. During fiscal 2000, none of these warrants were exercised. During fiscal 1999, 20,000 shares at $7.625 were exercised. As of June 30, 2001, all of the 80,000 warrants have been exercised.

In June 1994, we issued convertible subordinated notes to related and unrelated parties that are convertible at the option of the holder into 1,415,094 shares of common stock at $10.60 per share. During the year ended June 30, 2001, $150,000 of these notes was converted into 14,150 shares of DVI common stock. There were no conversions to common stock during each of the fiscal years ended June 30, 2000, 1999 and 1998. As of June 30, 2001, cumulative conversions of these notes were $1.3 million into 117,922 shares of common stock.

**Note 13. Stock Option Plan and Incentive Agreement**

We had a stock option plan from August 1986 that provided for the granting of options to employees to purchase up to 1,250,000 shares of our common stock at the fair market value at the date of grant. Options granted under this plan generally vest over three to five years from the date of grant and expire ten years after the date of the grant. Any unexercised options are canceled 90 days after the termination of the employee and are returned to the plan. This plan expired in August 1996.

Our current stock option plan, effective August 1996, provides for the granting of options to employees, consultants and directors to purchase up to 2,700,000 shares of our common stock at the fair market value at the date of grant. Options granted under this plan generally vest over three to five years from the date of grant and expire ten years after the date of the grant. This plan will expire in August 2006.

The following table summarizes the activity under the plans for the periods indicated:

| | Options Outstanding | Exercise Price Per Share | Weighted Average Exercise Price Per Share |
|---|---|---|---|
| Outstanding at June 30, 1998 | 1,411,451 | $ 4.06 - $ 25.06 | $ 13.79 |
| Granted | 795,800 | 13.94 - 22.50 | 15.94 |
| Exercised | (68,250) | 5.00 - 18.06 | 12.79 |
| Canceled | (81,368) | 15.19 - 22.00 | 20.37 |
| Outstanding at June 30, 1999 | 2,057,633 | $ 4.06 - $ 25.06 | $ 14.41 |
| Granted | 876,000 | 13.50 - 17.19 | 16.76 |
| Exercised | (54,366) | 4.06 - 15.50 | 10.31 |
| Canceled | (101,202) | 14.63 - 22.50 | 17.72 |
| Outstanding at June 30, 2000 | 2,778,065 | $ 5.00 - $ 25.06 | $ 15.11 |
| Granted | 351,400 | 13.96 - 19.56 | 15.95 |
| Exercised | (79,980) | 5.00 - 16.94 | 11.71 |
| Canceled | (227,002) | 14.63 - 25.06 | 17.92 |
| Outstanding at June 30, 2001 | 2,822,483 | $ 5.50 - $ 20.63 | $ 15.09 |

The following table summarizes stock options outstanding at June 30, 2001:

| Range of Exercise Price | Number of Options Outstanding | Outstanding Weighted Average Exercise Price | Number of Options Exercisable | Exercisable Weighted Average Exercise Price | Weighted Avg. Remaining Contractual Life (Years) |
|---|---|---|---|---|---|
| $ 5.50 - $ 13.50 | 506,984 | $ 10.96 | 500,317 | $ 10.92 | 3 |
| 13.88 - 15.19 | 223,167 | 14.45 | 156,328 | 14.53 | 7 |
| 15.31 - 15.31 | 396,700 | 15.31 | 396,700 | 15.31 | 6 |
| 15.50 - 15.50 | 604,100 | 15.50 | 402,920 | 15.50 | 7 |
| 16.00 - 16.81 | 290,300 | 16.05 | 10,532 | 16.16 | 9 |
| 16.94 - 16.94 | 723,732 | 16.94 | 241,772 | 16.94 | 8 |
| 17.00 - 20.63 | 77,500 | 18.75 | 55,666 | 18.77 | 7 |
| | 2,822,483 | $ 15.09 | 1,764,235 | $ 14.38 | 7 |

If compensation cost for our stock option plan had been determined based on the fair value at the date of awards consistent with the fair value method described in SFAS No. 123, our net income, basic earnings per share, and diluted earnings per share would be reduced to the following proforma amounts at June 30, 2001, 2000 and 1999:

| | Year Ended June 30, | | |
|---|---|---|---|
| ***(in thousands of dollars, except share data)*** | **2001** | **2000** | **1999** |
| Net earnings | $ 15,708 | $ 19,061 | $ 17,000 |
| Basic earnings per share | $ 1.10 | $ 1.34 | $ 1.21 |
| Diluted earnings per share | $ 1.04 | $ 1.27 | $ 1.13 |

Significant assumptions used to calculate the fair value of awards for June 30, 2001, 2000 and 1999 are as follows:

| | Year Ended June 30, | | |
|---|---|---|---|
| | **2001** | **2000** | **1999** |
| Weighted average risk-free rate of return | 5.9% | 5.8% | 5.4% |
| Expected option life (in months) | 60 | 60 | 60 |
| Expected volatility | 46% | 45% | 63% |
| Expected dividends | - | - | - |

We have an employee incentive agreement (“Agreement”). Under this Agreement, and subject to the discretion of our Compensation Committee, we will issue from time to time an aggregate of not more than 200,000 shares of DVI common stock (“Incentive Shares”) to certain of our employees. When issuing shares under these conditions, we will record compensation expense equal to the fair value of the common shares issued at the date the Compensation Committee awards the shares.

