CONFORMED

#### 

FORM 10-Q

# QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2002 Commi

Commission File No. 333-27341

TELEX COMMUNICATIONS, INC.

(Exact name of Registrant as specified in its charter)

DELAWARE

38-1853300

(State or other jurisdiction of incorporation or organization)

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

12000 PORTLAND AVENUE SOUTH, BURNSVILLE, MINNESOTA 55337 (ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

Registrant's telephone number, including area code: (952) 884-4051

\_\_\_\_\_

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

AS OF APRIL 30, 2002, TELEX COMMUNICATIONS, INC. HAD OUTSTANDING 4,987,127 SHARES OF COMMON STOCK, \$0.01 PAR VALUE.

THIS DOCUMENT CONTAINS 20 PAGES.

\_\_\_\_\_\_

# PART I. --- FINANCIAL INFORMATION

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# PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

# TELEX COMMUNICATIONS, INC. CONDENSED CONSOLIDATED BALANCE SHEETS (In thousands)

## (UNAUDITED)

<caption></caption>	

<TABLE>

MARCH 31, 2002	DECEMBER 31, 2001
<c></c>	<c></c>
\$ 2,482 47,994 48,819 6,601	40,765 50,785 3,879
105,896	98,455
28,866 3,790 53,013 1,805	30,071 4,173 53,064 1,838
\$ 193,370 ======	\$ 187,601 ======
\$ 22,308 8,556 14,687 9,196 224 11,719 7,412  74,102	13,432 7,522
147,494 11,678	147,430 8,749
233,274	227,575
(39,904)	8,310 (9,076) (111,078)  (39,974)
	2002

## </TABLE>

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

# TELEX COMMUNICATIONS, INC. CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (In thousands)

# (UNAUDITED)

<TABLE $>$
<caption></caption>

<caption></caption>	THREE MON	THS ENDED
	MARCH 31, 2002	MARCH 31, 2001
<s> Net sales Cost of sales</s>	<c> \$ 67,899 40,692</c>	<c> \$ 72,317 45,192</c>
Gross profit	27,207	27,125
Operating expenses:     Engineering     Selling, general and administrative     Corporate charges     Amortization of goodwill and other intangibles	2,927 17,535 387 30	3,508 22,720 429 507
	20,879	27,164
Operating profit (loss) Interest expense, net Other income	6,328 6,144 (1,167)	(39) 9,408 (210)
Income (loss) before income taxes Provision for income taxes	1,351 827	(9,237) 517
Net income (loss)	\$ 524 ======	\$ (9,754) ======

</TABLE>

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

# TELEX COMMUNICATIONS, INC. CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (In thousands)

# (UNAUDITED)

<table></table>
<caption></caption>

<caption></caption>		THS ENDED
	MARCH 31, 2002	MARCH 31, 2001
<s></s>	<c></c>	<c></c>
OPERATING ACTIVITIES:  Net income (loss)  Adjustments to reconcile net income (loss) to cash flows from operations:	\$ 524	\$ (9,754)
Depreciation and amortization  Amortization of finance charges and pay-in-kind interest charge Gain on disposition of assets	1,791 4,331 (898)	641
Change in operating assets and liabilities Change in long-term liabilities Other, net	(6,222) 478 178	317
Net cash provided by operating activities	182	5 619
INVESTING ACTIVITIES: Additions to property, plant and equipment Proceeds from disposition of assets Other	(743) 2,094 55	
Net cash provided by (used in) investing activities		(2,386)
FINANCING ACTIVITIES: Borrowings under revolving lines of credit, net Repayment of long-term debt	1,300 (3,415)	355 (2,802)
Net cash used in financing activities	(2,115)	
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS:	(17)	
CASH AND CASH EQUIVALENTS: Net (decrease) increase Beginning of period		669 2,701
End of period	\$ 2,482	\$ 3,370 ======
SUPPLEMENTAL DISCLOSURES OF CASH PAID FOR: Interest		\$ 2,816
Income taxes	\$ 477	

 ====== | ====== |The accompanying notes are an integral part of these condensed consolidated financial statements.