## Note 14. Reconciliation of Earnings per Share Calculation

| *(in thousands of dollars except per share data)* | Year Ended June 30, 2001 | 2000 | 1999 |
|---|---|---|---|
| **Basic** | | | |
| Income available to common shareholders | $ 18,435 | $ 23,442 | $ 19,668 |
| Average common shares | 14,287 | 14,210 | 14,108 |
| Basic earnings per common share | $ 1.29 | $ 1.65 | $ 1.39 |
| **Diluted** | | | |
| Income available to common shareholders | $ 18,435 | $ 23,442 | $ 19,668 |
| Effect of dilutive securities: | | | |
| Convertible debentures | 731 | 736 | 736 |
| Diluted income available to common shareholders | $ 19,166 | $ 24,178 | $ 20,404 |
| Average common shares | 14,287 | 14,210 | 14,108 |
| Effect of dilutive securities: | | | |
| Convertible debentures | 1,301 | 1,311 | 1,311 |
| Options | 173 | 184 | 255 |
| Warrants | 3 | 9 | 12 |
| Diluted average common shares | 15,764 | 15,714 | 15,686 |
| Diluted earnings per common share | $ 1.22 | $ 1.54 | $ 1.30 |

## Note 15. Related Party Transactions

Our principal executive offices located in Jamison, Pennsylvania are leased from a party related to a shareholder and director of the Company. The lease commenced in July 2000. Previously, our executive offices located in Doylestown, Pennsylvania were leased from the same related party. We recorded rent expense under these leases of $1.0 million, $434,802 and $447,074 for the years ended June 30, 2001, 2000, and 1999, respectively.

At June 30, 2001 and 2000, receivables in installments from entities in which we have a controlling investment interest totaled $3.4 million.

As of June 30, 2001 and 2000, we had loans receivable from Company officers and employees totaling $1.0 million and $1.6 million, respectively.

As of June 30, 2001 and 2000, we had convertible subordinated notes totaling $9.6 million due to related parties.

**Note 16. Commitments and Contingencies**

**Facility Leases -** We lease our facilities under noncancelable operating leases with terms in excess of one year. The lease for our principal facility expires in July 2010. Rent expense for all of our domestic and international office space for the years ended June 30, 2001, 2000 and 1999 amounted to approximately $2.9 million, $2.3 million and $1.8 million, respectively. Future minimum lease payments under these leases are as follows:

***(in thousands of dollars)***

| **Year Ended June 30,** | **Future Minimum Lease Payments** |
|---|---|
| 2002 | $ 2,510 |
| 2003 | 2,222 |
| 2004 | 1,869 |
| 2005 | 1,361 |
| 2006 | 1,287 |
| Thereafter | 4,706 |
| Total | $ 13,955 |

**Contingencies** - Under certain limited recourse agreements, we may be required to provide for losses incurred on uncollected lease and medical receivables previously securitized. This contingent liability, however, could be offset by any proceeds received from the resale or remarketing of available equipment financed under the agreements or outstanding medical receivables collected. Currently, we assess and include this exposure within our evaluation of allowance for loss on our recorded finance receivables.

We have $255.0 million available under a credit facility with the option to sell to it certain equipment contracts. As of June 30, 2001, $131.8 million was sold to this facility. Our obligations under this facility include servicing of the assets and assisting the owners in the securitization of the assets if the owners choose to do so.

We have credit lines of $4.3 million available from four foreign banks, of which $4.3 million was used as of June 30, 2001 to provide for the future payment of guarantees made by DVI Europe, a branch office of DVI Financial Services. We record the present value of the future obligation as an asset within receivables and the corresponding liability within other liabilities at the date the guarantee is assumed.

As of June 30, 2001 we had unfunded contract commitments of $299.8 million.

**Litigation -** We are involved in litigation both as a plaintiff and as defendant in matters arising out of our normal business activities. Management does not expect the outcome of these lawsuits to have a material adverse effect on our consolidated financial statements.

In December 2000, a former employee of the Company filed an action in the Circuit Court of Cook County, Illinois (the Company subsequently had the case removed to the U.S. District Court for the Northern District of Illinois) arising out of the Company's purchase of a partnership interest in and assets of Third Coast Capital ("TCC"), the Company's venture leasing division, in 1998. The plaintiff alleges that his decision to sell his interest in TCC and accept employment with the Company was based on his reliance on a number of promises allegedly made by the Company, including the Company's ability and willingness to fund the venture business in the future. The complaint alleges that these promises were false when made and represented a scheme to facilitate the Company's misappropriation and conversion of TCC's worth, alleged to be $25.0 million. The complaint alleges, among other things, fraud and breach of contract and seeks various remedies. The litigation is in the motion and discovery phase.

The Company believes the lawsuit is without merit and will vigorously defend against it. The Company believes it will prevail in this matter and, accordingly, no contingent loss provision has been recorded.

**Note 17. Employee Benefit Plans**

We maintain and administer an Employee Savings Plan ("Plan") pursuant to Internal Revenue Code Section 401(k). The Plan provides for discretionary contributions as determined by our Board of Directors. Substantially all employees are eligible to participate. Each eligible employee can contribute up to 17% of his/her base salary up to the maximum allowable amount as determined by the Internal Revenue Code. The Plan also provides for Company matching of employee contributions. Prior to January 1, 1999, this Company matching was 40% up to $500 per employee per year. Effective January 1, 1999, the Company matches 25% up to the maximum allowable amount as determined by the Internal Revenue Code per employee per year. Company contributions to the Plan totaled $329,000, $293,000 and $196,000 during the years ended June 30, 2001, 2000 and 1999, respectively.

**Note 18. Acquisitions**

In September 1998, we acquired for cash substantially all the assets and retained all of the employees of a "small ticket" Chicago-based medical equipment financing business, referred to as DVI Strategic Partner Group ("DVI SPG"), formerly known as Affiliated Capital, from Irwin Financial Corporation. We paid $77.5 million for this acquisition.

In September 1998, we purchased Healthcare Technology Solutions ("HTS"), a custom software design firm that has been providing software and services to the healthcare industry for approximately 20 years. HTS specializes in accounts receivable analysis software designed for financial services companies and accounts receivable collection software designed for healthcare providers.

In June 1999, we opened DVI Italia, S.r.l., Milan, Italy to expand our international medical equipment financings. Initial capitalization for this company was approximately $558,000. Under this new company, in October 1999, we acquired for cash certain assets and retained several key employees of Leasing Medica Europa SpA, a company based in Italy that specialized in financing healthcare providers. This acquisition added in-country financing experience, numerous healthcare contracts and extensive medical vendor agreements to our Italy business. We paid $3.0 million for this acquisition. The acquired assets and the first eight months of operating results were included in our balance sheet and operating statement as of June 30, 2000.

In March 2000, we opened DVI Finance SA (Pty) Ltd, our new business in South Africa. Headquartered in the suburbs of Johannesburg, this new business added eighteen new employees to the DVI worldwide staff. It offers small- and large-ticket medical equipment financing and other financial services to healthcare providers such as clinics, medical centers and physicians groups.

In June 2000, we purchased a joint venture interest in Medi Lease B.V. based in Helvoirt, The Netherlands. We agreed to acquire a 50% interest in Medi Lease B.V. and 100% of Medi Lease en Financiering B.V. We paid $0.2 million for this acquisition. Medi Lease B.V. offers specialized financing to its Netherlands clients, which include hospitals and other healthcare organizations.

**Note 19. Estimated Fair Value of Financial Instruments**

Following is a summary of the estimated fair value of our consolidated financial instruments at June 30, 2001 and 2000. We determined these estimated fair value amounts using available market information and appropriate valuation methodologies such as market quotations and discounting expected cash flows using current market rates. For short-term and floating rate instruments, the carrying values approximate fair value. Considerable judgment is necessary to interpret market data to develop the estimated fair values. Accordingly, the estimates presented herein may not necessarily be indicative of the amounts we could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts. The fair value estimates presented herein were based on information available as of June 30, 2001 and 2000. Although we are not aware of any factors that would significantly affect the estimated fair values, such values have not been updated since June 30, 2001; therefore, current estimates of fair value may differ significantly from the amounts presented herein. All instruments we hold are classified as other than trading, except for certain investments. All amounts are reported in U.S. dollars, which is our reporting currency.

***(in millions of dollars)***

| Year Ended June 30, 2001 | Carrying Amount | Estimated Fair Value |
|---|---|---|
| Assets: | | |
| Cash and cash equivalents | $ 11.0 | $ 11.0 |
| Restricted cash and cash equivalents | 101.9 | 101.9 |
| Accounts receivable | 43.0 | 43.0 |
| Investments | 24.2 | 24.2 |
| Receivables in installments (excluding investment in direct financing leases) | 441.3 | 441.0 |
| Notes collateralized by medical receivables | 256.2 | 256.2 |
| Retained interests in securitizations - recourse credit enhancements | 51.0 | 49.8 |
| Liabilities: | | |
| Borrowings under warehouse facilities | $ 340.2 | $ 340.2 |
| Discounted receivables | 490.4 | 497.9 |
| Senior notes | 155.0 | 144.2 |
| Other debt | 85.1 | 81.1 |
| Convertible subordinated notes | 13.8 | 22.8 |

***(in millions of dollars)***

| Year Ended June 30, 2000 | Carrying Amount | Estimated Fair Value |
|---|---|---|
| Assets: | | |
| Cash and cash equivalents | $ 6.4 | $ 6.4 |
| Restricted cash and cash equivalents | 73.7 | 73.7 |
| Accounts receivable | 36.8 | 36.8 |
| Investments | 10.1 | 10.1 |
| Receivables in installments (excluding investment in direct financing leases) | 407.6 | 393.9 |
| Notes collateralized by medical receivables | 257.5 | 257.5 |
| Retained interests in securitizations - recourse credit enhancements | 43.2 | 40.6 |
| Liabilities: | | |
| Borrowings under warehouse facilities | $ 306.6 | $ 306.6 |
| Discounted receivables | 424.8 | 423.1 |
| Senior notes | 155.0 | 140.5 |
| Other debt | 71.2 | 70.6 |
| Convertible subordinated notes | 13.9 | 21.0 |

The methods and assumptions used to estimate the fair values of other financial instruments are summarized as follows:

**Cash and Cash Equivalents, Restricted Cash and Cash Equivalents and Accounts Receivable -** Due to their short-term and liquid nature, the carrying values of cash, its equivalents and accounts receivable approximates fair value.

**Investments -** The fair value of our investments is determined by using market quotes from nationally traded exchanges. For investments in equity securities that are not publicly traded, and therefore have no readily determinable fair value, carrying amount is used to approximate fair value.

**Receivable in Installments -** The fair value of the financing contracts was estimated by discounting expected cash flows using the current rates at which contracts of similar fixed-rate credit quality, size and remaining maturity would be made as of June 30, 2001 and 2000. We believe that the risk factor embedded in the entry-value interest rates applicable to performing contracts for which there are no known credit concerns results in a fair valuation of such contracts on an entry-value basis. The fair value of the floating rate contracts was estimated at carrying value. In accordance with GAAP, we excluded receivables from lease contracts of approximately $245.1 million and $324.5 million as of June 30, 2001 and 2000, respectively, from the receivable in installments fair value calculation.

**Notes Collateralized by Medical Receivables -** Due to their floating rate nature and frequent repricing, the carrying value of notes collateralized by medical receivables approximates fair value.

**Retained Interests in Securitizations – Recourse Credit Enhancements -** The fair value of the recourse credit enhancements was determined by discounting the expected future cash flows using current rates for similar credit quality and remaining maturity.

**Borrowings under Warehouse Facilities -** The carrying values of the warehouse borrowings approximate fair value due to their short-term nature, frequent repricing and floating rates.

**Discounted Receivables -** The fair value of discounted receivables, related to the securitization of contracts, was estimated by discounting future cash flows using rates currently available for debt with similar terms and remaining maturities, except for floating rate securitizations in which the carrying value approximates fair value.

**Other Debt, Senior Notes and Convertible Subordinated Notes -** The fair value of other debt was estimated at the incremental current market borrowing rate. The fair values of the senior notes and convertible subordinated notes were determined based on their quoted market prices.