#### TELEX COMMUNICATIONS, INC.

#### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

### 1. Condensed Consolidated Financial Statements

Telex Communications, Inc. ("Telex" or the "Company"), is a Delaware corporation. The condensed consolidated balance sheets as of March 31, 2002 and December 31, 2001, the condensed consolidated statements of operations for the three months ended March 31, 2002 and 2001, and the condensed consolidated statements of cash flows for the three months ended March 31, 2002 and 2001 have been prepared by the Company without being audited, pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). In the opinion of management, these financial statements reflect all adjustments (which include normal recurring accruals) necessary to present fairly the financial position of Telex at March 31, 2002 and the results of its operations and cash flows for all periods presented. Certain information and footnote disclosures normally included in financial statements prepared in conformity with accounting principles generally accepted in the United States have been condensed or omitted. Therefore, these statements should be read in conjunction with the more detailed information, risk factors and financial statements, including the related notes, included in the Form 10-K for the fiscal year ended December 31, 2001 filed by Telex with the SEC on March 28, 2002 (the "Form 10-K"). Unless otherwise defined herein, capitalized terms shall have the meaning set forth in the Form 10-K. The results of operations for interim periods are not necessarily indicative of results that will be realized for the full fiscal year. Certain prior period amounts have been reclassified to conform to the current period presentation. These reclassifications had no effect on shareholders' deficit or net income (loss) as previously reported.

#### 2. Inventories

	March 31, 2002	December 31, 2001
<s></s>	<c></c>	<c></c>
Raw materials	\$21,682	\$24,709
Work in process	7,971	8,295
Finished products	19,166	17,781
	\$48,819	\$50,785
	======	======

</TABLE>

#### 3. Income Taxes

The Company recorded an income tax provision of \$0.8 million and \$0.5 million on pre-tax income of \$1.4 million and a pre-tax loss of \$9.2 million for the three months ended March 31, 2002 and 2001, respectively. The income tax provision for the three months ended March 31, 2002 is comprised of a U.S. Federal income tax benefit of \$0.4 million, offset by a tax valuation allowance adjustment of \$0.4 million, and an income tax provision of \$0.8 million attributed to income of certain foreign subsidiaries.

The Company has a deferred tax asset of \$13.0 million offset by a tax valuation allowance of \$12.9 million at March 31, 2002 due to the uncertainty of the realization of future tax benefits. The realization of the future tax benefits related to the deferred tax asset is dependent on many factors, including the Company's ability to generate sufficient taxable income within the net operating loss carryforward period. Management has considered these

factors in reaching its conclusion as to the adequacy of the valuation allowance for financial reporting purposes.

### 4. Comprehensive Income (Loss)

Comprehensive income (loss) reflects the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. For the Company, comprehensive net income or loss represents net income or loss adjusted for foreign currency translation adjustments. Comprehensive income was \$0.1 million for the three months ended March 31, 2002. Comprehensive loss was \$11.7 million for the three months ended March 31, 2001.

### 5. Segment Information

The Company has two business segments: Professional Sound and Entertainment and Multimedia/Audio Communications.

Professional Sound and Entertainment
Professional Sound and Entertainment consists of five lines of business
within the overall professional audio market, including: (i) permanently
installed sound systems; (ii) sound products used by musicians and sold
principally through retail channels; (iii) sound professional concerts,
recording projects and radio and television broadcasts; (iv) advanced
digital matrix intercoms used by broadcasters, including all major
television networks, to control production communications, intercoms,
headsets and wireless communications systems used by professional, college
and high school football teams and stadiums and other professional and high
school sports teams; and (v) wired and wireless microphones used in the
education, sports, broadcast, music and religious markets.

Multimedia/Audio Communications
The Multimedia/Audio Communications segment targets seven principal product
markets including: (i) microphones, headphones and headsets to the computer
industry; (ii) cassette duplicators and copiers to copy the spoken word and
serving two principal markets: religious and training programs/seminars;
(iii) aviation communications headsets, intercoms and microphones to major
commercial and commuter airlines and pilots and to airframe manufacturers
and private pilots; (iv) wireless local area networks and satellite-based
mobile phone antenna systems, supplying mobile phone manufacturers,
corporations, retailers, warehouses and distribution centers; (v) Talking
Book Players, a unique cassette player for the blind and physically
handicapped; (vi) Wireless Communications, wireless communications products
such as headsets, microphones, antennas and rotors for three primary
markets: public safety, law enforcement groups, and commercial truck
drivers; and (vii) wireless assistive listening systems, products such as
auditory trainers and personal assistive listening devices for the hearing
impaired, focusing on the educational market where many schools use the
Company's products.