**Derivative Financial Instruments -**
The following represents a summary of derivative financial instruments held at June 30, 2001 and 2000:

| | June 30, 2001 | |
|---|---|---|
| | **Notional Amount** | **Fair Value (in thousands)** |
| Swaps | $ 129.2 million | $ (428.1) |
| Foreign exchange forward rate agreements | 5.1 million | (1.8) |

| | June 30, 2000 | |
|---|---|---|
| | **Notional Amount** | **Fair Value (in thousands)** |
| Treasury locks | $ 50.0 million | $ (485.7) |
| Swaps | 108.6 million | 133.8 |
| Options | 40.0 million | 179.9 |
| Foreign exchange forward rate agreements | 12.3 million | (87.9) |

Credit risk exists for these derivative instruments since a counterparty for any of these instruments may fail to make required payments in our favor. We seek to manage the credit risk of possible counterparty default in these derivative transactions by dealing exclusively with counterparties with investment grade ratings. The fair value of the derivative positions was determined by market dealers using valuation methodologies consistent with their valuing of all like instruments.

**Swaps -** Interest rate swaps are used to reduce the impact of rising interest rates in certain contract sale facilities where the cash flows from the contracts sold are at fixed rates but the borrowing costs are at variable rates. Our swaps pay either fixed rates ranging between 0.47% and 6.64% or the floating six-month LIBOR. Our swaps receive either the fixed rate of 5.825% or floating LIBOR (or a country's equivalent rate) ranging from one to six months. The swaps mature through December 2005.
**Forwards and Options -** Treasury locks and forward start swaps are used to hedge the interest rate risk on anticipated contract securitizations and sales. Treasury lock transactions lock in specific rates of Treasury notes having maturities comparable to the average life of the anticipated securitizations and sales. Forward start swaps lock in specific rates of the

LIBOR swap curve for the duration of the anticipated securitizations' average life. The open positions at June 30, 2001 are for securitizations and sales expected to occur in the first quarter of fiscal year 2002. In fiscal year 2001, we recorded $2.1 million in losses associated with securitized transactions in accumulated other comprehensive loss (a component of shareholders' equity). Prior to the adoption of FASB 133, we deferred $0.3 million in gains associated with securitized transactions in fiscal year 2000. These gains, originally reported as debt issuance costs, are being amortized to earnings over the lives of the respective securitized pools. We recognized net gains or losses on securitized transactions of ($8.7) million, $3.2 million, and ($2.6) million for the years ended June 30, 2001, 2000 and 1999, respectively. These are reported in the gain on sale of financing transactions.

**Foreign Exchange Forward Contracts -** We have international operations and foreign currency exposures at some of these operations due to lending in local currencies. As a general practice, we have not hedged the foreign exchange exposure related to either the translation of overseas earnings into U.S. dollars or the translation of overseas equity positions back to U.S. dollars. Foreign exchange forward contracts are used to hedge the amount receivable to the U.S. parent for specific portfolios in Euros. At June 30, 2001, we had a $5.1 million forward contract for Euros. In fiscal year 2001, we recognized $1.6 million in gains in cumulative translation adjustments on our foreign exchange contracts. These foreign exchange forward contracts are accounted for as hedges of foreign currency.

### Note 20. Quarterly Financial Data (Unaudited)

The following is a summary of the quarterly results of operations for the fiscal years ended June 30, 2001 and 2000:

| | **Fiscal Year 2001** | | | |
|---|---|---|---|---|
| | **Three Months Ended** | | | |
| ***(in thousands of dollars except per share data)*** | **September 30** | **December 31** | **March 31** | **June 30** |
| Finance and other income (1) | $ 32,846 | $ 40,439 | $ 33,293 | $ 33,065 |
| Gain (loss) on revaluation of Corvis warrants | 15,000 | (12,988) | - | - |
| Net operating income | 28,599 | 13,048 | 19,578 | 22,834 |
| Earnings before minority interest, equity in net income (loss) of investees, and provision for income taxes | 12,032 | 2,219 | 9,212 | 9,600 |
| Net earnings | 6,482 | 1,243 | 4,952 | 5,758 |
| Net earnings per common and common equivalent share - basic | $ 0.46 | $ 0.09 | $ 0.35 | $ 0.40 |
| Net earnings per common and common equivalent share - diluted | $ 0.42 | $ 0.09 | $ 0.33 | $ 0.38 |

(1) Restated for the gain on revaluation of Corvis warrants for the quarter ended September 30, 2000.

| | **Fiscal Year 2000** | | | |
|---|---|---|---|---|
| | **Three Months Ended** | | | |
| ***(in thousands of dollars except per share data)*** | **September 30** | **December 31** | **March 31** | **June 30** |
| Finance and other income | $ 31,870 | $ 36,234 | $ 36,602 | $ 38,666 |
| Net operating income | 21,162 | 23,849 | 22,696 | 22,450 |
| Earnings before minority interest, equity in net loss of investees, and provision for income taxes | 9,673 | 10,599 | 10,911 | 10,795 |
| Net earnings | 5,572 | 5,802 | 6,007 | 6,061 |
| Net earnings per common and common equivalent share - basic | $ 0.39 | $ 0.41 | $ 0.42 | $ 0.43 |
| Net earnings per common and common equivalent share - diluted | $ 0.37 | $ 0.38 | $ 0.39 | $ 0.40 |

**Note 21. Segment Reporting**

We have the following reportable segments based on the types of our financings:

- Equipment financing, which includes:
    - Sophisticated medical equipment financing directly to U.S. and international end users,
    - Medical equipment contracts acquired from originators that generally do not have access to cost-effective permanent funding and
    - "Small ticket" equipment financing.
- Medical receivables financing, which includes:
    - Medical receivable lines of credit issued to a wide variety of healthcare providers and
    - Software tracking of medical receivables.
- Corporate and all other, which includes:
    - Interim real estate financing, mortgage loan placement, subordinated debt financing for assisted living facilities and, to a lesser extent, merger and acquisition advisory services to our customers operating in the long-term care, assisted care and specialized hospital markets;
    - Asset-backed financing (including lease lines of credit) to emerging growth companies and
    - Miscellaneous financial advisory services, corporate income and overhead allocations.

The following information reconciles our reportable segment information to the consolidated financial statement totals:

| | Year Ended June 30, 2001 | | | |
|---|---|---|---|---|
| *(in thousands of dollars)* | Total Finance and Other Income (1) | Interest Expense | Net Earnings | Net Financed Assets |
| Equipment financing | $ 97,018 | $ 70,700 | $ 11,499 | $ 940,502 |
| Medical receivables financing | 33,863 | 19,898 | 3,688 | 248,367 |
| Corporate and all other | 10,774 | 4,068 | 3,248 | 60,109 |
| Consolidated total | $ 141,655 | $ 94,666 | $ 18,435 | $ 1,248,978 |

(1) Includes the gain on revaluation of Corvis warrants.

| | Year Ended June 30, 2000 | | | |
|---|---|---|---|---|
| *(in thousands of dollars)* | Total Finance and Other Income | Interest Expense | Net Earnings | Net Financed Assets |
| Equipment financing | $ 89,784 | $ 56,308 | $ 12,175 | $ 845,446 |
| Medical receivables financing | 31,734 | 19,759 | 2,328 | 250,971 |
| Corporate and all other | 21,854 | 2,876 | 8,939 | 61,113 |
| Consolidated total | $ 143,372 | $ 78,943 | $ 23,442 | $ 1,157,530 |

| *(in thousands of dollars)* | Year Ended June 30, 1999 Total Finance and Other Income | Interest Expense | Net Earnings | Net Financed Assets |
|---|---|---|---|---|
| Equipment financing | $ 80,099 | $ 47,424 | $ 20,815 | $ 751,567 |
| Medical receivables financing | 23,000 | 12,632 | 2,052 | 186,419 |
| Corporate and all other | 699 | 794 | (3,199) | 50,590 |
| Consolidated total | $ 103,798 | $ 60,850 | $ 19,668 | $ 988,576 |

Monthly interest expense for warehouses and securitization debt are expensed to the divisions based upon the underlying collateral and advance rates. The interest expense for unsecured debt is charged according to the amount allocated on the balance sheet using the quarterly yield of unsecured debt. On the balance sheet, unsecured debt is allocated according to the percent of unsecured debt to the sum of the unsecured debt and shareholders' equity at the consolidated level. Income taxes are allocated to each division using the best estimate of tax rates for that division.

### Geographic Information

We attribute finance and other income earned and net financed assets to geographic areas based on the location of our subsidiaries. Finance and other income earned and the balances of net financed assets for years ended and as of June 30, 2001 and 2000 by geographic area are as follows:

| *(in thousands of dollars)* | Year ended June 30, 2001 Total Finance and Other Income | Net Financed Assets |
|---|---|---|
| United States | $ 107,945 | $ 932,169 |
| International | 33,710 | 316,809 |
| Total | $ 141,655 | $ 1,248,978 |

| *(in thousands of dollars)* | Year ended June 30, 2000 Total Finance and Other Income | Net Financed Assets |
|---|---|---|
| United States | $ 115,430 | $ 871,371 |
| International | 27,942 | 286,159 |
| Total | $ 143,372 | $ 1,157,530 |

| *(in thousands of dollars)* | Year ended June 30, 1999 Total Finance and Other Income | Net Financed Assets |
|---|---|---|
| United States | $ 84,753 | $ 784,247 |
| International | 19,045 | 204,329 |
| Total | $ 103,798 | $ 988,576 |

### Major Customer Information

We have no single customer that accounts for 10% or more of revenue for years ended June 30, 2001, 2000 and 1999.

***

## ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not Applicable.

# PART III

## ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information regarding the Company's directors is incorporated herein by reference to the Company's definitive proxy statement filed not later than October 30, 2001, with the Securities and Exchange Commission pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended. Information regarding the Company's Executive Officers is set forth in Part I of this Form 10-K.

## ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 402 of Regulation S-K is incorporated herein by reference to the Company's definitive proxy statement filed not later than October 30, 2001 with the Securities and Exchange Commission pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended.

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by Item 403 of Regulation S-K is incorporated herein by reference to the Company's definitive proxy statement filed not later than October 30, 2001, with the Securities and Exchange Commission pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended.

## ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by Item 404 of Regulation S-K is incorporated herein by reference to the Company's definitive proxy statement filed not later than October 30, 2001, with the Securities and Exchange Commission pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended.

# PART IV

## ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

**(a) List of Documents filed as part of this Report:**

(1) Financial Statements:

See Index to Consolidated Financial Statements included as part of this Form 10-K on Page 34.

(2) Financial Statement Schedules:

| Schedule Number | Description | Page Number |
|---|---|---|
| II. | Amounts Receivable from Related Parties | 72 |

All other schedules are omitted because of the absence of conditions under which they are required or because all material information required to be reported is included in the consolidated financial statements and notes thereto.

(3) Exhibits:

See Index to Exhibits of this Form 10-K on Pages 73-75.