The following tables provide information by business segment for the three month periods ended March 31, 2002 and 2001 (in thousands):

<table></table>
<caption></caption>

<caption< th=""><th>&gt;</th><th>Soun</th><th>ssional d and tainment</th><th>A</th><th>timedia/ audio mications</th><th>Corp</th><th>orate</th><th>Cons</th><th>olidated</th></caption<>	>	Soun	ssional d and tainment	A	timedia/ audio mications	Corp	orate	Cons	olidated
<s></s>		<c></c>		<c></c>		<c></c>		<c></c>	
Net sale	2002 2001	\$	48,764 46,399	\$	19,135 25,918	\$	-	\$	67,899 72,317
Operatin	g profit (loss) 2002 2001	\$	3,295 (381)	\$	3,783 3,228	\$	(750) (2,886)	\$	6,328 (39)
Deprecia	tion expense 2002 2001	\$	1,374 1,942	\$	111 372	\$	276 1,219	\$	1,761 3,533
Capital	expenditures 2002 2001	\$	621 1,805	\$	101 183	\$	21 453	\$	743 2,441
Total as	2002 2001	\$	100,829 100,562	\$	31,168 41,952	\$	61,373 76,954	\$	193,370 219,468

Corporate operating expenses include unallocated corporate engineering, selling, general and administrative costs, corporate charges, amortization of goodwill and other intangibles, and restructuring charges. Corporate identifiable assets relate principally to the Company's investment in information systems and corporate facilities, as well as costs in excess of net assets acquired included in intangible assets and deferred financing costs.

The Company's net sales into each of its principal geographic regions were as follows (in thousands):

# <TABLE>

	=====		======	
	\$	67,899	\$	72,317
China Other foreign countries		2,363 16,347		1,856 15,196
Japan United Kingdom		3,307 2,760		3,728 2,965
Germany		5,004		5,774
United States	\$	38,118	\$	42,798
<\$>	<c></c>		<c></c>	
		2002		2001

#### </TABLE>

It is not practical for the Company to disclose revenue by product or service grouping for financial reporting purposes as the Company's systems do not reliably compile this information.

Long-lived assets of the Company's United States and international operations were as follow: <TABLE>

# <CAPTION>

March 31, 2002		December 31, 2001		
<s> United States International</s>	<c> \$</c>	78,402 9,072	<c> \$</c>	79,841 9,305
	\$ =======	87,474	\$	89,146

  |  |  |  |

#### 6. Restructuring Charges

During the year ended December 31, 2001, the Company recorded pre-tax restructuring charges of \$11.5 million attributable to consolidation of certain of the Company's manufacturing operations in the United States, to the restructuring of operations in Hong Kong, Canada and Mexico, and to the discontinuation of its hearing instrument product line. The restructuring will result in a reduction of approximately 450 employees, primarily in manufacturing and distribution, with approximately 350 employees terminated as of March 31, 2002. The sale and disposal of the owned facilities associated with the restructuring charges is expected to be completed by mid 2002.

The following table summarizes the activity associated with the restructuring reserves for the three months ended March 31, 2002 (in thousands):

<table></table>
<caption></caption>

-011111	· ·		Balance at January 1, 2002			Balance at March 31, 2002	
<s></s>	Severance accrual Other restructuring reserves	<c> \$</c>	2,470 532	<c></c>	950 74	<c> \$</c>	1,520 458
		\$	3,002	\$	1,024	\$	1,978
		=====	==========		=========		

#### </TABLE>

As disclosed above, in 2001 the Company announced plans to exit its hearing instruments product line. In the three month period ended March 31, 2002, the Company sold certain of the related assets for proceeds of \$2.1 million and recognized a gain of \$0.9 million on the sale of these assets.

#### 7. Debt

Long-term debt consists of the following (in thousands):