**(b) Reports on Form 8-K:**
There were no reports on Form 8-K filed during the fourth quarter of the fiscal year ended June 30, 2001.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DVI, INC.
(Registrant)

Date: September 5, 2001

By /s/ MICHAEL A. O'HANLON
Michael A. O'Hanlon
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Company and in the capacities and on the dates indicated.

| Signature | Title | Date |
|---|---|---|
| Principal Financial Officer: | | |
| /s/ STEVEN R. GARFINKEL<br>Steven R. Garfinkel | Executive Vice President and<br>Chief Financial Officer | September 5, 2001 |
| Principal Accounting Officer: | | |
| /s/ JOHN P. BOYLE<br>John P. Boyle | Vice President and<br>Chief Accounting Officer | September 5, 2001 |

| Directors | Date | | Date |
|---|---|---|---|
| /s/ GERALD L. COHN<br>Gerald L. Cohn | September 5, 2001 | /s/ MICHAEL A. O'HANLON<br>Michael A. O'Hanlon | September 5, 2001 |
| /s/ WILLIAM S. GOLDBERG<br>William S. Goldberg | September 5, 2001 | /s/ HARRY T. J. ROBERTS<br>Harry T. J. Roberts | September 5, 2001 |
| /s/ JOHN E. MCHUGH<br>John E. McHugh | September 5, 2001 | /s/ NATHAN SHAPIRO<br>Nathan Shapiro | September 5, 2001 |

**DVI, INC. AND SUBSIDIARIES**

**SCHEDULE II - AMOUNTS RECEIVABLE FROM CERTAIN RELATED PARTIES**

| Name of Debtor | Balance at Beginning of Year | Additions | Deductions | Balance at End of Year |
|---|---|---|---|---|
| Year ended June 30, 2001: | | | | |
| Michael A. O'Hanlon | $ 524,550 | $ 79,100 | $ 79,425 | $ 524,225 |
| Anthony J. Turek | 250,607 | 132,909 | 377,498 | 6,018 |
| Richard Miller | 154,500 | 9,000 | 6,750 | 156,750 |
| Total | $ 929,657 | $ 221,009 | $ 463,673 | $ 686,993 |
| Year ended June 30, 2000: | | | | |
| Michael A. O'Hanlon | $ 516,000 | $ 37,650 | $ 29,100 | $ 524,550 |
| Anthony J. Turek | 165,982 | 96,452 | 11,827 | 250,607 |
| Richard Miller | 152,250 | 9,000 | 6,750 | 154,500 |
| Stuart Murray | 78,155 | - | 78,155 | - |
| Total | $ 912,387 | $ 143,102 | $ 125,832 | $ 929,657 |
| Year ended June 30, 1999: | | | | |
| Michael A. O'Hanlon | $ 295,000 | $ 221,000 | $ - | $ 516,000 |
| Mark H. Idzerda | 220,000 | - | 220,000 | - |
| Anthony J. Turek | 35,000 | 130,982 | - | 165,982 |
| Richard Miller | - | 152,250 | - | 152,250 |
| Stuart Murray | - | 78,155 | - | 78,155 |
| Total | $ 550,000 | $ 582,387 | $ 220,000 | $ 912,387 |
| Year ended June 30, 1998: | | | | |
| Michael A. O'Hanlon | $ 285,000 | $ 10,000 | $ - | $ 295,000 |
| Mark H. Idzerda | 220,000 | - | - | 220,000 |
| Anthony J. Turek | - | 35,000 | - | 35,000 |
| Total | $ 505,000 | $ 45,000 | $ - | $ 550,000 |
| Year ended June 30, 1997: | | | | |
| Michael A. O'Hanlon | $ 344,000 | $ - | $ 59,000 | $ 285,000 |
| Mark H. Idzerda | - | 220,000 | - | 220,000 |
| Total | $ 344,000 | $ 220,000 | $ 59,000 | $ 505,000 |

## EXHIBIT INDEX

| Exhibit Number | Description |
|---|---|
| 3.1 | Restated Certificate of Incorporation of the Company (12) |
| 3.2 | By-laws of the Company and Amendment to By-Laws of the Company dated April 17, 1996. (2) |
| 4.1 | Form of Common Stock Certificate. (3) |
| 4.2 | Form of Global Note representing Senior Notes due 2004. (4) |
| 4.3 | Indenture dated January 27, 1997 between the Company and the Trustee. (4) |
| 4.4 | First Supplemental Indenture dated January 30, 1997 with respect to the Senior Notes between the Company and the Trustee. (4) |
| 4.5 | Form of Global Note representing Senior Notes due 2004. (5) |
| 4.6 | Supplemental Indenture dated December 23, 1998 with respect to the Senior Notes between the Company and the Trustee. (5) |
| 4.7 | Asset Backed Exchangeable Term Note due November 30, 2004 issued by the Company to Deephaven/JE Matthew I, LLC (1) |
| 10.1 | DVI Financial Services Inc. Employee Savings Plan. (6) |
| 10.2 | Purchase Agreement dated as of October 22, 1991, by and among DMR Associates, L.P., HIS Acquisition, Inc. and DVI Financial Services Inc. (7) |
| 10.3 | Amendment No. 1 to the MEFC Agreement dated as of June 1995. (9) |
| 10.4 | Joint Venture Agreement dated November 10, 1995 among Philips Medical Systems International B.V., the Company and Philadelphia International Equities, Inc. (10) |
| 10.5 | Shareholders' Agreement dated as of April 27, 1998 by and among DVI International, Inc. (the Company's wholly owned subsidiary), International Finance Corporation, Nederlandse Financierings-Maatschappij voor Ontwikkelinglarden N.V., Philadelphia International Equities Inc. and MSF Holding Ltd. (11) |
| 10.6 | Share Retention, Non-Competition and Put Option Agreement dated April 27, 1998 among DVI, Inc., International Finance Corporation, MSF Holding Ltd., Cadilur S.A., Estolur S.A. and Natuler S.A. (11) |
| 10.7 | Share Retention, Non-Competition and Put Option Agreement dated April 27, 1998 among DVI, Inc., Nederlandse Financierings-Maatschappij voor Ontwikkelinglarden N.V., MSF Holding Ltd., Cadilur S.A., Estolur S.A., and Natuler S.A. (11) |
| 10.8 | First Amendment, dated September 30, 1998, to Share Retention, Non-Competition and Put Option Agreement dated April 27, 1998 among DVI, Inc., International Finance Corporation, MSF Holding Ltd., Medical Systems Finance S.A., Estolur S.A., Healthcare Systems Finance S.A., and Sistemas Financieros S.A. (15) |
| 10.9 | First Amendment, dated September 30, 1998, to Share Retention, Non-Competition and Put Option Agreement dated April 27, 1998 among DVI, Inc., Nederlandse Financierings-Maatschappij voor Ontwikkelinglarden N.V., MSF Holding Ltd., Medical Systems Finance S.A., Estolur S.A., Healthcare Systems Finance S.A. and Sistemas Financieros S.A. (13) |
| 10.10 | Amended and Restated Investment Agreement dated April 27, 1998 (amended and restated September 30, 1998) among DVI, Inc., Nederlandse Financierings-Maatschappij voor Ontwikkelinglarden N.V., MSF Holding Ltd., Medical Systems Finance S.A., Estolur S.A., Healthcare Systems Finance S.A., and Sistemas Financieros S.A. (14) |