# <TABLE>

<caption></caption>	March 20		Dece	December 31, 2001	
<s></s>	<c></c>		<c></c>		
Senior Secured Credit Facility (Term Loan Facility):					
Term Loan A, due in quarterly installments through April 30, 2004,					
bearing interest at LIBOR plus 5% payable monthly, secured by					
substantially all assets of the Company.	\$	17,296	\$	18,084	
Term Loan B, due in quarterly installments through April 30, 2004,					
bearing interest at LIBOR plus 5% payable monthly, secured by					
substantially all assets of the Company.		57,249		59,858	
Tranche A Senior Secured Notes, with step-up (18% to 25%), pay-in-kind interest,					
(effective interest rate of 31.0% over the life of the note), due July 31,					
2004, secured by substantially all assets of the Company					
(net of unamortized discount of \$855 and \$943).		23,198		21,951	
Tranche B Senior Secured Notes, with step-up (19.5% to 25%), pay-in-kind interest,					
(effective interest rate of 26.2% over the life of the note), due July 31,					
2004, secured by substantially all assets of the Company		10 010		0 647	
(net of unamortized discount of \$522 and \$576).		10,218		9,647	
Senior Subordinated Discount Notes, due November 15, 2006, with an effective interest rate, exclusive of capitalized debt issuance costs, of 18.5%,					
accreting at 13% on the deemed issue price of \$56,104, unsecured					
(net of unamortized discount of \$58,698 and \$60,710), unsecured		46,403		44,390	
Senior Subordinated Notes, due May 1, 2007, bearing interest of 10.5% payable		40,403		44,390	
semiannually, unsecured.		500		500	
Senior Subordinated Notes, due March 15, 2007, bearing interest of 11% payable		300		300	
semiannually, unsecured.		50		50	
Interest-free loan, discounted at an effective interest rate of 10.5%, due in		30		30	
monthly installments beginning March 2002 through February 2010, secured					
by Morrilton, Arkansas, building (net of unamortized discount of \$544 and \$573).		1,136		1,127	
4				<u>-</u>	
		156,050		155,607	
Less - current portion		(8,556)		(8,177)	
mark 1 Array and 1 Array	4	1 47 404		1.47 430	
Total long-term debt	\$	147,494		147,430	
	=====		=====		

#### </TABLE>

# 8. New Accounting Standards

The Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets" (SFAS 142) on January 1, 2002 with respect to goodwill and intangible assets acquired prior to July 1, 2001. Under SFAS 142, goodwill and other indefinite-lived intangible assets are no longer amortized but are reviewed annually (or more frequently if impairment indicators arise) for impairment. The Company will perform its initial impairment analysis of its goodwill in the second quarter of 2002 and annually thereafter. Under SFAS 142, the Company ceased amortizing goodwill effective January 1, 2002. The following table presents a reconciliation of reported net income (loss) to adjusted amounts under SFAS 142 (in thousands):

'l'hree '	months	ended

	March 33	March 31, 2002		March 31, 2001		
<pre><s>     Reported net income (loss)  Goodwill amortization</s></pre>	 <c> \$</c>	524 -	 <c> \$</c>	(9,754) 473		
Adjusted net income (loss)	\$ ======	524 ======	\$ =====	(9,281)		

The Company adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144) on January 1, 2002. SFAS 144 supersedes previous guidance for financial accounting and reporting for the impairment or disposal of long-lived assets and for segments of a business to be disposed of. The adoption of SFAS 144 had no effect on the Company's results of operations or its financial position.

#### 9. Related-Party Transactions

The Company recorded a charge to operations of \$0.4 million for the three months ended March 31, 2002 and 2001, respectively, for management services provided by Greenwich Street Capital Partners, Inc., a related party. The services include, but are not limited to, developing and implementing corporate and business strategy, and providing other consulting and advisory services.

Under the terms of the Senior Secured Credit Facility, the Company is prohibited from making any payment, in cash or other property, of the management services fee until repayment in full of the loans outstanding under the Senior Secured Credit Facility. The Company is accruing the management services fee, together with a late fee, at the rate of 2 percent per month on the outstanding balance. The Company had a balance payable, inclusive of late fees, of \$2.0 million at March 31, 2002.

#### 10. Subsequent Events

Effective April 16, 2002, the Company converted all of its outstanding Series A Preferred Stock and Series B Preferred Stock into an equal number of shares of its Common Stock.

This Management's Discussion and Analysis of Financial Condition and Results of Operations, as well as other sections of this report, contains forward-looking statements, including, without limitation, statements relating to the Company's plans, strategies, objectives and expectations, that are based on management's current opinions, beliefs, or expectations as to future results or future events and are made pursuant to the "safe harbor" provisions of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act. Any such forward-looking statements involve known and unknown risks and uncertainties and the Company's actual results may differ materially from those forward-looking statements. While made in good faith and with a reasonable basis based on information currently available to the Company's management, there is no assurance that such opinions or expectations will be achieved or accomplished. The Company does not undertake to update, revise or correct any of the forward-looking information contained in this document. The following factors, in addition to those discussed elsewhere in this report, are representative of those factors that could affect the future results of the Company, and could cause results to differ materially from those expressed in such forward-looking statements: (i) the timely development and market acceptance of new products; (ii) the financial resources of competitors and the impact of competitive products and pricing; (iii) changes in general and industry specific economic conditions on a national, regional or international basis; (iv) changes in laws and regulations, including changes in accounting standards; (v) the timing of the implementation of changes in the Company's operations to effect cost savings; (vi) opportunities that may be presented to and pursued by the Company; (vii) the Company's ability to access external sources of capital; and (viii) such risks and uncertainties as are detailed from time to time in the Company's reports and filings with the SEC.

#### OVERVIEW

The Company is a leader in the design, manufacture and marketing of sophisticated audio, wireless and multimedia communications equipment to commercial, professional and industrial customers. The Company provides high value-added communications products designed to meet the specific needs of customers in commercial, professional and industrial markets, and, to a lesser extent, in the retail consumer electronic market. The Company offers a comprehensive range of products worldwide for professional audio systems as well as for multimedia and other communications product markets, including wired and wireless microphones, wired and wireless intercom systems, mixing consoles, signal processors, amplifiers, loudspeaker systems, headphones and headsets, audio duplication products, Talking Book Players, antennas, land mobile communication systems, personal computer speech recognition and speech dictation microphone systems and wireless assistive listening systems. Its products are used in airports, theaters, sports arenas, concert halls, cinemas, stadiums, convention centers, television and radio broadcast studios, houses of worship and other venues where music or speech is amplified or transmitted, and by professional entertainers, television and radio on-air talent, presenters, airline pilots and the hearing impaired in order to facilitate speech or communications.

The Company has two business segments: Professional Sound and Entertainment and Multimedia/Audio Communications. Professional Sound and Entertainment consists of five lines of business within the overall professional audio market, including: (i) permanently installed sound systems; (ii) sound products used by musicians and sold principally through retail channels; (iii) sound products used in professional concerts, recording projects and radio and television broadcasts; (iv) advanced digital matrix intercoms used by broadcasters, including all major television networks, to control production communications, intercoms, headsets and wireless communications systems used by professional, college and high school football teams and stadiums and other professional and high school sports teams; and (v) wired and wireless microphones used in the education, sports, broadcast, music and religious markets.

The Multimedia/Audio Communications segment targets seven principal product markets, including: (i) microphones, headphones and headsets to the computer industry; (ii) cassette duplicators and copiers to copy the spoken word and serving two principal markets: religious and training programs/seminars; (iii) aviation communications headsets, intercoms and microphones to major commercial and commuter airlines and pilots and to airframe manufacturers and private pilots; (iv) wireless local area networks and satellite-based mobile phone antenna systems, supplying mobile phone manufacturers, corporations, retailers, warehouses and distribution centers; (v) Talking Book Players, a unique cassette player for the blind and physically handicapped; (vi) Wireless Communications, wireless communications products such as headsets, microphones, antennas and rotors for three primary markets: public safety, law enforcement groups, and commercial truck drivers; and (vii) wireless assistive listening systems, products such as auditory trainers and personal assistive listening devices for the hearing impaired, focusing on the educational market where many schools use the Company's products.

The Company maintains assets and/or operations in a number of foreign jurisdictions, the most significant of which are Germany, the United Kingdom, Japan, Singapore, and Hong Kong. In addition, the Company conducts business in local currency in many countries, the most significant of which are Germany, the United Kingdom, Japan, Singapore, Hong Kong, Australia and France. Exposure to U.S. dollar/German mark and U.S. dollar/British pound exchange rate volatility is mitigated to some extent by the Company's ability to source its production needs with existing manufacturing capacity in Germany and Great Britain, and the exposure to the U.S. dollar/Japanese yen exchange rate volatility is to some extent mitigated by sourcing products denominated in yen from Japan or through contractual provisions in sales agreements with certain customers. Nevertheless, the Company has a direct and continuing exposure to both positive and negative foreign currency movements.

The Company reports the foreign exchange gains or losses on transactions as part of other income. Gains and losses on translation of foreign currency denominated balance sheets are classified as currency translation adjustments and are included in "accumulated other comprehensive loss" as part of shareholders' deficit.

#### RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, certain items in the Company's condensed consolidated statements of operations, in thousands:

Three menths ended

<TABLE>

	Three months ended					
	March 31, 2002		March 31, 2001		% Change	
<pre><s> Net sales:</s></pre>	<c></c>		<c></c>		<c></c>	
Professional Sound and Entertainment Multimedia/Audio Communications	\$	48,764 19,135	\$	46,399 25,918	5.1% -26.2%	
Total net sales				72,317	-6.1%	
Gross profit: Professional Sound and Entertainment % of sales Multimedia/Audio Communications % of sales		18,945 38.9% 8,262				
Total gross profit % of sales				27,125 37.5%		
Operating profit (loss)	\$	6,328	\$	(39)		
Net income (loss)	\$			(9,754)		

 ===== | ======= | =====: | ======= |  |THREE MONTHS ENDED MARCH 31, 2002 COMPARED TO THREE MONTHS ENDED MARCH 31, 2001

Net sales. The Company's net sales decreased \$4.4 million, or 6.1%, from \$72.3 million for the three months ended March 31, 2001 to \$67.9 million for the three months ended March 31, 2002. Sales in the Professional Sound and Entertainment segment increased while sales in the Multimedia/Audio Communications segment declined primarily due to lower sales of hearing instruments products, which the Company exited in the first quarter of 2002, and due to continued sluggishness in the computer and telecommunications industries.