## EXHIBIT INDEX (CONTINUED)

| **Exhibit Number** | **Description** |
|---|---|
| 10.11 | Amended and Restated Investment Agreement dated April 27, 1998 (amended and restated September 30, 1998) among International Finance Corporation, MSF Holding Ltd., Medical Systems Finance S.A., Estolur S.A., Healthcare Systems Finance S.A. and Sistemas Financieros S.A. (15) |
| 10.12 | Guaranty Agreement dated as of April 27, 1998 by DVI, Inc. in favor of Cadilur S.A. and Natuler S.A. (11) |
| 10.13 | Limited Partnership Interest Purchase Agreement dated as of June 30, 1998 by and among Cargill Leasing Corporation, Third Coast SPC-I, L.L.C., Third Coast GP-I and DVI Financial Services Inc. (11) |
| 10.14 | 1996 Incentive Stock Option Plan. (15) |
| 10.15 | DVI, Inc. Change-of-Control Agreement, dated December 31, 1999, entered into between the Company and Steven R. Garfinkel, the Company's Executive Vice President and Chief Financial Officer. Richard E. Miller and Anthony J. Turek, both Executive Vice Presidents of the Company, each signed identical agreements with the Company as of the same date. (16) |
| 10.16 | DVI, Inc. Severance Pay Plan (16) |
| 10.17 | Registration Rights Agreement among the Company and the Purchasers listed therein relating to the Company's Convertible Subordinated Notes due 2004, dated as of August 1, 2001. (1) |
| 10.18 | Securities Purchase Agreement by and among the Company, DVI Financial Services Inc. and Deephaven/JE Matthews I, LLC, dated as of June 29, 2001. (1) |
| 10.19 | Amendment No. 1 to Securities Purchase Agreement. (1) |
| 10.20 | Amendment to Amended and Restated Investment Agreement dated April 27, 1998 (amended and restated September 30, 1998) among Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V., MSF Holding Ltd, Medical Systems Finance S.A., Estolur S.A., Healthcare Systems Finance S.A., MSF/HSF Argentina S.A. dated July 19, 2001. (1) |
| 10.21 | Second Amendment to Amended and Restated Investment Agreement dated April 27, 1998 (amended and restated September 30, 1998) among International Finance Corporation, MSF Holding Ltd, Medical Systems Finance S.A., Estolur S.A., Healthcare Systems Finance S.A., MSF/HSF Argentina S.A. dated August 18, 2000. Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. signed a substantially identical agreement with the same parties (other than International Finance Corporation) as of the same date. (1) |
| 10.22 | Amendment to Amended and Restated Investment Agreement dated April 27, 1998 (amended and restated September 30, 1998) among International Finance Corporation, MSF Holding Ltd, Medical Systems Finance S.A., Estolur S.A., Healthcare Systems Finance S.A. and MSF/HSF Argentina S.A. dated June 28, 2001. (1) |
| 10.23 | Warrant to Purchase DVI, Inc. Common Stock between Deephaven/JE Matthews and DVI, Inc. dated August 20, 2001. (1) |
| 10.24 | Note Exchange Agreement among DVI, Inc. and the Noteholders listed therein related to the Company's Convertible Subordinated Notes due 2004, dated August 1, 2001. (1) |
| 10.25 | Independent Auditors' Consent (1) |

**EXHIBIT INDEX (CONCLUDED)**

| Exhibit Number | Description |
|---|---|
| 21 | Subsidiaries of the Registrant. (1) |
| 24 | Power of Attorney. (4) |

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1. Filed herewith.

2. Filed previously as an Exhibit to the Company's Form 10-Q for the quarter ended March 31, 1997 and by this reference incorporated herein.

3. Filed as an Exhibit to the Company's Registration Statement on Form S-3 (Registration No. 33-84604) and by this reference incorporated herein.

4. Filed previously as an Exhibit to the Company's Current Report on Form 8-K dated January 27, 1997 and by this reference incorporated herein.

5. Filed previously as an Exhibit to the Company's Current Report on Form 8-K dated December 23, 1998 and by this reference incorporated herein.

6. Filed previously as an Exhibit to the Company's Registration Statement on Form S-18 (Registration No. 33-8758) and by this reference incorporated herein.

7. Filed previously as an Exhibit to the Company's Form 10-K (File No. 0-16271) for the year ended June 30, 1990 and by this reference incorporated herein.

8. Filed previously as an Appendix to the Company's Consent Statement dated as of December 29, 1994 and by this reference incorporated herein.

9. Filed previously as an Exhibit to the Company's Registration Statement on Form S-1 (Registration No. 33-60547) and by this reference incorporated herein.

10. Filed previously as an Exhibit to the Company's Form 10-K (File No. 0-16271) for the year ended June 30, 1996 and by this reference incorporated herein.

11. Filed previously as an Exhibit to the Company's Form 10-K (File No. 0-16271) for the year ended June 30, 1998 and by this reference incorporated herein.

12. Filed previously as an Exhibit to the Company's Form 10-Q for the quarter ended December 31, 1998 and by this reference incorporated herein.