Net sales in the Company's Professional Sound and Entertainment segment increased \$2.4 million, or 5.1%, from \$46.4 million for the three months ended March 31, 2001 to \$48.8 million for the three months ended March 31, 2002. The increase is attributed primarily to higher sales on the strength of new products.

Net sales in the Company's Multimedia/Audio Communications segment decreased \$6.8 million, or 26.2%, from \$25.9 million for the three months ended March 31, 2001 to \$19.1 million for the three months ended March 31, 2002. The decline in net sales is attributed primarily to lower sales of products to the computer and telecommunications industries, in large part due to slowdown of the economy, and to lower sales of hearing instrument products, which the Company exited in the first quarter of 2002.

Gross profit. The Company's gross profit increased \$0.1 million, or 0.3%, from \$27.1 million for the three months ended March 31, 2001 to \$27.2 million for the three months ended March 31, 2002. As a percentage of sales, the gross margin rate increased to 40.1% for the three months ended March 31, 2002 compared to 37.5% for the three months ended March 31, 2001. The increase in the gross margin rate is attributed primarily to improved manufacturing efficiencies and lower operating costs resulting from restructuring measures implemented in 2001.

The gross margin rate for the Professional Sound and Entertainment segment increased from 37.1% to 38.9% for the three months ended March 31, 2002. The increase is attributed primarily to improved manufacturing efficiencies as a result of benefits of restructuring measures implemented in 2001 and increased sales of high-margin products.

The gross margin rate for the Multimedia/Audio Communications segment increased from 38.2% to 43.2% for the three months ended March 31, 2002. The increase is attributed primarily to increased sales of high-margin products, reduced sales of low-margin products and improved manufacturing efficiencies.

Engineering. The Company's engineering expenses decreased \$0.6 million, or 16.6%, from \$3.5 million for the three months ended March 31, 2001 to \$2.9 million for the three months ended March 31, 2002. The decrease in spending for the three-month period in 2002 from the corresponding period in 2001 is attributed primarily to the benefit from continued consolidation and streamlining of the engineering operations that occurred in 2001.

Selling, general and administrative. The Company's selling, general and administrative expenses decreased \$5.2 million, or 22.8%, from \$22.7 million for the three months ended March 31, 2001 to \$17.5 million for the three months ended March 31, 2002. The decrease in expense is attributed mainly to spending controls the Company implemented in light of the slowdown in sales and to professional fees and other costs incurred in 2001 in connection with the Company's amendments to existing debt agreements and with obtaining additional debt.

Corporate charges. Corporate charges of \$0.4 million for the three months ended March 31, 2002 and 2001, respectively, represent fees accrued for consulting and management services provided by Greenwich Street Capital Partners, Inc. under a management and services agreement.

Amortization of goodwill and other intangibles. Amortization of goodwill and other intangibles was \$30,000 and \$0.5 million for the three months ended March 31, 2002 and 2001, respectively. The decline is attributable to implementation of a new accounting standard, under which goodwill is not amortized starting January 1, 2002.

Other income. The Company's other income of \$1.2 million for the three months ended March 31, 2002 is principally the profit from the sale of assets related to the hearing instrument products on proceeds of \$2.1 million. Other income of \$0.2 million for the three months ended March 31, 2001 is principally from one-time proceeds related to settlement of a patent infringement claim.

Interest expense. The Company's net interest expense decreased from \$9.4 million for the three months ended March 31, 2001 to \$6.1 million for the three months ended March 31, 2002. Interest expense decreased primarily because of lower average outstanding indebtedness due to the debt restructuring the Company completed in November 2001, offset slightly by higher average interest rates.

Income taxes. The Company's income tax expense, excluding the income tax provision related to the net deferred tax asset valuation allowance, was 41.2% of the pretax income for the three months ended March 31, 2002, compared with 37.1% for the three months ended March 31, 2001. The increase in the effective tax rate is principally due to the use of net operating losses by certain foreign subsidiaries for the three months ended March 31, 2001.

As of March 31, 2002, the Company has provided \$5.5 million for tax liability, penalties, and accrued interest related to an unsettled dispute with the IRS for taxable years 1990 through 1995. The Company has agreed with the IRS on the final amount of the tax liability to be paid and is making monthly payments.

The Company has established a net deferred tax valuation allowance of \$12.9 million due to the uncertainty of the realization of future tax benefits. The realization of the future tax benefits related to the deferred tax asset is dependent on many factors, including the Company's ability to generate sufficient taxable income within the net operating loss carryforward period. Management has considered these factors in reaching its conclusion as to the adequacy of the valuation allowance for financial reporting purposes.

#### LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2002, the Company had cash and cash equivalents of \$2.5 million compared to \$3.0 million at December 31, 2001. The Company's principal source of funds in the three months ended March 31, 2002 consisted of \$1.4 million of net cash generated from investing activities. Net cash provided by operating activities was \$0.2 million and net cash used in financing activities was \$2.1 million.

The Company's investing activities consisted mainly of \$2.1 million of proceeds from the sale of assets related to a discontinued product line and capital expenditures to maintain facilities, acquire machines or tooling, update certain manufacturing processes and improve efficiencies. Capital expenditures totaled \$0.7 million for the three months ended March 31, 2002 compared to \$2.4 million for the three months ended March 31, 2001. The Company's ability to make capital expenditures is subject to certain restrictions under its Senior Secured Credit Facility.

The Company's accounts receivable of \$48.0 million increased \$7.2 million from \$40.8 million at December 31, 2001. The increase is primarily a result of an increase in the Company's sales in the three months ended March 31, 2002 compared to the three months ended December 31, 2001.

The Company's inventories of \$48.8 million decreased \$2.0 million from \$50.8 million at December 31, 2001. The Company expects the inventories to continue to decline during 2002 as management maintains strategies aimed at reducing inventory levels.

The Company's consolidated indebtedness increased \$1.6 million from \$176.8 million at December 31, 2001 to \$178.4 million at March 31, 2002. The increase is attributed mainly to the Company's Senior Secured Notes and the Senior Subordinated Discount Notes where interest expense on the Notes accrues as additional indebtedness. The Senior Secured Notes indebtedness increased \$1.8 million from \$31.6 million at December 31, 2001 to \$33.4 million at March 31, 2002. The Senior Subordinated Discount Notes indebtedness increased \$2.0 million from \$44.4 million at December 31, 2001 to \$46.4 million at March 31, 2002. Offsetting the additional indebtedness were required payments the Company made, totaling \$3.4 million, under the Company's Term Loan Facility.

The Company's current credit facilities include the Senior Secured Credit Facility, consisting of the Term Loan Facility of \$74.5 million, the Revolving Credit Facility, subject to certain borrowing base limitations, of \$25.0 million, and foreign working capital lines, subject to certain limitations, of \$8.4 million. In certain instances the foreign working capital lines are secured by a lien on foreign real property, leaseholds, accounts receivable and inventory or are guaranteed by another subsidiary.

As of March 31, 2002, \$8.3 million of the Company's \$74.5 million Term Loan Facility is payable in the next 12 months. In addition, the Company had \$15.6 million outstanding under the Revolving Credit Facility and \$6.7 million outstanding under the foreign working capital lines. Net availability, after deduction for open letters of credit and borrowing base limitations, under the Revolving Credit Facility and the foreign working capital lines was \$5.0 million at March 31, 2002. Outstanding balances under substantially all of these credit facilities bear

interest at floating rates based upon the interest rate option selected by the Company; therefore, the Company's financial condition is and will continue to be affected by changes in the prevailing interest rates. The effective interest rate under these credit facilities in the three months ended March 31, 2002 was 6.9%.

Pursuant to the Term Loan Facility, the Company is required to make principal payments under (i) the \$50.0 million Tranche A Term Loan Facility (\$17.3 million of which was outstanding at March 31, 2002), of \$1.4 million, \$2.3 million and \$13.6 million in the remainder of 2002, 2003 and 2004 (with a final maturity date of April 30, 2004), respectively, and (ii) the \$65.0 million Tranche B Term Loan Facility (\$57.2 million of which was outstanding at March 31, 2002), of \$4.5 million, \$7.5 million and \$45.2 million in the remainder of 2002, 2003 and 2004 (with a final maturity date of April 30, 2004), respectively. In addition, under the terms of the Senior Secured Credit Facility, the Company is required to make mandatory prepayments from proceeds of the sale of assets.