13. This Exhibit is not being filed herewith because it is substantially identical to Exhibit 10.14 in all material respects except as to the parties thereto.

14. This Exhibit is not being filed herewith because it is substantially identical to Exhibit 10.17 in all material respects except as to the parties thereto.

15. Filed previously as an Exhibit to the Company's Form 10-K (File No. 0-16271) for the year ended June 30, 1999 and by this reference incorporated herein.

16. Filed previously as an Exhibit to the Company's Form 10-Q for the quarter ended December 31, 1999 and by this reference incorporated herein.

**EXHIBIT 10.25**

**INDEPENDENT AUDITORS' CONSENT**

We consent to the incorporation by reference in Registration Statements No. 333-69077, No. 333-51091, No. 333-50895 and No. 333-17097 of DVI, Inc. on Form S-3 and in Registration Statements No. 333-69083, No. 333-50837, No. 333-50695, No. 333-50693 and No. 333-50691 of DVI, Inc. on Form S-8 of our report dated August 10, 2001, appearing in the Annual Report on Form 10-K of DVI, Inc. for the year ended June 30, 2001.

**/s/ DELOITTE & TOUCHE LLP**

Princeton, New Jersey
August 28, 2001

**EXHIBIT 21**

**DVI, INC.**

**SUBSIDIARIES AND SUB-SUBSIDIARIES**

| Name of Entity/Jurisdiction of Organization | Percentage Owned by Registrant | Percentage Owned by Subsidiary |
|---|---|---|
| DVI Financial Services Inc. (Delaware) | 100% | |
| DVI Business Credit Corporation (Delaware) | 100% | |
| Westgate Imaging Center, Inc. (Delaware) | | 100% |
| DVI Lease Receivables Corp. 1993-A (Delaware) | | 100% |
| DVI Lease Finance Corporation II (Delaware) | | 100% |
| DVI Lease Finance Corporation III (Delaware) | | 100% |
| DVI Subordinated Securities Corporation (Delaware) | | 100% |
| DVI Receivables Corp. (Delaware) | | 100% |
| DVI Receivables Corp. II (Delaware) | | 100% |
| DVI Receivables Corp. III (Delaware) | | 100% |
| DVI Receivables Corp. IV (Delaware) | | 100% |
| DVI Receivables Corp. V (Delaware) | | 100% |
| DVI Receivables V, LLC (Delaware) | | 100% |
| DVI Receivables Corp. VI (Delaware) | | 100% |
| DVI Receivables VI, LLC (Delaware) | | 100% |
| DVI Receivables Corp. VII (Delaware) | | 100% |
| DVI Receivables VII, LLC (Delaware) | | 100% |
| DVI Receivables Corp. VIII (Delaware) | | 100% |
| DVI Receivables VIII, LLC (Delaware) | | 100% |
| DVI Receivables Corp. IX (Delaware) | | 100% |
| DVI Receivables Corp. X (Delaware) | | 100% |
| DVI Receivables X, LLC (Delaware) | | 100% |
| DVI Receivables Corp. XI (Delaware) | | 100% |
| DVI Receivables XI, LLC (Delaware) | | 100% |
| DVI Receivables Corp. XII (Delaware) | | 100% |
| DVI Receivables XII, LLC (Delaware) | | 100% |
| DVI Receivables Corp. XIV (Delaware) | | 100% |
| DVI Receivables XIV, LLC (Delaware) | | 100% |
| DVI Receivables Corp. XV (Delaware) | | 100% |

**EXHIBIT 21**

## DVI, INC.

## SUBSIDIARIES AND SUB-SUBSIDIARIES (CONCLUDED)

| Name of Entity/Jurisdiction of Organization | Percentage Owned by Registrant | Percentage Owned by Subsidiary |
|---|---|---|
| DVI Receivables XV, LLC (Delaware) | | 100% |
| DVI Funding Corporation (Delaware) | | 100% |
| DVI Funding LLC (Delaware) | | 100% |
| DVI Business Credit Receivables Corporation (Delaware) | | 100% |
| DVI Business Credit Receivables Corp. II (Delaware) | | 100% |
| DVI Business Credit Receivables Corp. III (Delaware) | | 100% |
| DVI Securities, Inc. (Delaware) | | 100% |
| DVI Investments Inc. (Delaware) | | 100% |
| DVI Ohio, Inc. (Pennsylvania) | | 100% |
| DVI Realty Company (Delaware) | | 100% |
| DVI Texas, Inc. (Delaware) | | 100% |
| DVI New York, Inc. (Delaware) | | 100% |
| Healthcare Technology Solutions, Inc. (Delaware) | | 100% |
| DVI International, Inc. (Delaware) | | 100% |
| DVI Thailand Ltd. (Thailand) | | 100% |
| DVI Financial Services (Australia) Ltd. (Australia) | | 100% |
| Oferil Sociedad Anonima (Uruguay) | | 100% |
| DVI (Malaysia) SDN.BHD (Malaysia) | | 100% |
| DVI International (Deutschland) GmbH (Germany) | | 100% |
| DVI Servicios de Renting, S.A. (Spain) | | 100% |
| DVI Italia, S.r.l. (Italy) | | 100% |
| DVI Arizona, Inc. (Delaware) | | 100% |
| DVI Georgia – Macon, Inc. (Delaware) | | 100% |
| DVI Georgia – Newman, Inc. (Delaware) | | 100% |
| DVI Georgia – Athens, Inc. (Delaware) | | 100% |
| DVI Renting, S.r.l. (Italy) | | 100% |
| DVI Healthcare Finance Limited (UK) | | 100% |
| DVI Healthcare (Preston) Limited (UK) | | 100% |
| Medi Lease en Financiering B.V. (The Netherlands) | | 100% |
| DVI Finance S.A. (Proprietary) LTD. (South Africa) | | 75% |
| MSF Holding Ltd. (Bahamas) | | 72% |
| Medi Lease B.V. (The Netherlands) | | 50% |