The Company relies mainly on internally generated funds and, to the extent necessary, borrowings under the Revolving Credit Facility and foreign working capital lines to meet its liquidity needs. The Company's liquidity needs arise primarily from debt service, working capital needs and capital expenditure requirements.

The Company has incurred substantial indebtedness in connection with a series of leveraged transactions. As a result, debt service obligations represent significant liquidity requirements for the Company. The Company was in compliance with all covenants related to all debt agreements at March 31, 2002.

In 2001 the Company had defaulted on certain covenants related to its Senior Secured Credit Facility, its Senior Secured Notes and its Senior Subordinated Notes, had to incur additional indebtedness to meet its liquidity needs, and subsequently completed a debt restructuring. The Company will need to improve its operating performance in 2002 to improve the cash flow to meet its liquidity needs. In 2002, the Company's debt service obligations will decline due to the debt restructuring. The Company also expects an improvement in its operating performance due to the benefits from the 2001 restructurings, most of which will be fully implemented in early 2002. While the Company believes that the debt restructuring together with the cash from operations will be adequate to meet its debt service requirements, capital expenditure needs and working capital requirements in 2002, no assurance can be given in this regard. Additionally, the Company's future economic performance and its ability to service its obligations will also be subject to future economic conditions and to financial, business and other factors, many of which are beyond the Company's control. If the Company is not able to generate sufficient cash to meet its obligations, it may be forced to pursue other options including the sale of a portion of its assets.

#### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to various market risks, including changes in foreign currency exchange rates and interest rates. Market risk is the potential loss arising from adverse changes in market rates and prices, such as foreign exchange and interest rates. The Company has entered into various financial instruments to manage this risk. The counterparties to these transactions are major financial institutions. The Company does not enter into derivatives or other financial instruments for trading or speculative purposes.

#### EXCHANGE RATE SENSITIVITY ANALYSIS

The Company enters into forward exchange contracts principally to hedge the currency fluctuations in transactions denominated in foreign currencies, thereby limiting the Company's risk that would otherwise result from changes in exchange rates. During the three months ended March 31, 2002, the principal transactions hedged were certain intercompany balances attributed primarily to intercompany sales. Gains and losses on forward exchange contracts and the offsetting losses and gains on the hedged transactions are reflected in the condensed consolidated statements of operations.

At March 31, 2002, the Company had outstanding foreign forward exchange contracts with a notional amount of \$3.4\$ million and a weighted remaining maturity of 98 days.

At March 31, 2002, the difference between the fair value of all outstanding contracts, as estimated by the amount required to enter into offsetting contracts with similar remaining maturities based on quoted prices, and the contract amounts was immaterial. A 10 percent fluctuation in exchange rates for these currencies would change the fair value by approximately \$0.3 million. However, since these contracts hedge foreign currency denominated transactions, any change in the fair value of the contracts would be offset by changes in the underlying value of the transaction being hedged.

#### INTEREST RATE AND DEBT SENSITIVITY ANALYSIS

For fixed rate debt, interest rate changes affect the fair market value but do not impact the Company's earnings or cash flows. Conversely, for floating rate debt, interest rate changes generally do not affect the fair market value but do impact the Company's future earnings and cash flows, assuming other factors are held constant.

At March 31, 2002, the Company had fixed rate debt of \$47.0 million, step-up, pay-in-kind interest debt of \$33.4 million (redemption value of \$34.8 million at March 31, 2002), and an interest-free loan of \$1.1 million. Holding all other variables constant (such as foreign exchange rates and debt levels), a one-percentage point decrease in interest rates would increase the unrealized fair market value of these debts by approximately \$2.7 million.

At March 31, 2002, the Company had floating rate debt of \$96.9 million. The earnings and cash flow impact for the next twelve months resulting from a one-percentage point increase in interest rates on this debt would be approximately \$1.0 million, holding all other variables constant.

PART II. OTHER INFORMATION

ITEMS 1 - 5. NOT APPLICABLE

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

None.

(b) Reports on Form 8-K

None.

#### SIGNATURES

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934, THE REGISTRANT HAS DULY CAUSED THIS REPORT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED THEREUNTO DULY AUTHORIZED.

TELEX COMMUNICATIONS, INC.

Dated: May 8, 2002 By: /s/ Ned C. Jackson

Ned C. Jackson

President and Chief Executive

Officer

TELEX COMMUNICATIONS, INC.

Dated: May 8, 2002 By: /s/ Gregory W. Richter

Gregory W. Richter

Vice President and Chief

Financial Officer